



Economic Development – Basic Do's and Don'ts

AGENDA

1. Introduction
2. Economic Development
 1. What is it?
 2. What it isn't.
3. War Stories
4. General Rules to Follow





INTRODUCTION

First Nations across the country are coming into significant amounts of wealth from land claim settlements, impact benefit agreements, etc. Councils are using some of these funds to promote economic development in their efforts to provide jobs for their members and wealth for the Nation.

At Peace Hills Trust, the interests and ultimate success of your members is integral to our business and governance approach. As a result, a belief we adhere to, and which is a fundamental part of our culture, is:

With Great Wealth Comes Great Responsibility

Bill Gates



Too Much of This is Called Economic Development



What is Economic Development?

- Economic Development is a dedicated effort to create/retain jobs and increase the standard of living for the members and the community as a whole.
- When done properly, it creates wealth for the members of the Nation, and the Nation itself.
- Not every attempt is going to succeed, but there are ways to tilt the odds in your favour and there are things to look out for.





What it is Not

- Economic Development is NOT welfare or social assistance of any kind.
- A make work program is not economic development.
- Having welfare or social assistance programs is fine, and sometimes very necessary to support some members, but those programs are not economic development.
- Ultimately, economic development creates wealth (for the Nation and/or members), social assistance programs are a use of wealth because they cost the Nation money.



What is Economic Development?

- Setting up an economic development department and giving them a budget does not automatically create positive results.
- You need knowledge and expertise specific to the projects you are reviewing.
- Knowledge can be acquired or hired.
- It is usually cheaper and easier to hire the expertise and then have them train staff as the project advances, BUT be careful to hire the right people. Do your due diligence, check their references, etc.



What NOT to Do

- First Nation in a remote area wanted economic development.
- Hired an ‘expert’ from the US to head the department. He proceeded to hire a secretary and rent office space in the nearest city.
- Eighteen months later, no economic development had taken place but \$300,000 had been spent in salaries and benefits, travel, rent, etc.
- What went wrong?
 - Setting up a department/program before any projects had been identified
 - ‘Expert’ had no knowledge of local markets



Location, Location, Location

- Like real estate, the location of the First Nation is a critical factor in economic development.
- There are projects and circumstances that will lend themselves to your location.
- However, your location may be a huge obstacle to some projects, or make them out of the question for your Nation.
- A remote Saskatchewan Nation may have minerals that make a mine possible, but the remoteness probably makes a hotel and casino complex a nonstarter.



What NOT to Do

- A First Nation bought a small sawmill from its owner, who, along with his family, had been running the mill for several years.
- The First Nation trained their members on operating the mill, and then put two shifts to work.
- Where there had been two or three people producing lumber, there were now twenty people producing lumber. Production soared.



What NOT to Do

- Before long they saturated the local market and drove down their own prices. They had too much inventory, not enough buyers and their labour costs were through the roof.
- Eventually they had to shut the mill down. It was later sold.
- What had been a profitable business as a family operation could not be expanded to the degree that the Nation thought.
- What went wrong?
 - The Nation's location lent itself very well to the lumber business, but they did not have a large enough market for its products.
 - In an effort to provide jobs to their members, they ending up overproducing and driving down their own prices.



Types of Economic Development

- There are many types of economic development, examples include:
 - Tourism
 - Agriculture
 - Mining
 - Manufacturing
 - Personal services
 - Professional services
- Again, some (or all) of these may not work for your Nation. What may or may not work depends on the location, resources and desires of the Nation.



Size Matters

- Remember our definition of economic development: it is a dedicated effort to create/retain jobs and increase the standard of living for the members and the community as a whole.
- When many people think of economic development, they think of the mega projects: hotels, casinos, shopping malls, mines, etc.
- This tendency to ‘think big’ can be problematic for the Nation.
- Big projects are hard to manage, can have large cost overruns and can take a long time to complete.



Size Matters

- Since the goal of economic development is to create jobs and wealth, if even one permanent job is created for one member, that is successful economic development.
- Small, successful projects can have lasting, long term positive effects.
- For example, some youth/elders may be producing art, but have no place to market it. Something as simple as helping them set up a website could result in them supplementing their income through the sale of their art.



Comprehensive Business Analysis

- Once an idea has been generated, the most important part of the process is next: planning and evaluation.
- Get a qualified, experienced firm/individual to do a complete and comprehensive business analysis on the project.
- This will cost money, but it is far better to learn that a project will not work BEFORE it is started, rather than rushing into it, spending a lot of money and THEN realizing it will not work.
- **IF IT DOES NOT WORK ON PAPER, IT WILL *NEVER* WORK IN THE REAL WORLD**



Comprehensive Business Analysis

- Some factors that must be considered in the business analysis:
 - Location
 - Potential markets
 - Competition
 - Construction costs
 - Labour availability and costs
 - Energy availability and costs
- This is not a complete list; each project must be evaluated on it's own merits.



3 Crucial Factors

- There are three factors that must be taken into account in every economic development project. These will come from the business analysis, but can be summarized as:
 - **Risk** – what are all the risks involved with the project? This list should be as complete as possible.
 - **Money** – what are the total costs of the project?
 - **Speed** – how much time will the project take? How long will it be before the Nations sees some positive economic results from the project?



Council Decision

- Once a comprehensive business plan is written, then, and only then, can a proper, informed decision be made by Council on whether or not to go ahead with the project.
- Basically comes down to risk vs. returns: is the Nation willing to accept the risks associated with the project and go ahead with the project in order to earn the returns it may hold?

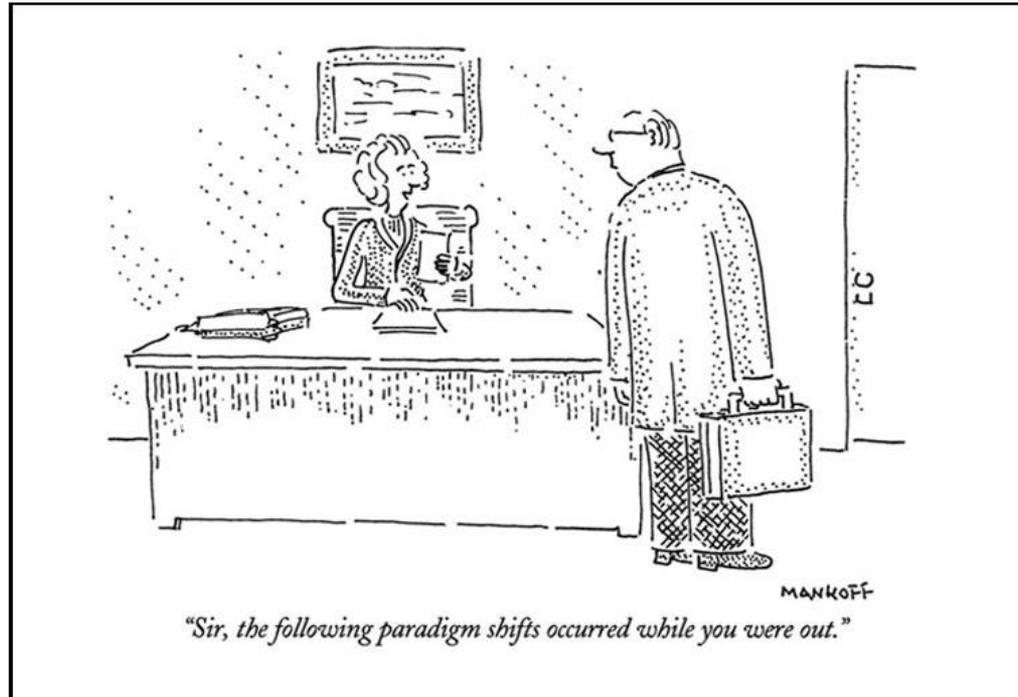


Change Can Scare People

- There is another important factor to consider that has nothing to do with money, and that is change.
- Economic development will bring about change. Even if the change is a positive one, it will scare some people, so try to keep members informed and help them prepare for it.
- As part of their ongoing communication plan, Council should be informing members of the progress of economic development projects and circumstances surrounding them.
- If the members don't hear what is going on, they will start making things up.



Change Can Scare People



Don't be Rushed into a Decision

- Quick decisions are usually bad decisions because all relevant factors may not have been fully explored.
- Every Nation wants its members to be better off.
- Once a settlement is finalized (land claim, impact benefit agreement) and the Nation gets the money, the pressure will start on Council to DO SOMETHING.
- This can lead to hasty decisions that are not well thought out.
- Often these decisions cost the Nation money they could have saved if they had taken the time to think the project through.



What Not To Do

- A First Nation in a remote community was approached by a local business owner to see if they wanted to purchase his business.
- The owner wanted an answer by the end of week.
- The Nation purchased the business, the former owner left the community and the Nation then realized they had no idea how to run the operation.
- They went through several managers who were not very strong. The business was very disorganized and lost money for the first few years.



What Not To Do

- Eventually the Nation found a good manager who took over and trained members to run a substantial part of the business.
- The operation finally started to make money after two or three years of losing money.
- What went wrong:
 - The Nation rushed into the deal because the owner demanded a quick sale, when realistically there was no one else who would buy the business other than the Nation.
 - Had the Nation taken their time they would have realized they needed to hire or acquire the skill sets needed to run the business in order to make it a success.



Cannabis

- Marijuana is the big thing now; many Nations have been approached about building greenhouses on their land or going into joint ventures.
- **Be cautious**, as this industry is in the very early stages.
- There are lots of new companies springing up that are promising massive returns in the future.
- The fact is that most of them, even some very large companies, have little or no revenue; some don't even have viable business plans.
- This makes it very difficult to properly evaluate what the company may or may not be worth.



Cannabis

- Remember that marijuana is a commodity, just like wheat, oil or oranges.
- Higher prices for cannabis will result in more people growing it, which will drive down the price.
- There are a lot of fly by night operators in the marijuana business who approach First Nations to invest in their companies because they know you have money to spend.
- A lot of the companies around today will not be around in 5 years, so pick your partners carefully.



Signs That it is Working

- Signs that economic development is working:
 - Jobs are being created/kept in the community.
 - There are opportunities for youth to stay in the community as opposed to leaving for work outside the community.
 - People have more income to spend.
 - Nation is getting more revenue from projects that will help provide programs and services for members.





Thank You & Questions

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