

Industry and Inclusion:

An Analysis of Indigenous Potential in Federal Supply Chains

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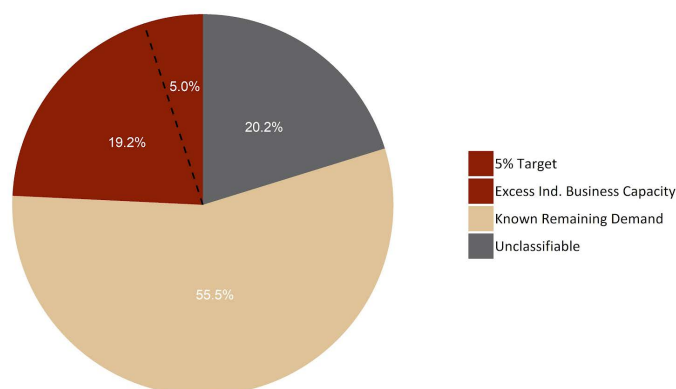
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Industry and Inclusion: An Analysis of Indigenous Potential in Federal Supply Chains

The Indigenous economy contributes \$32 billion dollars to Canada's GDP annually, a figure that has been growing quickly in recent years.¹ While this economic activity is significant, more work is needed to ensure Indigenous peoples in Canada enjoy the same prosperity as the rest of our country. According to the Treasury Board of Canada, federal procurement totaled approximately \$20 billion in 2015, of which roughly \$63 million (0.32 %) was supplied by Indigenous businesses through the Procurement Strategy for Aboriginal Business (PSAB). PSAB is a federal initiative aimed at increasing the participation of Indigenous business in federal procurement processes. Given the lack of Indigenous business representation in federal procurement activities (under 1%), PSAB requires meaningful updating and a multi-departmental commitment to increase Indigenous business participation in federal supply chains.

The Government of Canada is the single largest purchaser of goods and services in the country, but they do relatively little business with Indigenous suppliers. There are private companies that do more than six times as much business with Indigenous suppliers as the Federal Government each year.² Despite the growth of Indigenous businesses across many sectors of the Canadian economy, federal purchasing departments are concerned that Indigenous suppliers will be unable to meet the needs of the government if procurement targets are increased to award 5% of annualized contract values to Indigenous businesses. In this data-driven report, the Canadian Council for Aboriginal Business (CCAB) presents research to demonstrate there is no shortage in the capacity of Indigenous suppliers to meet a 5% target. In all areas of government procurement and almost all sectors, sufficient capacity exists to enable a representative share of federal contracts to be supplied by Indigenous businesses. **In fact, Indigenous businesses have the capacity to supply 24.2% of the goods and services purchased by the Federal Government annually – far in excess of the 5% target proposed.**

Figure 1: Total federal expenditures and total Indigenous business capacity to meet federal demand in³ 2017.



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

CCAB and Big River Analytics, in cooperation with the Department of Crown-Indigenous Relations and Northern Affairs (CIRNA), have taken the first steps to understand the extent to which Indigenous suppliers can meet federal procurement demands. This report will help the Federal Government identify opportunities to match Indigenous suppliers by industry specialization, size, and capacity with existing federal procurement by department 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.

A nation-wide target of awarding 5% of the annualized total dollar value of federal contracts to Indigenous businesses within the next 5 years is required to modernize federal procurement, reflect the reality of Indigenous business capacity, and support the continued growth of Indigenous businesses. 5% is an attainable goal, consistent with the demographic representation of Indigenous peoples in Canada (4.84%). To achieve this 5-year target, annual interim targets should be established for each year between 2018/19 and 2023/24.

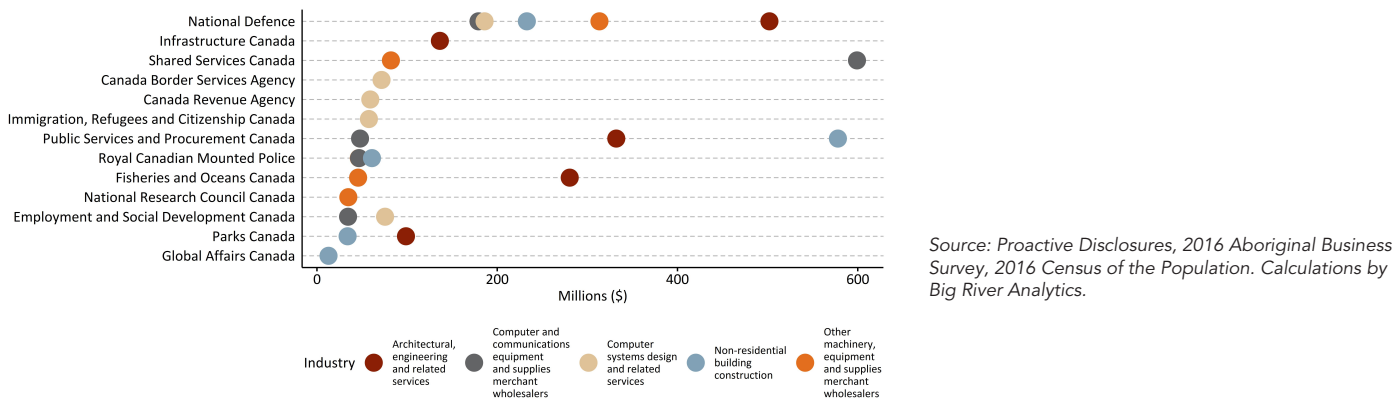
¹ TD Economics, "Estimating the Size of the Aboriginal Market in Canada", 2011.

² This figure was calculated from the largest corporate purchaser of Indigenous business and Federal government spend

³ Indigenous business capacity here is measured across NAICS sectors, so this represents the sum of either all Indigenous business capacity in a NAICS sector, or the total federal demand in a given NAICS sector, whichever is smaller.

Figure 2 presents the top purchasing departments within the top 5 high demand sectors. This figure highlights the significant 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. Demand categories are organized by North American Industrial Classification System (NAICS) which contains 2- through 6-digit labels that provide more specific levels of description with each additional digit. At the highest level, it divides the economy into 20 sectors. At lower levels, it further distinguishes the different economic activities in which businesses are engaged. For this research, CCAB and Big River Analytics used 2 and 4-digit NAICS codes to compare federal procurement demand to Indigenous business supply in Canada, depending on data availability.

Figure 2: Top purchasing departments within high demand sectors, 2017.



Meeting a government-wide target of 5% does not require that the 5% target be met in each NAICS category. Categories in which there is significant Indigenous business capacity can offset categories in which there are fewer Indigenous businesses. Accounting for the distribution of Indigenous businesses across industries and the industries from which the federal government purchases goods and services, Indigenous business capacity is equal to 24.2% of the total annualized value of analyzed federal procurement contracts in 2017. A portion of federal contracts were unclassifiable, so the figure could be as high as 31%, should the unclassifiable purchases be similar to those that were classified.

Indigenous capacity to supply the Federal Government is consistent across the departments that purchase the most goods and services. The Department of National Defence, Public Services and Procurement Canada, the RCMP, Parks Canada, and Employment and Social Development Canada all have significant room to grow in terms of their procurement from Indigenous businesses before running into supply constraints.

Figure 3: NAICS Categories in which Indigenous business supply cannot meet a 5% target, 2017.

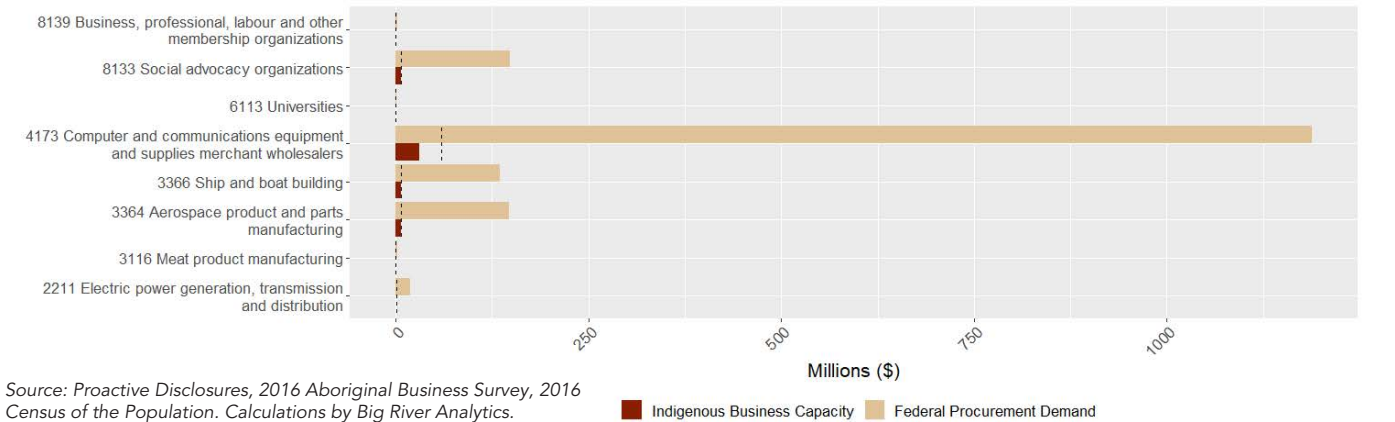
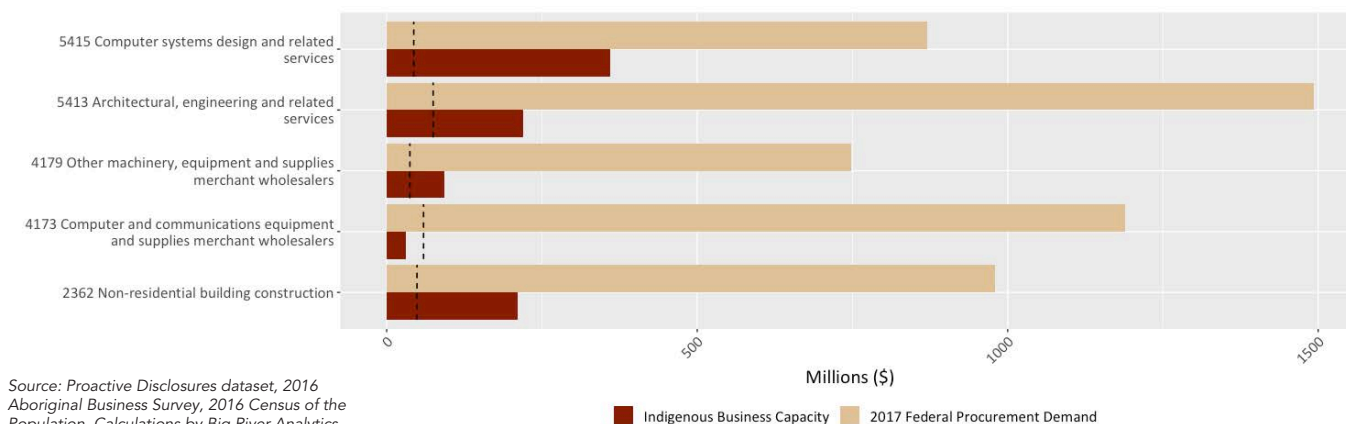


Figure 3 presents the NAICS categories in which Indigenous business supply cannot meet a 5% target in 2017. It is worth noting that in the NAICS categories in which Indigenous businesses do not have the capacity to meet the 5% target, the combined shortfall is only \$30 million. That shortfall represents less than 1% of the \$3.3 billion Indigenous business capacity to meet federal demand. Figure 3 shows that the small dollar value of the shortfall is due to low demand in most of these eight sectors. This shortfall could be made up in other sectors with significant Indigenous business capacity to achieve the overall target of 5%.

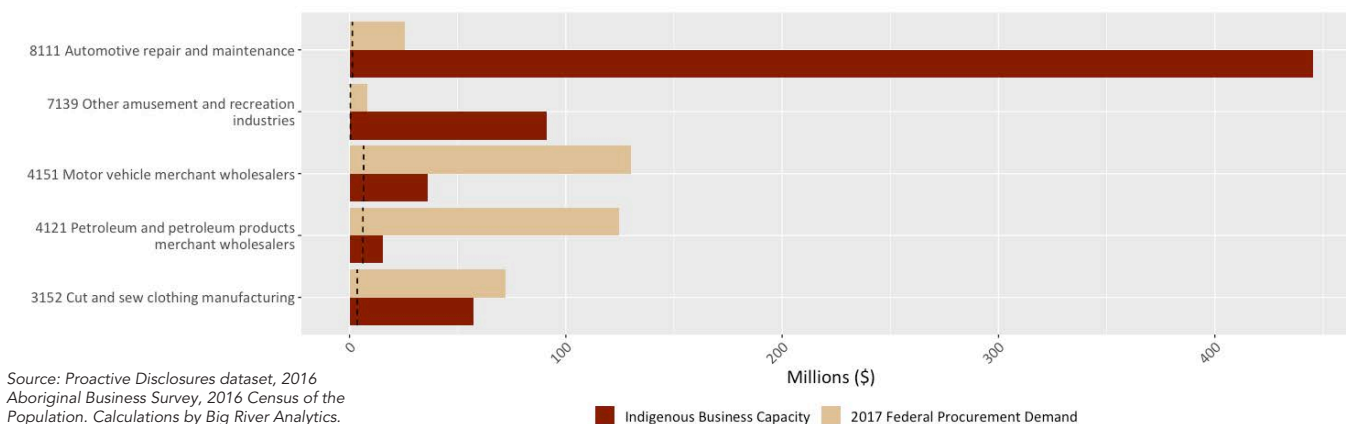
Figure 4 presents the NAICS categories from which the Federal Government purchases the most goods and services. Indigenous businesses can meet a 5% procurement target in four of the five NAICS sectors estimated to be in highest demand by federal departments. Computer and communication suppliers and merchant wholesalers is the only category for which there is insufficient capacity to reach that goal. The dotted line in Figure 4 represents the 5% target within each NAICS category.

Figure 4: Top 5 NAICS categories by Federal procurement demand, 2017.



Indigenous businesses are also well positioned to take advantage of areas of increasing federal expenditures. Figure 5 shows the existing capacity of Indigenous business to secure contracts in the NAICS categories in which government expenditure is growing fastest. In all 5 categories, Indigenous businesses can meet and exceed a 5% target.

Figure 5: Top 5 NAICS categories by growth in Federal procurement demand, 2017.



RECOMMENDATIONS

- The Federal government should set an Indigenous procurement target of 5% within five years, through a 1% increase annually. Each federal department should lay out a strategy to achieve this target and then track and report annually on progress.
- The Government of Canada should include a requirement that all departments incorporate considerations of Indigenous peoples (business and community) for submissions to Treasury Board analogous to the current requirements for gender-based analysis.
- Additional programming should be developed to support existing Indigenous businesses in NAICS categories where there is insufficient Indigenous capacity to supply 5% of federal procurement demands.
- 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