



Tulo Centre of
Indigenous Economics

INCREASING THE BENEFITS OF TREATY LAND ENTITLEMENTS IN MANITOBA

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TLEs represent one of the most successful indigenous led economic innovations in Canada. They have generated significant economic benefits for First Nations governments and members and other citizens and governments. Based on a 2014 study TLEs generate an average of 36 jobs per acre and increased spending off reserve by \$285,000 per acre annually. This study also found that TLEs generate significantly more benefits per acre compared to similar well-located non-TLE First Nations¹. Unfortunately, TLEs take 3.4 to 7.8 years longer than a typical municipal boundary expansion. They also do not generate as many benefits as they could.

A general method for improving these results is summarized in the next section; “Converting Comparative TLE Advantages to Competitive Ones”. Creating an improved framework to support TLEs could help address Manitoba’s indigenous unemployment crisis and improve the fiscal outlook of Manitoba. A 2016 study found that the wage gap for First Nation people is \$9,000 per year and the employment gap is 22,000 jobs². If both gaps were closed then the Manitoba GDP would increase by \$2.8 billion a year. Faster, better TLEs would close these gaps³.

The Tulo Centre of Indigenous Economics has been supporting the work of the Collaborative Leadership Initiative (CLI) to improve TLE outcomes. The Tulo Centre support includes research, presentations, workshops, proposed service agreement templates and opportunities for interested participants to attend Tulo Centre university programs. This support could be helpful to interested First Nation and local governments in Manitoba but realizing the full economic and fiscal benefits from TLEs requires the support of the CLI and interested First Nations and local governments on at least the following:

- Identifying and developing effective First Nation-local government TLE partnerships on practical economic development initiatives based on regional comparative advantages
- Reviewing legislative and process opportunities identified by the Treaty Land Entitlement Committee and others to expedite the TLE process
- Developing joint First Nation-local government plans on how to convert regional comparative advantages on TLE lands to competitive ones
- Developing a tax-based service agreement template to ensure fiscal benefits from TLE economic development are distributed among participating governments
- Exploring joint opportunities to provide the necessary infrastructure to convert comparative advantages to competitive ones
- Supporting interested TLE First Nations to implement fiscal powers using the First Nations Fiscal Management Act to coordinate their tax jurisdictions with local and provincial governments
- Supporting interested TLE First Nation to implement their land management powers using the First Nations Land Management Act to better coordinate land use planning and management with local governments

1 See <http://www.naedb-cndea.com/reports/IMPROVING-THE-ECONOMIC-SUCCESS-OF-URBAN-ADDITIONS-TO-RESERVES.pdf>

2 See http://naedb-cndea.com/reports/naedb_report_reconciliation_27_7_billion.pdf

3 The Tulo Centre recently completed an estimate of how this proposed approach could support economic growth for Manitoba TLE communities. Using several conservative assumptions, the Tulo Centre estimated an increase of \$2.4 billion in investment and over 10,000 person years of employment (after a 3-yr planning phase and a 15-yr development phase). For more information on this estimate, contact the Tulo Centre.

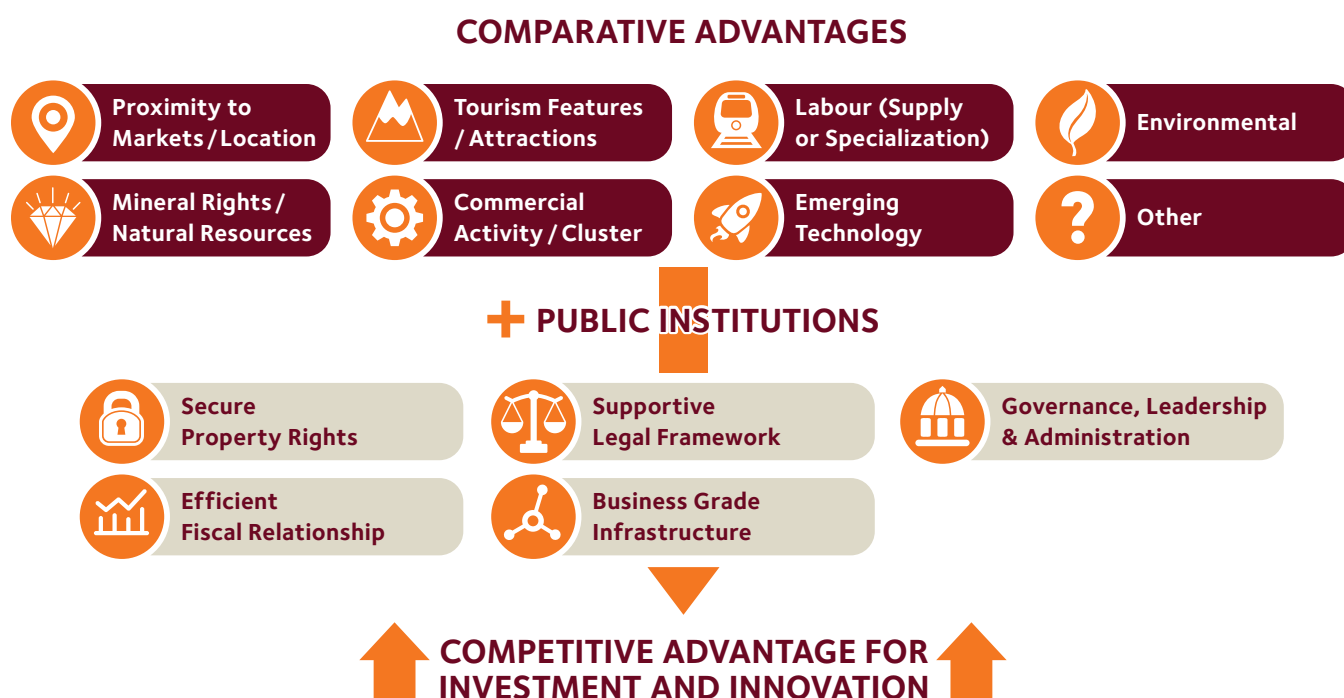
CONVERTING COMPARATIVE TLE ADVANTAGES TO COMPETITIVE ONES

The following summary has been taken from the Tulo Centre of Indigenous Economics working paper, *Renewing Indigenous Economies through Creative Destruction* (<http://tulo.ca/library>)

A general theory among new institutional economists is that economies that have a private and public institutional framework that facilitates efficient investments to advance and adopt innovations are more successful than economies that don't.⁴ The model advanced by Manny Jules, the FNTC and the FMA institutions is that building an Indigenous institutional framework that continually improves and supports Indigenous (and non-Indigenous) private sector innovators will, in his words, "unleash the entrepreneurial imagination of our people and creatively destroy colonialism."

There are two parts to their approach that are applicable to TLEs in Manitoba. The first are the private sector comparative advantages. First Nations acquire these comparative advantages on their TLE lands. The second part is the public sector elements that support those comparative advantages. These elements are largely missing for First Nations (TLE and otherwise) because of the Indian Act and colonization. The opportunity to increase the benefits from TLEs is to use First Nation legislation and institutions to build a First Nation public sector that better supports comparative advantages. As is illustrated below this is the process of converting comparative advantages into competitive advantages.

CONVERTING COMPARATIVE TLE ADVANTAGES TO COMPETITIVE ONES



⁴ See texts such as (i) Daron Acemoglu, James A. Robinson. (2012). *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. (ii) Hernando De Soto. (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. (iii) Nathan Rosenberg and L. E. Birdzell. (2007). *How the West Grew Rich: The Economic Transformation of the Industrial World*. (iv) Terry L. Anderson. (2016). *Unlocking the Wealth of Indian Nations*.

Comparative Advantages – The upper portion of the graphic represents a selection of potential comparative advantages for a TLE area. These include advantages in location related to geography, geology, access to resources, access to labour (over supply or specialized skills), tourism, transportation, business clusters, research, environment, education or an emerging technology. Some jurisdictions have multiple sources of these comparative advantages, others have few, and still others have none. Many First Nations in Manitoba without comparative advantages can acquire them through TLEs.

Institutional Elements to Support Comparative Advantages – The next part of the graphic represents the public sector institutional elements responsible for freeing the potential of these comparative advantages. Innovators and entrepreneurs need certainty, infrastructure, public services and access to capital to attract investment. The work of public sector entrepreneurs, like the CLI participants, is to create this nexus of institutions that provide an inclusive investment climate for comparative advantage innovation. When they are successful, comparative advantages are converted into competitive ones.

Based on our research to date,⁵ for First Nations these institutions include at least secure property tenure; a legal framework that supports investor certainty and lower transaction costs; business grade water, road, environmental, energy and communications infrastructure; quality public goods and services at a fair price of taxation;⁶ and investment and innovation supportive systems of governance, leadership and administration. Almost all regional and provincial economies have comparative advantages, but the absence or poor design of these institutional elements is a significant factor as to why these don't become competitive advantages sometimes.

Our research shows that the widespread absence of these supportive public institutions for First Nations means the costs of doing business on First Nation lands are 4 to six times higher⁷. It is the work of the Tulo Centre and the FMA institutions to help build First Nation governments that build economies⁸.

The FMA was passed in 2005 and the institutions began operations in 2007. The Tulo Centre of Indigenous Economics was established in 2008 to provide accredited training and capacity development to participating First Nations. The theory behind the FMA and its institutions was that the probability of escaping the poverty trap increases when First Nations are equipped with more fiscal powers, better infrastructure and economic development, taxation and financial administration capacity.

In the last 10 years, the FNTC developed 19 standards and 33 sample laws to help more First Nations efficiently and cost effectively implement a growing number of fiscal powers. It developed a tax administration software system to help communities track and collect taxes. The FNTC operates the First Nations Gazette, a law repository that provides public access to all First Nation tax and other laws. The FNTC developed a model tax-based service agreement that helped more than 20 First Nation and local governments improve service and infrastructure certainty for members and other investors. The Tulo Centre began offering an 8-course accredited First Nation tax administrator's program and an 8-course accredited First Nation applied economics program to help develop First Nation administrative capacity.

The results from this effort to reduce transaction costs for developments on First Nation lands, improve access to infrastructure financing and implement effective fiscal governance systems are impressive. Investment on participating First Nation lands has increased by over \$1 billion. The FNFA received an investment grade credit rating (single A) for its initial debenture offering in 2014. The FNFA developed an innovative revenue intercept clause to provide greater certainty to lenders in 2015. It issued a \$90 million debenture on behalf of 20 First Nations in 2015. The FMB certified the initial First Nations and has certified almost 100 more First Nations since then. The FNTC has helped First Nations develop and pass over 1,000 tax and expenditure laws. Over 200 students have attended the courses offered by the Tulo Centre of Indigenous Economics.

5 See www.fntc.ca, www.tulo.ca, www.fnii.ca and www.fiscalrealities.com for some applicable research and publications.

6 This is summarized in the graphic as an efficient fiscal relationship, which is the answer to four questions that effectively define the public sphere of government: (1) Which government has which service responsibility? (2) What is the service population? (3) Which government has which revenue source to finance its service responsibility? (4) How are national service standards maintained through transfers and other mechanisms?

7 See Fiscal Realities, (1999) at http://www.fiscalrealities.com/uploads/1/0/7/1/10716604/expanding_commercial_activity.pdf

8 This scope of this work is best summarized in the Tulo Centre of Indigenous Economics textbook, *Building a Competitive First Nation Investment Climate* at <http://tulo.ca/resources>

Since 2008, over 250 First Nations have joined or applied to join the FMA framework. There are now 29 First Nation FMA members in Manitoba. It is fastest growing FMA participation rate in Canada – from 2 to 29 in 3 years.

There is significant growth in demand for financial management services from the FMB and fiscal power services from the FNTC. The FNFA has issued over \$600 million in debentures. The last FNFA issue in September 2018, sold in 20 minutes and was 100% over subscribed. The FNFA credit rating was recently increased to AA.

The FMA is the most successful First Nation led institutional innovation in Canadian history. The FMA institutions have recently partnered with the Lands Advisory Board (LAB)⁹ another successful Indigenous led institutional innovation to advance proposals to further expand the First Nation institutional framework including expanded First Nation fiscal powers and a new infrastructure institution. Together, these two initiatives represent almost 300 First Nations or almost half of all First Nations in Canada.

Their success so far can be contributed to at least six factors¹⁰ (a) They are indigenous led. (b) They are optional. (c) They have delivered increased First Nation economic growth through lower transaction costs. (d) They have helped interested First Nations convert their comparative location advantages to competitive ones. (e) They have promoted inclusive economic growth through improvements in opportunities, services and infrastructure and (f) They have developed innovations to facilitate cost effective and efficient adoption of the new systems by interested First Nation (low switching costs).

Application of these legislative frameworks with CLI and Tulo Centre support for interested Manitoba First Nations represents an efficient and effective way to increase benefits from TLEs by converting comparative advantages to competitive ones.

9 Under the Framework Agreement on First Nation Land Management, signatory First Nations established a Lands Advisory Board to assist them in implementing land governance over their reserve lands and resources. The First Nations LAB Resource Centre (LABRC) is the service delivery organization that fulfills the LAB's technical and administrative responsibilities. The FNLMA helps interested First Nations implement their land management jurisdiction and replace INAC. This has been shown to significantly lower land leasing and related transaction costs for participating First Nations.

10 These factors were identified in a Tulo study of 23 First Nation and federal proposed innovations since 1993.



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