

“BUYING INDIGENOUS” - ESTIMATING THE ECONOMIC POTENTIAL FOR A FIRST NATIONS-LED GROWTH STRATEGY IN MATERIALS AND SUPPLIES EXPENDITURES.

Prepared By:

Matthew Brzozowski, PhD.
and Inez Hillel, M.A.

HIGHLIGHTS

- The economy of First Nations is sizeable. Revenue of only the governments of First Nations was \$13.6B in 2019. The total expenditure by 396 First Nations on materials and supplies (M&S) was \$504M (in 2023 dollars) with the average expenditure on M&S just under \$1.3M or 6.8% of First Nations expenditures on all goods.
- The bulk of these M&S expenditures were on goods and services supplied by non-First Nations business. This means First Nations income is spent on goods and services produced in the non-First Nations economy.
- An opportunity to develop First Nations' economies lies in “recapturing” some of these outflows or “leakages” by sourcing M&S from First Nations-owned businesses.
- For every dollar spent locally on First Nations sourced M&S has a multiplier effect that raises First Nations income exponentially. When the additional First Nations revenue is re-spent on other First Nations goods and services total income increases by the initial amount plus the re-spent amount.
- By diverting spending away from external suppliers to First Nations suppliers, First Nations can increase own source revenue, strengthen their economies, and build internal capacity.
- Conservative Statistics Canada estimates of input output multipliers suggest that if M&S expenditures shifted to First Nations' suppliers, income in the First Nation's economy could increase by, at least, as much as 1.5 times the value of M&S expenditure.
- A practical approach with minimum barrier to entry at the outset could involve purchasing M&S through an Indigenous-owned procurement platform such as eSupply Canada. The revenue sharing business model of eSupply Canada nets back 10% to the First Nation purchasers.
- The median First Nation spending on M&S in Ontario is about \$907,470 (2023 dollars). This means a First Nation government purchasing \$907K worth of M&S through eSupply Canada, would receive back \$90,700 of that expenditure. This is an additional \$90.7K the government could use to invest in education, healthcare, food and beverage stores, and other social infrastructure. Through a multiplier effect on income and revenue-sharing practices of Indigenous-owned businesses, the potential for economic growth and development would be even greater.
- Data limitations make generalizing difficult. Large differences across First Nations spending in the sample mean that the potential for any one community to benefit varies considerably.
- The opportunity presented by this strategy will reach its full potential with the cooperation of all First Nations and with large M&S purchasers intentionally including First Nations suppliers in their spending plans.

INTRODUCTION

The economy of First Nations is sizeable. Revenue to First Nations governments alone was approximately \$13.6B in 2019.¹ Through increased participation in the market economy and development of First Nations-owned businesses, First Nations people have an opportunity to further strengthen First Nations economic capacity.²

A particularly effective development strategy for building capacity involves strategic procurement. By intentionally “buying Indigenous” First Nations retain profits, promote First Nations employment, build skills, and keep control over the types of business First Nations want to develop and in which industries. Such control extends to the types of business models First Nations might choose to develop, including revenue-sharing models like eSupply Canada, a First Nation-owned business.

A First Nations development strategy is not without significant challenges, however. A vast disparity across First Nations exists. By size, geographic location, and different spending needs, the economies of First Nations differ markedly. An inclusive First Nations development strategy requires focused attention on decreasing these disparities, which in turn requires dedicated efforts by larger and economically stronger First Nations to “lift as they climb” with strategic investments in smaller First Nations communities and through procurement from First Nations-owned businesses.

BUYING INDIGENOUS

When First Nations spend income to buy goods and services produced or acquired outside of their community, that money goes to support non-First Nations businesses and workers. No one First Nation can or might want to produce locally all the goods and services needed. However, strategically deciding if a First Nation might “plug” some of these economic “leakages” presents a capacity-building and economic development opportunity for some First Nations.

A “Buy Indigenous” development strategy seeks to keep more of First Nations earned income in First Nations communities. The economic potential for this strategy is illustrated in the case of materials and supplies (M&S) procurement.

Rates of economic leakage can range widely. For example, in the Ontario municipality of West Nipissing, it is approximately 25%. A study of First Nation spending in Saskatchewan found that \$9.3 of \$12 million occurred off-reserve in Saskatoon and Prince Albert. As Mirzaei et al. (2020)³ describe, “the revenue that leaves First Nation reserves is then captured by regional businesses and urban centers, whose owners employ workers, pay wages, and expand business opportunities- revenues and benefits that are lost to First Nations.” (p.54). For some First Nation economies, leakage can be as high as 90%, “meaning that 90 cents of every dollar spent by First Nations for goods and services occurs off- reserve” (Mirzaei et al., 2020, p.53).

The higher rates of economic leakage in First Nations economies stem from policy constraints that restrict development on-reserve primarily, compelling citizens to seek goods and services off-reserve.



Challenges such as the absence of business infrastructure, limited property rights, and systemic barriers to wealth accumulation create formidable obstacles for these ventures (Mirzaei et al., 2020). Furthermore, the enduring consequences of colonialism manifest in the denial of jurisdiction and decision-making, particularly in economic development (Standing Committee on Indigenous and Northern Affairs, 2022).⁴ The result is that First Nations economies do not experience the expected multiplier effects of expenditure (that is, the effect of increased spending and re-spending on First Nations income and employment) nor comparable wealth-generating opportunities (Mirzaei et al., 2020).

Effectively recapturing lost revenue involves examining the areas and quantifying the amount of leakage, identifying specific goods and services contributing to the outflow, and implementing local business strategies to provide those services within the First Nation. Moose Cree First Nation in Ontario offers an example of recovering lost revenue. For this island, First Nation helicopter transportation is an essential service. Through their analysis, they could quantify the benefit of recapturing revenue by building a heliport to eliminate reliance on an outside provider. This heliport also created other economic growth opportunities, including a café in the facility, the ability to sell aviation fuel, a hub for commercial drones (Government of Ontario, 2018)⁵ and employment.

ESTIMATING THE ECONOMIC POTENTIAL OF A **BUY INDIGENOUS** DEVELOPMENT STRATEGY IN M&S EXPENDITURES

The average expenditure (in 2023 dollars) on materials and supplies (M&S) of 396 First Nations was just under \$1.3M or 6.8% of First Nations expenditures on all goods and just over 5% of their total revenues. The bulk of these M&S expenditures were on goods and services supplied by non-First Nations business. This means First Nations income is spent on goods and services produced in the non-First Nations economy.

An opportunity to develop First Nations' economies lies in "recapturing" some of these outflows or "leakages" by sourcing M&S from First Nations-owned businesses. For every dollar spent locally on First Nations sourced M&S creates a multiplier effect that could raise First Nations income exponentially. When the additional First Nation revenue is re-spent on other goods and services produced by First Nations total income increases by the initial amount plus the re-spent amount.

By diverting spending away from external suppliers to First Nations suppliers, First Nations can increase own source revenue, strengthen their economies, and build internal capacity. A conservative Statistics Canada estimate of multiplier effect suggests that if M&S expenditures were shifted to First Nations' suppliers, income in the First Nation's economy could increase by, at least, as much as 1.5 times the value of M&S expenditure.⁶

A practical approach with minimum barrier to entry at the outset could involve purchasing M&S through a First Nation-owned procurement platform such as eSupply Canada. The revenue sharing business model of eSupply Canada nets back 10% to the First Nation.



Assuming a 1.5 multiplier, this means that a hypothetical First Nation government purchasing \$60K of Indigenous M&S through eSupply Canada could add \$90K or more to the wider Canada-wide First Nations economy and receive back \$6K of that expenditure for their community.

The median First Nation spending on M&S in Ontario is about \$907,470 (2023 dollars), or around 9% of their total expenditure. Were a First Nation to spend this median amount on Indigenous-produced M&S from other First Nations, First Nations economies would gain \$907,470. If other First Nations were to spend, in turn, some of this increased income on buying additional First Nations goods and services the Indigenous economies would multiply the initial increase. Were a First Nation to purchase its M&S through First Nation-owned eSupply Canada, eSupply's revenue sharing business practice would return 10% of the initial expenditure, or \$90,700 to the community of the First Nation purchaser. Initial increases in income to both the producing and purchasing First Nations communities would see a greater return on investment when the respective First Nations governments invest in education, healthcare, food and beverage stores, and other social infrastructure.

Were a single First Nation in each of the nine regions to spend the median regional amount in this way, the aggregate effect could be to increase First Nations income by \$7.1M and return \$710K to First Nations communities. If 10% of First Nations in each region did that, the corresponding effect would be \$26.5M and \$2.65M respectively. Data limitations restrict precise forecasting, but this example serves as a viable illustration of the potential of this Buy Indigenous development strategy.

ANALYSIS

We analyze total revenue, total expenditure, and total spending on M&S by community across 9 regions for which there are adequate data. The data were extracted from the publicly available First Nations Profiles on the Indigenous Services Canada website.⁷ Dollar values are adjusted to 2023\$ using the Consumer Price Index. Our sample of 396 First Nations, or just under 63% of all First Nations, is the largest sample available. Every First Nation for which information of M&S expenditure is available has been included in the sample. The information was collected over the span of eight years between 2015 and 2023.

Data are highly skewed in revenues, expenditures, and M&S spending across First Nations, reflecting the vast disparities in First Nation economies. The implication is that simple averages mask this variation and so can be misleading. For example, where the average expenditure on M&S is \$1,272K per community or 6.8% of total expenditures on average per community, the median is just under 4% of total expenditures, which means more than half of First Nations in the sample spend less than half (\$613K) of the average M&S amount.

This is because the combined spending on M&S by smaller First Nations is still only a fraction of what a few very large First Nations are spending.

Table 1 reports the average of total expenditures and spending on M&S as a percent of a First Nations revenue. Expenditures as a percent of revenue are remarkably similar across all First Nations. Except for BC, the average percent of revenue spent is between 88.2% and 95.6%. The 129 First Nation communities in BC report total spending out of revenue at 68.05%, which is significantly below spending by communities in the other regions.

Average percent of all revenues spent on M&S varies more and ranges from 3.35% in Manitoba to a high of almost 10% in Nova Scotia. Notably, average spending on M&S by communities in Ontario and Northwest Territories is markedly higher as well (bolded percentages).



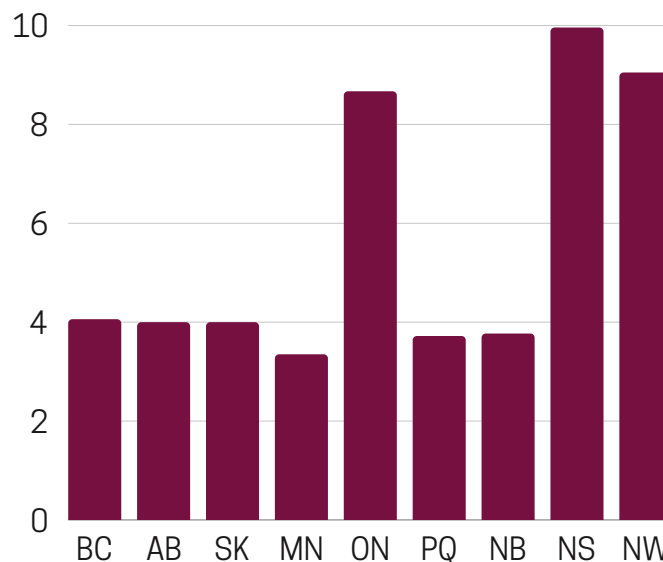
Table 1. Total expenditures and M&S as a percent of First Nation revenue, selected regions. 2023\$

REGION	SAMPLE # OF FIRST NATIONS	AVERAGE % OF REVENUE SPENT	AVERAGE % OF REVENUE SPENT ON M&S
BC	129	68.05%	4.06%
ALBERTA	26	88.22%	4.13%
SASKATCHEWAN	59	88.9%	4.12%
MANITOBA	47	87.56%	3.35%
ONTARIO	87	88.68%	8.67%
QUEBEC	11	86.62%	3.72%
NEW BRUNSWICK	10	83.1%	3.77%
NOVA SCOTIA	7	92.6%	9.96%
NORTHWEST TERRITORIES	14	95.6%	9.05%

This variation across regions is apparent in Chart 1. The average percent of revenues spent on M&S by region shows much higher averages in Ontario, Nova Scotia, and the Northwest Territories. Where most regions average about 4% of total revenues spent on M&S, Nova Scotia, for example, averages almost 10%.

Chart 1. Average percent of revenues spent on M&S, by region, 2023\$

Mean % of Revenue Spent on Material and Supplies



This variation in M&S spending by community is not explained by differences in populations. Table 2 reports the average spending on M&S per community, per capita in 2023. Significant variation across regions is even more apparent, from an average low of \$5.6K to the 129 communities in BC to a high of \$207.1K to the 7 communities in Nova Scotia.

Table 2. Average spending M&S per community, per capita, 2023\$.

REGION	SAMPLE # OF FIRST NATIONS	AVERAGE SPENDING ON M&S (\$000)	PER CAPITA AVERAGE SPENDING ON M&S (\$000)
BC	129	725	5.6
ALBERTA	26	2420	93.1
SASKATCHEWAN	59	1288	21.8
MANITOBA	47	1324	28.2
ONTARIO	87	1839	21.1
QUEBEC	11	1122	102
NEW BRUNSWICK	10	941	94.1
NOVA SCOTIA	7	1450	207.1
NORTHWEST TERRITORIES	14	355	25.36

In every region there is at least one First Nation that spends multiple times the average amount spent on M&S in the region. Table 3 reports the average per capita spending on M&S as well as the minimum and the maximum spent by a community in each region. In Ontario, for example, the smallest per capita spending in one community is just \$2K and the largest spending in another is \$31.4M (\$31,360K). Standardized differences around the average per capita spending in each region, (i.e., the standard deviation) varies from a low of \$418K in Saskatchewan and a high of \$2,824K in Nova Scotia.

Table 3. Per capita expenditure on materials and supplies, 2023\$, by region.

REGION	SAMPLE # OF FIRST NATIONS	AVERAGE PER CAPITA SPENDING ON M&S (\$000)	MINIMUM PER CAPITA SPENT ON M&S IN A FIRST NATION (\$000)	MAXIMUM PER CAPITA SPENT ON M&S IN A FIRST NATION (\$000)	STANDARD DEVIATION (\$000)
BC	129	1130	27	25356	2450
ALBERTA	26	778	4	3013	821
SASKATCHEWAN	59	534	17	2145	418
MANITOBA	47	590	15	3588	651
ONTARIO	87	2363	2	31360	4474
QUEBEC	11	703	30	1733	518
NEW BRUNSWICK	10	1734	53	8400	2610
NOVA SCOTIA	7	2646	205	7596	2824
NORTHWEST TERRITORIES	14	2847	9	8156	4602



The total M&S expenditures in the sample of 396 First Nations is \$503M, mostly on goods and services produced in the non-First Nations economy. A Buy Indigenous development strategy would redirect some of this spending to First Nations businesses, which would provide the engine for even further growth and development of First Nations. Revenue-sharing business practices such as that of First Nation-owned eSupply Canada would provide additional opportunities for community development.

The wide variation in spending on M&S makes estimating the total economic effect difficult to forecast. However, the potential for significant impact of this strategy is illustrated by the example of the largest First Nation in each region, and of 10% of First Nations in each region spending their regional median amount on First Nations M&S suppliers.

The corresponding increases in First Nations total income of \$7.1M and \$26.5M are substantial. Through a multiplier effect on income and revenue-sharing practices of Indigenous-owned businesses, the potential for economic growth and development is even greater.

A Buy Indigenous development strategy will reach its full potential with the cooperation of all First Nations and with large M&S purchasers intentionally including First Nations suppliers in their spending plans. Such cooperation across First Nations will offer the greatest opportunity to raise the economic wellbeing of the largest number of First Nations peoples.

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