

# FACING FACTS

## The recovery of First Nation self-reliance requires building local organizational capacity

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MIKE LEWIS

**D**espite the fact that many aboriginal communities are geographically positioned in areas of economic opportunity, many can be said to reflect the characteristics of “underdeveloped” economies. Why?

In economic terms, when contrasted with more “developed” economies, the majority of aboriginal communities face five stark facts:

1. In the last 100 years First Nations have been controlled by and become dependent on outside political and economic systems. These systems operate in relation to the mainstream economic interests. For example, an outside forest company harvests timber from a reserve (or traditional territory), or a bank gladly receives aboriginal deposits, but does not re-invest them in the aboriginal community. Historically, First Nations have had very little influence over those making the decisions which significantly affect their local economies. This economic exclusion and resulting dependency contributes to the poor social health of many communities.
  2. Economic resources are few and relatively low quality. (There are exceptions.) This simply means that the labour, expertise, capital, land, and raw materials accessible to aboriginal communities is at a disadvantage relative to the mainstream economy.
  3. Economic activity in major sectors of the economy - agriculture, resource extraction, manufacturing, construction, service industries, transportation, and marketing - generally proceeds at a small scale, if at all.
  4. The local economic base is not diverse and little exchange takes place between those areas of economic activity which do exist. In better developed economies, the various sectors exchange goods and services. (For example, agriculture requires machinery, fertilizer, various tools, energy, and services ranging from transport to finance.)
  5. Most aboriginal communities by and large consume more than they produce, so little by way of capital savings is available for economic development. As long as this condition lasts, the internal means to invest in economic development are lacking.
- These five factors converge to create a powerful economic trap. The consequences of this trap are more than economic (i.e., material poverty). Its social and cultural consequences have been pervasive and debilitating.
- Clearly, the struggle of aboriginal peoples over the last 25 years to transform

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their relationship with Canada has achieved some important gains. However, there are few aboriginal leaders who would deny that if progress is to be sustained, economics matters. In the context of aboriginal goals and aspirations, empowerment and local economic growth must go together if success is to be realized over the long term.

It is therefore not surprising that virtually all aboriginal people believe that it is critical to build an economic base. A second goal, equally important and intimately related to this, is to build the health, knowledge, and skills of the people. Given the realities of underdevelopment, reaching these goals is a major challenge.

The institutions important to economic development in Canadian society (banks, training centres, investment firms, business support systems, among others) have developed over a long period of time. Historically cut off from these "mainstream" institutions because of legal and other barriers, economic development in most aboriginal communities has been slowly evolving only since about 1980 (although there are examples that precede this). Indeed, much of the aboriginal institutional base we see today, such as aboriginal capital corporations, native colleges, community development corporations, etc., did not exist before 1985 in B.C.

In the absence of a well-developed set of institutions, the initiative to generate economic growth has fallen to First Nation governments. But as First Nation leaders know, the responsibilities faced by local leadership are many and the resources are often scarce. In this context, the capacity to organize, mobilize, and direct an array of resources within the community - or outside the community, in co-operation with external businesses and institutions - is crucial to the building of an economic base. The most successful aboriginal development organizations reflect these capabilities.

This is in line with the results of the Harvard Project on Economic Development which said:

"... we are convinced that, of those obstacles that Indian nations themselves can directly effect, the institutional one is paramount. Generous resource endowments, human capital, and access to financial capital will be virtually useless if tribes are incapable of making collective decisions and sustaining collective action, and if they lack the institutional structures necessary to maintain a hospitable environment of human and financial investment."

#### **CURRENT PERSPECTIVES ON ECONOMIC DEVELOPMENT**

CED differs from most other approaches to economic development. Why? Because it explicitly recognizes the central importance of gradually building the capacity of aboriginal institutions and development organizations. This assumption challenges other prevailing perspectives on how to address the problems of distressed communities.

##### **The Macro Perspective**

The macro-economic perspective has a primary focus on the productive and expanding sectors of the economy. The freedom of capital to seek its highest return is seen as the best and final factor in determining where investment should flow. Likewise, people should flow to where the opportunities are.

CED challenges this perspective at two levels. First, in many regions of the country, aboriginal communities have existed and continue to exist where capital has flowed. However, the local community is in most cases not organized to capture any of the economic benefits. Secondly, the argument that labour should follow "poles of opportunity" flies in the face of the experience of the last 25 years. Just where are people to go? The

poverty of aboriginal populations that have moved to Canada's urban centres makes it plain that moving people around is not a viable policy option.

##### **The Industry Recruitment Perspective**

Economic development and regional planners who favour this perspective work to attract private capital and business to their own areas and thus stimulate the local economy. Time, talent, and dollars are focused on building incentives and support for business recruitment.

Some aboriginal communities have used this strategy. For example, they have developed industrial parks and then worked to recruit businesses in order to generate revenue and jobs from the park's leaseholders. The hope is that benefits will "trickle down" to local businesses and to the unemployed. Unfortunately, the consequence of this "landlord" approach has all too often been that the majority of native residents become second-class citizens in their own communities.

The CED approach does not deny out of hand the possible usefulness of attracting business. However, within a CED approach this would be only one part of a more comprehensive strategy. In particular, partnership opportunities should be actively pursued to the extent that they increase aboriginal ownership of economic assets and promise a systematic, socially beneficial, and culturally consistent approach to local job creation and training. Research reveals that if these local interests are not clarified, First Nation co-ventures often produce local costs that far outweigh local benefits. Thus, without the capacity to conceive and implement a community-based strategy that integrates these additional functions, a typically Third World paradox applies, to wit, "the more one gets developed the more underdeveloped one gets."

##### **The Corporate Perspective**

Corporate business is interested in development too - their own being their pri-

mary concern. Essentially, companies observe the economy from their place of business. They strive to reduce risks and to maximize opportunities to generate profit. From a corporate perspective, the problems of distressed communities represent risk. Traditionally, corporations operating in and around aboriginal communities, particularly those dependent on primary resources, have sought either to ignore them or to offer jobs to those qualified to work. When the company leaves, little is left behind.

CED recognizes that businesses are crucial to building an economic base. But it does not depend on outside businesses to solve the problems of underdevelopment. Rather, CED strategies oblige outside business to take the community interest into account. Agreements and partnerships are negotiated that put the community in a position to capture the widest array of benefits possible, including profits, management influence, jobs, training, and sub-contracting benefits. But none of this is possible if the community is not organized or lacks the capacity to assert itself strategically and then implement agreements. Where that capacity is present, the results can be very positive, for the community and the corporate partners.

#### **The Minority Enterprise or Small Business Perspective**

In contrast to the three perspectives above, the minority enterprise or small business strategy is sometimes put forward as the “trickle up” approach. It suggests that the key to revitalizing communities in difficulty is to increase the number of small businesses owned and operated by low-income or minority residents. How to stimulate and support the evolution of aboriginal entrepreneurs is the focus of programs that support this strategy. There is an inherent faith that if the problems of individual businesses and potential entrepreneurs are addressed, the local economic base will be repaired.

CED finds this strategy insufficient. While small business development can be an important part of a CED strategy, this element in itself is inadequate to the problems of underdevelopment shared by most aboriginal communities. In short, if the First Nation does not have the knowledge, skills, and resources to create an environment supportive of development, it is unrealistic to expect small businesses to flourish. Small businesses do not and cannot function in a vacuum. The physical, social, cultural, and economic factors in a community’s life have a huge impact on the ability of businesses to multiply and grow. To ignore this fact creates the basis for failure.

#### **COMMUNITY ECONOMIC DEVELOPMENT: THE PREFERRED APPROACH**

Certain questions also need to be posed in order to understand why CED is the preferred approach to economic development.

- How can the critical decisions associated with identifying, screening, and planning businesses be made if no community-based organization is capable of strategically managing the venture development process?
- How can joint ventures be negotiated with other Canadian businesses if there is no community-based strategy for doing so and little or no experience in negotiating, structuring, and managing joint venture partnerships?
- How can the self-esteem, literacy, and skills needed for local and regional job opportunities be built if little community experience and few community resources are available to plan and implement a human resource development strategy?

All of these issues are central to creating strategies that can build an economic base. Simply put, if a dedicated community organization is not in place which can address these needs, development will

not happen. By making local capacity-building the ultimate focus, CED addresses the central challenge of underdevelopment. This is the case whether the context for CED is a poor, urban neighbourhood or a rural community, whether it is aboriginal or non-aboriginal. Community economic development:

- recognizes the entire community to be disadvantaged, not just individual residents.
- develops and strengthens community-based economic organizations that are 1) accountable to the community, 2) able to establish priorities and target opportunities, 3) able to co-operate with outside business and governments to maximize community benefits, and 4) able to manage the overall development process.
- targets and invests in businesses to increase the level of aboriginal ownership in the economy. This is aimed at capturing profits, management development opportunities, jobs, and training benefits. Ownership is organized to ensure a local basis for investment and re-investment in the wealth-generating assets necessary to build and sustain an economic base.
- works to improve the local development environment for business - the skills, attitudes, organizations, and services which support business investment and operations - in a manner that accounts for the social, cultural, and physical factors which influence that environment.
- encourages the creation of jobs and businesses which improve local productivity and which reduce dependency on governments and/or single industries.
- respects cultural values when shaping community direction and choices and indicators of success.
- recognizes that social and economic development go hand in hand. Without one or the other, enduring development cannot be fostered.

Perhaps now the definition of CED can be meaningfully revisited. The long, wordy version is this:

“Community economic development is a comprehensive, multi-faceted strategy for the revitalization of community economies, with a special relevance to communities under economic and social stress. Through the development of organizations and institutions, resources and alliances are put in place that are democratically controlled by the community. They mobilize local resources (people, finances, technical expertise, and real property) in partnership with resources from outside the community for the purpose of empowering community members to create and manage new and expanded businesses, specialized institutions, and organizations.”

The short version, tailored to the aboriginal context could be:

“CED is a comprehensive strategy aimed at building accountable, community-based organizations which effectively manage and capture economic and social benefits for the community through a development process aimed at building an economic base.”

### CAPACITY-BUILDING

There are many within government and in the aboriginal community that think “capacity-building” is an overused term. It may well be overused; but it seems seldom well *understood*, at least with respect to the economic development of communities.

At the most basic level, “capacity” refers to the ability to get things done. Therefore, capacity building can be defined as the equipping of organizations with the resources, skills, and systems required to get things done. Given CED’s central focus on building organizations

able to play central roles in building the aboriginal economic base, capacity-building is a crucial concern.

Research and experience shows that success of organizations involved in CED is linked to the following six organizational criteria:

- A long-term development strategy that shapes the mission of the community economic development organization (CEDO) and guides its program development and operations.

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- A broadly-based and active board that effectively links the CEDO with the community and its wider environment.
- Competent staff, possessing leadership and managerial abilities that match the scale and complexity of the CEDO’s mission.
- An ability to establish and maintain effective community relations, including communications with key interests in the wider environment.
- Adequate and predictable core funding.
- An ability to attract and use technical assistance to increase development management capabilities and make

competent program and organizational decisions.

Communities, aboriginal and otherwise, that have been in a perpetual state of underdevelopment and stagnation obviously cannot be expected to meet these criteria immediately. Aboriginal communities are typically weak in three areas that keep the economic trap operating: 1) a lack of infrastructure and business development, 2) weak labour force attachment, and 3) organizations that are inexperienced in economic development. In the first instance, planners and decision-makers should be concerned with the “end products”: visible material changes and business deals. In the other two instances, First Nation institutions and residents must increase the prevalence of attitudes, skills, and expertise that underpin a drive to build an economic base. This broadening of individual and organization capacity is both a process and a product, that is, people gain skills and experience by first-hand participation in making the changes necessary.

Unless both the material and human/institutional dimensions are addressed simultaneously in CED, there will never be self-sustaining development that breaks the economic and psychological dependency of underdevelopment. However, there is an inherent tension in concrete development projects which at the same time involve residents who lack skills and know-how.

Within the scope of this paper, it is only possible to describe more fully the elements of “capacity” which have been identified in successful CED organizations.

#### A Development Strategy

Among the most important elements of CEDO capacity is adherence to a long-term development strategy. Without it, CEDOs tend to drift from one opportunity to the next, making their efforts diffuse and ineffective. Some of the possible strategies pursued include the following:

- *Asset control*: a strategy whereby the

CEDO directly acquires land, buildings, and other facilities in the community, giving community residents a greater ability to participate in and shape future development.

- *Business venturing*: a strategy in which the CEDO seeks to establish and control business ventures, assist private entrepreneurs, or spin off consumer- or employee-managed organizations in order to create jobs or wealth.
- *Financial institution-building*: a strategy for mobilizing savings and assisting in creating pools of capital in order to finance local development activity.
- *Human resource development*: a strategy that focuses on systematically building the “people” resource to take advantage of opportunities in the community and broader labour market, including jobs generated by other economic development strategies.

There can also be mixes of these strategies undertaken. Here are just a few examples.

Kitsaki Development Corporation, owned by the La Ronge First Nation in Saskatchewan, has used asset-building strategies and business venturing (direct ownership) to position themselves as a key player in the province’s northern economy. Using joint ventures as the main strategy, they have moved from a couple of faltering ventures in 1985 to having 13 ventures in key sectors of the regional economy. In 1991 they generated almost \$18 million in sales. About 500 jobs have been created, 60% of them filled by First Nations people. KDC has created the basis for supporting its own core operations and is accumulating a capital base for re-investment. It also has an on-going training component which is continuously focused on preparing people for the jobs that have been created.

Dana Naye Ventures (DNV), a Yukon-based aboriginal capital corporation, has used support from the federal government to amass a \$7.3 million capital base

from which it runs a lending program to individually- and community-owned businesses. It provides some technical assistance in addition to credit. Interestingly, having established an “almost self-sufficient” base for its lending operations, DNV has managed to start to develop its capacity for equity investment. It currently has \$600,000 in capital, some of which it has already used to purchase assets (its own building) and is seeking opportunities for equity investment in joint ventures.

In B.C., the Nisga’a Economic Enterprise Corporation (NEEC) spent 15 months working out its long-term strategy, a process which included training of board members of the tribal corporation as well as staff and board members of four community-based corporations. In the process they targeted some joint venture opportunities, one of which was concluded shortly after completion of the training/planning process. From the first year profits they were able to capitalize their tribal corporation, to provide a secure base for operating funds, and to create a revolving loan fund (see *Tools, Strategies, Structures*, pp. 49-50).

Since 1987, the Duffield First Nation in Alberta, has moved from being a community dominated by welfare dependency, substance abuse, and suicides (6-7 a year, 1983-87) to a community systematically generating opportunities for social and economic development. It started with a small group (which included the core members of a new Band council) who wanted help for substance abusers and a long-term solution to dependency. From there, a systematic strategy was developed, beginning with people development and subsequently radiating out to create a wide range of opportunities.

Four priorities guiding the strategy: immediate help for people with problems; support and training for staff who were burnt or burning out; programs to

increase the general skill/education level of adults; and training and technical support to chief and council to increase management skills. These priorities, combined with a comprehensive assessment of community needs and assets and training plan development, created a framework and plan for long-term investment in people.

Duffield’s results have been dramatic. Substance abuse is steadily declining. There have been no suicide or violent deaths for four years. Welfare roles declined from 85% to 64% and 150 adults have been involved in training (including community-based lifeskills programs). Housing and safety standards have improved. The unemployment rate is 35% and declining, and seven businesses have been successfully established. Over \$2 million in community assets have been secured and - a crucial indicator - young people are returning to Duffield to work and to raise their families.

#### **An Active, Balanced Board**

The board provides the most effective and direct means for active participation by community residents in CED efforts and is a critical ingredient of the CEDO’s credibility. Successful CEDOs have managed to assemble a board whose members represent major community interests and also possess a range of skills that support a CEDO’s development goals.

Equally important are on-going efforts at board training and development that help the board to effectively discharge its responsibility to set the overall direction of the CEDO. As the operations of the CEDO become more complex and financial responsibilities grow, the CEDO’s success will depend on the willingness and the ability of the board members to take on more responsibility as policy-makers.

The Dana Naye Ventures board is a good example of a mix of people from Yukon’s First Nations and business community who, together with a number of

professionals, create a balance of representation and skills important to DNV's effectiveness.

The Nisga'a case illustrates well the importance of appropriate training and technical support to the board. Although they had been legally constituted for some time, little happened until they became actively engaged in a process of planning and decision-making that put in place a strategic mission, goals, operating procedures, etc.

### Competent Staff

Research and experience indicate that a well-organized, skilled staff working under strong, competent leadership is crucial to a CEDO's success. A problem in B.C. and Canada is that experienced development managers are not easy to come by. Managing processes that involve community organizing, political management, and business and human resource development is a complex task. Often, experienced development management staff must be recruited from outside the local community.

However, staff competence should be measured against the scale and complexity of the CEDO's actual goals. Staff competence, like board competence, can grow through learning on the job. If some board members have very strong skills, new skills can be transferred to staff members on the job. In addition, technical support from the wider community can assist in a number of matters. Outside support should always be structured to maximize its impact on staff and management development.

Kitsaki Development Corporation had been floundering for four years before they recruited a suitably qualified general manager. The results of the next five years - 13 businesses, 500 jobs, and an organization able to pay its own way - returned the public investment many times over. This would not have happened without competent staff.

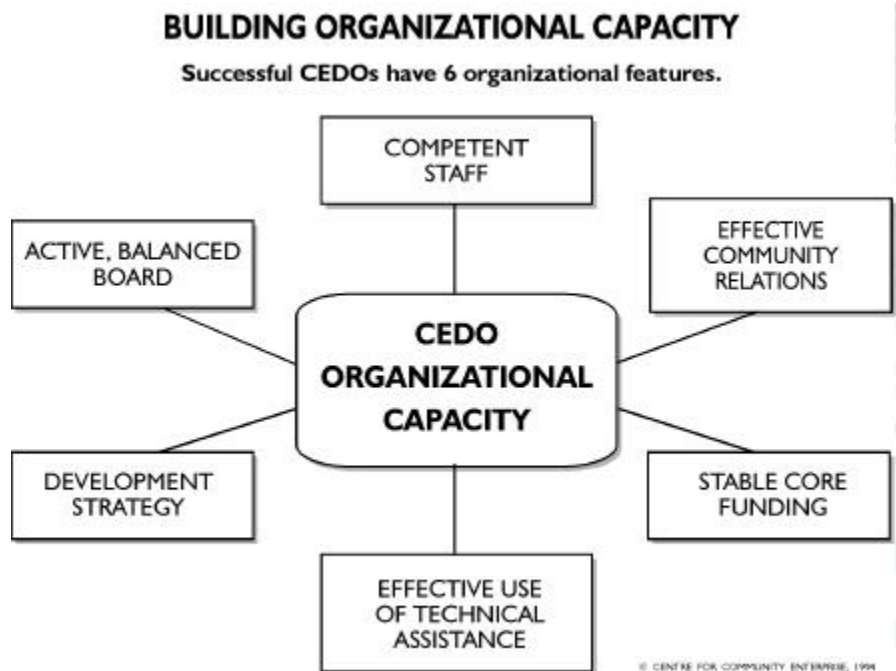
Dana Naye Ventures, for its part, has

used a very experienced lender as its CEO since its inception. NEEC has a Nisga'a general manager with an academic background in economics. He worked as the economic development advisor to the tribal council for over five years and was well-positioned to take on the job. He uses a variety of other outside resources as required to assist in making the NEEC an effective organization.

In Duffield, outsiders were initially hired as life skills coaches and up-grading trainers. In addition to their duties, they assisted in securing the resources to hire

dramatic effect on the organization's effectiveness. The more successful CEDOs have managed to establish productive working relationships with business and government leaders. In the absence of an accessible network of institutional power-brokers, emerging CEDOs find it difficult to establish the relationships they need to become effective developers.

Kitsaki is a prime example of effective community relations. Through its board structure, which ensures key parts of the La Ronge First Nation are represented, the long-term strategy has been kept on



two full-time people to manage the overall human resource development process. These were outside people at first, but as progress was made, candidates emerged who were trained to assume control of the management.

### Effective Community Relations

A critical responsibility of a CEDO's board and staff is to maintain extensive communications links, not only with the CEDO's own community but with key business and government leaders - people whose support or resistance can have a

track. Resistance to the idea that "everyone who is a Band member is entitled to a job" is not easy. But with good representation and clear policy, it can be withstood. In other words, good communications based on clear goals and policy is crucial to the political management of the development process.

Networking with outsiders, the other part of the equation, has been a fundamental part of Kitsaki's success. The competence of the general manager combined with the political strength of the

board has been constantly used to position KDC to invest in the best opportunities in each of that region's key economic sectors.

#### Stable Core Funding

Perhaps the most critical problem of emerging CEDOs is the unpredictability of funding for core management and administrative costs. As a consequence, CEDOs spend inordinate amounts of time seeking core funding, rather than building the organization and its work. It is a serious obstacle to successful community-based development.

In the case of Kitsaki, they were able to receive four years of core funding under the a Federal-Provincial Northern Economic Development Agreement. Because they were operating in an opportunity-rich region, they were able to generate sufficient venture activity to cover costs thereafter.

In the case of DNV, they have had (and continue to have) core funding under the Business Development Centre Program and some additional core support through the Aboriginal Capital Corporation Program. Since their primary function is lending and main revenue source is interest, they are just now getting to a point where financial self-sufficiency is even close to being realized, given the long decline in interest rates. (They estimate that \$10 million in debt capital is what they need to provide the income base required to meet their Yukon-wide mandate). Without core support they would have gone down long ago.

During their early development phases, the Nisga'a were able to staff some of the required functions by using funds received for the economic development officer lodged in the tribal council. They then funded the 15-month process with training resources secured from what is now known as the Pathways Program.

In Duffield's case, the initial steady funding came from program delivery. The coaches and trainers helped get the

money for core management positions to ensure that the overall process could be maintained and expanded.

In the last four years, reserve-based economic development has had some core support by virtue of the Indian Affairs portion of the Canadian Aboriginal Economic Development Strategy (CAEDS). For many communities this has provided the first "stable core funding" dedicated to economic development.

However, Ottawa's cut of 28% from this program's 1993 budget puts into question the federal government's long-term commitment to this critical support. Definitely, aboriginal leaders and the province should press the federal government to continue to provide these "core resources" wherever they continue to be necessary.

#### Effective Use of Technical Assistance

Because of the complexity of CED projects, all CEDOs must learn to use external technical assistance effectively. Emerging CEDOs tend to operate with little or no formal management assistance or training. Many are unaware of or ignore the manuals and training materials available on venture development, organizational policy, and other topics. The more successful CEDOs have demonstrated an ability to identify and work with outside experts who provide assistance in areas such as planning, project development and packaging, business planning and due diligence, and management information systems.

Technical support tailored to the developmental needs of CEDOs is often ignored by government support agencies. The problem is that lack of experience and limited contact with qualified technical assistance providers can also contribute to a CEDO's failure to take full advantage of outside technical resources.

All four of the organizations cited were (or became) expert at using outside resources. KDC used outside people continuously for major feasibility, business

planning, and due diligence assignments. DNV used outside resources for assistance in board development and strategic planning. The Nisga'a relied heavily on outside training and technical assistance during the development phase. Duffield used technical assistance at the assessment and planning stages and have, in addition to outside staff, used technical assistance to support implementation and evaluation. Since they have moved into business, outside technical support has been used in a wide variety of ways.

#### CONCLUDING COMMENTS

Community economic development is the preferred strategy for building First Nation self-reliance for several reasons:

- CED provides for building local capacity which is accountable to the community.
- CED provides a local basis for re-investment aimed at building an economic base.
- CED is a cost-effective strategy capable of integrating asset-building, training, and job creation.

CED is explicitly concerned with the attainment of social goals through business and economic development investments. Social and economic development are intimately related in practice. This practical integration is critical to successfully initiating and sustaining a development process which can address the persistent conditions of underdevelopment.

Other approaches have not worked, nor will they if pursued in isolation. CED, by building organizations appropriate to the conditions and opportunities of any particular community, neighbourhood, or region, is the most promising route to building more self-reliant aboriginal economies. ❧

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MIKE LEWIS is executive director of the Centre for Community Enterprise and CCE Business Enterprises Inc., Port Alberni, B.C.