



**FROM POVERTY TO PROSPERITY:**  
**OPPORTUNITIES TO INVEST  
IN FIRST NATIONS**



**PRE-BUDGET SUBMISSION**  
*to the*  
**HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE**  
**SEPTEMBER 2007**

## **ABOUT THE ASSEMBLY OF FIRST NATIONS**

The Assembly of First Nations (AFN) is the national, political representative of First Nations governments and their citizens in Canada, including those living on reserve and in urban and rural areas. Every Chief in Canada is entitled to be a member of the Assembly. The National Chief is elected by the Chiefs in Canada, who in turn are elected by their citizens.

The role and function of the AFN is to serve as a national delegated forum for determining and harmonizing effective collective and co-operative measures on any subject matter that the First Nations delegate for review, study, response or action and for advancing the aspirations of First Nations.

For more information, please contact us at:

473 Albert Street, Suite 810  
Ottawa, ON  
K1R 5B4

Telephone: 613-241-6789  
Toll-Free: 1-866-869-6789  
Fax: 613-241-5808

or visit the AFN Web site: [www.afn.ca](http://www.afn.ca)

## EXECUTIVE SUMMARY

These pre-budget consultations represent an important opportunity to explore some of the underlying issues that hinder First Nations economies and to offer a new perspective on how investment in First Nations can contribute to the broader objective of building greater prosperity for all Canadians.

Historically, in Canada, the revenue derived from resource development has been paramount to achieving prosperity. First Nations possess legal rights - *inherent Aboriginal and treaty rights* - recognized in Canada's *Constitution Act* and in case law by the Supreme Court of Canada. These rights include interests in land, development and the rich natural resources of this country. In the 21<sup>st</sup> century, the value of human capital is also important. First Nations have the fastest growing and youngest population in Canada. Prosperity can be enhanced by working with First Nations to form productive relationships around resource development and to make best use of the productivity of human capital. Supporting the contributions of First Nations within Canada's economy is vitally important to generating prosperity for the country as a whole. At the same time, it is fundamental to addressing the greatest social injustice in this country. Fortunately, the same approach serves both objectives.

No one seriously questions the fact that most First Nations communities face a level of poverty that is simply unacceptable within a country as wealthy as Canada. There is, however, debate concerning the reasons for that poverty. Some question First Nations decision-making structures, accountability processes and the fundamental economic viability of reserves. Most often, these questions are meant to demonstrate that the fault for poverty lies with its victims. The Assembly of First Nations (AFN) submits that there is another more plausible explanation, one that finds its roots in Canada's historical legacy, its manifestation in contemporary government policy and its conclusion in the obvious construct: **poverty can only be countered by investment**. First Nations are poor because they have very little money.

From this starting point, it is hoped a more constructive debate can emerge concerning how investments should be made, the mechanisms needed to facilitate their intended achievements and the benefits that will accrue as a result to First Nations citizens and to all Canadians.

The federal government can create opportunities for First Nations citizens and contribute to Canada's economic prosperity by:

- Immediately lifting the 2% funding cap on core programs and services and compensate those programs at a rate that reflects the actual costs if appropriate price and volume adjustments had been applied to First Nations core funding since 1996.
  - For education and skills development, this constitutes a \$1.3 Billion investment required to address current shortfalls.
- Design and implement new non-discretionary and secure funding frameworks - based on need - to ensure adequate, predictable, and sustainable funding to First Nations and introduce guaranteed funding escalators to reflect the actual costs of population and inflation growth in the future.

The 2008-09 budget can invest in human and resource development and support sustainable First Nations economies. By doing so, it will directly contribute to Canada's prosperity and fulfill its commitment to support all of its citizens. **Canada can not abandon First Nations as a failed enterprise.**

## **FROM POVERTY TO PROSPERITY**

The Assembly of First Nations (AFN) appreciates this opportunity to provide input regarding priorities for the 2008-09 federal budget. This year's pre-budget consultations are focused on the tax system Canada needs for a prosperous future. But a tax system is merely a mechanism for redistributing wealth, whether to share it more fairly between Canadians or to pay the debts owed on behalf of all Canadians for other benefits in which we share as citizens. Prosperity, on the other hand, is built on translating goods into something of greater value.

In Canada, prosperity has traditionally been derived from the development of natural resources such as timber, fish or minerals. Resource revenues have been the major driver for the Canadian economy since the fur trade with Europe began and continues today. The wealth was in the land, ready to be sold for profit. This was made possible through agreements between First Nations and newcomers. The primary understanding for those agreements was that the benefits of these resources would be shared.

**Whether in payment of Treaty rights or another lawful obligation, or as part of the Crown's fiduciary obligation, funding is meant to reflect the principle of sharing in the benefits that this land has provided. Yet the shares are far from fairly apportioned.**

Prosperity for Canada will depend on the ability of the Crown to work with First Nations to restore a sense of balance, proportion and fairness, to the sharing of natural resource revenues. The courts have spoken, in decisions such as *Haida*, *Taku* and *Mikisew*, of the obligation on the Government of Canada to consult on any resource development affecting First Nations interests and to arrive at reasonable accommodation. Investor confidence depends on a degree of certainty that can not be provided without the accommodation of First Nations interests in the lands and the benefits that accrue from those lands. Canada's prosperity depends on resolving these outstanding issues in a full and fair way for all concerned.

One way of addressing First Nations interests in resource revenues is through resource revenue sharing agreements, an approach that goes well beyond the tax system. Nonetheless, it is within the scope of the next budget to provide direction on these matters and this government has shown in prior budgets a willingness to expand the scope of budget documents to address policy matters.

In addition, the tax system Canada needs to enhance prosperity must ensure that First Nations citizens are treated fairly. This means that lawful obligations must be fully met: treaties must be respected; new treaties are needed where none exist; and inherent Aboriginal rights must be accorded their place within Canada. Ongoing conflicts around land continue to impede resource development across the country. These issues must be resolved according to the rule of law, but that rule does not flow only in one direction. If the Crown can not respect its own laws, a general disrespect for the rule of law is fostered, resulting in a regrettable cost to all.

More broadly, every Canadian should be able to expect comparable levels of service, there should be no second-class citizens. However, this standard is clearly not being met for First Nations. Indian and Northern Affairs Canada (INAC) has generated a "Cost Drivers Study" which documents how the effect of the 2% cap on funding growth in core programs and services in place since 1996 has led to a diminishment of real purchasing power when set against inflation and population growth. It shows how INAC reallocated from core programs and services on-reserve to satisfy commitments to service delivery partners (mainly provincial agencies) in excess of 2% growth per annum. And it shows how the cap and reallocations have resulted in serious risks to the health, safety and prosperity of First Nations communities.

All of this hinders economic development. **For prosperity to arise, poverty must be defeated.**

## **OUTCOMES, ACCOUNTABILITY & STRUCTURAL REFORM**

No one doubts that the gap in quality of life between First Nations citizens and other Canadians must be narrowed. The level of poverty that exists in many communities is staggering and outcomes, generally, are not improving at the desired rate. Some successes are notable. The gaps in infant mortality and life expectancy rates are significantly reduced from twenty years ago and education levels among First Nations, although still far too low, have been rising. Nonetheless, there are plenty of negatives, including ongoing crises in housing and drinking water, environmental degradation that continues to worsen without redress, 27,000 First Nations children currently in care through First Nation or provincial agencies and a pervasive sense of despair that is reflected in rates of suicide and other social ills.

For some, these poor outcomes give rise to doubt with regard to the effectiveness of current spending and suggest that no further funding increases should be authorized. To paraphrase the views expressed: more than enough money is currently being spent and outcomes will not improve until there is greater accountability and structural reform among First Nations. Put simply, the fault lies with the victim. This position is incorrect in both its assumptions and conclusions.

First, the suggestion is that the problems in achieving better outcomes are due to a lack of accountability and the need for structural reforms among First Nations. **The AFN wholeheartedly supports better accountability and structural reform; however, the federal government must be our partner in this effort.** Initiatives to achieve these goals have been either terminated or left moribund by the federal government, so no progress can be made.

- The work on Accountability for Results that the AFN was pursuing with INAC and Treasury Board Secretariat was based on the principles of the Auditor General of Canada and had her personal support until funding was cut by the federal government.
- The Independent Blue Ribbon Panel on Grants and Contributions made comments with regard to the management structure for contribution agreements with First Nations governments consistent with AFN's position but the Government of Canada has chosen not to pursue them.
- The *First Nations - Federal Crown Political Accord on the Recognition and Implementation of First Nation Governments* set out an important agenda for structural reform that the Government of Canada has since refused to implement.

It is asserted here that the federal government's position on the need for structural reform and accountability to ensure that funds are better spent would be strengthened by efforts to actually follow through on agreed initiatives in those areas. **It is fundamentally unjust to suggest that the funding needed to raise people from poverty must be put on hold pending action that the federal government refuses to join us in pursuing.**

Second, the federal government's position incorrectly denies the correlation between spending levels and outcomes. While it is true outcomes are exceedingly bad in some areas and overall, this is not uniformly the case. Improvements in health and education outcomes reflect the fact that these areas of spending have been less drastically curtailed than others. Where INAC has imposed not only the 2% cap but additional reallocations away from funding to infrastructure and capital, crises in housing and water have arisen. **This would suggest a strong correlation between funding levels and outcomes, much as one might expect.** This correlation is borne out across most program and service areas. While a lack of funding can be attributed to failure to achieved desired outcomes in many areas, there is not a single issue on which it can be demonstrated that too much money is being spent. While First Nations can appreciate the wisdom in not pursuing failure, no one should condone simply maintaining it.

Third, successes exist in many communities across the country. **The two common indicators of success are a threshold level of wealth to allow for innovation, investment and growth and greater local control over decision-making.**

Where economic circumstances have allowed a threshold of poverty to be surpassed in some communities, there have been tremendous examples of innovation, investment in growth and overall improvement in outcomes. These communities have generated prosperity once they were able to generate a degree of discretionary funding for investment. These examples have been documented by a number of observers, including the Conference Board of Canada and others.

The idea that decision-making should be exercised as close to the locus of effect is a fairly well-established maxim in political management and administration. Where First Nations have been allowed to exercise a greater degree of control over their own communities, outcomes have generally improved. Development experts in Canada and internationally have demonstrated empirically the truth of the common sense notion that accountability arises and outcomes improve when people suffer the consequences of their own bad decisions and gain the benefits of the good ones. This government has espoused a political philosophy consistent with smaller government, less centralized control and greater autonomy at the local level. Despite that predisposition and the common sense of the position, when it comes to First Nations, local control is denied, decision-making is centralized with distant bureaucrats and outcomes continue to disappoint. Yet the federal bureaucrats and politicians do not suffer the consequences, First Nations do. This too has been well-documented. Only the meaning of this evidence remains disputed.

Fourth, **Canada can not afford the cost of doing nothing**. Research has demonstrated that the cost of the status quo - that is, not specifically addressing the disparities between First Nations and Canadians - can amount to billions of dollars on an annual basis. In 1996, the Royal Commission on Aboriginal Peoples (RCAP) estimated such costs to be \$7.5 billion. This was due to foregone production, the extra cost of remedial programs and financial assistance, and foregone government revenues. RCAP estimated that this figure would climb to \$11 billion by 2016. The Royal Bank of Canada has gone further by suggesting that the costs of implementing RCAP would be more affordable in the long-run than maintaining the status quo.

Structural change, as has been recommended in the many commissions and studies on these issues and as was agreed to in the *First Nations - Federal Crown Political Accord* referenced earlier, must occur. Local control, accountability through the exercise of real decision-making power, and self-government are each a variation on this theme.

Sustainability relies both on a form of structural change and on investment. There must be reform in the way that resource development occurs in this country. **Just and lasting resource revenue sharing agreements between the three orders of government in Canada, federal, provincial and First Nation, will provide some of the long-term financial viability that First Nations communities, especially those in otherwise remote and isolated regions, will need to generate income and allow for innovation, investment and economic development.**

And there must be sustainable funding from the Crown, pursuant to Treaty obligations and its fiduciary duty, to lift people above the threshold of poverty and allow for innovation and investment to occur. So long as people struggle with boiling their drinking water, over-crowded and unhealthy houses, environmental degradation and second-rate programs and services, they generally will be unable to find the time and resources for economic development. This requires a level of investment.

**There should be no doubt on this point; so long as First Nations are behind the threshold of poverty, investment, innovation and economic development will be beyond their grasp and the prosperity of all of Canada will continue to suffer.**

## **INVESTING IN PEOPLE, RESOURCES & ECONOMIC DEVELOPMENT**

For the past several years, the AFN has provided this Committee and its predecessors with submissions carefully detailing the investments needed to address program and service shortfalls. This body of work remains valid and was also reflected in the detailed negotiations leading to the accord made with First Ministers in 2005 as well. Our submissions have variously focused on demonstrable need in health, child and family services, housing, water and capital infrastructure, environmental stewardship, economic development, social development, languages and culture and education and training.

**The response in the last two years has been negligible.** The 2006-07 budget contained \$150 million in the first year and \$300 million for 2007-08 that was to be invested in First Nations issues, although whether any of that reached communities is a matter in need of investigation. Other funding that year went to provinces and territories for pan-aboriginal housing or addressed the lawful obligation pending from the class action suit brought on behalf of residential school survivors. The 2007-08 budget contained promises for limited future year spending and approximately \$60 million in pan-aboriginal programs over that fiscal year and 2008-09. This is simply insufficient.

The threshold of poverty must be crossed, enabling investment, innovation and economic development. Moreover, Canada needs First Nations to prosper. Specifically, **Canada needs First Nations participation in labour force replacement and in resource development.**

Canada's labour force is aging. The baby boom generation is fast approaching retirement and there are significant gaps in skilled workers to replace those that will depart. Productivity and prosperity will suffer if this is not addressed. First Nations potential share of the Canadian labour force is expected to triple over the next twenty years. If investments are not made to increase First Nations' skills and opportunities, the gap between First Nation citizens and Canadians will grow, meaning increases in Canada's rate of unemployment, downward pressure on productivity, upward pressure on social expenditures and a large scale migration to provincial social assistance programs, all of which will have a negative impact on Canada's prosperity.

The alternative is that if adequate investments are made, a large percentage of new entrants into the labour market will be healthy, well-educated First Nation citizens who will be net contributors to the economy. A double benefit would be realized by a decrease in the costs associated with maintaining First Nations in poverty. The stresses on social service programs will be reduced, the social fabric and cultural diversity of Canadian society will become further enriched, and labour resources within the economy will be allocated more efficiently, leading to increased productivity and innovation and, hence, improved prosperity for Canada as a whole.

Additionally, First Nations need to participate in resource development. The law on the matter is well-established, requiring consultation and accommodation. The reality is that when First Nations interests in land have been ignored, confrontation has arisen. This discourages investment, negatively affecting confidence and certainty around such projects. First Nations require not only resource revenue sharing agreements, as discussed earlier, but investment in the capacity to participate in development directly. Through the development of such local economies, long-term sustainability can be derived. In this way, both the interests of First Nations and the broader interests of Canada in resource development are supported.

**Real and sustainable change will require the federal government to make real and sustainable fiscal commitments to First Nations.** If Canada fails to respond adequately in the upcoming budget, it will condemn another generation of available First Nations workers to unemployment, wasting both the opportunity to meet Canada's workforce needs and destining First Nations to another entirely preventable generation of poverty. **Investing in our shared future is simply the prudent approach.**

## **CONCLUSION**

This document has attempted to address the issue of prosperity from its broadest perspective, to assist the Committee in understanding First Nations interests and Canada's interest in supporting First Nations. It has also attempted to address misconceptions about the fundamentals behind First Nations economies so that the Committee might have a framework within which to analyze and respond to the real and urgent need in our communities and to promote opportunities.

More specifically, this submission has highlighted two win-win scenarios for creating prosperity. First, investment in education and skills training can prepare First Nations youth to fill gaps in the workforce that Canada's economy and Canadian businesses need to fill while simultaneously generating wealth among Canada's poorest population. Second, the development of resource revenue sharing arrangements can ensure that Canada meets its legal duties in consultation and accommodation, that resource developers are provided the contextual certainty they require to invest confidently and that First Nations can build sustainable and thriving economies.

A strong federal agenda focused on First Nation issues will promote prosperity, while giving First Nations and all Canadians faith in a better future. First Nations across the country are willing to work with the federal government to bring about prosperity. We can be partners in Canadian society and create lasting solutions.

**Our future - the future of First Nations - is Canada's future. The time to act is now. First Nation citizens, and all Canadians, deserve nothing less.**

## **RECOMMENDATIONS**

Ensure that First Nations have adequate and sustainable capacity to reach their full potential.

1. Immediately lift the 2% funding cap on core programs and services and compensate those programs at a rate that reflects the actual costs if appropriate price and volume adjustments had been applied to First Nations core funding since 1996.
2. For education and skills development, this constitutes a \$1.3 Billion investment required to address current shortfalls.
3. Design and implement new non-discretionary and secure funding frameworks - based on need - to ensure adequate, predictable, and sustainable funding to First Nations and introduce guaranteed funding escalators to reflect the actual costs of population and inflation growth in the future.





**INAC COST DRIVERS STUDY:**  
**THE EFFECT OF THE 2% CAP**

Appendix to AFN Pre-Budget Submission

September, 2007



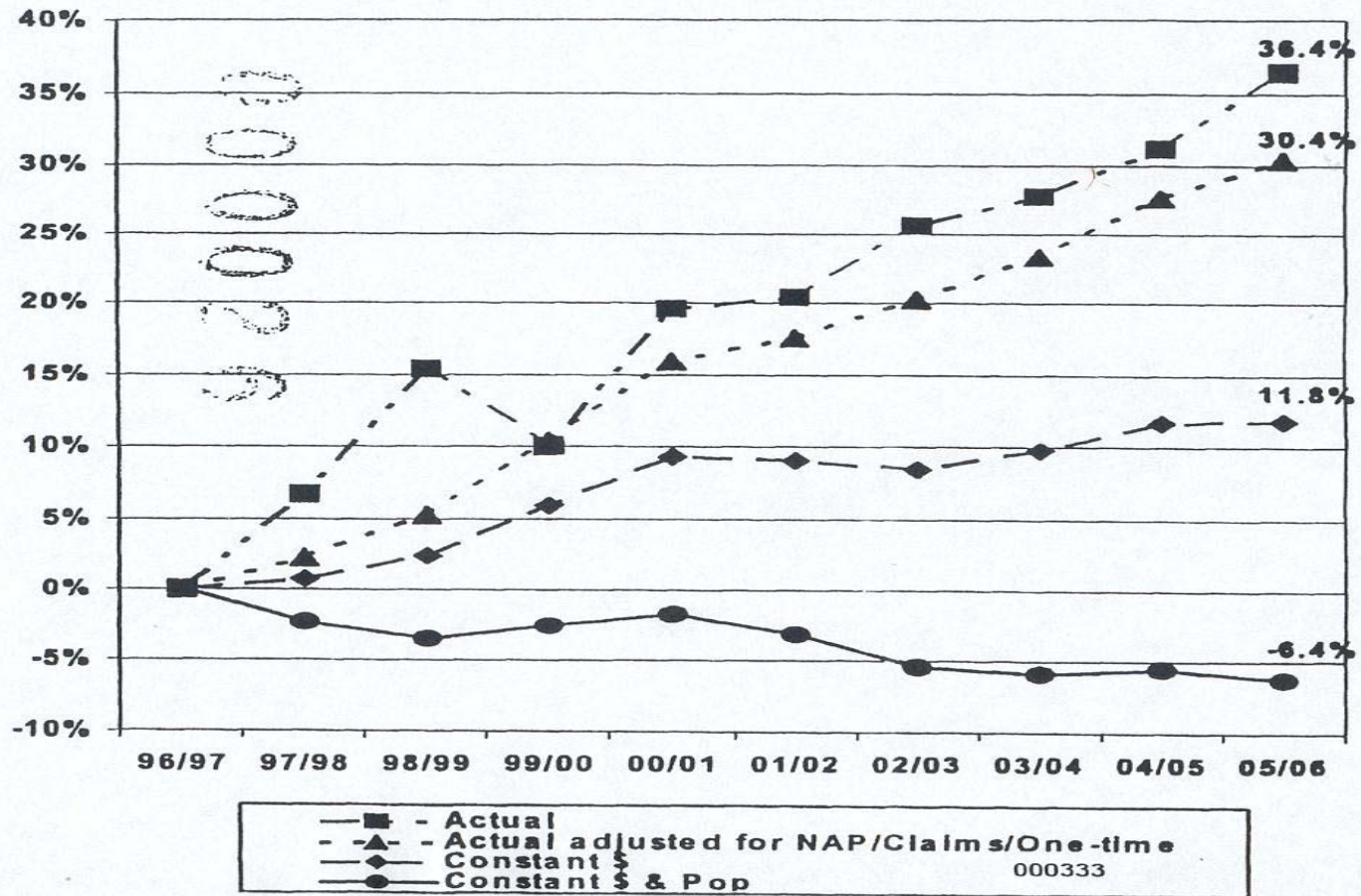
# Background: the Study

- In November 2006, Indian and Northern Affairs Canada (INAC) conducted a “Cost Drivers” study
- They found that total Government of Canada (GOC) spending on First Nations in 2005-06 was \$6.4 billion
- Funding growth for core programs and services at INAC was 3% in 1996 and has remained capped at 2% annually ever since
  - The cap applies to all “core programs and services” - education, child & family services, income assistance, Indian government support, housing, capital & infrastructure and regulatory services programs
- The cap has the effect of a loss in real purchasing power due to annual population increases and inflation of about 4.5%
  - Average inflation for this period is almost exactly 2%  
*(Source: Statistics Canada Consumer Price Index)*
  - First Nations population growth in this period has been 25%
    - Registered Indian population grew from 610,874 in 1996 to 763,555 in 2006 - an average of 2.5% per year  
*(Source: INAC Indian Registry)*



# INAC Admits Loss of Purchasing Power

INAC Cumulative % Change 1996-97 to 2005-06  
Actual, and Adjusted for Price and Population



# Reallocation

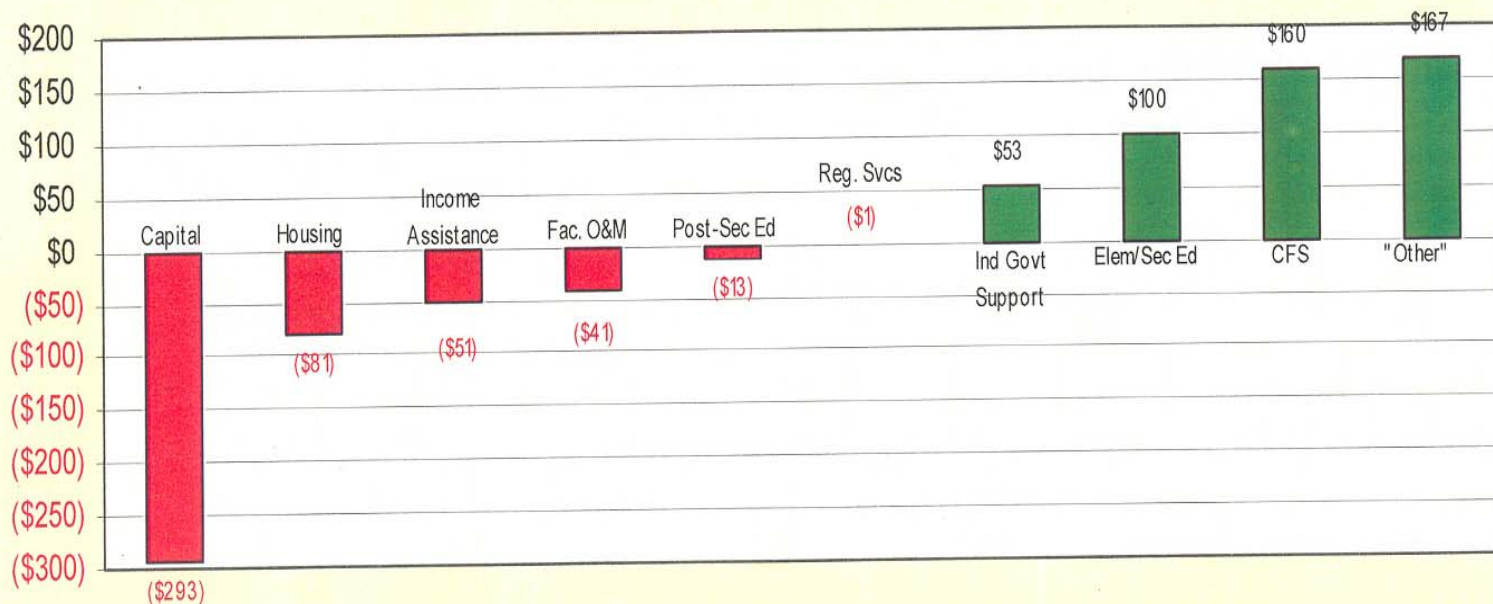
- As a result of the 2% cap, INAC is unilaterally reallocating funds from one core service to another to cover gaps
- Funding levels for capital infrastructure, housing, income assistance, facilities and operations management and post-secondary education were seriously reduced
- The money was then reallocated to meet increased payments to provinces (not First Nations) for elementary & secondary education, child & family services and similar services that INAC chooses to outsource
- It is suggested by INAC that these reallocations were required because payments to provincial authorities are not discretionary in the way that payments to First Nations are
- This has the effect of taking money from infrastructure that maintains First Nations schools to pay increased costs at provincial schools



# Reallocations During 2% Era

(2004-2005)

\$ millions



"Reallocated from" and "Reallocated to"



Gouvernement  
of Canada

Gouvernement  
du Canada



# Risks to Health, Safety & Quality of Life

- INAC confirms impacts of the 2% cap and reallocations include:
  - Insufficient funding for housing, resulting in overcrowding, which affects performance in school and at work, increases family tension and contributes directly to the spread of tuberculosis
  - Insufficient funding for water and sewage treatment or to train and pay trained operators, meaning unhealthy water is used and consumed, leading to a wide variety of illnesses
  - Insufficient support for governmental operations, meaning audits and elections must be paid for from core programs
  - A gap in the quality of life on reserve shown in human development, community well-being and all other indices

