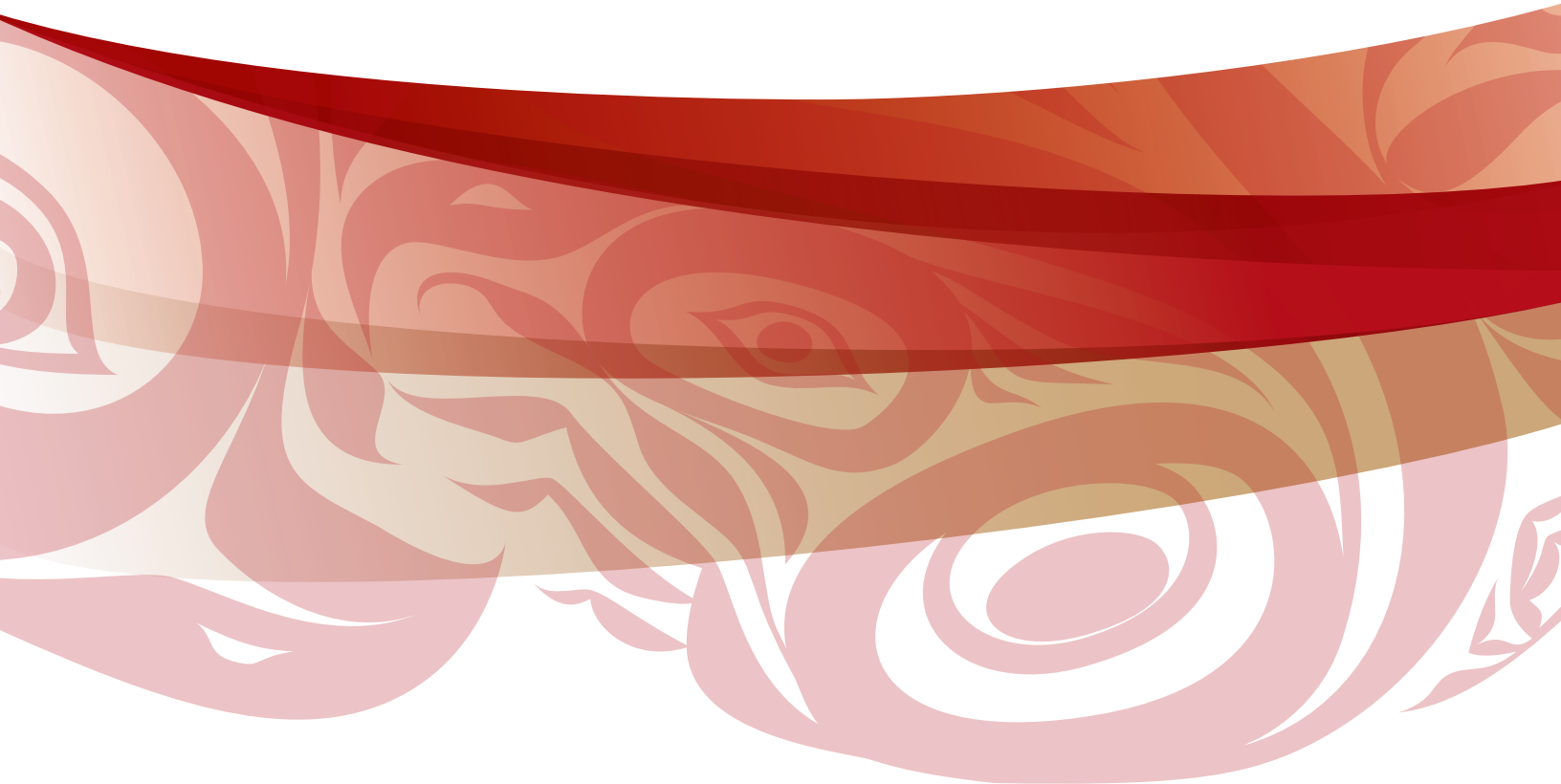




Industry and Inclusion:

An Analysis of Indigenous Potential
in Federal Supply Chains



In partnership with:

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1. EXECUTIVE SUMMARY

The Government of Canada is, by a wide margin, the largest purchaser of goods and services in the country. In 2017, the Federal government spent approximately \$14.6 billion,¹ serving as a major client for thousands of businesses across the country. According to the Treasury Board Contracting Policy, the Government of Canada's procurement objective is "to acquire goods and services and carry out construction in a manner that enhances access, competition and fairness, and results in best value for the Crown and Canadians".²

While public attention tends to focus on large-scale projects and purchases—naval vessels, defense and transit vehicles, building construction, and infrastructure investment—federal government procurement is remarkably diverse. Each year, federal departments purchase a variety of goods and services, from janitorial to information technology to accounting, including hundreds of millions of dollars in office supplies, airplanes, medical equipment, computers, and other goods.

Despite the large sum spent by the federal government and policies promoting fairness in competition, Indigenous businesses are underrepresented in federal supply chains. Over 20 years have passed since the Procurement Strategy for Aboriginal Business (PSAB) was put in place to remedy this discrepancy, but the initiative has seen little progress to date—PSAB has accounted for an average of less than one percent (0.32%) of total annual federal government spending since 1996.³ Progress that has been made via the PSAB has been inconsistently measured and documented.⁴

The objective of this analysis is to determine whether Indigenous businesses have the capacity to supply enough goods and services to the federal government for it to achieve a procurement target set to match the representation of Indigenous peoples in Canada.

For the Canadian Council for Aboriginal Business (CCAB), the most commonly heard explanation for limited procurement from Indigenous businesses is that there are not enough firms working in enough areas to provide high quality, cost effective service and supply. According to CCAB's *2016 Aboriginal Business Survey* of over 1,000 Indigenous privately-owned businesses in Canada, there has been a 15 percent increase in the number of profitable Indigenous businesses, an increase in the overall profitability of these businesses, and continued optimism for future growth since 2010.⁵

Regardless of whether the assumption that Indigenous businesses lack the capacity to meet federal government procurement demand has ever been valid, it does not hold in 2019. Indigenous business has expanded rapidly in recent years, more than doubling in number from 20,195 Indigenous businesses in 1996 to 50,185 in 2016.⁶ In 2016, the Indigenous population had a combined market income of over \$30 billion, with the Indigenous private economy contributing roughly \$12 billion to the Canadian economy.⁷

Despite limitations in federal data sets, the CCAB has produced estimates which confirm that a 5 percent Indigenous procurement target is realistic. Full Indigenous business capacity could have provided 24.2 percent of the total annualized value of federal procurement contracts in 2017. The CCAB is not calling on the Government of Canada to grant one quarter of their business to Indigenous companies, but this figure strongly suggests that a 5% target is both realistic and achievable within five years.

The Government of Canada has an opportunity to drive significant Indigenous business growth by setting a nation-wide target of awarding 5 percent of the annualized total dollar value of federal contracts to Indigenous businesses over the next five years. This is an attainable goal, consistent with the demographic representation of Indigenous peoples in Canada (4.84% in 2016). To achieve this five-year target, annual interim targets should be established for each year between 2018/19 and 2023/24.

¹ This report uses annualized estimates of expenditures throughout. Figures reported elsewhere (e.g., The Proactive Disclosures – Contracts dataset or the Purchasing Activity Reports (PAR)) will be different, since they include total contract values that are not annualized and have timeframes over multiple years.

² Treasury Board of Canada Secretariat (2016).

³ This figure was calculated using the average PSAB spend per annum over 17 years (\$1.1 billion since 1996), as a percentage of total federal spend reported in 2015 (\$20 billion). Treasury Board of Canada Secretariat (2015).

⁴ Grieve (2018).

⁵ CCAB (2016).

⁶ Statistics Canada (2016a).

⁷ TD Economics (2015).

CCAB and Big River Analytics Ltd., in cooperation with the Department of Crown-Indigenous Relations and Northern Affairs Canada (CIRNAC), have taken the first steps to understand the extent to which Indigenous suppliers can meet federal procurement demand. This report will assist the federal government in identifying opportunities to match Indigenous suppliers by industry specialization and capacity with federal procurement activity by department and agency, as well as in areas of high growth and demand. In addition, the gap analysis presented will assist federal government officials in identifying sectors in which Indigenous business still lack the capacity to meet federal demand and areas for further engagement.

Methodology Overview

This report uses three primary data sources to generate its estimates: the *2016 Census of the Population*; the CCAB's *2016 Aboriginal Business Survey (ABS)*; and the *Proactive Disclosures – Contracts (PD)* dataset from Open Data to estimate federal procurement levels.

Indigenous business capacity is estimated by using an estimate of annual revenues as a proxy for capacity in each sector and the number of Indigenous privately-owned businesses in that sector. Federal procurement demand in 2017 is estimated using annualized contract values—for example, for a \$1 million two-year contract, \$500,000 is assigned to 2017.

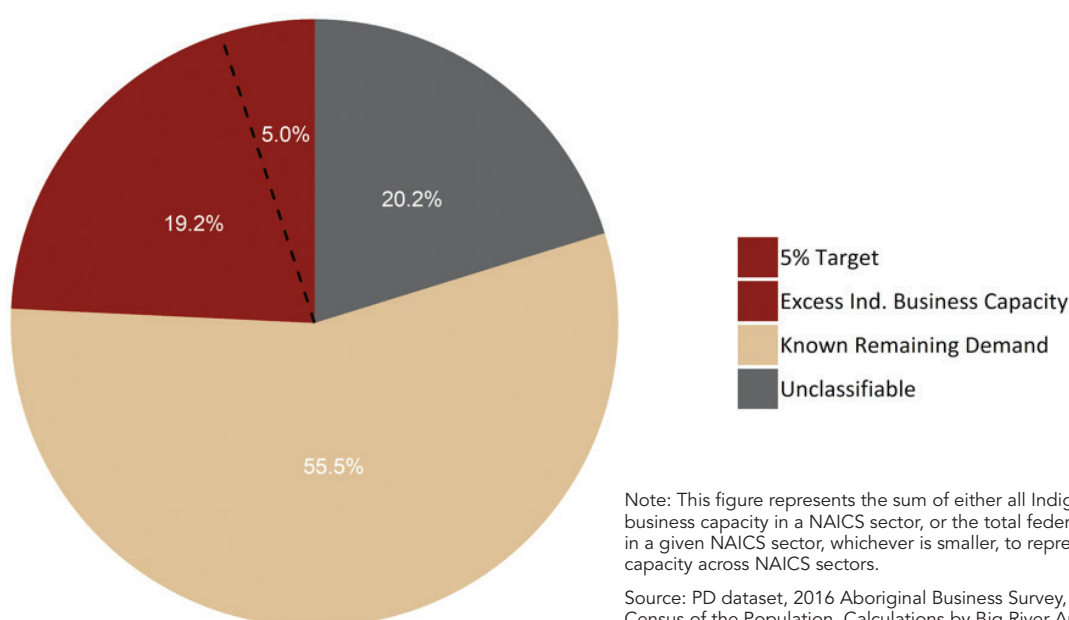
The total estimate of Indigenous business capacity to meet federal procurement demand in 2017 is estimated by using the sum of Indigenous business capacity across sectors, with the maximum capacity set to level of federal procurement in that sector in 2017.

Overview of Findings

A comparative analysis of data on federal procurement demand and Indigenous business capacity indicates that there is no shortage of ability among Indigenous suppliers to meet a 5 percent federal procurement target. The 2016 Census of the Population and CCAB's 2016 Aboriginal Business Survey were used to form a baseline of Indigenous business capacity to participate in federal supply chains. Data focused on annual gross revenues as a proxy for capacity.

Figure 1 presents an estimate of Indigenous business capacity to meet federal procurement demand in 2017. In almost all sectors sufficient capacity exists to enable a representative share of federal contracts to be supplied by Indigenous businesses without sacrificing cost, quality or safety.

Figure 1: Total Indigenous Business Capacity to Meet Federal Procurement Demand, 2017



Within this study, 80 percent of federal procurement demand was successfully assigned to a North American Industrial Classification System (NAICS) sector⁸ for comparative analysis with Indigenous business capacity, but for 20 percent the data don't support the necessary classification. It's likely that Indigenous businesses are able to supply some of remaining demand, but without classification it's impossible to say how much. Generalizing from the capacity of the 80 percent of demand that can be classified would suggest that Indigenous businesses have the capacity to supply closer to 31 percent of the total demand from federal procurement.⁹

Meeting a government-wide Indigenous procurement target of 5 percent does not require Indigenous businesses to meet that target within each NAICS category. What is important is not that there exist Indigenous suppliers with capacity to execute on federal contracts within every industry classification, but that there is enough capacity across industry classifications to achieve the 5% target. Categories in which there is a significant Indigenous business presence can offset categories in which there are fewer Indigenous businesses. In 2017, Indigenous businesses could have met federal procurement demand in 84 of 92 of NAICS categories – over 90 percent of the categories from which purchases were made.¹⁰ In fact, Indigenous businesses could have met federal procurement in demand in over 80 percent of categories in the presence of a 15 percent Indigenous procurement target in 2017 and over 65 percent of categories in the presence of a 50 percent target. This demonstrates Indigenous business capacity is not isolated to a few NAICS categories.

Recommendations

- The federal government should set an Indigenous procurement target of 5 percent within five years, through a 1 percentage point increase annually. Each federal department and agency should lay out a strategy to achieve this target and report annually on progress.
- Because the target of 5 percent is across all departments, departmental coordination is required to ensure that departments purchasing in sectors with a strong Indigenous business presence offset departments purchasing from sectors with a smaller Indigenous business presence.
- The Government of Canada should require that all departments incorporate considerations of Indigenous peoples (business and community) analogous to the requirements for gender-based analysis for submissions to Treasury Board.
- Additional research should be conducted to verify and validate the assumptions in this report.
- Additional research should be conducted to identify key barriers to Indigenous business participation in federal supply chains, both from the perspective of Indigenous business and government procurement officers.

⁸ NAICS is used as the basis for categorizing businesses by industry activity. Business groupings share similar processes for producing goods and services. The system contains 2- to 6-digit labels that provide more specific levels of description with each additional number. All industries have at least one related NAICS label. At the highest level, the NAICS divides the economy into 20 sectors, further dividing these sectors at lower levels. A complete 6-digit NAICS locates the business in terms of the industry sector, industry subsector, industry group, industry, and national industry. CCAB and Big River Analytics Ltd. used 2 and 4-digit NAICS codes, depending on data availability, to compare federal procurement demand to Indigenous business capacity in Canada.

⁹ A full discussion of the data and potential limitations are included in the Appendix.

¹⁰ The federal government purchased from 92 industry classifications in 2016-17. This does not represent every NAICS category.

2. CANADA'S UNKNOWN SUCCESS STORY: THE STATE OF INDIGENOUS BUSINESS

Indigenous people in the land now known as Canada have an impressive commercial and entrepreneurial pedigree. Long before Europeans arrived, Indigenous communities had robust trading relationships with both neighbouring and distant peoples. The cornerstone of Indigenous engagement with Europeans was the fur trade, in which Indigenous peoples participated as trappers, traders, suppliers, and labourers.

In the mid-19th century, as the settler economy expanded, colonial governments stabilized, agriculture spread to the prairies, and industrial and resource activity escalated. Indigenous peoples became increasingly economically marginalized. This marginalization was driven by government policies including the imposition of the reserve system, which pushed First Nations to move onto small residential reserves that dotted the country, and the pass system, which limited First Nations ability to travel freely.

Canada imposed the Indian Act in 1876, building on discriminatory British colonial regulations that stopped Indigenous peoples from owning a business, established local Indian Agents as the arbiters of Indigenous commercial decisions, and prohibited First Nations people from owning land (and, thereby, accessing personal or business mortgage financing).¹¹ In this environment it is hardly surprising that the Government of Canada made few purchases from Indigenous peoples aside from buying food supplies for distribution to local communities.

Indigenous business development grew slowly after World War II, substantially hampered by both legal and political barriers, including nationwide government intervention in Indigenous affairs through income support and pension payments, state-built homes and community facilities, and the general paternalism of the Canadian welfare-state. For 30 years, Indigenous community leaders sought to address the historic and contemporary effects of colonization and federal paternalism by battling in the courts, negotiating with governments, and working with corporations. Only lately, as land claims settlements, payments from court decisions, impact and benefit agreements with resource firms, and resource revenue sharing agreements came into effect, have Indigenous communities found themselves with the resources and access to receptive markets needed for sustained business activities.

The growth of Indigenous business in recent decades has been remarkable, both in terms of the number of Indigenous companies and the scale of commercial operations. Many Indigenous communities—between 350 and 500 to date—have established Aboriginal economic development corporations, which are essentially holding companies that manage one or more (often as many as a dozen) community-owned businesses. Some larger Aboriginal economic development corporations have investable assets of 1 billion or more, annual revenues in the hundreds of millions of dollars, and are major economic drivers in Indigenous communities.¹²

Only 30 years ago, the establishment of an Indigenous-owned co-op (including the impressive Arctic Cooperatives Ltd.) or a community gas station was a notable event. No longer. Today, Indigenous communities and companies invest in major resource projects, provide construction and industrial services mining, oil and gas and pipeline companies, own dozens of hotels and motels across the country, run wineries and casinos, invest in cannabis operations, develop large-scale residential projects, manage major construction firms, and operate numerous professional services agencies. Thirty years ago, most Indigenous businesses operated on or near formal reserves, but today Indigenous businesses increasingly seek opportunities in larger centres, in part due to the creation of urban reserves on the prairies.

Targeted Growth: Government Spending and Economic Development

The Government of Canada, like other national, provincial, and territorial governments, plays a major role in the economy, contributing particularly to development in the Atlantic provinces, rural Québec, the National Capital Region, the territories, and economically depressed regions.

¹¹ Joseph, B. (2018).

¹² CCAB (2011).

Government spending can be particularly effective locally due to its higher multiplier effect at this level.¹³ When a major project, like a commissioned ship-building initiative, is undertaken, the local economy can see a surge in employment and business activity. Similarly, the establishment of a government service office in areas like the Miramichi (New Brunswick) or Sunnyside (Prince Edward Island) can quickly become the economic cornerstone of a medium-sized town. Government procurement provides income to businesses and direct and indirect employment effects. Targeted spending, a cornerstone of government practice since Confederation, has been critical to promoting regional economic fairness, encouraging job creation and commercial opportunities across the country.

Government procurement is not about favoritism, special arrangements, or other corrupt expenditures. Civil servants are accountable for decisions on department and agency expenditures and must adhere to government regulations, processes, and guidelines. If anything, the system has been made overly complex, slow-moving, and cautious as the government has endeavored to ensure fair, transparent, and cost-effective procurement. The government contracts for goods and services using a variety of largely standardized processes that spell out the requirements for successful bidders and detail the approval process, which typically involves multiple levels of official review and sign off.

While it is important to ensure a rigorous procurement process, Canadian Council for Aboriginal Business (CCAB) interviews with Indigenous business owners and leaders of Indigenous Economic Development Corporations in 2015 and 2018 highlighted the over-complexity of government procurement processes and the limited information about and awareness of federal procurement opportunities.

"I got the sense that they just didn't want to do the paperwork. Too many hoops and roadblocks came up as barriers. Our mandate is for profit; all my focus is on profit. If I focus on government process, I would never make any profit."

- Indigenous Business Owner, private business, interviewed 2015

"For funding and procurement opportunities, there is an issue with awareness and a complexity in the federal procurement process. Funding sources are not always clear to First Nations, some miss out on funding for this reason and it has a massive impact."

- CEO, Indigenous Economic Development Corporation, interviewed 2018

For federal procurement targets to be feasible, the federal government must work with Indigenous businesses to identify and address systemic barriers for accessing and successfully bidding on procurement opportunities, raising awareness of opportunities and providing guidance to navigate the application process.

¹³ Christiano, L., Eichenbaum, M., & Rebelo, S. (2011); Corsetti, G., Meier, A., & Müller, G. J. (2012); Blanchard, O. J., & Leigh, D. (2013).

3. AN ANALYSIS OF FEDERAL PROCUREMENT DEMAND AND INDIGENOUS BUSINESS SUPPLY

CCAB and Big River Analytics Ltd. produced estimates of federal procurement demand in 2016 and 2017¹⁴ using the *Proactive Disclosures – Contracts (PD)*¹⁵ dataset to determine areas of high demand and growth potential in federal purchases. On the federal demand side, data were analyzed to identify the following:

1. **Total volume of federal procurement demand** in terms of dollar value per year by department/agency and industry;
2. **Types of products and services in high demand** of which the Government of Canada purchases the most, by purchasing department; and
3. **Types of products and services experiencing growth in demand**, by purchasing department.

Indigenous business capacity was estimated using data collected by CCAB and Statistics Canada and then compared to estimates of federal procurement demand to understand:

1. **Total Indigenous business capacity relative to federal procurement demand**, or the extent to which Indigenous businesses can meet federal procurement demand by industry;
2. **Indigenous business capacity in high demand areas**;
3. **Indigenous business capacity in high growth areas**; and
4. **Areas for growth so Indigenous business capacity can meet federal procurement demand**.

Each of these comparisons is presented in turn, followed by a discussion of federal procurement strategies and the potential impact of increased federal procurement opportunities for Indigenous businesses.

3.1 Total Volume of Federal Procurement Demand

In 2017, the federal government spent approximately \$14.6 billion¹⁶ across 81 departments, serving as a major client of thousands of companies across the country. This included goods, services and construction contracts from 92 North American Industrial Classification System (NAICS) classified industries. There are active Indigenous businesses in almost all industries from which the government purchases goods and services and in most of those industries, total Indigenous business capacity was higher than total federal procurement demand.

3.2 Types of Products and Services in High Demand

Figure 2 highlights the disproportionately large purchasing power of two departments in particular: National Defence and Public Services and Procurement Canada. While Public Services and Procurement Canada's annual expenditure can be explained simply through their role as purchaser for several other federal departments, National Defence is even more visible in high demand categories. In all five high demand categories, National Defence is a top purchaser. The top five high demand sectors are:

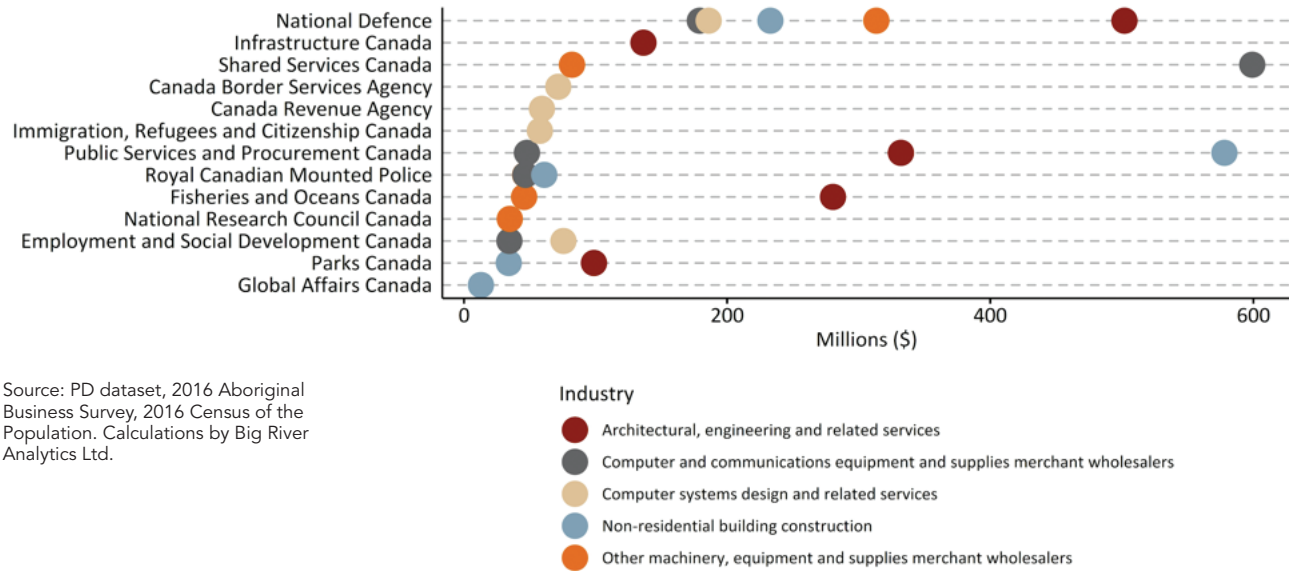
- 5413 Architectural, engineering and related services;
- 4173 Computer and communications equipment and supplies merchant wholesalers;
- 5415 Computer systems design and related services;
- 2362 Non-residential building construction; and
- 4179 Other machinery, equipment and supplies merchant wholesalers.

¹⁴ Data from as far back as 2000 was used to produce estimates of annual expenditures in 2016 and 2017.

¹⁵ Government of Canada (2015).

¹⁶ This report uses annualized estimates of expenditures throughout. Figures reported elsewhere (e.g., the PD dataset or the Purchasing Activity Reports (PAR)) will be different, since they include total contract values that are not annualized and have timeframes over multiple years.

Figure 2: Top Purchasing Departments in the Five High Demand Sectors

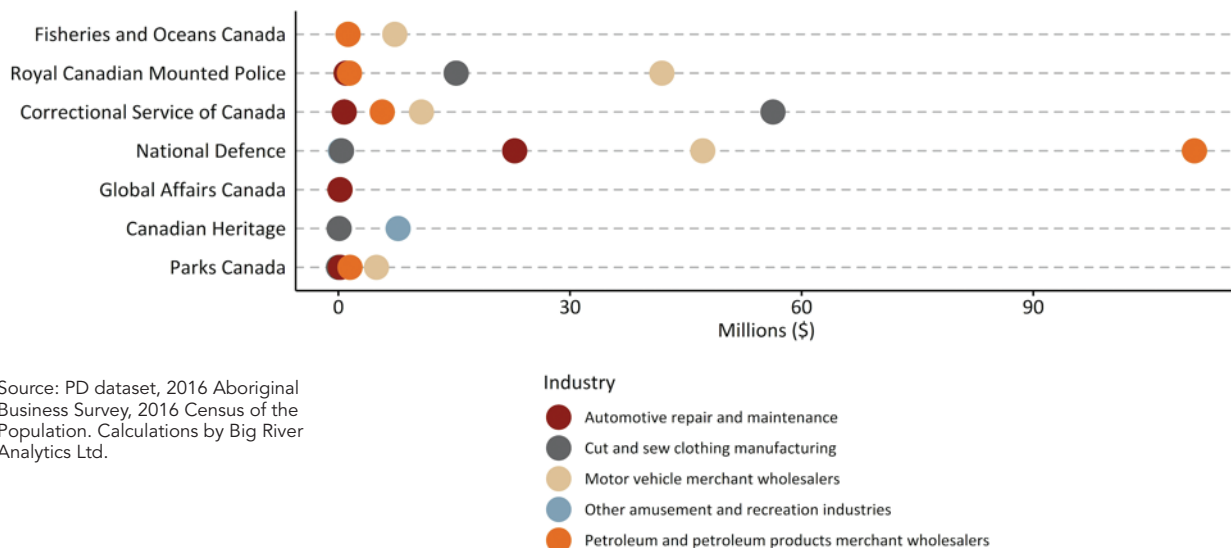


3.3 Types of Products and Services Experiencing Growth in Demand

Figure 3 highlights the purchasing departments in categories classified as high growth. Three of the seven departments listed in Figure 3 are top purchasers for the majority of high demand categories listed in Figure 2. Correctional Service of Canada, National Defence, and the Royal Canadian Mounted Police are in the top five highest purchasers in four out of five (80%) of growth categories. The top five high growth (between 2016 and 2017) sectors are:

- 8111 Automotive repair and maintenance;
- 3152 Cut and sew clothing manufacturing;
- 4151 Motor vehicle merchant wholesalers;
- 7139 Other amusement and recreation industries; and
- 4121 Petroleum and petroleum products merchant wholesalers.

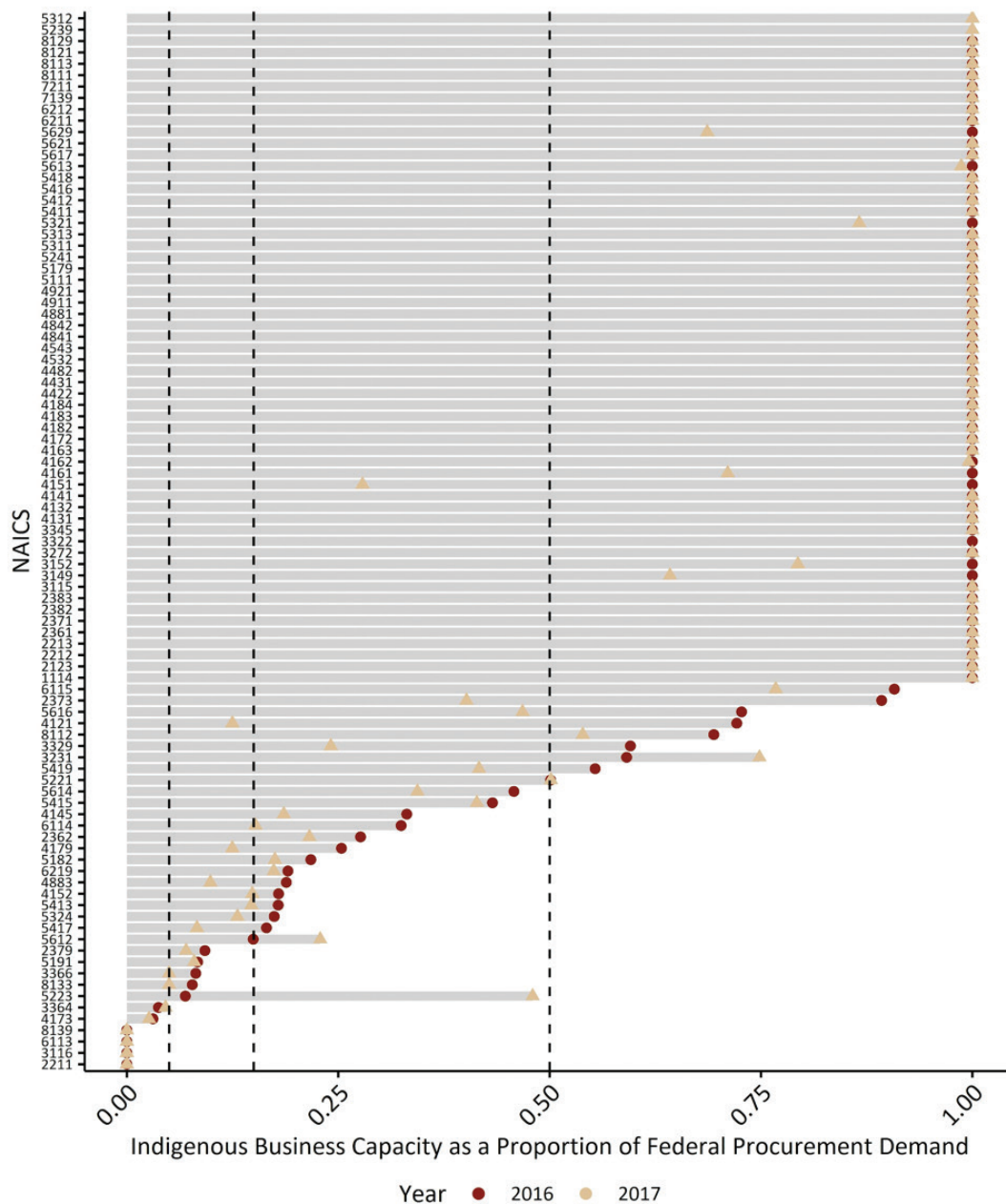
Figure 3: Top purchasing departments within the five high growth categories



3.4 Total Indigenous Business Capacity Relative to Federal Procurement Demand

Figure 4 presents Indigenous business capacity as a proportion of federal procurement demand in both 2016 and 2017. The grey horizontal bar in each NAICS classification represents Indigenous business capacity as a proportion of federal procurement demand, so for all the grey horizontal bars that extend the full width of Figure 4, Indigenous business capacity is equal to or greater than federal procurement demand. For the horizontal grey bars that do not extend the full width of Figure 4, Indigenous business capacity, in terms of federal procurement demand, is equal to the corresponding proportion on the x-axis. Differences in the red and tan dots represent changes in federal procurement demand in those NAICS sectors between 2016 and 2017.

Figure 4: Indigenous Business Capacity as a Proportion of Federal Procurement Demand Across 4-digit NAICS Classifications



Source: PD dataset, 2016 Aboriginal Business Survey, 2016 Census of the Population. Calculations by Big River Analytics Ltd.

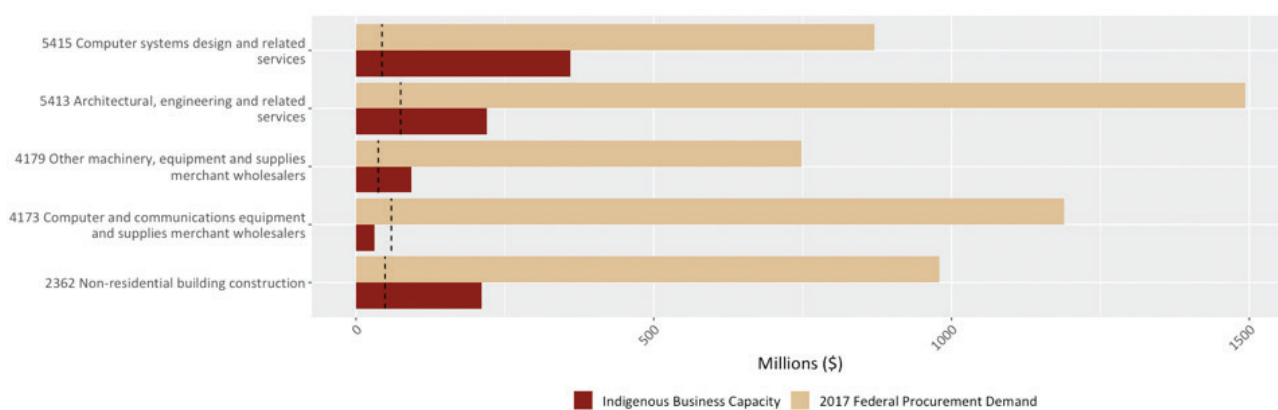
3.5 Indigenous Business Capacity in High Demand Areas

Across all federal departments and agencies, the following categories of goods and services were purchased the most by total value:

- 5415 Computer systems design and related services;
- 5413 Architectural, engineering and related services;
- 4179 Other machinery, equipment and supplies merchant wholesalers;
- 4173 Computer and communications equipment and supplies merchant wholesalers; and
- 2362 Non-residential building construction.

Figure 5 presents the five NAICS sectors from which the federal government purchased the most goods and services by total value in 2017. The vertical dashed line in Figure 5 represents the 5 percent procurement target in each sector.

Figure 5: Top 5 NAICS categories by Federal Procurement Demand, 2017.



Source: PD dataset, 2016 Aboriginal Business Survey, 2016 Census of the Population. Calculations by Big River Analytics Ltd.

Indigenous businesses are able to meet a 5 percent procurement target in all but one category represented in Figure 5. The category that was found to have insufficient capacity was *Computer and communication suppliers and merchant wholesalers*.

3.6 High Federal Procurement Demand Growth Categories

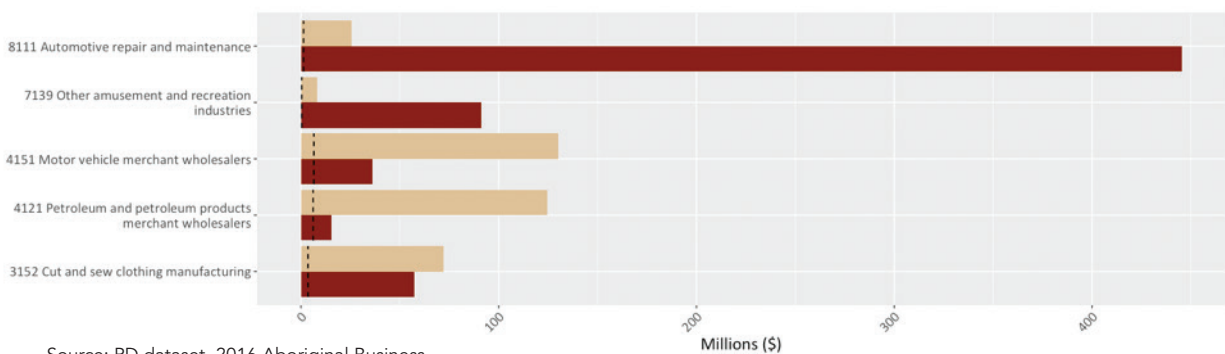
Indigenous businesses are also well positioned to take advantage of areas of increasing federal expenditure. Figure 6 presents the five NAICS categories that have seen the largest growth in demand by value from federal departments from 2016 to 2017.¹⁷ Again, the dotted line represents the 5 percent procurement target in each NAICS category.

The five NAICS categories in which government expenditure increased the most from 2016 and 2017 were:

- 8111 Automotive repair and maintenance;
- 7139 Other amusement and recreation industries;
- 4151 Motor vehicle merchant wholesalers;
- 4121 Petroleum and petroleum products merchant wholesalers; and
- 3152 Cut and sew clothing manufacturing.

¹⁷ Note, comparing the value of purchases from federal departments over time does not adjust or separate out potential changes in market prices of goods and services (i.e., a change in value could be driven by increases in volume of purchases, or no change to the volume procured but increases in prices).

Figure 6: Top 5 NAICS categories by growth in federal procurement demand, 2016–17.



Source: PD dataset, 2016 Aboriginal Business Survey, 2016 Census of the Population.
Calculations by Big River Analytics Ltd.

■ Indigenous Business Capacity ■ 2017 Federal Procurement Demand

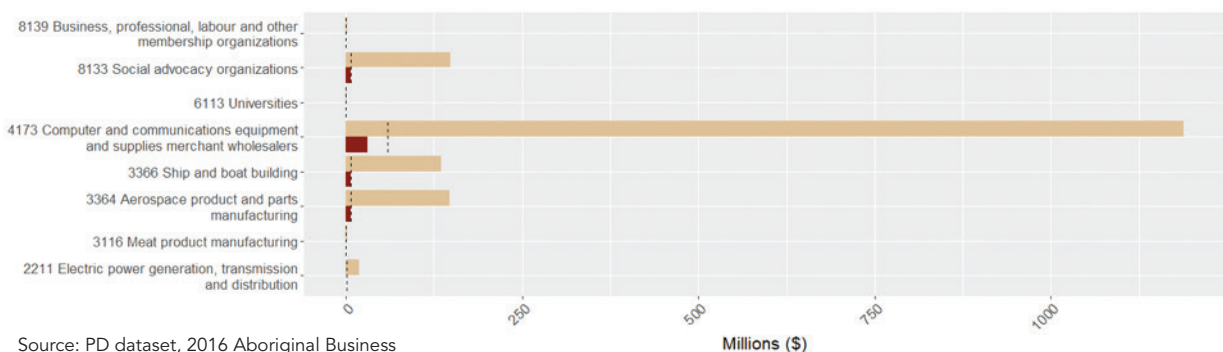
3.7 Areas for Growth so Indigenous Business Capacity Can Meet Federal Procurement Demand

There are few sectors in which Indigenous business capacity was below the 5 percent federal procurement demand target in either 2016 or 2017. The total list of categories in which Indigenous businesses cannot supply 5 percent of federal procurement demand are:

- 3366 Ship and boat building;
- 2211 Electric power generation—transmission and distribution;
- 3116 Meat product manufacturing;
- 8139 Business, professional, labour and other membership organizations;
- 3364 Aerospace product and parts manufacturing;
- 6113 Universities; and
- 8133 Social advocacy organizations.¹⁸

In the eight NAICS categories in which Indigenous businesses do not have the capacity to meet the 5 percent target, the combined shortfall is only \$30 million. That shortfall represents less than 1 percent of the over \$3 billion of estimated Indigenous business capacity to meet federal procurement demand. Figure 7 shows that the small dollar value of the shortfall is due to low demand in most of these sectors. This shortfall could easily be made up by purchases in other sectors or by other departments where Indigenous business capacity exceeds what is needed for the government to achieve its overall 5 percent target.

Figure 7: NAICS Categories in which Indigenous Business Capacity cannot meet a 5% target



Source: PD dataset, 2016 Aboriginal Business Survey, 2016 Census of the Population.
Calculations by Big River Analytics.

■ Indigenous Business Capacity ■ Federal Procurement Demand

¹⁸ It's important to note that while universities and social advocacy organizations are on this list, the data used to determine capacity was gathered from privately-owned Indigenous businesses. Most universities and social advocacy organizations are publicly owned or not-for-profit businesses and so would not have been included in the initial assessment. For a complete analysis of all categories, further research is required into Indigenous not-for-profit, community-owned, and public enterprises.

While there are some areas in the federal supply chain where Indigenous businesses do not have the capacity to meet 5 percent of demand, the data suggest that Indigenous businesses have the capacity to meet—and in most cases, exceed—demand in most analyzed industrial sectors. While no single Indigenous business is likely to compete for the construction of a naval warship, hundreds of Indigenous businesses are capable of providing products and services to a primary contractor awarded with that shipbuilding contract.

To date, the attention paid to government procurement has rarely extended to Indigenous participation in procurement. The growth of Indigenous businesses across Canada combined with the Government of Canada's commitment to building a new relationship with Indigenous peoples and governments presents an opportunity for this to change.

Increased government procurement from Indigenous businesses has transformational potential. If government spending rose to match the percentage of the nation's population who are Indigenous, a rapid rise in Indigenous business, a significant increase in Indigenous employment, a sharp reduction in government social spending, and major advancements in Indigenous engagement with the country as a whole could be expected.¹⁹

4. FEDERAL PROCUREMENT STRATEGIES: ADDRESSING POLITICAL, SOCIAL AND ECONOMIC AGENDAS

In managing its procurement activities, the government has a set of clear priorities, which include:

- Serving the specific operational needs of the Government of Canada;
- Addressing particular Government of Canada political and administrative priorities;
- Supporting national, regional and local economic development;
- The promotion and support of Canadian businesses;
- Expanding and sustaining Canadian employment;
- Encouraging the emergence of new companies and new commercial sectors, occasionally by being a “first mover” with new technologies or process innovations
- Supporting the economic and employment needs of minority and economically distressed populations.²⁰

Government procurement can be an effective means of using public funds to meet identified national priorities, and governments of all political stripes have priorities that they address through procurement processes. This is most obvious in the case of major purchases—naval vessels and military equipment are the most high-profile examples—but governments have also long used procurement to promote regional economic development, particularly in areas of high levels of unemployment and low incomes. Targeted government spending has been part of comprehensive approaches to the promotion of women's entrepreneurship and of science and technology-based firms.²¹

Discussion of Potential Procurement Initiatives for Indigenous Businesses in Canada

Identifying a target population for procurement initiatives is commonplace and within the authority of the federal government. Although Indigenous businesses in Canada are growing, Indigenous peoples continue to face high levels of unemployment, limited commercial opportunity in remote communities, and significant legal and political barriers to business development. Such socio-economic, contemporary, and historic factors may justify enhanced federal procurement from Indigenous owned businesses.

¹⁹ Watermeyer, R. (2000); Bates, T. (1985).

²⁰ Snider, K. F., Halpern, B. H., Rendon, R. G., & Kidalov, M. V. (2013); Berkok, U. (2009); Public Services and Procurement Canada (2018); Treasury Board of Canada Secretariat (2017); Office of the Procurement Ombudsman (2018); Office of the Prime Minister (2017).

²¹ Innovation, Science and Economic Development Canada (2018).

There are two primary questions the government must answer when considering targeted procurement initiatives:

- **Is there sufficient political justification for singling out the group for special political consideration?** The case of Indigenous peoples in Canada, the justification is obvious.
- **Is there capacity within the target group to respond to the procurement opportunity?**²² As the data in this report demonstrate, Indigenous businesses have capacity to meet federal procurement demand at or above a national target of 5 percent.

The Government of Canada has given strong indications that it favours improving economic opportunities for Indigenous peoples and seeks to enhance the social and economic well-being of Indigenous communities.

A variety of government initiatives, most focused on Indigenous-government relations, have attracted a great deal of attention in recent years²³. The federal government has devoted hundreds of millions of dollars to initiatives that provide education, training and support for Indigenous businesses. A comparable effort has not been made to expand procurement from Indigenous businesses.

The Government of Canada's direct spending with Indigenous businesses falls well below the Indigenous percentage of the Canadian population. The government could support Indigenous businesses by ensuring that they receive a proportion of procurement spending in line with their representation in Canada's population as part of a special, targeted initiative to promote Indigenous economic development through government (roughly 5 percent) spending.

5. POSITIVE CONSEQUENCES: THE POTENTIAL SOCIAL AND ECONOMIC IMPACTS OF PROCUREMENT

Increasing federal procurement from Indigenous businesses has the potential to increase Indigenous business activity, employment, economic development and education and training, and through these effects reduce the social spending that goes to addressing these problems.

Analysis by CCAB and Big River Analytics Ltd. found that targeted Indigenous procurement could benefit not only Indigenous communities and the Government of Canada, but the country as a whole. Using the 2017 data in our analysis,²⁴ we found that potential benefits include:

- **Increased Indigenous Business Activity**
According to CCAB's calculations, if Indigenous procurement had risen by to 1 percent of total spending in 2017, this would have injected over \$146 million into the Indigenous economy in Canada. Procurement in line with the 5 percent target would have injected closer to \$730 million in capital into the Indigenous economy.
- **Expansion of Indigenous Employment**
Indigenous businesses tend to employ Indigenous people at a higher rate than other businesses.²⁵ According to CCAB's 2016 Aboriginal Business Survey, almost all (83%) Aboriginal businesses with employees employ at least one Aboriginal person. If Canadian federal procurement from Indigenous-owned businesses had results entirely in new Indigenous business supply capacity (that is, if we assume businesses expand proportionately to targeted spending to meet new federal demand) achieving a 5 percent Indigenous procurement target would create 1,315 full-time equivalent positions for Indigenous people in Canada.

²² McCrudden, C. (2004); Bates, T., & Williams, D. (1995); Wright, T. (2015); Petersen, D., & Kadehors, A. (2016); Snider, K. F., & Rendon, R. G. (2012); Perlman, L.A. (2006).

²³ Pal, S., Haman, F., & Robidoux, M. A. (2013); McCrudden, C. (2007a); McCrudden, C. (2007b); Crown-Indigenous and Northern Affairs Canada (2014); Public Works and Government Services Canada (2013); Indigenous Corporate Training Inc (2017).

²⁴ See Appendix for further detail on CCAB-Big River Analytics Ltd. employment multiplier data calculations.

²⁵ CCAB (2016).

- **Encouragement of Indigenous Education and Training Activities**

The growth of Indigenous businesses and the creation of more jobs likely to employ Indigenous workers could provide more stable career opportunities for Indigenous graduates from the country's various employment and training programs and encourage more Indigenous people to pursue advanced education and training in response to more diverse job opportunities.

- **General Indigenous Economic Development**

Stronger and more active Indigenous companies and a growing Indigenous workforce would likely have a substantial positive impact on overall Indigenous economic development. This is supported by the expected increase in business activity and employment from even limited expansion of Indigenous procurement.²⁶

- **Reduction in Government Social Spending on Indigenous Peoples and Communities**

Expanding Indigenous procurement could potentially replace some of the support supplied by the federal government to Indigenous people and communities. Indigenous communities rely heavily on federal transfer payments in large part to address historic and contemporary barriers to commercial opportunities. Expanding business activity and employment could help to alleviate the demand for government funded services and programs justified by economic disadvantages.

- **Improvement of Indigenous Economic Opportunities and Community Confidence**

Intangible benefits are likely to accompany the economic benefits of increased Indigenous procurement. Owning and operating successful businesses has a significant positive impact on the confidence and well-being of Indigenous communities.²⁷ Improving Indigenous business activity and employment is likely to create more opportunities, taking advantage of these effects and provide encouragement and a more positive outlook to Indigenous youth. Quantifying levels of confidence and community optimism is difficult but improving it would be an important outcome of expanded commercial opportunities.

- **New Opportunities for Indigenous-Government Relationships**

Procurement has the potential to shift the relationship of the Government of Canada with Indigenous businesses from one of program support to a more mutually beneficial arrangement. In addition to encouraging a more equal relationship, shifting from program support to procurement could create new touchpoints between the federal government and Indigenous entrepreneurs and leaders, encouraging greater knowledge in the government about Indigenous business models, community capacity and opportunities for relationship building to support reconciliation with Indigenous peoples in Canada.

Based on these findings, it is obvious that the benefits of achieving a federal 5 percent Indigenous procurement target have the potential to be substantial, although further analysis is needed to confirm and better understand the likely impacts.

²⁶ For Australian commentary on this theme, see Easton, S. (2019). See also Gilpin, E. (2018).

²⁷ AAEDIRP (2011).

6. RECOMMENDATIONS AND IMPLEMENTATION CONSIDERATIONS FOR TARGETED INDIGENOUS PROCUREMENT

The analysis presented in this report suggests that there are sectors where Indigenous businesses may be positioned to more than meet a 5 percent target of federal procurement demand, and that an overall 5 percent target is achievable. In addition, the expected benefits to Indigenous people and communities in Canada and to the federal government of increasing Indigenous procurement are substantial.

In light of this information, the federal government should:

- Set an Indigenous procurement target of 5 percent within five years, through a 1 percentage point increase annually. Each federal department and agency should lay out a strategy to achieve this target and then track and report annually on progress.
- Pursue departmental coordination in terms of targets to ensure that departments purchasing in sectors with a strong Indigenous business presence are able to offset departments purchasing from sectors with a smaller Indigenous business presence to achieve an overall 5 percent Indigenous procurement target.
- Include a requirement that all departments incorporate considerations of Indigenous peoples (business and community) for submissions to Treasury Board analogous to the requirements for gender-based analysis.
- Conduct or commission additional research to confirm the assumptions and recommendations in this analysis.
- Conduct or commission additional research to identify key barriers to Indigenous business participation in federal supply chains, both from the perspective of Indigenous business and government procurement officers.

The Government of Canada has indicated a willingness to expand and renew its relationships with Indigenous peoples, communities, and governments. Indigenous businesses, with an impressive and expanding track record, have the capacity to substantially expand their level of commercial engagement with the federal government.

In order to proceed with instituting a 5 percent Indigenous procurement target, a series of clear and important considerations for successfully meeting the target include:

- **Coordination of Initiatives with Major Indigenous Organizations**
Indigenous groups strongly favour participation in the policy development process and seek opportunities to cooperate with appropriate government authorities to do so. Since one of the main issues to be addressed relates to the eligibility of Indigenous-owned, managed and controlled businesses for targeted procurement, it is vital that Indigenous organizations be involved, from the outset, in the creation of definitions, regulations, and procedures.
- **Analysis of Barriers and Review and Modification of Government Procurement Policies and Procedures**
The Government of Canada should review procurement policies and procedures in partnership with Indigenous organizations and businesses to identify potential systemic barriers to the success of Indigenous businesses who have considered or previously bid on federal procurement opportunities.
- **Senior Level Buy-In to, and Engagement with, Indigenous Procurement Initiative**
Procurement policies must be strongly endorsed by senior managers and the government officials charged with implementing, administering, monitoring, and evaluating procurement policies and the outcomes they are meant to promote. Policies and principles provide guidelines and point toward a preferred government outcome. This buy-in must be tied to monitoring progress toward stated goals and corresponding senior commitment to adjust operations as necessary if progress falls short.
- **Outreach and Promotion to Indigenous Businesses and Training of Indigenous Businesses**
Indigenous businesses will need to adjust to capitalize on a procurement policy change. A focus on local communities and their specific needs may not prepare businesses for meeting federal departmental needs. The federal government can help support adaptation by Indigenous businesses by outlining the procurement opportunities, improving awareness of government procurement, and providing technical expertise for navigating the business and legal aspects of federal supply chains.

- **Development of Indigenous-Appropriate Procedures and Forms**

CCAB has heard from thousands of privately- and community-owned Indigenous businesses across Canada since 2010. When it comes to government procurement, the most commonly identified challenges are with access to and awareness of the application process. Standard Government of Canada procurement forms and contracting procedures must be reviewed by and with Indigenous business leaders to ensure that the government's formal processes do not create inappropriate barriers to successful Indigenous bidding. A clear application process, increased awareness of opportunities, transparency in contract and certification requirements, and a centralized platform for Indigenous business users are just some of the areas to consider.

- **Establishment of Data-Collection and Monitoring Processes and Evaluating Effectiveness of Indigenous Procurement**

If the Government of Canada makes a firm and public commitment to expanding Indigenous procurement, it is vital that these commercial relationships and program outcomes are monitored and assessed on an ongoing basis, and the results made public to increase transparency and accountability. This transparency and accountability will be crucial for demonstrating the government's sincerity and commitment to the process and addressing the justifiable distrust of the federal government by Indigenous peoples. Addressing federal data limitations will also help for better future analysis of the program—these shortcomings limited the analysis possible for this report.

7. CONCLUSION

The idea of expanding Indigenous involvement in government procurement has been around for a long time. Canadians in government and business have resisted major initiatives in the past in large part because of the widely held belief that most Indigenous businesses were not able to meaningfully participate in the process and that government officials had no way of identifying those who could. This research project has addressed that pivotal question. Indigenous business capacity and federal procurement demand are both spread across industrial sectors. In the majority of those sectors, Indigenous business capacity is significantly higher than the proposed 5 percent of federal procurement target that would bring procurement spending in line with Indigenous representation in Canada's population.

Key findings from our analysis include:

- Recent and continuing expansion in Indigenous business has created substantial Indigenous capacity to deliver government contracts;
- Enhanced government spending through Indigenous procurement would likely produce socio-economic benefits for Indigenous communities and the country as a whole;
- Targeted government procurement is an appropriate governance tool connected to national and regional economic development; and
- The Government of Canada's expenditures with Indigenous business track well behind the representation of the Indigenous population in the national population.

Improving procurement opportunities for Indigenous businesses is consistent with Government of Canada priorities for improving its relationship with Indigenous peoples. If increased federal contracting with Indigenous businesses produces the economic benefits our analysis suggests, a 5 percent Indigenous procurement target could improve socio-economic outcomes in Indigenous communities and serve this goal.

There are now tens of thousands of Indigenous businesses in Canada and a fast-growing number of well-trained and skilled entrepreneurs and employees. Indigenous operators can be found in almost all sectors of the Canadian economy and are able and willing to be engaged across the country. Indigenous procurement holds great promise for both Indigenous peoples and for the Government of Canada. There are no legal, practical, or commercial barriers to changing and expanding the procurement relationships between the Federal Government and Indigenous businesses. Most importantly, there are no business reasons, either on the government or Indigenous side of the transactions, for not moving quickly to integrate Indigenous businesses more comprehensively into the Government of Canada procurement process.

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APPENDIX – CCAB Procurement Analysis Methodology

This document outlines the method and assumptions used to produce our estimates of Indigenous owned business capacity as it relates to federal procurement demand in Canada. First, we detail the different data sources used in the calculations; second, we describe how we calculated Indigenous business supply capacity; third, we describe how we calculated federal procurement demand in Canada; and finally, we explain how the net Indigenous employment impact is calculated.

Data Sources

There are three primary data sources from which we derive estimates that are used in different steps of our calculations. The first is the 2016 Census of the Population, enumerated in May of 2016 by Statistics Canada (StatsCan), the second is the Canadian Council for Aboriginal Business' (CCAB) 2016 Aboriginal Business Survey (ABS), and finally we use the Proactive Disclosures - Contracts (PD) dataset from the Government of Canada's Open Data to estimate federal procurement levels.

2016 Census of the Population

Detailed information about the 2016 Census is available on the StatsCan website.²⁸ Specific industries are defined using the North American Industry Classification System (NAICS).

Specifically, we rely on the 2016 Census for estimates of:

- Self-employed Indigenous business population by industry
- Full time equivalent job cost by industry
- Rate of Indigenous employment by major industry

CCAB's 2016 Aboriginal Business Survey (ABS)

The 2016 Aboriginal Business Survey is a convenience sample-based telephone survey. The 2016 enumeration obtained 1,101 in-scope complete responses. The sample was post-stratified to map population-level estimates from the 2011 National Household Survey (NHS) for Indigenous identity group and business size. Additional detail and the Promise and Prosperity report can be found on CCAB's website.²⁹

We rely on the 2016 ABS for the following estimates:

- The distribution of annual revenue in Indigenous-owned businesses by major industry (2-digit NAICS codes)
- The Indigenous employment rate by major industry (2-digit NAICS codes)

Open Data's Proactive Disclosures Dataset

There are two readily available sources of data related to federal procurement: The Purchasing Activity Report (PAR) and the Proactive Disclosures - Contracts (PD) dataset. CCAB and Big River Analytics chose to use PD data because it includes contract start and end dates, which are required to estimate annual expenditures at the contract level.

The PAR dataset includes only contract start dates and allocates the entire value of each contract to the year in which the contract was signed. This is problematic because very long, very large contracts dominate analysis using the PAR dataset. We have produced a transformation of the PD dataset by re-assigning contract values evenly across the years that they're active (e.g., \$2 million over two years in our transformed dataset turns into \$1 million in each of the active contract years). Public Service and Procurement Canada (PSPC) has stated that data prior to 2016 are incomplete, but the PD dataset includes contract start dates as far back as 2000. The entire PD dataset was used, but the extent to which the incompleteness of the data prior to 2016 affects our estimates is unknown.

²⁸ Statistics Canada (2016b).

²⁹ CCAB (2016).

We used the PD dataset to inform the following estimates (further details on calculations below):

- The annual federal procurement value in 2016 and 2017 by industry

Estimates

There are three primary sets of estimates required for our analysis. A brief overview of their computation is provided below.

Indigenous-Owned Business Supply Capacity

Our estimates related to Indigenous-owned business supply capacity are calculated in the following steps:

1. Assume the ABS data is representative of Indigenous-owned businesses in Canada.
2. Assume that the NHS 2011 data was an accurate estimate of 2016 Indigenous population levels and business sizes, and that the weighting undertaken in the ABS dataset correct for any bias.
3. Assume that annual revenue is a reasonable measure of supply capacity.
4. Assume that there are no or low costs for Indigenous business to repurpose activities to meet Federal procurement needs.
5. Assume that the distribution of annual revenues at the two-digit NAICS level applies equally to three- and four-digit levels.
6. Assume that Indigenous-owned business revenue is uniformly distributed throughout the binned revenue response categories (e.g., \$25,000–\$50,000 is represented by \$37,500), and that businesses that earn in excess of \$5 million can be assigned a value of \$5 million without biasing the estimates downward significantly because this represents few businesses and because of an assumption that those that do earn in excess of \$5 million aren't exceeding that upper limit so much that they'd significantly change our results.
7. Estimate the number of self-employed Indigenous people in each of the identified NAICS classifications from the PD dataset.
8. Estimate the number of Indigenous-owned businesses in each revenue bin. Assign the midpoint value of the bin to all Indigenous-owned businesses that fall in that bin (e.g., if there are 15 Indigenous owned businesses that fall into the \$25,000–\$50,000 category, we assign an annual revenue of \$37,500 to all 15 businesses (using assumption from point 4).
9. Estimate the total annual revenue in each industry for all Indigenous owned businesses by multiplying assigned annual revenues and the count of Indigenous owned businesses. Sum over all annual revenue bins.

Federal Procurement Demand

1. Assume the PD dataset is a comprehensive accounting of federal expenditures.
2. Assume the economic object codes are accurately assigned to contracts.
3. Assume that contract payments are uniformly distributed throughout the contract term.
4. Assume that the PD dataset is sufficiently complete that the presence of long duration contracts omitted due to incompleteness in the data prior to 2016 do not materially affect our results.
5. Create a mapping from economic object codes to NAICS at the 4-digit level. Higher aggregations may be used if necessary:
 - a. Match official economic object description to NAICS industry name or description.

- b. If Step a. does not produce a good fit, use the economic object code. These are typically Goods and Services Identification Numbers (GSIN). Assign the GSINs to NAIC industries of closest fit; if the GSINs map to a common industry, then use that industry. For GSINs beginning with N, look under the first two digits after the N—e.g., for N2530, look under 25 Vehicular equipment components.
- c. If Step b. does not produce a good fit, then look at a random sample of vendors for the economic object. Where possible, assign the vendors to NAICS industries, and see if there is an industry that is represented by most or all the vendors. If so, then use that industry.
6. Within each calendar year and identified NAICS code sum over contracts to obtain an estimate of federal expenditure by identified NAICS code.
7. Repeat steps 1–3 and 5 for estimates of PSAB values and incidental awards to Indigenous-owned businesses.

Net Indigenous Employment Impact

We are interested in the incremental Indigenous employment impact of increased federal procurement to 5 percent of the total annualized value from its present value. The follow steps are employed to produce those estimates:

1. Assume Indigenous businesses that meet federal procurement demand do so by growing business to meet the size of federal contracts while maintaining business in other sectors.
2. Assume Indigenous businesses would employ the same proportion of Indigenous employees as they grow or expand or transition to meet federal procurement opportunities.
3. Because we're trying to estimate the net impact of increasing PSAB contract awards, for each industry we multiply our target PSAB rate (0.05) by the aggregate procurement value and then subtract from that the PSAB and incremental award value that is presently allocated to get the incremental PSAB procurement value required to achieve the 5 percent of all contract awards (our target).
4. Our next step is to estimate payments to labour. Using supply/use tables, for each major industry (goods producing, services producing, and construction) we've estimated a multiplier to obtain an estimate of the value of payments to labour.
5. We estimate a full time/full year wage and divide payments to labour by the FT/FY wage to obtain total employment estimates.
6. We estimate (from CCAB's ABS data) the Indigenous employment rate (Indigenous employees/total employees) and subtract from that the rate of Indigenous employment in the sector as a whole (minus self-employed Indigenous people in those sectors).
7. We apply the net Indigenous employment rate to the total number of jobs to obtain our estimate of the impact of the policy change.

Discussion of Assumptions and Limitations:

Using these methods, Indigenous owned capacity refers to the estimated total value of the supply of goods and services from Indigenous businesses for particular industries. Comparing the total value to the value of the goods and services demanded by federal agencies and departments demonstrates that there are Indigenous owned businesses that federal departments and agencies could procure goods and services from to meet the 5 percent target.

There are two key considerations for trying to understand whether the 5 percent target is feasible and what potential costs or barriers may exist in attaining it in practice: characteristics of businesses that meet federal procurement demand, and Indigenous businesses responses to potential increased federal demand. This section concludes with a further discussion of some of the limitations of the data sources used.

1. Characteristics of Businesses that Currently Meet Federal Procurement Demand:

The analysis shows that in 2016, Indigenous owned businesses on average across industries produced goods and service in excess of the 5 percent proposed target of federally procured goods and services. In order to determine whether meeting this target is feasible requires a deeper understanding of the characteristics of Indigenous-owned businesses and of businesses that are successful in bidding on and delivering federal contracts.

Indigenous owned businesses tend to be smaller and more focused on meeting local market demand.³⁰ According to the ABS, 73 percent of Indigenous business are unincorporated and 65 percent of Indigenous businesses have no employees. In the aggregate, these businesses may be producing more than the proposed 5 percent target by a wide margin, but smaller businesses may find the costs of navigating the federal procurement system to be too high and this would limit their capacity to meet the target without expanding or modifying their business model and constitute a barrier to meeting the proposed target.

On the other hand, the geographic focus of Indigenous business on local markets in their territory and province may help align them with federal procurement strategies that support local employment and business opportunities in economically distressed areas. This would make Indigenous businesses well positioned for certain types of procurement opportunities.

Overall, further analysis of the characteristics of businesses that meet federal procurement demands (i.e., size, location, proximity to supply chain infrastructure/transportation networks, internet and telecommunications connectivity, etc.) will be important to understand the capacity to meet the 5 percent target and for identifying and overcoming potential barriers for Indigenous businesses to take advantage of federal procurement opportunities.

2. Indigenous Businesses Response to Increased Federal Procurement Opportunities

In order to estimate the capacity of Indigenous businesses to meet the 5 percent target and the impact of meeting this target on employment, strong assumptions must be made about how Indigenous businesses will respond to increased federal procurement opportunities. A number of responses are plausible, including that:

- Existing Indigenous businesses will scale up – businesses will maintain their levels of goods and services while taking on new federal procurement opportunities, potentially hiring new workers or leveraging assets toward the needs of federal agencies and departments;
- Existing Indigenous businesses adapt to new federal clients—businesses will stay the same size but replace demand for services with federal procurement opportunities;
- New Indigenous businesses meet demand – new businesses will start to meet the increased opportunities for federal procurement; and/or
- Some combination of all the above.

Each of these scenarios would have different repercussions for the employment and economic impacts of meeting a federal procurement target. To understand the implications of any of these scenarios on employment requires strong assumptions about how Indigenous businesses are set up or adapt to meet this new demand, including how these changes may impact the proportion of Indigenous employees at a business, and the local market conditions that sparked the demand for these businesses in the first place. This is particularly challenging to estimate because Indigenous businesses are small on average and so hiring a non-Indigenous staff member in a small firm drastically changes the proportion of Indigenous employees (i.e., a one-person business is 100% to 50% Indigenous owned and operated if they hire one new non-Indigenous staff).

In addition, if all business were to adapt to meet federal procurement opportunities, it is unclear how non-federal government demand for those same services might be filled at the local or national level. This is a complicated question that is not the focus of this phase of analysis but will affect the feasibility and impact of meeting a proposed 5 percent target. Further analysis is required to ascertain whether the assumptions required for the analysis are tenable.

³⁰ CCAB (2016).

The assumptions used in our analysis to estimate the net employment impacts of meeting a 5 percent federal Indigenous procurement target are that Indigenous businesses employ the same proportion of Indigenous employees as they do in the absence of this target and that Indigenous businesses will scale up to meet federal procurement opportunities.

Major Limitations of the Source Data

The methodology above provides a rough estimate of the total revenue by industry supplied by Indigenous owned businesses, relative to the demand of those same industries in federal procurement. Although the margin by which the goods and services produced by Indigenous businesses (around 25%) greatly exceeds the target 5 percent target, data limitations should caution users against drawing strong conclusions. To ensure datasets were compatible with one another, and met the estimation needs:

- Observations were dropped/unavailable from:
 - PD - for contracts that exceeded 17 years;
 - ABS - for respondents who answered the 'break even revenue category' or 'don't know/refused'
- Imperfect matching occurred for:
 - PD - G SIN to NAIC codes
 - ABS - Stratification for a 2016 ABS Survey using 2011 NHS estimates (NHS was not mandatory and there is evidence of systematic differences in responses from Indigenous populations relative to other censuses).
- Assumptions Samples are representative:
 - PD - is representative of procurement - counterfactual being the PAR data
 - ABS - is representative of business revenues - no counterfactual

With limited additional sources of data, the magnitude, direction or bias these data limitations may introduce is unknown.



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