

RESEARCH

INDIAN TAXATION ADVISORY BOARD



Expanding Commercial Activity on First Nation Lands

Executive Summary

Opponents of First Nation governments often argue that what they advocate is in the best interests of First Nation persons. The usual argument is that First Nation governments themselves force many people to leave the reserve in order to find opportunity. The implication is that First Nation governments are limiting their prospects and so the solution is to do away with these governments.

The study analyzed investment projects on reserve and compared them to projects off-reserve (Calgary/Siksika, Vancouver/Squamish, Kamloops /Kamloops Shuswap). It found that the lack of opportunities on reserve has resulted from the imposed system of First Nation governance, which has artificially raised the costs of doing business far beyond what prevails off-reserve. It can cost four to six times as much to put together a major investment project on reserve and it takes much longer to take a project from the proposal to operating stages. As a result, even favourably located reserves have low business presence and see potential investment diverted to adjacent jurisdictions even when these alternative locations are less favourably sited.

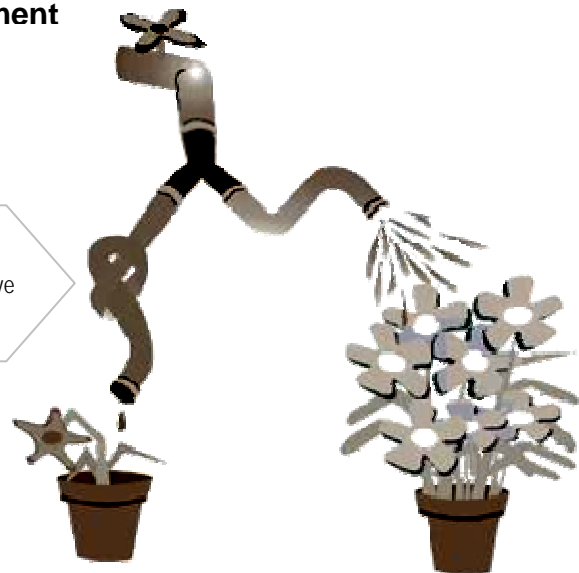
The study implies that the remedy suggested by critics is wrong. The way to improve the lives of First Nation people is not to do away with First Nation governments – it is to give these governments the power they need to

attract investment and provide opportunities and well being for their people. The time elapsed in completing development approval processes is illustrated on the following page.

The time frames loosely matches the professional hours billed with each approval process as well as the foregone revenues associated with longer approval times. The differences were significant enough to deter investors.

Investment

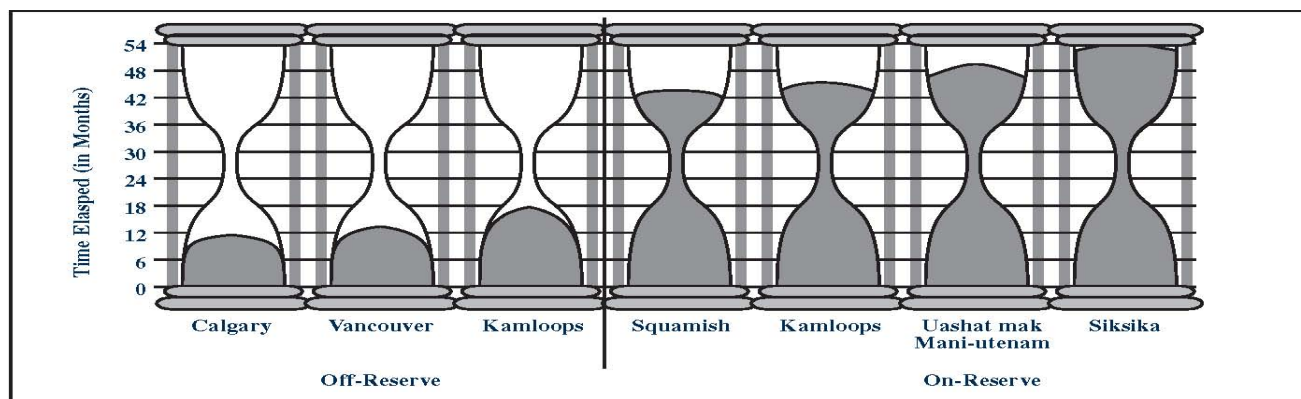
High cost of doing business prevents investment on reserve and diverts projects off reserve



Lack of on reserve growth

Off reserve saturated with growth, limited room

Comparison of Development Time Frames



Impediments to Successful Developments Identified

1. **Absence of regulatory harmony, certainty and jurisdictional clarity.** First Nation jurisdiction is not well enough established to allow them to develop the laws and regulations needed to eliminate investment uncertainty.
2. **Incomplete separation of politics and administration.** Because of resource limitations, qualified persons are often called upon to perform both political and administrative roles. This can create a perception of political influence on projects.
3. **Poor access to financing.** The financing problem is twofold. There is a problem financing infrastructure improvements and investors find their financing options more limited. This study found that most on-reserve projects must be financed through retained earnings, which reduces the pool of potential investors.
4. **Noncompetitive infrastructure.** Most large investment projects on First Nation lands have required extensive infrastructure improvements. This creates a First Nation Catch-22. They need the economic spin-offs these projects generate; however without these benefits they cannot afford the infrastructure improvements needed to attract these projects.
5. **Reluctance of the Crown to take risk.** The Department of Indian Affairs has conflicting

obligations. On one hand it must improve the welfare of First Nation people. On the other hand the Department must operate within the restrictions of the financial administration act and in an environment of scarce resources. Improving welfare often means crown investment and such investment carries risk, which are difficult to assimilate within the current federal fiscal regime. This problem manifests itself in the negotiation of lease documents and contributes to lengthy delays in approval times.

6. **High search costs.** It is often difficult for developers to obtain the information needed to analyze site suitability when First Nation lands are under consideration. If developers do not know how to search for sites on First Nations lands then even the most attractive First Nation sites will fail to attract investment. There is a pressing requirement for improved land development and statistical information to facilitate the investment process.

Lower costs of doing business with First Nations is in the interests of everyone and will lead to improved First Nation fiscal positions, greater economic opportunities and stronger healthier First Nation communities. Opportunities to lower the costs of doing business with First Nation exist. A number of innovative investment facilitation strategies are being used by First Nations. These are the subject of the follow up paper – Turning on the Taps.

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