



REACHING 5%

Improving Federal Subcontracting for Indigenous Businesses

This policy brief outlines how the Government of Canada can increase subcontracting to Indigenous businesses through federal procurement contracts to contribute to its 5% Indigenous procurement target.

PROCUREMENT AS AN OPPORTUNITY TO SUPPORT ECONOMIC RECONCILIATION

Procurement is the process of obtaining goods and services, and the Government of Canada is the largest purchaser in the country. However, despite collectively representing 5% of the population, First Nation, Inuit, and Metis businesses are underrepresented in federal supply chains. The latest statistics by the federal government indicate that Indigenous businesses only won about 1% of federal contracts in 2018.¹

Through its research work, the Canadian Council for Aboriginal Business (CCAB) found that the most commonly heard explanation for limited procurement from Indigenous businesses is that there are not enough firms to provide high-quality, cost-effective services and supply.² However, CCAB found through its report: *Industry and Inclusion: An Analysis of Indigenous Potential in Federal Supply Chains (2019)*, that Indigenous businesses can supply 24% of the required goods and services to the Federal government.³ Furthermore, there is sufficient Indigenous business capacity to enable the federal government to provide a representative share of federal contracts to Indigenous businesses across almost all sectors. This report also recommended that the Government of Canada set an Indigenous procurement target of 5% within five years. Following the publication of this report, the Government of Canada set a target to have at least 5% of federal contracts awarded to Indigenous businesses, as expressed in the 2019 Mandate Letter of the Minister of Public Services and Procurement Canada and reiterated in the 2020 Speech from the Throne.

To increase Indigenous procurement, CCAB recommends that the government implement primary and secondary contracting policies and an Indigenous-led policy on recognizing and certifying Indigenous businesses. CCAB also recommends the establishment of programs that develop Indigenous business capacity and Indigenous labour skills while addressing the financial needs of Indigenous businesses. This policy brief focuses on improving federal subcontracting for Indigenous businesses as one component of the Government of Canada's procurement efforts.

KEY TAKEAWAYS

- Indigenous businesses are underrepresented in federal supply chains.
- In 2019, the Government of Canada set a target to have at least 5% of federal contracts awarded to Indigenous businesses.
- Indigenous subcontracting measures will help the federal government achieve this target:
 - Implementing Indigenous subcontracting minimum requirements for all primary contracts with non-Indigenous companies above a certain threshold
 - Ensuring compliance with minimum requirements.

1. Government of Canada. "Report on Procurement Strategy for Aboriginal Business 2015 to 2018." (Ottawa: 2021). <https://www.isc-sac.gc.ca/eng/1618839672557/1618839696146>

2. Canadian Council for Aboriginal Business, "Industry and Inclusion: An Analysis of Indigenous Potential in Federal Supply Chains" (Toronto, 2019), <https://www.ccab.com/research/publications/research-procurement/industry-and-inclusion/>.

3. Canadian Council for Aboriginal Business, "Industry and Inclusion: An Analysis of Indigenous Potential in Federal Supply Chains" (Toronto, 2019), <https://www.ccab.com/research/publications/research-procurement/industry-and-inclusion/>.

STIMULATE INDIGENOUS SUBCONTRACTING THROUGH MINIMUM REQUIREMENTS

The federal government can meet the mandatory minimum requirement (MMR) of 5% for Indigenous subcontracting for federal contracts over \$5 million by steadily implementing this policy over a five-year phase-in period, increasing by one percent each year. To help achieve this goal, the government should require bidders to submit an Indigenous content plan that includes how they will meet the MMR and outlines their history with Indigenous procurement and employment. To ensure that this content plan reaches the 5% MMR goal, evaluators should award specific points towards the overall value of the bid evaluation, meaning that the better the plan is, the higher the bid will be ranked. The weight provided to this evaluation criterion should be meaningfully high so that it will incentivize bidders to subcontract with Indigenous businesses. In this regard, CCAB recommends that a strong starting point would be for evaluators to award at least 25% of the points

to the bid's cost portion. For example, if the price of the product or service is 40% of the valuation points for the contract, then 10% should go towards the inclusion of Indigenous sub-contractors and 30% to the cost portion. Additionally, the federal government should share the MMR history of primary contractors across all departments so that all sectors know the bidder's contribution to Indigenous business development. Finally, broadening the Indigenous content requirements would enable subcontracting to occur locally, regionally, and nationally.

Recommendation: Introduce a mandatory minimum requirement (MMR) of 5% for Indigenous subcontracting for federal contracts over \$5 million and use a content plan to adhere to this goal.

ENSURE COMPLIANCE WITH MINIMUM REQUIREMENTS

While the MMR focuses on subcontracting, primary and secondary contractors should undergo evaluation through the same framework. Tracking, measuring, and publicly reporting the progress of Indigenous procurement regularly would allow contractors to reach and hopefully surpass the MMR. Through evaluation on a clear scorecard, primary contractors who exceed the MMR will receive bonus points in the bid evaluation, while those who fail to meet the MMR will lose points in the bid evaluation. The utilization of a Vendor Performance Management (VPM) system will help contractors meet the MMR and ensure accountability for those who do not. The federal government must implement policies to combat the

issue of Indigenous gilding, which is the practice of a non-Indigenous business taking unfair advantage of an Indigenous business to gain access to otherwise inaccessible Indigenous procurement policies or contracts. These relationships do not represent genuine, equitable partnerships.

Recommendation: Ensure compliance with the MMR by tracking bidders' progress and rewarding bidders who meet them while holding those who do not meet them accountable.

