



Closing the Indigenous Systemic Gaps with a First Nations Fiscal Management Act (FMA) Indigenous Recovery Strategy

The shutdown of a many economies around the world in response to the COVID-19 pandemic has had many implications on the global economy, including at least:

- (1) A substantial loss of output, which translates into a loss of national income;
- (2) A considerable disruption to incomes and credit markets, which may exacerbate the previously existing build up of household debt in Canada;
- (3) A large disruption to supply networks; and
- (4) There may be a loss of investor confidence.

There must be a strong COVID-19 economic recovery strategy to ensure that business investment continues, and a credit crisis is avoided. Ultimately, this will promote the sustainability and continued resilience of the Canadian social framework.

A well-designed Indigenous recovery strategy will be a critical component of the overall Canadian strategy. The Indigenous economy has suffered the greatest relative losses. However, it also has the elements for the strongest and most sustainable recovery. The Indigenous economy has the youngest population, the fastest growing labor force, significant unused productive capacity and many underutilized location and resource development advantages.

The Indigenous economy has been held back by the legacy of the Indian Act. It has been incredibly challenging for Indigenous people and businesses to access capital, for Indigenous governments to improve infrastructure and to attract investment to First Nation lands. Further, First Nation governments have significant fiscal room to expand their economic recovery. They are also more able to adapt to change because they are not inhibited by legacy costs, and many are already interested in developing investment facilitation policies supported by the strong FMA institutional framework. If this potential can be unlocked, it will provide new investment, new demand, and help revive credit markets at a time when needed most.

The FMA institutions are proposing a comprehensive indigenous recovery strategy that will make great strides in unlocking this potential. It is based on closing six systemic gaps that are contributing to First Nations disadvantage:

1. Infrastructure
2. Fiscal power
3. Credit
4. Education
5. Investment facilitation
6. Trade

The legal, social, and historical rationales for closing these gaps have been stated by the government on several occasions. The fiscal and economic imperative is even more pressing as we face a post-pandemic recovery challenge.

There will be substantial benefits to closing these gaps. Previous work estimated that closing the economic outcome gap between the Indigenous and non-Indigenous populations would add \$27.7B to Canadian GDP and positively impact net government revenues by \$8.4B.¹ This includes \$6.2B in additional revenues and \$2.2B in fiscal cost savings. What has changed since then is the imperative of restarting credit and investment markets. Activating the underutilized economic potential of First Nations would provide an important contribution.

The Six Systemic Gaps

This section describes six systemic Indigenous gaps. The root legislative, institutional, and fiscal causes of these gaps are also identified and their relationship to economic disparities are briefly discussed. Lastly, a series of legislative, institutional, and fiscal remedies to help close the six gaps are proposed.

1. **The Infrastructure Gap** – The infrastructure deficit facing First Nations is well understood. It is estimated that it would cost \$25B to \$30B to bring community infrastructures to a national standard.² This gap contributes to economic, social, health and education disparities between the Indigenous population and the non-Indigenous population. It has created significant liabilities for the federal governments. Unfortunately, correcting this problem is going to require more than just a cheque. There may be hundreds of millions of infrastructure proposals that are “shovel ready,” most others need support. It currently takes about five times longer to make an Indigenous project shovel ready, compared to provincial systems. This can be corrected by developing the First Nation Infrastructure Institute (FNII) within the FMA. This will support First Nations in planning and maintaining infrastructure. The federal government could then build upon this improvement by enabling the securitization of federal transfers for financing infrastructure.
2. **The Fiscal Gap** – The fiscal power gap is the difference between taxes currently collected by Indigenous governments and the amount they could potentially contribute to services and infrastructure.³ The Indigenous fiscal power gap is estimated to be \$31.7B annually, because Indigenous governments exercise less than 2% of the fiscal powers being exercised by other governments.⁴ The gap contributes to substandard and disposable infrastructure, lower quality

¹ National Indigenous Economic Development Board (NIEDB), Reconciliation: Growing Canada’s Economy by \$27.7 Billion – Background and Methods Paper, Nov 2016.

² A 2016 report by the Canadian Council for Public-Private Partnerships (P3’s: Bridging the First Nations Infrastructure Gap) estimates the infrastructure deficit across First Nations in Canada is between \$25B and \$30B. The FNFA estimates there are about \$500M in shovel ready Indigenous infrastructure projects. This leaves some \$24.5B to \$29.5B in projects that are not yet shovel ready but have been identified and / or are currently being developed into shovel ready projects.

³ This gap assumes similar Indigenous incomes and similar Indigenous tax rates and incidence to local, provincial, and federal governments. In this regard, it is an estimate of the potential gap in Indigenous fiscal power. It is recognized that a limited amount of this gap is already collected by local, provincial, and federal governments.

⁴ Based on StatsCan data (table 36-10-0477-01), Canada’s federal, provincial, territorial, and local governments expect to collect about \$663.4B in taxes in 2020/21. Based on Census data (catalogue no. 98-404-X2016001), Canada’s Indigenous peoples represent about 4.86% of the overall population in Canada. Assuming the average contribution to government revenues among the Indigenous population could be equivalent to the average Canadian’s contribution, the potential fiscal contribution of Indigenous people is estimated to be about \$32.2B. Based on local revenue estimates from the FNTC, royalties from IOGC, FNGST from Finance Canada and self-government agreement First Nation tax estimates from Finance Canada, it is estimated that Indigenous

services, economic and social disparities, and less resilience to shocks like pandemics. Expanding available fiscal powers under the FMA to include cannabis, FNGST, excise, tobacco, resource, and income tax would help close this gap.

3. **The Credit Gap** – Indigenous households, businesses and governments suffer from poor access to credit. The Indigenous population accesses, on average, less than 40% of the credit accessed by the Canadian population as a whole.⁵ The credit gap is estimated to be about \$175.8B, and the data suggests it is steadily widening.^{6 and 7} The gap is created by many factors, including economic disparities; the absence of fiscal powers; s. 89 of the Indian Act, which prevents the use of property as collateral; little or no home equity; and the lack of a proper land title registry system. The FMA institutions have proposed opt-in frameworks that would address these issues. These would be optional frameworks for interested communities and individuals. One example was the development of draft legislation and regulations for an Indigenous land title system. This is an ideal time to close this gap because of historically low interest rates.
4. **The STEEM Education Gap** – Indigenous student and employment participation in Science, Technology, Engineering, Economics and Math studies and industries may be only about 40% of the Canadian rate. Put another way, an estimated 75,000 Indigenous persons are missing from these fields.⁸ The focus of Indigenous primary, secondary, and post-secondary education must change to close this gap. Examples like the Tulo Centre of Indigenous Economics and its partnership with the Bank of Canada should be expanded.
5. **The Investment Facilitation Gap** – It takes four to six times longer to facilitate a major project or conduct most business transactions, when they take place on Indigenous land.⁹ Closing the credit, fiscal and infrastructure gaps, that were just described, would close some of this gap. Creating more decision-making at the local level would build on that since this would start removing time consuming approval processes. Supporting voluntary standardization of procedures through the expansion of First Nation institutions would also support this goal. An acceleration of the development of legal and administrative templates and supportive training

governments currently collect less than \$500M in taxes annually. Therefore, the Indigenous fiscal power gap is estimated to be about \$31.7B annually.

⁵ A 2017 Waterstone Strategies report prepared for the National Indigenous Economic Development Board found that in 2003, the Indigenous population accessed 2.37% of all credit accessed in Canada, and just 1.86% in 2013.

⁶ Based on StatsCan data, credit market debt accessed by the household sector (table 38-10-0238-01) is about \$2.3T; outstanding business credit (table 33-10-0015-01) is about \$957.7B; and general government debt (table 36-10-0467-01) is about \$2.6T. If the Indigenous population (including households, businesses and governments) accessed credit at the same rate as the overall Canadian population, it would access an estimated \$284.8B. However, the Indigenous population has accessed only an estimated \$109.1B. Therefore, the Indigenous credit gap is estimated to be about \$175.8B.

⁷ The Waterstone Strategies report notes the Indigenous credit gap steadily increased over 2003-2013.

⁸ This is based on available STEM data. Based on StatsCan data (catalogue no. 98-400-X2016263), 10.3% of the non-Indigenous labour force holds a degree, diploma, or certificate in a STEM field, while the rate among the Indigenous population is only 4.1%. The number of Indigenous people obtaining a degree, diploma, or certificate in a STEM field would need to increase by 148% to achieve parity with the non-Indigenous population.

⁹ See Fiscal Realities Economists (i) Expanding Commercial Activity, 1999 and (ii) The High Costs of Doing Business on First Nations Lands in Canada, 2008.

would support the development of a more responsive and understandable First Nations investment climate.

6. **The Trade Gap** – The Indigenous trade (export) gap is estimated to be about \$12.5B. On a per capita basis, the estimated value of exports from Indigenous businesses is only about 51.8% the value of exports from Canadian businesses.¹⁰ Closing the investment facilitation and credit gaps will help generate more exporting businesses and a greater amount of exports. In addition, increasing Indigenous trade requires a network of communities committed to the standards and systems (lower transaction costs) that facilitate trade. Support for the proposed Indigenous Organization for Economic Cooperation and Partnerships (IOECP) would help establish this network and provides a basis for improved statistics. The recent success of the FMA-FNLMA First Nations Leading the Way network provides the platform for the IOECP. It also provides a political framework to continue to advance innovations that persistently shrink the gaps.

Summary of Gaps and Proposals

The table below summarizes the gaps, causes and proposals presented here:

Gap	Estimate of Gap size	Systemic Causes	Proposals
Infrastructure	\$25B - \$30B	Missing legislation, standards, institutions, fiscal options, and capacity	FNII legislation, monetization, blended revenues and more fiscal powers
Fiscal	\$31.7B	Indian Act, fiscal relationship, fed-prov legislation & capacity	Cannabis, FACT, FNGST, resources, excise & income taksis in FMA, shared services
Credit	\$175.8B	Indian Act, land title registry, capacity, fiscal options, laws	Fiscal powers, FNFA expand, land title registry legislation, and expand capacity
STEEM Education	75,000 Indigenous jobs	Primary, secondary, and post-secondary focus	Expand educational programs in these areas
Investment Facilitation	4 to 6 times higher	Indian Act, laws, standards, and procedures; missing info, registry, and capacity	Expand FMA, FNLMA, Tulo Centre, create institutional innovation processes
Trade (Exports)	\$12.5B	Standards, supportive organization, other gaps	Expand FMA, FNLMA, improve statistics and create IOECP

¹⁰ Based on StatsCan data (table 12-10-0093-01), the value of Canadian exports was \$533.3B in 2019 (about 31.6% of GDP). Based on a 2019 Canadian Council for Aboriginal Business report (Indigenous-Owned Exporting Small and Medium Enterprises in Canada), we estimate the value of exports from Indigenous businesses makes up about 3% of all Canadian exports.