

Urban Aboriginal Economic Development National Network



Background Brief:

Report of the Auditor
General of Canada to the
House of Commons
November 2003 –

Chapter 9 “Economic
Development of First
Nations Communities:
Institutional Arrangements”

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Title: Report of the Auditor General of Canada to the House of Commons November 2003 – Chapter 9 “Economic Development of First Nations Communities: Institutional Arrangements”

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About the Urban Aboriginal Economic Development Network: The Urban Aboriginal Economic Development National Network is an open and inclusive multi-stakeholder network of researchers and practitioners working in urban Aboriginal and Métis communities. This includes organizations, universities, federal/provincial/municipal and Aboriginal governments, private industry, community groups, and NGO’s. The network’s focus is on mobilizing economic development knowledge and strengthening organizational capacity.

This paper can be found on the network website: <http://abdc.bc.ca/uaed>

Focus of the Report

The *Report of the Auditor General of Canada* (The Report) is a study of thirteen First Nations, and four Tribal Councils and governments in five provinces. The authors also examined two federal departments with responsibility for First Nations economic development, looked at relevant programs of Fisheries and Oceans Canada, and consulted regional departments, Crown corporations, and other agencies that provide economic development assistance to First Nations. The intention was to obtain descriptive information, which is used to identify evaluation criteria for government actions. The study focused on reserve-based First Nations, however, many of the findings and recommendations can be applied generally to urban Aboriginal settings.

The Report starts by introducing some facts and statistics of Aboriginal economic development. Employment and income disparities between the Aboriginal and non-Aboriginal population indicate that Aboriginal people face barriers to economic success as groups or individuals. The authors look at the role and functionality of institutional arrangements, and the role of the Federal Government in overcoming barriers. They identify good practices; propose testing of government actions, and make recommendations to the government.

The Report states that “institutional arrangements make a significant difference between achieving sustained economic success or continuing in poverty” (1). The study shows that First Nations lack access to natural resources and capital, face difficulties in accessing federal business support programs, and are unable to fully use federal institutional development assistance. First Nations need vision, institutional arrangements, sustainable development, and partnerships to take advantage of economies of scale.

Barriers to Economic Development

The authors of The Report identify several pieces of legislation which are connected to First Nations economies and have responsibilities related to governance, land and resource management, and taxation and reserve revenue management: the *Indian Act*, the *Indian Oil and Gas Act*, and the *First Nations Land Management Act*.

Natural resources are an important aspect of Aboriginal economic development, but access to those resources is often restricted. Reserves are only small parts of what most First Nations consider their traditional territory. One of the resource access problems is that, while negotiations and land claims are ongoing, provincial or corporate land development and resource exploitation on the lands in question continues. Therefore, First Nations not only face restricted access but can also expect a shortage of resources once they are granted access and user rights. Some First Nations have reported improvements in provincial policies, which facilitated land and resource access, involvement in forest management, and partnerships with corporations.

Another barrier mentioned in The Report is access to capital. First Nations communities often do not have available funds, and the *Indian Act* prevents them from using their reserve lands as security for loans. The Federal Government’s fiduciary obligations under the *Indian Act* place the government and First Nations in a difficult situation. The First Nation has no immediate

control over their land or revenue from the land, while the government has to ensure that its actions are in the First Nation's best interest. The First Nation could otherwise go to court and enforce their 'best interest'.

When Aboriginal groups or individuals approach banks, private investors, federally supported small loan programs, or other government programs, it becomes evident that lack of knowledge, information, and definition of First Nations' legal status and financial circumstances places obstacles in their way. In addition, funds from land settlements cannot be invested in business development as they are needed primarily for infrastructural and other imperative community needs. Some First Nations in this study see promising potential in relationships with private sector financial institutions.

First Nations also report systemic and bureaucratic barriers. The qualification for government support programs often depends on complicated and varying requirements. Most First Nations have limited human and financial resources and perceive the need to stay informed about and meet such requirements as a "substantial burden" (Auditor 8). The government support programs are also numerous, and insufficient communication between government agencies, and between governments and First Nations, result in a multitude of programs too complicated to be useful. Many programs focus on small-scale business ventures so that First Nation communities can only apply for support for small aspects of larger projects, and have to go through many complicated and time-consuming application processes in order to realize one big project.

While government departments praise the high success rates of new Aboriginal businesses compared to overall Canadian statistics, First Nations point out that it is only an indicator of government officials' reluctance to take risks with investments in First Nations economic development initiatives. Furthermore, processing times for First Nations applications for support programs are not consistent with the "speed of business" (8). A comparison of government support for on- and off-reserve projects shows that processing times for on-reserve projects are substantially longer, which impedes successful business development and leads to lost investment opportunities for the communities (10).

Good Institutional Practices

The Report states that First Nations bear responsibility for their own economic development but should expect and receive help and support from the government and other sectors. They identify two kinds of support: financial assistance for businesses, and financial and structural support for institutional arrangements. Institutional arrangements provide rules, guidance, procedures, and frameworks and, therefore, stability for economic development (Auditor 3, 6). Institutional arrangements can be political bodies, business organizations, or partnerships. They allow for standardized procedures that save businesses time and resources by avoiding expensive and lengthy case by case planning and negotiating (10). While they can be both formal or informal, formal arrangements have the advantage of avoiding cross-cultural misunderstandings by determining concepts and rules in advance (4).

The Report also presents a list of good practices that help First Nations in developing institutional structures and sustainable businesses and make them attractive to investors.

- A First Nation should have and present a *clear vision* of what their economic development should be. The vision can include plans and support for individual businesses as well as opportunities for the entire community. It guides their business decisions and plans, and allows for diverse economies.
- Furthermore, a First Nation should *separate politics, government administration, and business*. This creates stability for economic development. The government takes on the role of developing the institutional framework, which in turn enables business management to develop and increase business activities within the framework (11).
- Another important factor is a focus on *sustainability*. Regulations and policies developed by a First Nation should determine how revenue is reinvested. It should be a priority to reinvest in business before community needs are addressed. This leads to sustainable, growing businesses, and long-term community benefits will be substantially higher.
- A First Nation should also *measure* its economic development progress and performance against its vision and goals. Indicators for evaluation could also be statistics such as employment rates and income.
- Finally, *partnerships* can be essential to First Nations economic development. Joint ventures allow “transfer of substantial expertise” (21), as well as economies of scale, for example, by sharing resources and costs. Some partners provide capital or access to capital, and widen the horizon for business opportunities (13).

Success Stories

The First Nations that were consulted for this report all had implemented many of the good practices and showed functioning institutional arrangements. Two examples were presented. The first is a First Nation that had established institutional frameworks within their self-governance structures. The economies they are involved in are natural resource based. Their arrangements include the regulation of land use, and permits and licenses; administrative staff; co-management bodies; an economic development department; and an independent tribunal to oversee and review administrative decisions (13).

Another economically successful First Nation has established an economic development commission headed by the chief. This commission oversees the activities of the economic development department of their First Nation administration. This department is in charge of corporations. Written policies, a vision statement, and an economic development plan are in place. The business activities include property development, agriculture, and community-owned businesses, some in co-ownership with several neighbouring First Nations under one tribal council (13). Many of the businesses are located off-reserve, an example that is potentially relevant in an urban Aboriginal context.

Recommendations for Improvement

The Report relates that some of the First Nations consulted for this study stated that federal funding programs had been or were important to their economic development (14). Those First Nations had contributed some of their own funds to the federal financial support and then used the combined monies to leverage further capital through loans. The scale of financial capital that became available allowed for large businesses with substantial revenue and sustainable jobs.

Apart from financial support programs for First Nations businesses, The Report mentions that there are some federal initiatives that recognize the importance of funding and supporting institutional arrangements. The consulted First Nations emphasized the importance of funding for structural development instead of funding for individual projects. Institutional arrangements allow a greater degree of self-determination on the part of the First Nations and solve problems concerning “transparency, accountability, or potential misallocation of resources” (14).

The Report names several positive federal initiatives: The Aboriginal Fisheries Strategy, established in 1992 by Fisheries and Oceans Canada; the *First Nations Land Management Act*, 1999, which allows First Nations to opt out of the land management restrictions of the *Indian Act*; and the opportunity for First Nations with oil and gas resources on their reserve lands to control those resources themselves (14).

However, the Auditor General also identifies areas of federal strategies that call for improvement. The Report mentions the 1989 Canadian Aboriginal Economic Development Strategy, which was audited in 1993, and its aim to consolidate federal support programs for Aboriginal economic development. Instead of consolidation, the 2003 Report criticizes an increase in the number of programs from three to ten, as well as a lack of coordination and failure to place more control with First Nations (15). The Report recommends consolidation of administrative processes and flexibility to adapt to First Nations’ needs. The government’s response to the recommendation is agreement and the promise to follow the advice and improve its programs.

Another recommendation indicates that a more proactive and timely approach to project and institutional support is needed. The Report states that government funding strategies are inflexible and often based on historic circumstances rather than First Nations’ realities of the twenty-first century. The recommendation is that the government “support First Nations in identifying, planning, and implementing institutional arrangements that take advantage of economies of scale where possible, and that are appropriate to the First Nations’ economic development circumstances and visions” (17).

Again, the government agrees to follow the recommendations and refers to the 2003 Aboriginal Aquatic Resource and Oceans Management Program by Fisheries and Oceans Canada as a step taken in the right direction.

The third major recommendation to the Federal Government is to aim at a more horizontal approach within its programs and departments. That means coordination and alignment of goals, outcomes, and strategies; standardized performance measurements; coordinated information and

improvement strategies; and performance reports (18). The authors report a disparity between government interests and First Nation focus; the government fails to focus on outcomes in its program performance evaluation, and First Nation interests, such as overall improvements of socio-economic circumstances and the creation of sustainable jobs, are neglected. The Report determines that, in order to improve the situation, it is crucial for the government to include economic development in their result review structure and that the information sharing structure under Indian and Northern Affairs Canada should be organized horizontally.

The Report in the Context of Urban Aboriginal Economic Development

Even though it focuses on reserve-based First Nations, their institutional arrangements, and government policies that affect them, there are a number of aspects in The Report that are potentially relevant for urban Aboriginal economic development. The findings about the importance of institutional arrangements for on-reserve economic development and success have implications for the urban context. If a First Nation is able to develop an institutional framework for sustainable economies and service delivery on-reserve, the advantages also reach members of this First Nation who live in urban areas. A framework allows for more effective service delivery through standardized procedures. This mitigates the common problem of overwhelmed and understaffed on-reserve personnel and allows urban members to benefit from their nation's services. Furthermore, an economically successful First Nation has potential to expand its business beyond the reserve. In that case, jobs are created off reserve, and urban members not only find work but also the opportunity to stay closely connected to their community.

Moreover, The Report generally acknowledges the importance of institutional arrangements for governance and service delivery. This applies to urban settings in particular. The Royal Commission on Aboriginal Peoples has determined that there is a need for organization, jurisdictional arrangements, and coordinated service delivery in urban settings to improve urban Aboriginal people's socio-economic situation and overall quality of life. The Auditor General supports this view and explains how institutional arrangements help economic development, and how government policies can and should assist them.

In addition, The Report focuses on governance and Aboriginal peoples' control over their affairs. The authors recommend that government policies and strategies should aim at handing over control over capital, institutions, and economic development to First Nations. Similarly, the Royal Commission emphasizes that Aboriginal people need their own solutions. The principle of effective 'governance' is especially important in the complex governmental jurisdiction landscape of cities. This means that recommendations made by the Auditor General around more horizontal organization of government programs and departments, and meaningful cooperation with Aboriginal groups to facilitate urban Aboriginal service delivery, resource access, and economic development are especially appropriate to the urban context.

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