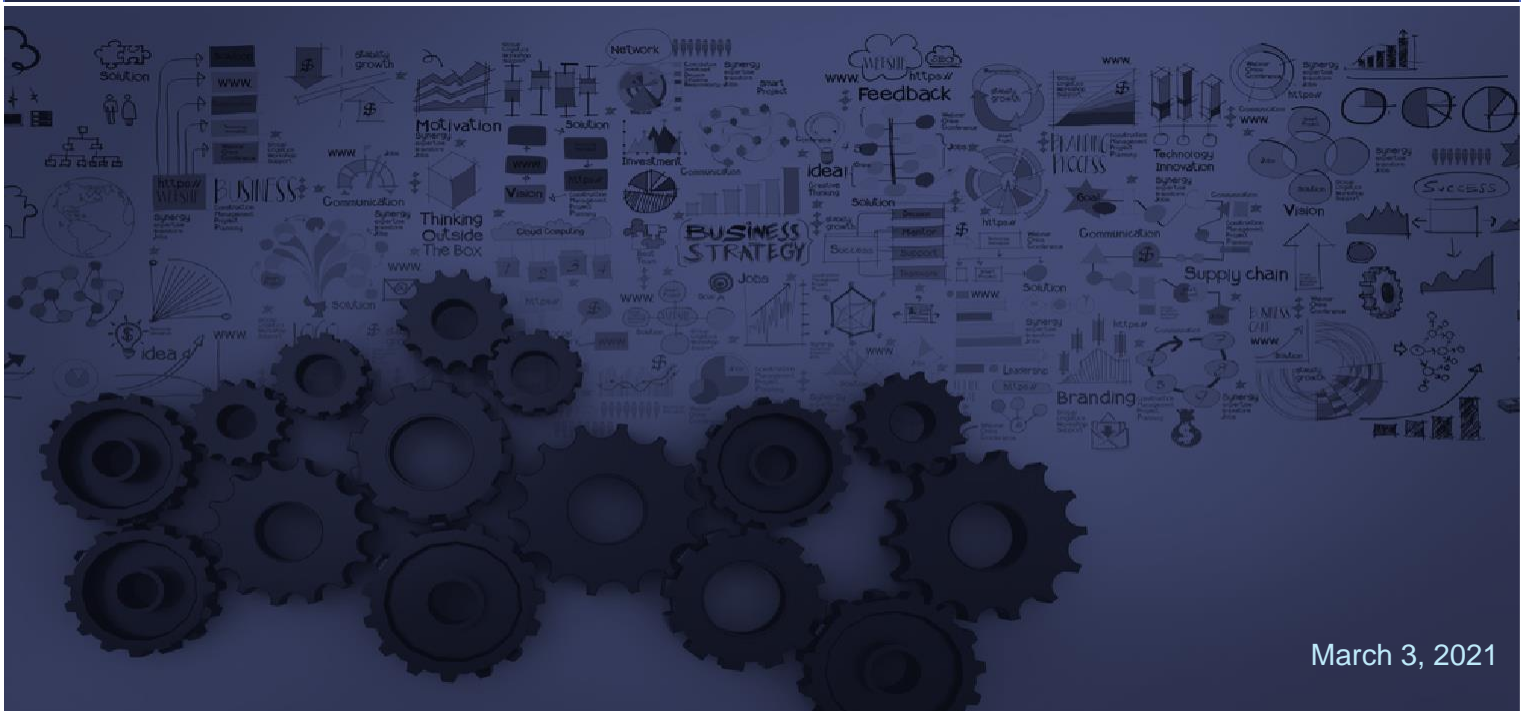


IMPACT ECONOMICS

Proposal

Research on Investment Opportunities
based on a Gap Analysis



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INTRODUCTION

Denendeh Development Corporation (DDC) has been working with the Indigenous community throughout the Northwest Territories, including First Nation, Metis, and Inuvialuit peoples to establish the NWT Indigenous Leaders Economic Coalition (the Coalition) for the purpose of taking an active, collective role in the economy. The Coalition was in the final stages of its creation and had worked to develop a Five-Year Plan just as the global pandemic caused by the novel coronavirus (COVID-19) led to lockdowns of economic activity everywhere.

One year later, as economies around the world re-emerge from the devastation of COVID-19, there is a need for the Coalition to revisit its plans given the economic landscape that has been dramatically altered as a result of the lockdown. DDC has contracted Impact Economics to investigate how this altered economic landscape might affect the Coalition's five-year plan and to provide an addendum to that plan where necessary.

While this work has proceeded, there is also a growing assertion from Indigenous leaders that the re-emergence should not be one where the territory goes back to the status quo of the pre-COVID world. The global response to COVID-19 has taught the world the power of collective action, and it is this experience that many leaders (Indigenous and otherwise) are looking at when proclaiming that the world needn't be as it was. That it can be better.

It is in that spirit that DDC has asked Impact Economics to investigate what this new world might be in the NWT and how Indigenous peoples through the Coalition can become instigators and investors in that change. This study will be channeled through research into current gaps in NWT that are affecting society's ability to achieve a high and sustainable quality of life.

The following proposal outlines the activities required to complete this work as well as an estimation of the level of effort and cost.

PRACTICAL APPROACH TO INVESTIGATING ECONOMIC OPPORTUNITIES

With the NWT economy set to exit from its lockdown mode, there are new questions about how it will happen. The NWT economy was facing numerous challenges long before the global pandemic, and so a return to those challenges being front and centre seems most likely.

- The mining sector has been declining for years, with only a few opportunities available to fill in for the big losses coming in diamond mining, and it is not clear whether the NWT holds a shared vision regarding the desire for a rebound through more mining.
- Opportunities elsewhere were scarce prior to the pandemic and those that were available were largely dependent on government sponsorship. In fact, the overall NWT economy is becoming increasingly dependent on public spending in one way or another, which is a particularly troubling position to be in.
- The one area of growth was tourism, but it has been thoroughly dismantled due to the lockdown. Another summer of mandatory isolation for anyone entering the territory has been signaled by government and it will spell further hardship for the industry and lengthen the road back to pre-COVID heights.
- Population levels outside Yellowknife have been largely stable, but within that stability, there is rapid ageing that will have numerous implications for public service needs, private sector opportunities, and consumer spending patterns.

Indeed, these will be trying times for the territory. It is this tenuous outlook that forms a vision amongst some that emerging stronger is the way forward. But what does this mean in practical terms? Does it even hold real meaning or it is simply words?

Clearly, the global pandemic and consequent economic lockdown has come at great cost to the entire country and residents of the NWT shouldn't expect special consideration. Challenges here are no greater than elsewhere, and do not necessarily deserve more attention than any other.

But what the lockdown has done is expose weaknesses in the NWT's economy, infrastructure, and even in its vision. These are areas where actions taken to emerge stronger do not have to cost more money than might have been spent otherwise, but they are areas that require new ideas, concrete action, and clarity of intent. And within that, there is a desire amongst NWT Indigenous leaders to take on a greater role.

This is not a statement of entitlement. Indigenous leaders believe this level of control will come through increased participation in the territory's development through direct investment into the economic foundations of the territory. It is this vision that led to the creation of the Coalition in the first place. The question the Coalition now is "Where and how will it invest in order to take on this more prominent role?"

Critique of Initial Investment Guidelines

As part of a critique on the investment guidelines established for the Coalition, Impact Economics put forward the idea that increased Indigenous participation in the economy through investment can be based on an assessment of existing gaps that are otherwise preventing society from reaching a desired

high and sustainable quality of life. This approach is supported by numerous comments and/or recommendations made by Indigenous leaders at the Coalition's forum in November 2019. There was strong sentiment expressed during that meeting that investments must benefit the local population. This was not a recommendation that the investments include a social component necessarily—there was widespread agreement that investments should return a profit or at least breakeven—but it can be interpreted as a recommendation that the Coalition's investments provide meaningful downstream benefits to Indigenous people living here.

The other purpose of this critique and the recommendation for a new investment approach was to move the Coalition toward a clear set of guidelines in making its investment decisions. In the absence of such guidelines, the recommended investments could too easily become random and without focus. Such an approach might actually work in an economy on the verge of a transformational change similar to what occurred in the late 1990s when BHP Billiton broke ground on Canada's first ever diamond mine, but in an economy well beyond that period of rapid change and very much in a period of slow decline, there are few clear and obvious winners in terms of investments and significant risk associated with an attempt to pick them.

Recognizing Gaps and Understanding the Potential within them

There is an almost endless list of gaps in the NWT, whether it is in public infrastructure or services, commercial capital, or consumer goods and services. Gaps can also be viewed in terms of social and economic performance—health status, education levels, financial wellbeing, community safety, food security. They can also be seen in economic sectors or industries. For example, there are gaps between the performance and potential in mineral exploration, tourism, and commercial and non-commercial services.

It is easy to identify these gaps, but the existence of a gap is not a sufficient condition for this exercise. In economics, a gap can imply a disequilibrium in the market place. The question the Coalition must ask is whether there is a business case associated with the misalignment of demand and supply. That is, is there a financial interest in closing the gap?

To understand this, think of an extreme example. There is no hospital in Colville Lake, but there is one in Yellowknife. This can be viewed as a gap in infrastructure and/or in service. But there is also no market for a hospital in Colville Lake. A market implies there are buyers and sellers. In this case, there might be interest (demand) for this infrastructure but there would be no buyer (no money) for a hospital.

The example might seem farfetched, but it presents an important methodology to be considered by the Coalition. By investigating the many gaps in different aspects of Indigenous lives and communities, it stands to uncover potential markets that are perhaps not quickly identified using existing knowledge and experience or by simply looking for an existing business to purchase. Some opportunities might turn out to be too small for the Coalition or require a local entrepreneur to take on the project, but are good investment opportunities nonetheless. Some will simply not fit the Coalition's mandate. Others will be small but easily replicable in several communities, growing the long-term potential for Coalition investment. Others will turn out to be gaps that simply cannot be closed, but Coalition members might be better informed about them having gone through the exercise.

The research being proposed will investigate gaps in terms of

- capital (economic, social, organisational, environmental),
- socio-economic performance versus potential, or
- industrial activity (economic growth, sectoral growth).

The purpose is to inform discussions on how to proceed with deeper investigations and proper due diligence of potential investments.

Proposed Approach

Framework for Assessment

The research on gaps will be multifaceted, looking at gaps through a number of different lenses. The key element within each investigation will be to

- a) understand what the gap is and how it is affecting people, and
- b) is there an economic or business component that can be exploited

The task of assessing gaps will require a framework to guide the research. Impact Economics will work with DDC in establishing this framework. Key in this assignment is to deliver an assessment of gaps that provides the Coalition with enough information to begin directing resources to specific research for investments.

Gap Research

The research will fall into three categories based on whether the gap is viewed from the perspective of the NWT's four-forms of capital, its socio-economic performance, or its economic or industrial growth opportunities.

The research will rely on secondary sources, meaning Impact Economics will not conduct original research to assess gaps. This original research would be a logical next-step for the Coalition to undertake based on its interests and where it chooses to invest. The objective is to gather background information on the subject, understand whether there are basic performance measures, what is known about this performance, and then whether there is a market within that subject that could be exploited.

Key sources of information will include government reports or strategies, economic data, published research, and input from knowledge holders.

For example, the Government of the Northwest Territories has strategies for numerous aspects of life in the territory, from economic growth to climate change. These strategies contain a wealth of knowledge regarding the current state of development and the direction government wishes to take. These strategies do not necessarily include investment opportunities, but often times will point to areas where government is promoting private-sector expansion or public-sector support.

Impact Economics will also look at Indigenous business ventures elsewhere in areas where examples are needed to understand how Indigenous investments have advanced existing economies.

An initial list of gaps that could be investigated includes:

- Physical Capital (infrastructure)
 - Housing
 - Power Transmission
 - Communications infrastructure
 - Transportation infrastructure (including airport and ancillary buildings)
 - Public service buildings including health care, education, and training facilities
- Socio-Economic Performance
 - Health-care
 - Education and Training
 - Workforce preparation
 - Food security
 - Community safety
- Industrial Growth
 - Non-renewable resource development
 - Power generation
 - Remediation
 - Tourism
 - Other renewable resource development (fishing, forestry, agriculture)
 - Wholesale, retail, and warehousing

It should be made clear that the gap assessment is not due diligence on potential investments, and the results of the assessment will not include investment advice. Impact Economics does not hold a professional designation that would qualify such a deliverable.

Communication and Reporting

The research findings should be reported in a manner that is easy to use by the Coalition. This means that a lengthy report is not the final deliverable. Working with DDC, Impact Economics will design a reporting template that can be effective in communicating the results.

A priori, Impact Economics is proposing a series of briefing-style reports, where each subject is explored on its own. Bringing them together, the series will form the final report. The contents of these briefings will include:

- An introduction/background information
- The nature of the gap (how is this gap impeding development)
- The business or economic opportunities that exist
- Next steps in exploring investment opportunities

The idea is to go beyond a general economic overview, and to look into practical approaches to investment. DDC and the Coalition should see these briefings as a first step in investigating real investment opportunities.

DELIVERABLE

The primary deliverable will be a series of research reports on the topics determined through discussions with DDC. These reports are meant to provide the Coalition with information regarding aspects of the NWT economy that might be further investigated for the purpose of investment.

BUDGET AND TIMELINE

Based on the experience of Impact Economics, it is estimated that the project, as proposed, will require a level of effort equal to 280 hours, which is equal to 35 days assuming an 8-hour work day. Impact Economics fees are \$150 per hour or \$1,200 per day, meaning the proposed work is valued at \$42,000 plus GST. Any changes to the work could result in a change in cost. Any change to the work plan will be discussed and approved before proceeding.

There are no expenses anticipated to complete this work.

It is the goal of Impact Economics to provide its clients with a high-quality service at a reasonable cost and timeframe. The level of effort estimated for this project is based on 25 years of experience in the field of economics and custom research. However, should all tasks be completed to the satisfaction of the client in fewer days than are described in this proposal, any cost savings will be passed onto the client in full. Impact Economics does not charge an administrative fee of any kind

It is assumed that work can commence April 1, 2021. This work will require an estimated 20 weeks to complete.

SUMMARY OF TASKS, LEVEL OF EFFORT, AND ESTIMATED COST

Tasks	Time Required (hours)		Cost (\$150 per hour)
Framework for Investigating Business Opportunities			
Framework Development and Discussions		20	\$ 3,000
Investigation of Economic and Business Opportunities			
For each topic (assumes up to 10 separate topics):	(per topic)	(total)	
Data collection and review existing reports to understand landscape, barriers, and opportunities	8	80	\$ 12,000
Review of government strategies	2	20	\$ 3,000
Search for examples of successful Indigenous investment	2	20	\$ 3,000
Analysis of Opportunity	6	60	\$ 9,000
Communications and Presentation			
Final report consisting of a briefing on each subject	8	80	\$ 12,000
Total Time and Professional Fees		280	\$ 42,000
GST			\$ 2,100
Total Cost			\$ 44,100

ABOUT IMPACT ECONOMICS

Impact Economics is an economic research firm owned and operated by Mr. Graeme Clinton since January 2004. Mr. Clinton is a professional economist with 25 years of experience, is a recognized expert in the field, and is a regular contributor to the economic discourse in Nunavut and the Northwest Territories. The company is based in Yellowknife, Northwest Territories.

Impact Economics offers economic research, advice, advocacy and consulting services in a range of areas, including socioeconomic impact assessments, community development, macroeconomic and baseline research, economic modeling, and custom research in such areas as development economics, mining, housing, poverty, tourism, demographics, and labour.

Impact Economics has developed and maintains the NWT Economic Impact Model. This model allows clients to study the direct, indirect, and induced effects of major projects on the territory's GDP, labour market, population, and government revenues. Within this model is a detailed demographics model that can project the territory's population by single-age cohort and gender, which can be a useful tool in the study of many economic subjects. Industry, government, and Aboriginal groups use this model. The company has also developed and works with models for Nunavut's population growth and demographic profile, the economic effects of oil and gas exploration, and for tourism.

Impact Economics offers its services to a diverse group of clients including industry, government, Aboriginal groups, non-government and non-profit organizations.

Impact Economics' mission is to provide economic consulting services that are based on thorough and dedicated research and sound economic principles, the results of which are provided to clients through thoughtful verbal and written presentation.

A guiding principle for Impact Economics is the belief that economic growth, positive social change, and sustainability are made possible when leaders base their decisions on a complete and accurate understanding of economics at the local, regional, and territorial levels. To that end, Impact Economics is dedicated to helping clients understand the economy around them. In addition to delivering quality work, this is accomplished by supporting clients with their economic questions before, during, and after a contract has expired