

***Opportunity Study  
For The Establishing  
Of An Economic Development Corporation***

***March 2006***

***Prepared for:***

**Pays Plat First Nation**

***Pays Plat First Nation***

***Prepared by:***

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*Executive Summary*

Pays Plat First Nation commissioned the undertaking of an Opportunity Study for the establishing of an Economic Development Corporation on March 1, 2006. In preparation of the study, the consultant's scope of work included:

- A recommended corporate structure
- Board composition
- EDC mandate
- Organizational roles and responsibilities
- EDC Operational Requirements
- Identification of funding for Board training
- Feasibility: including capital and operational costs projections
- Three year pro forma statements for project start-up

On January 06, 2006, Crupi Consulting was hired to provide advice and guidance on the most effective processes for establishing an Economic Development Corporation that best suits the First Nation. Thus, this Opportunity Study was produced following the above guidelines.

This document has been developed to assist Chief and Council and the First Nation Administration with the management planning and organizational development of a new corporate structure under which future economic development initiatives can be undertaken and hosted. It became very clear, at a Leadership Workshop in January 2006, that Council was very serious about building a strong economic base and needed a way to structure economic development as a distinct and long-term activity. The development corporation is just a vehicle that the First Nation may use to travel toward a destination which they have some prospect of reaching. It will be the determined commitment of Chief and Council, the appointment Board of Directors, the staff of the development corporation and the community that will ensure reaching the destination.

The study analyses the different ways in which other First Nations have dealt with their economic development issues and the different structures under which they operate. Examples of other local First Nations and First Nation organizations have been provided. The study also provides a suggestion of structuring a Development Corporation subsidiary to Chief and Council.

Finally the study provides a feasibility scenario based on the assumption that Council endows the Corporation with physical and financial resources that are then managed and invested to meet the goals set out by Council and under the supervision of a qualified Board of Directors.



***Introduction & Background***

Over the years, Pays Plat First Nation has grown into a major economic force in Pays Plat and surrounding area. It is considered the fourth or fifth major employer in the local area and is constantly increasing its asset base through business ventures, claim settlements and other economic initiatives. Slowly, the First Nation has become a major player and the future will only tell how big of a player the First Nation will become in the region's economy.

On this path of progress, the First Nation administration sees the continued need to develop a self-sustaining economic base by creating revenue generating business and assets, as well as pursuing project development that will diversify the economic base of the community.

Presently, many of the First Nation's jobs and projects are subsidized by Government agencies. First Nation employment opportunities are often limited to the duration of a short term project. Core funding for First Nation development is limited to on-reserve population numbers and to a small CAEDS budget. These factors do not allow for full capacity building and labour force stability, nor labour force retention within the community. Job creation should be looked at as career creation. It is the belief of many, that the First Nation's task is not that of providing jobs but that of creating the necessary conditions to allow members to gain meaningful employment or become self-employed on and/or off-Reserve. The short-term employment solutions through training programs and wage subsidies create a false economic base and a false sense of security, especially knowing that jobs will most likely go nowhere.

Sustainable community development requires a mechanism that facilitates economic growth. Economic growth requires that First Nation project development becomes revenue generating and profit driven. Profits can be reinvested into new capital and infrastructure projects and be used to sustain the operational costs of the business ventures and the First Nation administration.

Pays Plat First Nation intends to expand its economic development efforts and recognizes the need to establish a legal corporate structure under which it can develop and coordinate its economic development initiatives.

At the present time, these initiatives are presented to the community and the Chief and Council on a project-by-project basis, as part of the normal business of the First Nation. Although this process has proven to be somewhat effective in the past, the increasing numbers of projects and opportunities are placing onerous demands on the existing system and have created a need to have these initiatives managed separately. What ever structure the First Nation decides to adopt, it would need to have a specific focus on

economic and business development as well as economic diversification. The structure will need to develop and drive projects based on their economic benefit to the community and its members.

This Opportunity Study wants to present Council and Administration different options and types of Economic Development structures. The study has also matched existing structures with First Nation organizations that are presently using them. Hopefully, this will give Chief and Council as well as Administration practical examples of how other First Nation organizations have dealt with the same issue.

Chief and Council will have the optimal decision if an Economic Development Corporation should be established and under what form it should be. Based on our knowledge of the First Nation and the outcome of the Leadership Workshop held in Thunder Bay on January 15, 2006, it is our firm belief that an Economic Development Corporation subsidiary to Chief and Council best fits the goals and objectives of the First Nation.

## **1.0 Community Development Corporations**

Economic growth in a community typically occurs as a result of external forces, such as a general expansion of the national or a regional economy, which are usually beyond the control of a specific community. By contrast, economic development (e.g. the creation of new jobs, the attraction of private investment and the expansion of existing business) is something that a community can influence. However, in order to encourage and possibly direct future economic development, community officials and local residents must understand regional and local economic trends and conditions.

Community Development Corporations are run by professional staff and citizen boards, who have undertaken responsibility for a defined geographical area. Many of the members of these Boards live within the community they serve, and not only have a personal interest in improving it, but also have intimate knowledge of how to do it. Other Board members represent businesses and institutions and bring valuable resources and insight to the development process. Community Development Corporations (CDCs) are creating opportunities in their communities through the right blend of commercial, industrial, and residential initiatives. They have buy-in from the community. Using their own diverse skills as entrepreneurs, along with financing, marketing, and management tools, they are uniquely able to bring success to community programs.

### ***Will it work in your community?***

As a rule, CDCs work best in small to medium sized communities - where the local business community is either emerging or too small to meet community needs. Bigger communities tend to have a more established business structure. A development corporation works well in a community where there are a few sole proprietors or contractors, who maybe don't have the funding or the experience to take on large projects, and these projects get awarded to "outside" companies. The community then misses out on the work, on training opportunities, on profits and sometimes on the ownership of important community assets. CDCs can help a community build capacity, increase ownership, provide training opportunities and take on big projects.

### ***Who will own the CDC?***

A CDC can be set up a number of different ways, depending on the community's needs. It can have a broad-based community ownership, where people become a member automatically, it can sell shares to interested buyers, or it can make other choices. Usually a development corporation is a limited company. It can be registered provincially or federally and can have any number of shareholders or members chosen.

CDCs that truly represent the community interest need to have broad-based community

ownership. Some communities set up development corporations whereby every person eligible to vote in the community election is automatically a member of the CDC, and so the electoral list is used as the CDC membership list.

Once a decision has been made to establish a development corporation, the First Nation government, as its creators and owners, must define the shape it will take. Although the owners (shareholders or members) hold the ultimate control over what the corporation does, they have a very limited role in actually running it. A corporation is established in order that it may be delegated the responsibility for a particular set of activities. The main responsibility for making key decisions lies with the Board of Directors, who in turn rely on staff for research, recommendations, and implementation.

The main point of control for owners is in the initial establishment of the corporation. There they set the rules within which the Board and corporation will act. After the formation of the corporation and appointment of the Board, the owners' role is more limited. They replace directors and modify bylaws about once a year. They also monitor and hold the development corporation accountable to its delegated mandate.

## **2.0 Common Economic Development Structures**

Through the years, First Nation communities have been managing economic development in different ways. The manner in which they have been managing and operating their economic development departments has depended on their level of progress and sophistication achieved over time, availability of high-skilled technicians, complexity of the projects undertaken, levels of risk associated with the ventures and independence from the political decision-making process.

In the world of investments, political stability and certainty is a major factor when it comes to flow of capital. Some economic development structures can provide the sense of stability and the willingness to do business. As the First Nation communities are playing a greater role in the economic life of the regions where they are located, they will want to have a proper and adequate mechanism which will allow them to fully participate to any economic initiative available and gain the potential benefits.

There are four common structures under which First Nation communities and organizations have managed economic development. These structures are\*:

- **Internal Management**
- Running Economic Development Inside Band Government;
  
- **Internal Management with Expert Advisory Council**  
Running Economic Development Inside Band Government with an Expert Advisory Council;
  
- **A Development Corporation Independent of Band Government;**
  
- **A Development Corporation Subsidiary to Band Government.**

Each structure has its benefits and drawbacks. Some are better than others, depending on what stage of growth the First Nation finds itself. Some are more pertinent than others, depending on the level and complexity of the projects the First Nation deals with.

\* Development Corporations Native Additions: West Coast Series on Community Economic Development 1991

### **2.1 Internal Management Running Economic Development Inside Band Government**

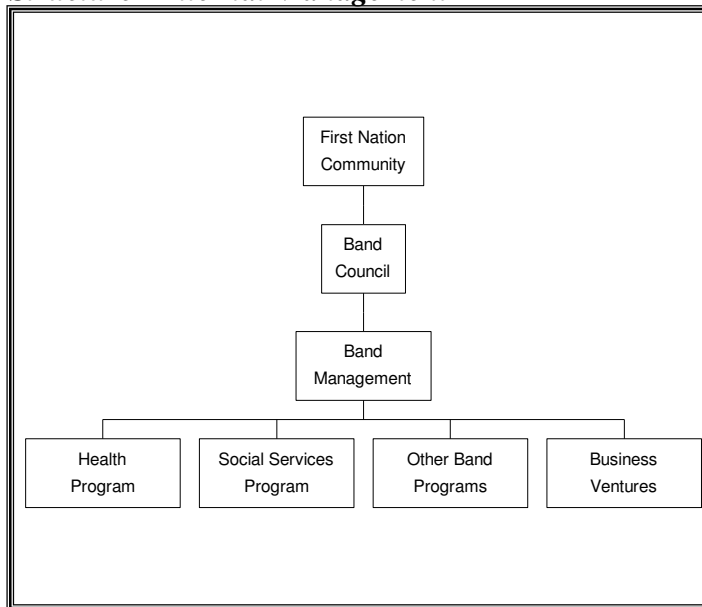
This type of management structure assigns all the major tasks of economic development

to the First Nation government and its Administration. Many of the First Nations in the 1850 Robinson Superior Treaty area manage their Economic Development Departments under this structure. Some still do today (Michipicoten First Nation, Pays Plat First Nation). This structure assumes that there must be staff and Council members who can:

- complete detailed, long-term plans;
- pick out the best business proposals;
- design these businesses and pull together the trained people, money, buildings, and equipment required;
- connect with suppliers and customers and get the businesses launched;
- keep an eye on the progress of each business.

Under this structure, Economic Development is treated like any other program that Administration delivers. When required, the Economic Development department has access to

### ***Structure Internal Management***



the services offered by the other departments such as; financing, public works, IT, education and training, etc. These services are not always readily available when needed, these departments need to do their jobs also.

First Nation management supervises this work on behalf of the Council, and searches out the necessary business managers to operate any of the businesses.

Councils have used it to manage services and programs for years. People may therefore wish to handle economic development in the same way. First Nation staff may know a great deal about non-profit programs,

regulations, grant conditions, and federal agencies. This knowledge does not necessarily equip them with the outlook and experience needed to operate a business.

The character and pace of a profit making enterprise differs sharply from those of public service. In business, decisions must often be made very swiftly. Production, management, and financial decisions call for a special kind of “business sense”.

Even Bands which have a solid administrative track record should not underestimate the

demands of economic development. It will require far more time and attention than any previous Band undertaking.

Some of the inherent fall-backs of this structure are:

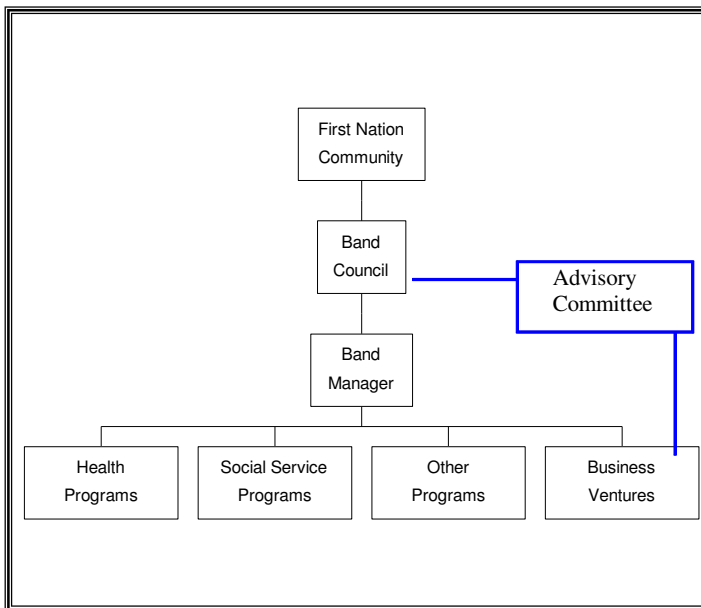
- ▶ Economic Development is tied to the day-to-day politics of Council (decisions may be made emotionally and/or personal bias rather on economic fact);
- ▶ Economic Development is effected by the rotation of Council every two years (direction may change from Council to Council and resources may utilized inefficiently);
- ▶ Political instability may scare off potential partnerships and jeopardize good economic development opportunities;
- ▶ Economic Development may not be on managements list of priorities;
- ▶ Access to services within the Administration may be slow at accessing;
- ▶ Autonomy to operate may be very limited;
- ▶ Process and internal bureaucracy may be overwhelming to the point that the economic development department is inefficient;
- ▶ Larger and more complex projects tend to be delivered outside this structure;
- ▶ The First Nation is directly tied to the venture's liability.

This structure may be fine for some communities but not for all, especially those communities that are engaged in the development of the local and regional economy and deal with the major industry players.

**2.2 Internal Management with an Expert Advisory Council**

Some First Nation Councils appoint a team of advisors. This is usually done when the First Nation lacks the experience in business. This team is invited to offer its recommendation as to how a specific First Nation business should be run, and as to other matters relevant to the overall development effort. We see this structure used by many NAN communities. They access the services of Matawa First Nation Management when it comes to business advisory services.

**Structure 2 With Expert Advisory Committee**



Such “advisory committees” should be recruited with care. They should be comprised of people experienced and highly-skilled in the field of business, banking, law, and marketing. Such a range may be hard to come by, unless recruits can be found outside the First Nations membership. For First Nations in remote, sparsely-populated areas, recruitment will be a real challenge.

These advisors will not replace the First Nation Council, nor will they do their job for them. Councillors must still make all the decisions. They will be able to make an informed decision based on the information and advice provided.

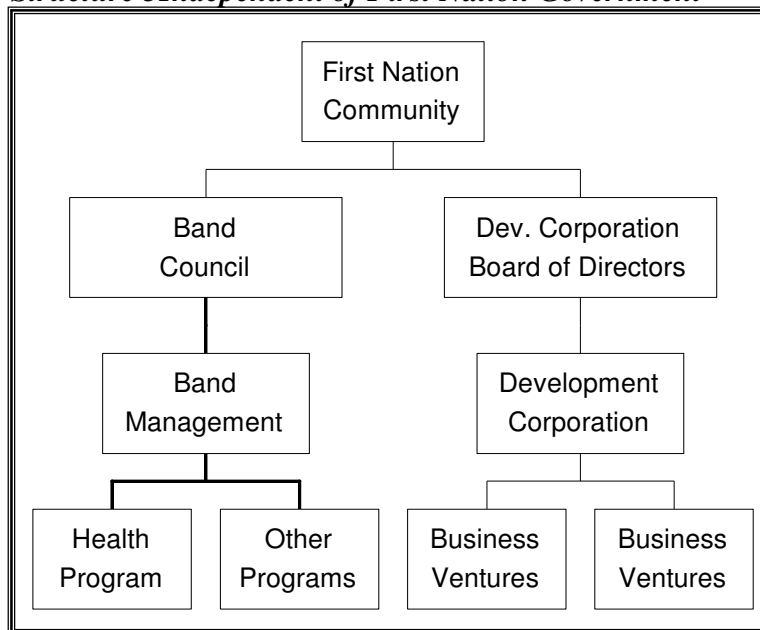
Trust and respect between Council and the “advisory committee” must be established in order for this structure to be effective. Council must have well defined goals and objectives. If successful business people and banking officials are recruited to a committee, they will expect to see their recommendations treated with respect. Otherwise, they may withdraw their services.

To make a start on economic development, some First Nations may prefer to use one of these first two types of management structure. So long as economic projects are not too complex, these structures will enable a Band to build up skills, experience, and resources. They also give Band members the chance to work closely with outside business people, and can help self-confidence and political support to grow. To undertake large, complicated projects, it would be wise to consider other types of management structure.

**2.3 A Development Corporation Independent of First Nation Government**

Many Band governments are too busy dealing with other issues such as: land claims, resource negotiations, self-governance etc, leaving little time for economic development. To deal with economic development, some have set up another structures to do the job. They establish special corporations to manage their economic development. Each corporation has a Board of Directors. It is selected by Band members, and answers to them directly and not to the First Nation Council. On the Board of Directors there is usually representation for Council. The Board, like any other Board in turn, hires and fires business managers when required.

**Structure 3 Independent of First Nation Government**



So the development corporation gets its mandate and makes its decisions completely independent of the First Nation government. However, the corporation may need resources, land, and other assets which the Council controls.

This structure has been adopted for some time by The Ojibways of the Pic River First Nation. The Corporation is registered as the Pic River Development Corporation.

This type of management structure has both supporters and opponents. Some people are tired of the way Band elections or disputes on Council can interfere with Band businesses. An independent corporation, they say, will keep the politics out of business. Others argue that political issues are a part of business, no matter how things are managed. An independent development corporation, it is said, tries to ignore community tensions and problems, rather than face up to them.

Opponents have also pointed out that such a corporation is bound to clash with the Band government. People may start to side with the new, dynamic organization, or with the old, reliable one. Many times, it is due to the sense of loss of control or power.

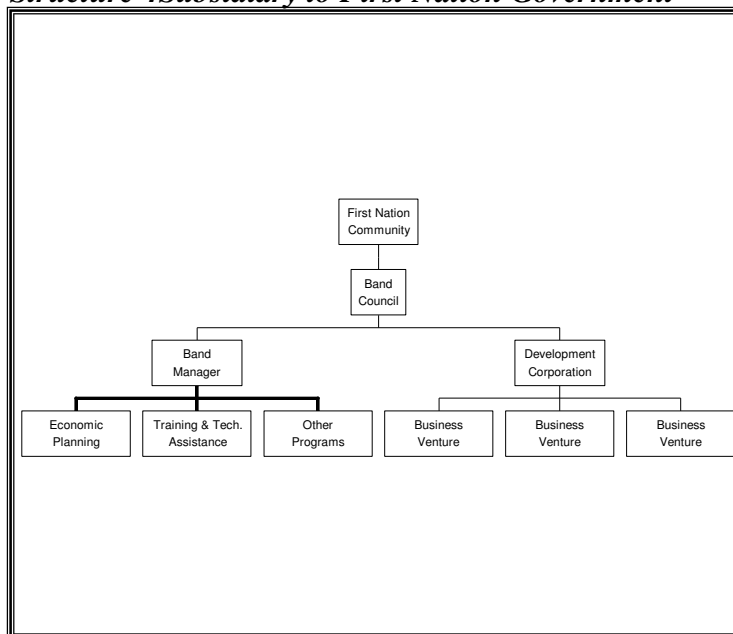
Canadian and American experience confirms this criticism. The tendency is for power struggles to break out between what almost becomes two competing Band Councils. This sort of split in Band loyalties is to be avoided at all costs.

Two things are certain. First, the more independent the development corporation, the less access it will have to Band resources. Second, it is not good for a business to be constantly interrupted by community power struggles or by political leaders.

#### **2.4 A Development Corporation Subsidiary to First Nation Government**

Internal management of economic development (Structure 1) is likely to overload a Band's staff and Council. But when Council gets no say at all in economic development (Structure 3), the Band itself may split apart.

#### **Structure 4 Subsidiary to First Nation Government**



Many Bands may wish to avoid these dangers with a compromise: management of economic development by a separate, but subsidiary Band corporation. This structure takes a lot of weight from the shoulders of the First Nation Council. Council sets policy, selects the corporation's Board of Directors, and keeps an eye on operations. Still, Councillors have no direct authority over the day-to-day affairs of any project. Although subordinate to the First Nation Council, the development corporation therefore "runs its own show," as any other subsidiary would.

This structure is very similar to the previous one. In this structure Council still has political influence on the Economic Development Corporation, in some cases can prove to be good and in others case can prove to be bad. This form of structure is seen widely throughout municipalities.

### ***3.0 Which Structure is best for Pays Plat First Nation***

As stated previously, all the above structures have their own particular merits and fit well with different First Nations based on their level of Economic Development sophistication, capacity built within the community, availability and access to capital, political and economic influence in the region. Based on our knowledge of Pays Plat First Nation and its future plans, it is our believe that Pays Plat First Nation has out grown its present structure and requires and adequate structure to become the Captain of Industry it is aspiring to. The first two structures are not appropriate at this stage of the Community's development efforts. Further consideration should be given to:

- 1) A Development Corporation Independent of First Nation Government
- 2) A Development Corporation Subsidiary to First Nation Government

In the end it will Council deciding which of the structure fits best the community and in certain cases it could be left to membership to vote upon.

### ***3.1 Advantage of Independent and Subsidiary Development Corporation***

Both structures have very similar advantages:

- ▶ They show that the First Nation realizes that businesses cannot be managed in the same way as government programs.
- ▶ They can create and develop sophisticated economic development activities without directly concerning itself with the range of issues and problems the First Nation government must handle.
- ▶ They allow a First Nation to undertake difficult and risky activities while keeping creditors away from the First Nation's assets, in case of default. To satisfy their claims, creditors can reach no further than the corporation's assets.
- ▶ They separate the management of businesses from the political decision-making process, while at the same time being accountable to the community it serves.
- ▶ They have more potential for winning the confidence and co-operation of the outside business world. As a corporation investment, rather than a First Nation program, a business seems more trustworthy to suppliers and customers.

The Development Corporation independent of First Nation government shows full

independence and autonomy, as well as providing a more stable business and investment environment. When this structure is not fully endorsed by the community, it will be constantly interrupted by community power struggles or by political leaders. Thus, not delivering the results it was set out for.

The Development Corporation subsidiary to First Nation government provides the same characteristics as above but is tied to Council. Thus, supported by Council and represents the community's voice. The major issue to be aware of with this structure is the infiltration of Councils politics.

### ***3.2 Suggested Economic Development Structure for Pays Plat First Nation***

A Subsidiary Development Corporation seems to offer the best of both worlds. It neither overloads the Band government with work, nor competes with it. It can spur economic growth, yet be responsive to the long-term goals of the First Nation. As a "way of doing business" it makes sense, in theory.

A community-controlled development corporation appears to be the best invention to date for pursuing economic development in underdeveloped regions and communities.

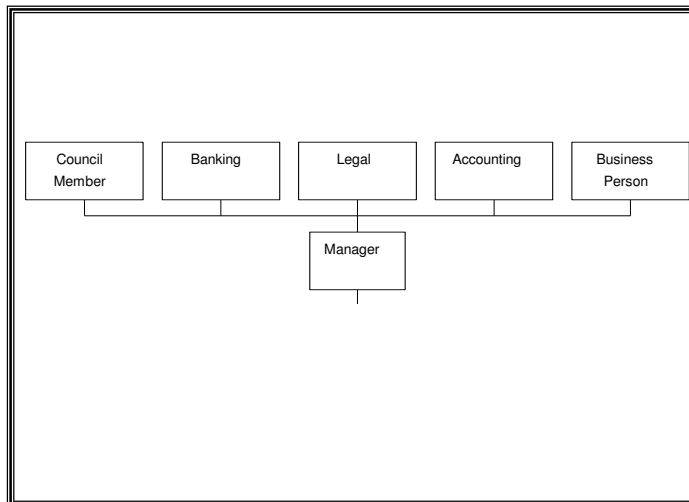
#### **4.0 Board Composition**

Usually the Board of Directors is appointed by Council. When setting up the Board of Directors for the Development Corporation Council should ask itself the following questions:

- 1) What size of Board should we appoint?
- 2) Should it be an odd or even number Board?
- 3) Should Council have representation on the Board?
- 4) What skills and experience should we be looking for?
- 5) How long should the appointment be?
- 6) Should there be a procedure to remove Board members?

The size of the Board should not be large. Large boards tend to be ineffective. A board of five (5) members should be sufficient. It is small enough to conduct effective meetings and an odd number that should prevent deadlocks.

**Figure 1 Board Structure**



The Board should have Council representation and should be well balanced with other business related skills. The other four positions should be filled with individuals from the banking profession, the legal profession, the accounting profession and respected community business person. It would be preferable if these Board positions were held by Band members with these skills. In the cases where this is not possible, sourcing from the outside may be required. There is no room for friends or political allies.

The appointment of the Board members should be for a three-year term. This allows the members to get familiar with the business of the Corporation and in some cases provides consistency with the rotation of Council.

Council should also have in place, some form of procedure which allows them to remove a Board member when not performing his or her duty. The removal must be based on just cause, otherwise frequent and unjustified removals lead to a weak board.

## **5.0 Mandate**

What is a Mandate? The Gage Canadian Dictionary defines it as a command or official order. The command or official order is usually given to a Community Economic Development Corporation by the community leaders who recognise the need and importance of such a structure to advance or implement a Strategic Development Plan for their community.

Like many other Economic Development Corporations, the central themes of their mandate is the improvement of the community economic base. The economic base of a community is the income generated by its members and their assets to pay for goods and services. Great expectations will be put on the Economic Development Corporation to widen and deepen the local economic base.

Economic Development takes different meaning depending where it is practised. It can start from eradicating poverty in Third World Countries to the establishment of new advanced industrial technologies and information based clusters. In either case the central theme is “To Promote Community Advancement.” Economic Development is not a one shot deal, it is more like a work in progress that never ends.

The mandate of Pays Plat First Nation’s Economic Development Corporation will most likely stem from the “Ten Year Economic Development Strategy.” The First Nation, through its Economic Development Corporation, will be the foremost player in its own recovery. It will not wait on the actions of powerful outsiders or a few resourceful insiders. It will take directions from its Board and achieve the goals set out in its Plan.

## **5.1 Towards Self-Governance**

As mentioned above, the improvement of the community economic base, is one of the central themes that Economic Development Corporations put major focus on. The economic base must be firmly established in order to achieve the goals of self-reliance, self-sufficiency and self-government. Through the Economic Development Strategy, members have provided their input to plan and build an economic future which suits their values, priorities and needs.

The development of the local economy, the creation of long-term sustainable jobs, the attraction of new industry, the creation of revenue generating assets, higher quality of life, the capacity building from within, etc. are all elements of self-reliance.

## **5.2 Mission Statement**

A Mission Statement is not just a slogan or executive summary, but is more a cross between both. Mission Statements can tell a lot about the organization, so it is important to take time, look at some mission statements examples, and put effort into writing a good one that matches the organization.

An effective Mission Statement should be able to tell your organizations story and speak to its ideals in less than thirty (30) seconds. Some examples are provided below:

- 1) “To promote community advancement through the improvement and expansion of existing business as well as to identify and attract new business and employment opportunities.”
  
- 2) Promote and advance all development initiatives
  - ▶ Grow the population
  - ▶ Create jobs
  - ▶ Increase assessment
  - ▶ Implement the Fast Forward Community Development Plan  
(Development Thunder Bay)

The appointed Board of Directors should be involved in the development of the Mission Statement along with the Manager.

Guidelines in writing a mission statement:

- ▶ A mission statement should say what the organization is, what it does, what its stand for and why it does what it does.
- ▶ An effective mission statement is best developed with the input by all the members of the organization.
- ▶ The best mission statements tend to be 3-4 sentences long.
- ▶ Avoid saying how great the organization is, what great qualities and great services it provides.
- ▶ Examine other organizations mission statements, but make certain your statement is you and not some other organization. That is why you should not copy a statement.
- ▶ Make sure you actually believe in your statement, if you don't, it's a lie, and your community will soon realize it.

## **6.0 Organizational Roles and Responsibilities**

Before defining the roles and responsibilities some questions need to be answered.

- What should the Economic Development Corporation do or not do?
- How should it be structured?
- Who will direct it?
- What resources will it have?

Only when answers to these questions are given will Council want to start drafting the corporation's legal documents and appoint the directors that will make the corporation work.

## **6.1 Ingredients of Success**

Success depends on developing a comprehensive strategy with four main ingredients.

- ▶ Planning & Research
- ▶ Debt
- ▶ Equity
- ▶ Training

A community must be able to pull together all four of these ingredients if it is going to build businesses that can establish an economic base for self-reliance.

Pays Plat First Nation has a good handle on all of the above ingredients through its present administrative structure, but isn't set up to function as an Economic Development Corporation.

### **6.1.1 Planning & Research**

The capacity for basic planning and research is readily available internally and externally. This basic capacity should include:

- ▶ The ability to research and understand the local and regional economy.
- ▶ Choosing goals and setting objectives that are realistic, given the local economic situation.
- ▶ Research that supports venture development analysis and decision-making.

- ▶ Over the longer term, planning and research must also include the research skills to seek out new markets and to create new products.

### **6.1.2 Debt**

The Economic Development Corporation should have money available to *loan* individually-owned or Band-owned businesses. The debtor business must pay back this money, with interest, usually on a monthly basis. These funds can be set up through Casino Rama Funds, Claim Settlement dollars, interest earned, or other funds negotiated with other government agencies involved with Economic Development.

### **6.1.3 Equity**

The Economic Development Corporation must have money available to *invest*. It is sometimes referred to as *risk capital*. It is vital to business agreements. Without some equity capital on the bargaining table, few other investors are likely to take the risk of doing business.

The Economic Development Corporation should also explore ways to provide equity to members interested in starting business. Even though there are many government programs that assist First Nation people in starting up businesses, most require at least 10% equity from the proponent. The lack of equity is a factor which needs to be bridged. These funds can be set up through the same channels above.

### **6.1.4 Training**

This is a continuous concern and need. It involves developing the skills and capacity of the Board and staff of the development corporation. It also involves enabling the corporation's constituency to participate productively as employees and managers of businesses generated by the development process. Funds for these activities are usually available through the First Nations education authority, INAC, HRDC, AETS and OAEDP.

## **6.2 The Major Models in Canada and the United States**

The development corporations operating in Canada and the United States differ in the emphasis each gives to the four ingredients of CED. All carry out research and planning

to some extent, then concentrate on either equity, debt, or training. As a result, there appears to be four major models of development corporation.

- 1) The ***Growth/Equity Model*** emphasizes the building of ***equity***.
- 2) The ***Loan/Technical Assistance Model*** focuses on debt financing, and to a degree, on training and support for small business.
- 3) The ***Employment Development Model*** has a major emphasis on ***training*** and ***job development***.
- 4) The ***Comprehensive Model*** works on all four ingredients.

### ***6.2.1 Growth/Equity Model***

This model fosters the growth of the local economic base by building First Nation - controlled wealth or ***equity***. The primary goal is to make the First Nation an actor in the local and regional economy. To this end, the development corporation strives to acquire ownership of wealth-generating assets.

The priorities which guide all decision-making under this approach are:

1. Profit
2. Management
3. Jobs

This model relies heavily on partnerships and joint ventures to realize its objectives of ownership and profits. Joint ventures with a good partner reduce the risk of doing business and increase the potential for profits and other benefits.

### ***6.2.2 Loan/Technical Assistance Model***

The primary concern of this type of development corporation is the provision of credit, particularly loans and loan guarantees. The main client is the individual business person, would-be entrepreneur, or, in the case of some First Nations, a community-owned business. The debtor business pays back the loan, almost always with interest.

In some cases the corporation also provides the loan applicant with technical assistance. The assistance available may cover a wide range of services. It may be as basic as

advice about the preparation of the business plan or pre-business training. It can also include assistance with financial arrangements, and business start-up and “after-care,” like training and counselling. The fees charged for this assistance, plus the interest on loans, pay for the corporations cost of operation.

Due to their small size and generally low level of business activity, one or two First Nation communities can rarely support this type of development organization. There is simply too little local demand for such services to create, through interest charges, a pool of capital which can meet all the costs of operation. Other Corporations like the Community Venture Funds sponsored by FedNor as well as the Nishnawbe Aski Development Fund provide this type of service.

### ***6.2.3 Employment Development Model***

Development corporations of this sort concern themselves first and foremost with people and employment development. Such a mandate can encompass a great range of training and services: life skills and job readiness training, skill training, occupational training, and job placement and outreach.

The training and employment focus often extends to job creation by means of small business training for would-be entrepreneurs and worker co-op members. Sometimes an “incubator” is also established to give extra assistance to those involved in new business start-ups.

In towns and cities, these development corporations often take the role of advocates of job retention. They have been known to fight plant shutdowns and to lobby politicians about zoning and planning which affect the interests of poor neighbourhoods.

### ***6.2.4 The Comprehensive Model***

No single development corporation in Canada appears to perform all four functions. However, there are Aboriginal people who, through smart planning and focussed effort, are building co-ordinated institutions which perform two or three of the functions. The Eskisoni Development Corporation, for example, combines the growth/equity with the employment development model in order to carry out a wide variety of training initiatives.

It is not easy to combine different models. For example, the skills needed to run a broadly-based training program differ from those needed to screen opportunities and

structure business deals. Eskisoni has done it by establishing two separate divisions, each with a clear mandate. This way the potential for confusion is minimized and staff energies remain focussed.

Another attitude to the work and role of the development corporation is also worthy of mention here, if only because it is so common. The only credible resource in some communities is an economic development officer who works for the development corporation. The EDO advises and assists others with business start-ups or expansions and is responsible for co-ordinating other activities which lead in some way to economic development.

### **6.3 What Model Suits Pays Plat First Nation?**

On January 15, 2006, Crupi Consulting conducted a Leadership Workshop with Chief and Council, as well as the First Nations Administrative staff. From this workshop, the consultants were able to gather very important information to complete the Economic Development Strategy and have a clearer understanding on the best model that suits the community's needs.

The ***Growth/Equity Model*** seems to fit best the direction that Council has set for the community. Inspirations of being "Captains of Industry" can only fit best within this type of model. The ***Comprehensive Model*** could also be used to achieve this goal. There would need to be different divisions and more staff to achieve all goals.

It is our belief that the ***Loan/Technical Assistance Model*** would not perform well within the community due to past experience with other loan initiatives. While the ***Employment Development Model*** is already in use through Pays Plat First Nation's Education and Training department. See ***Appendix "A"*** for Comparison of the Models.

## **7.0 The Economic Development Corporation's Operational Requirements**

Prior to spending any dollars in the set-up of the Economic Development Corporation, there needs to be a clear understanding of the environment in which the corporation will be operating, as well as the terms and conditions of its mandate. The process is lengthy but can be done in steps.

- 1) Considering a subsidiary economic development corporation for the First Nation Council the process would begin with the development of an ***Economic Development Strategy***.
  - ▶ Pays Plat First Nation is in the process of completing their “Ten Year Economic Development Strategy.” This document has analysed the internal and external economic and social factors that affect the First Nation. A SWOT analysis is also comprised within the document. A Mission Statement is also in the process of being developed.
- 2) Council will then need to provide a ***clear definition of the roles and functions*** the corporation is being authorized to perform, as well as defining a policy and guidelines for the use and management of Community resources.
  - ▶ These guidelines should specify the terms under which business, buildings, natural resources, financial resource and other assets are to be transferred to, or used by the development corporation. These resources should be listed as **Shareholder's Contributions**. Decisions with respect to zoning, business licensing, and taxation can also be used to favour one type of development over another.
- 3) The Council then has its corporate legal advisors draw up the corporation's ***articles of incorporation*** and bylaws.
  - ▶ Special attention should be given to taxation issues (for profit or not-for-profit corporations). How does the Municipal Act work to the First Nations benefit when dealing with municipally owned corporations? The lawyers should be able to define the corporations purpose, powers, and relationship with Council, as well as define how the corporation accounts for its actions to Council. Share issuing is another issue that should be brought to the attention of the legal advisors.
- 4) ***Appointment of the Board***

- ▶ *See page 11.* Special consideration should be taken with respect to honorariums and transportation costs. Usually these positions are on a volunteer basis and local people should be considered for appointment. This is to avoid high transportation, meals and accommodation cost.
- 5) ***Hiring of a Manager***
- ▶ The First Nation may want to use their hiring policy if one is available. A job description should be developed by the Council and the Board. Once developed it should be posted. The Board should then conduct the interviews, hire and supervise the manager and if need be, remove the manager. The Board requires this authority in order to be truly responsible for the day-to-day performance of employees.
- 6) ***Hiring of Additional Staff***
- 7) Develop all Necessary ***Policies and Procedure***, as well as yearly operating budgets.
- ▶ Management will develop the necessary material for the Boards review and approval.
- 8) Develop ***Accountability Procedures***
- ▶ The Corporation should submit an annual plan which outlines all projects in terms of marketing, sale, production, finances, management, and operations.
  - ▶ Quarterly reports should be provided to Council. Each report describes the results of the last three months, as well as the budget, goals and activities of the next quarter.

**7.1 Example of a Start-up and Operational Budget**

The projected financial requirements to start up the Economic Development Corporation have been broken down into two (2) portions. The first portion, takes into account the initial set up where sunk and fix cost are accounted for. These cost are usually funded to a large extent by the various government agencies. The second portion, consist of the annual operation and maintenance cost for the Corporation. Some of these costs may be offset for the first year through grant funding, but management will need to ensure that the operation is self-sustainable and provides a return to the community.

**7.1.1 Initial Set-up Budget**

***Expenditures***

Ec. Dev. Strategy	\$ 25,000.00	Funded in part by FEDNOR
Policy Development	\$ 20,000.00	
Legal Structure & Incorporation	\$ 25,000.00	
Meeting Costs	\$ 4,000.00	
Leasehold Improvements	\$ 10,000.00	
Office Set-ups	\$ 40,000.00*	3 complete work areas, board room, copier, etc.
<b>Total</b>	<b>\$124,000.00</b>	

***Revenues***

First Nation Contribution	\$ 24,000.00	Approx. 20% of costs. Some has already been contributed.
FEDNOR	\$ 75,000.00	Some has already been contributed.
OAEDP	\$ 15,000.00**	
INAC	\$ 10,000.00	RAN
<b>Total</b>	<b>\$124,000.00</b>	

\* It is recommended that some dollars are put aside for computer purchases for when additional staff is hired. This will guarantee updated equipment for those employees.

\*\* Funding is available for the policy development and capacity building. This program will also provide \$25,000.00 for the business planning and up to \$50,000.00 for project implementation.

### **7.1.2 Operational Budget**

Expenditures need to be managed carefully, and at the same time, need to be sufficient to allow the Board of Directors and the Manager to perform their duties and to achieve the goals and objectives defined in the Corporations mandate. The Corporation will need to become self sustainable over time and prove its worth to the community. Financial and other resources will need to be made available to the Corporation so that it can generate the self sustaining revenues required. Council may need to financially support the Corporation for a short period of time until the revenue generating activities provide sufficient profits to the Corporation and it becomes self-sustaining. Specific terms and conditions should be put in place around the irrigation of the financial support.

Some First Nations have endowed their Corporations with existing assets which turn profits to fund the Corporations core activities, while others have provided the investment income to fund the same activities. There have been others that have had their Economic Development Corporations manage a pool of funds. There are different ways that the Corporation can generate additional revenues, from payment of services rendered to collection of royalties.

#### **Assumption to the Budget**

##### **Expenditures:**

Broad Expenditure -	\$100.00 per month per member. This is not an honorarium, it is to offset cost meals and mileage. The sum increases in year two. This reflects the increase in Board activities.
Wages -	The positions increase on a yearly basis. First Year, a Manager is hired, and from there on, the necessary support staff. It is assumed that for the first and second year, the First Nation will assist with some of the tasks on a shared service arrangement. MERC starts at 12% and increases to 12.5% in year three.
Rent -	\$1,250.00 per month.
Utilities -	\$500.00 per month and increase in year three.
Communications-	\$375.00 per month. First year \$1,000.00 installation cost for telephone, fax and internet. Cell phone is not included. Year three there sees an increase in this cost item.
Office Supplies -	\$300.00 per month.
Travel Etc. -	\$1,500.00 per month the first year, \$1,666.00 per month the second year and \$1,833.00 per month the third year.

Resources/Programs	\$500.00 per month.
Audit Fees -	\$2,500.00 per year. This will increase with the volume of activity conducted. Regular bookkeeping should keep this cost down.
Professional Fees -	\$2,500.00 per year for additional legal advice that isn't directly project related.
Consultant Fee -	These fees will most likely be on a project to project basis and be funded by other agencies. This cost should be as neutral as possible to the Corporation.
AGM -	The annual general meeting will also include the presence of Council.

***Revenues***

HRDC or AETS -	Target Wage Subsidies, in the order of 50% of the wages and benefits for the first year of every position, can be attained.
OAEDP -	For the implementation of this project the First Nation can attain up to \$50,000.00 from the program.
FEDNOR -	Can further support this initiative if presented properly.
Interest Earned -	The First Nation may want to place \$4,000,000.00 in an Economic Development account for the Corporation as Shareholder Equity and use the interest to assist the Corporation to get on its feet. The principal will then be used to develop revenue generating assets.
Special Projects -	The Wind Park initiative could generate, on the low side, \$60,000.00 per year, while forestry initiatives should pay a royalty to the Corporation.
Lease -	From land lease for member businesses and others.
Service Delivery -	Any service the Corporation feels it should charge for.

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<i>Expenditures</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>
Board Expenditure	\$ 6,000.00	\$ 7,500.00	\$ 7,500.00
Wages Manager	\$ 55,000.00	\$ 55,000.00	\$ 58,000.00
Finance Clerk	\$ 0.00	\$ 0.00	\$ 35,000.00
Secretary/Receptionist	\$ 0.00	\$ 27,500.00	\$ 27,500.00
MERC (12%)	\$ 6,600.00	\$ 9,900.00	\$ 14,460.00
Rent	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00
Utilities	\$ 6,000.00	\$ 6,000.00	\$ 6,500.00
Communications	\$ 5,500.00	\$ 4,500.00	\$ 5,000.00
Office Supplies	\$ 3,600.00	\$ 3,600.00	\$ 3,600.00
Travel/Meals/Accommodations	\$ 18,000.00	\$ 20,000.00	\$ 22,000.00
Resources/Programs	\$ 6,000.00	\$ 6,000.00	\$ 6,000.00
Audit Fees	\$ 2,500.00	\$ 2,500.00	\$ 3,000.00
Professional Fees	\$ 2,500.00	\$ 2,500.00	\$ 2,500.00
Consultant Costs	\$ 0.00	\$ 0.00	\$ 0.00
AGM Costs	\$ 2,000.00	\$ 2,500.00	\$ 3,000.00
Misc.	\$ 2,000.00	\$ 2,500.00	\$ 3,000.00
<b>Total</b>	<b>\$130,700.00</b>	<b>\$165,000.00</b>	<b>\$212,060.00</b>
<i>Revenues</i>			
HRDC	\$ 30,800.00	\$ 15,714.00	\$ 20,000.00
OAEDP	\$ 50,000.00	\$ 0.00	\$ 0.00
FEDNOR	\$ 25,000.00	\$ 0.00	\$ 0.00
Interest Earned	\$240,000.00	\$ 0.00	\$ 0.00
Specific Projects			
Energy (Wind Park)		\$495,000.00	\$555,000.00
Forestry		0.00	\$ 30,000.00
Mining		0.00	\$ 0.00
Leases		0.00	\$ 5,000.00
Service Delivery	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00
Other Income	\$ 2,500.00	\$ 2,500.00	\$ 5,000.00
<b>Total</b>	<b>\$363,300.00</b>	<b>\$528,214.00</b>	<b>\$630,000.00</b>
 <i>Surplus (Deficit)</i>	 <b>\$232,600.00</b>	 <b>\$363,214.00</b>	 <b>\$417,940.00</b>
 <i>Dividend Payment (First Nation)</i>	 <b>0.00</b>	 <b>\$240,000.00</b>	 <b>\$240,000.00</b>
 <i>Cumulative</i>	 <b>\$232,600.00</b>	 <b>\$355,814.00</b>	 <b>\$533,754.00</b>

## **8.0 Feasibility**

### **8.1 Financial Feasibility**

Note, that the financial projections contained in this Opportunity Study are projections (pro forma) estimated based on historical information and information supplied by the client and our experience in these matters. The assumptions upon which our projections are based are stated above in Section 6. However, certain assumptions may not materialize and circumstances may change. Accordingly, actual results may vary from the projections and variations may be material. The consultant (Crupi Consulting) is not responsible for future management and marketing decisions upon which actual results will depend. The relevant assumptions underlying the projections are described above in 7.1.2.

*Appendix “B”* contains the Cash Flow Projections, Projected Income Statements and Project Balance sheet for this project. Based on the information developed in the Projected Cash Flows, the Net Present Value criteria was used to determine the financial feasibility of the project. The Net Present Value criteria consist in discounting the projects profits of its life time adding the discounted salvage value of all assets and the sum of these two components are greater than the initial capital cost, then the project is considered to be financially feasible.

In proving the financial feasibility for this project, we took into consideration the following:

- ▶ A discount rate of 2%. Real inflation rate is around 1.5%.
- ▶ Capital Cost of \$4,364,000.00 consisting of; \$240,000.00 loss of interest for 1 year on \$4,000,000.00, \$124,000.00 soft and hard set up costs, and \$4,000,000.00 invested in a Hydro project.
- ▶ Life time of the project was kept at 11 years. Usually, the life time would be much greater. Thus, higher Net Present Value.
- ▶ Salvage value at \$5,000,000. If the Corporation was not community owned and could be sold it would probably fetch more that the above value, due to the fact that the Corporation would have long-term revenue generating assets.

Initial Capital Cost	\$4,364,000.00
Discounted Revenue Stream	\$2,346,088.00
Discounted Salvage Value	\$4,021,315.20
<b>NPV&gt;0</b>	<b>\$2,003,403.20</b>

*Based on the above information it would be wise to invest in this kind of project.*

## **8.2 Venture Feasibility**

Like any economic or business proposition, it needs to make economic and financial sense. No one is intentionally in the business of losing money. Money is a scarce resource for many and at times very hard to come by. Pays Plat First Nation does have options. It can decide to be a passive investor and through interest income, provide social programming for its members. It can also take some risk and be the investor in revenue generating activities which will widen and deepen the community's economic base.

Table 1 summarizes all the feasibility components of this project. The overall risk of the project is considered low. This consideration needs to be qualified based on the following:

- 1) **Market Feasibility:** The market is Pays Plat First Nation and more specifically Pays Plat First Nation's economic interests in the region. There are many different ventures, investments, partnerships and opportunities that can fit best in this type of structure. For many of these initiatives, there is also financial assistance needed to make them happen if they have economic merit. The need for this type of structure has been identified by the First Nation. Thus, confirming a potential market for its service. **Risk - Low**
- 2) **Operating Feasibility:** The First Nation has proven, over the past years, its ability to run its administrative affairs. It has hired qualified, experienced people in most of its departments. If this model is utilized within the Economic Development Corporation, it should prove to be successful. **Risk - Low**
- 3) **Technical Feasibility:** Hiring staff with industry knowledge and business experience is key to this component. Private sector, profit driven, investment savvy management style will best suite the Corporation. It may be hard to find someone locally that best matches this management style or to find someone of this description who is willing to move to Pays Plat. **Risk - Medium**
- 4) **Financial Feasibility:** The financial feasibility is going to depend on the willingness of Council to make available the necessary resources, both physical and financial, and the strategies

the Board of Directors would recommend for implementation. Based on the preliminary strategy presented in this document, or any other strategy that follows the same philosophy, the risk can be considered to be low to medium. **Risk-Medium**

**Table 1 Feasibility Summary**

<i>Feasibility Component</i>	<i>Level of Risk</i>		
	<i>Low</i>	<i>Medium</i>	<i>High</i>
<i>Market Feasibility</i>	✓		
<i>Operating Feasibility</i>	✓		
<i>Technical Feasibility</i>		✓	
<i>Financial Feasibility</i>		✓	
<i>Venture Feasibility</i>	✓		

## **9.0 Taxation**

### **9.1 Corporations for First Nations**

Section 87 of the Indian Act provides a tax exemption for Indians and Indian Bands. As a separate legal entity, corporations cannot rely on this exemption even if all of its shareholders are Indians and the corporation is located on Reserve. The courts have determined that the separate legal existence of a corporation cannot be disregarded.

Section 149(1)(d) of the Income Tax Act exempts from taxation corporations owned 90% or more by Canadian municipality. The First Nation has the ability to qualify as a municipality under the section Indian's Band Status As A Municipality.

### **9.2 Non-Profit Organizations**

As mentioned, corporations do not qualify for exemption from taxation under Section 87 of the Indian Act. In many cases, a corporation is, or is organized for purposes other than to earn a profit. These non profit organizations are exempt from taxation under Section 149(1)(1) of the Income Tax Act, provided certain requirements are met. These requirements are as follows:

- 1) the organization must be operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit;
- 2) no part of the income can be payable to, or otherwise available for, the personal benefit of any proprietor, member, or shareholder;
- 3) the organization cannot have the power to pay dividends;
- 4) the organization cannot distribute assets to a member or shareholder on amalgamation or wind-up; and
- 5) the organization cannot be a charity.

### **9.3 Indian Band's Status as a Municipality**

Paragraph 81(1)(a) of the Income Tax Act and Section 87 of the Indian Act provides a tax exemption for the personal property of an Indian or Band situated on a Reserve. Since a corporation is not an "Indian" or "Band", as defined in the Indian Act, it does not

qualify for this exemption. Therefore, a corporation will be taxable on its income unless otherwise exempt from taxation under another provision of the Act.

For instance, by virtue of paragraph 149(1)(d.5) of the Act, a corporation may qualify for exemption from Part 1 tax where at least 90% of the share of the corporation are owned by Her Majesty in right of Canada or a province by a Canadian municipality. Consequently, in order for a corporation whose shares are owned by an Indian Band to qualify under paragraph 149(1)(d.5) of the act, the Band must be considered a Canadian municipality and less than 10% of the income of the corporation may be earned outside the geographical boundaries of the Band.

In the view of the Canada Customs and Revenue Agency, while the Indian Act provides that Indian Band councils may enact laws in certain areas which typically fall within the jurisdiction of municipal governments, this similarity falls short of leading to the conclusion that Indian Band councils are municipalities.

## **10.0 Conclusion**

Does Pays Plat First Nation need a separate Economic Development Corporation? The answer to this question will depend on where the community envisions itself in the future.

If self-governance, self-reliance and determination and revenue generation are in the community's vision for the future, Chief and Council will need to prepare the necessary vehicle to attain this goal and let the vehicle perform its duties to effectively and efficiently achieve those goals.

Understanding the community and its needs will assist Chief and Council to determine which of the structures fit best the community and the goals to be achieved. Willingness to endow the structure with financial and other resources as well as appointing people with integrity and trustworthiness to the Board are other issues that Chief and Council will need to be prepared to deal with.

Even though this study suggests that a *Development Corporation Subsidiary to First Nation Government based on a Growth/Equity Model* best suit Pays Plat First Nation, Chief and Council may decide not to choose this model. What ever the choice may be, it should be based on community need and not administrative need.

# **Appendix “A”**

## **Characteristics of the Four Models of Development Corporation**

The chart below summarizes the key characteristics of the four models of development corporation.

### Comparison of 3 Models of Development Corporation

	<b>Growth</b>	<b>Loan/Technical Assistance</b>	<b>Employment Development</b>
Mission	Build an Economic Base	Development finance & business to new and existing business	Human Resources Development & Job Creation
Central Role	Owner / Partner	Financier	Trainer/Co-ordinator
Key Roles	1. Profits 2. Management 3. Jobs	Creating viable businesses at community level Becoming self-sufficient	Increased literacy, life skills, jobs readiness, occupational skills, increased employment
Functions	Planning&Research Investment (sometimes training)	Assessing business plans Making loans Providing business counselling	Needs Assessment, Program Development & Management, Organizing and Financing Outreach and Job placement, Self-Employment Training
CEO Skills	Investor & Deal maker who understands CED Approach	Experienced lender	Experienced Community Organization Executive

# **Appendix “B”**

## **Financial Analysis**

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