



Challenges, Opportunities, and Solutions for Indigenous Participation in Canadian Defence Procurement

Executive Summary

Greater Indigenous participation in Canadian defence procurement represents both a moral imperative for economic reconciliation and a strategic opportunity to enhance Canada's defence posture, including NATO interoperability and Arctic sovereignty. Informed by recent audits, government policies and technical reports from sources such as the Office of the Procurement Ombud (OPO), Indigenous Services Canada (ISC), and independent studies, this report examines the principal challenges faced by the defence industry in awarding contracts to Indigenous businesses, the barriers Indigenous firms encounter in meeting procurement criteria, and the substantial benefits to the Crown (the Canadian government) from fostering such participation.

Despite mandates like the 5% Indigenous procurement target, progress in the defence sector lags due to verification issues, interdepartmental inefficiencies, and systemic barriers rooted in colonial legacies. Indigenous businesses, often small or medium-sized enterprises (SMEs), struggle with financial hurdles, complex processes, and limited training. Canada's Industrial and Technological Benefits (ITB) Policy, a cornerstone of the Defence Procurement Strategy (DPS), mandates reinvestment of contract values into the Canadian economy but currently lacks explicit

references to Indigenous participation, resulting in limited engagement despite its potential for inclusive growth. However, addressing these through targeted solutions—such as enhanced verification systems, streamlined coordination, early engagement, and capacity-building support—can unlock economic reconciliation, innovation in defence technology, diversified supply chains, and stronger nation-to-nation relationships. This report proposes actionable reforms from both defence procurement and Indigenous business perspectives, emphasizing collaborative approaches to achieve mutual gains and long-term sustainability.

Introduction

This report is informed by perspectives in defence, geopolitics, and technology, including those of the Canadian military and NATO interoperability requirements, which often shape procurement criteria to ensure seamless alliance operations. Greater Indigenous participation in Canadian defence procurement is not only a matter of economic reconciliation but a strategic imperative for Canada's defence posture. The Canadian defence sector, primarily managed through the Department of National Defence (DND) and Public Services and Procurement Canada (PSPC), operates under the Defence Procurement Strategy (DPS), which emphasizes value for money, innovation, and socio-economic benefits. A key component of the DPS is the Industrial and Technology Benefits (ITB) Policy, which requires prime contractors on major contracts exceeding \$100 million to reinvest the full value back into the Canadian economy, generating around 40,000 jobs annually and active obligations totaling \$30-40 billion. However, integrating Indigenous businesses into this framework has proven challenging, despite mandates like the 5% minimum target for Indigenous procurement across federal departments, phased in since 2021. DND has struggled to meet this goal, achieving only 2.5% Indigenous procurement in the 2023-24 fiscal year. The report advocates for systemic changes to enhance Indigenous involvement, aligning with reconciliation commitments under the United Nations Declaration on the Rights of Indigenous Peoples Act (Bill C-15).

Principal Challenges Facing the Canadian Defence Industry in Awarding More Procurement Contracts to Indigenous Businesses

The defence industry faces significant hurdles in integrating Indigenous businesses, compounded by verification lapses, coordination inefficiencies, and systemic barriers. These challenges erode trust and hinder progress toward procurement targets.

- Verification and Integrity Issues in the Procurement Strategy for Indigenous Business (PSIB): Established in 1996 and updated in 2021, the PSIB aims to set aside contracts for Indigenous firms, but audits reveal lapses in verifying Indigenous ownership and control. For instance, contracts worth billions have been awarded without robust proof of Indigenous status, leading to “phantom joint ventures” where non-Indigenous firms exploit partnerships to access set-asides without delivering benefits to Indigenous partners. The Indigenous Business Directory (IBD), managed by ISC, relies on self-identification and third-party audits, but inconsistencies in guidelines and limited oversight (e.g., only 213 discretionary audits in 2023-24) allow misrepresentation. Recent audits indicate that while the government reports 6.1% of eligible contracts awarded to Indigenous businesses in 2023-24, the percentage of verified Indigenous businesses receiving PSIB funding is estimated to be much lower due to fraud and abuse in the program. This erodes trust and diverts resources, complicating DND’s ability to award compliant contracts.
- Interdepartmental Coordination and Process Inefficiencies: Defence procurement involves multiple stakeholders (DND, PSPC, Treasury Board Secretariat, and Innovation, Science and Economic Development Canada), leading to delays, cost overruns, and fragmented accountability. The OPO highlights the need for a centralized defence procurement authority to streamline processes, as current decentralization hinders targeted Indigenous initiatives. Additionally, rigid NATO-interoperability standards (e.g., for equipment compatibility) add layers of technical requirements that smaller Indigenous firms may struggle to meet without tailored support, further challenging the industry to integrate them.
- Meeting Mandatory Targets Amid Systemic Barriers: While the PSIB has achieved some success in awarding government-wide contracts to verified Indigenous businesses in 2023-24, defence-specific progress lags due to bundled large-scale contracts that exclude smaller Indigenous bidders. A paternalistic approach in policies, as noted in OPO consultations, treats Indigenous procurement as an “add-on” rather than a core strategy, limiting meaningful engagement. Peer-reviewed studies on Indigenous entrepreneurship underscore historical colonial legacies, such as the Indian Act, which restrict on-reserve businesses’ access to capital and create distrust.

- Limited Explicit Indigenous Focus in the ITB Policy: Despite its scale, the ITB Policy currently lacks an explicit reference to Indigenous participation, resulting in limited engagement from Indigenous businesses and communities. Indigenous involvement relies on indirect mechanisms, such as Indigenous Participation Plans (IPP) in requests for proposals, where bidders outline commitments to subcontracting, employment, and training – these can count toward ITB fulfillment but are evaluated on a pass/fail basis. The ITB’s Value Proposition Framework, which influences 10-40% of bid scores, offers some incentives

through points for skills development and small business engagement, but without multipliers or dedicated targets for Indigenous activities, these remain secondary. Consequently, Indigenous participation hovers at low levels due to the sector’s technical complexity and high barriers to entry, such as certification and networking challenges. The Auditor General has highlighted poor tracking of ITB outcomes overall, underscoring the need for greater accountability.

These challenges are compounded by a lack of political will, as experts argue, rather than inherent Indigenous incapacity.

Biggest Challenges for Indigenous Businesses in Meeting Canadian Defence Procurement Criteria

Indigenous businesses, often SMEs, face disproportionate hurdles in defence procurement, which demands high technical standards, security clearances, and financial guarantees. These criteria ensure operational reliability but can inadvertently exclude capable Indigenous firms, particularly those in remote or under-resourced communities.

- **Bonding, Insurance, and Financial Barriers:** Under the Indian Act (Section 89), many Indigenous businesses cannot use reserve-based assets as collateral, making it difficult to secure bonds or insurance required for defence contracts. Departments often demand these by default, even for low-value contracts, exacerbating cash flow issues from slow government payments. Studies show this as a major deterrent, with Indigenous SMEs needing significant upfront investments (e.g., \$250K for specialized machinery) to meet defence standards.
- **Complex and Inaccessible Processes:** RFPs are lengthy, technically dense, and require disproportionate documentation, overwhelming smaller firms lacking dedicated staff. Security clearance delays (months-long) and the incomplete IBD further hinder participation. Peer-reviewed research on Indigenous land rights and entrepreneurship highlights how colonial structures limit capacity building, with only 7.2% of Indigenous SMEs exporting compared to 15% nationally.

- **Lack of Feedback, Training, and Early Engagement:** Businesses receive inadequate post-bid feedback, eroding confidence, and face discrimination or unclear expectations. Exclusion from early project planning and bundled contracts prevents tailored bids. In defence-specific contexts, high inspection requirements add burdens. Evaluations of programs like the Indigenous Entrepreneurship and Business Development (IEBD) note relevance but underscore training gaps.

These barriers result in underrepresentation, despite Indigenous firms' proximity to defence projects (e.g., in Arctic surveillance).

Benefits to the Crown in Ensuring Greater Indigenous Participation

Fostering Indigenous involvement aligns with Canada's Strong, Secure, Engaged defence policy and reconciliation commitments. From a geopolitical standpoint, it strengthens domestic supply chains, enhances NATO interoperability through diverse innovation, and supports Arctic sovereignty—areas where Indigenous knowledge is invaluable.

- **Advancing Reconciliation and Socio-Economic Outcomes:** Increased procurement contributes to economic reconciliation, improving Indigenous communities' well-being and bridging gaps created by historical inequities. The PSIB has generated profits in Indigenous communities, with joint ventures facilitating skill transfers and capacity building.
- **Economic and Strategic Gains for Defence:** Indigenous firms can supply high-tech needs (e.g., Arctic surveillance), modernizing the Canadian Armed Forces and boosting alliances. Programs like the Indigenous Participation in Canadian Defence (up to \$1.5M annually) foster collaboration, reducing reliance on foreign suppliers and enhancing innovation. Studies on the aerospace and defence sectors show potential for supply chain integration, creating jobs, and bridging export gaps.
- **Leveraging ITB Policy for Inclusive Growth:** Introducing an explicit reference to Indigenous participation in the ITB Policy would dramatically enhance access, potentially boosting involvement by 2-5 times or more through structured incentives. For instance, a 5% target for ITB obligations directed toward Indigenous firms could create hundreds of millions in directed benefits—for a \$10 billion contract, this might mean \$500 million in Indigenous ITB commitments compared to current estimates of \$50-100 million. Over the long term, it could secure a sustained 5-10% share of over \$100 billion in planned defence spending on projects like submarines and fighter jets, fostering generational capacity building and aligning with broader reconciliation goals.
- **Long-Term Sustainability and Trust-Building:** Wise practices, such as mentorship, simplified RFPs, and Indigenous-led certification, can yield sustained benefits, including cost savings through vendor performance management. This builds nation-to-nation relationships, essential for defence operations on Indigenous lands.

Proposed Solutions from the Defence Procurement Perspective

The Canadian defence industry, led by DND and PSPC, must prioritize reforms to verification, coordination, and processes to meet the 5% Indigenous procurement target and foster genuine partnerships.

- **Enhance Verification and Integrity in the PSIB:** Implement robust, Indigenous-led verification systems, such as an external trustworthy repository to replace or supplement the IBD. This would involve mandatory third-party audits for all set-aside contracts and penalties for misrepresentation in joint ventures, ensuring benefits flow directly to Indigenous communities. This would build trust and reduce “phantom” partnerships, aligning with reconciliation.
- **Improve Interdepartmental Coordination and Streamline Processes:** Establish a centralized Chief Procurement Officer (CPO) for defence, as recommended by the OPO, to oversee DND-specific initiatives and integrate with PSPC and ISC. This role would create a unified set of procurement rules, simplifying RFPs by reducing documentation and focusing on performance-based criteria. For NATO interoperability, incorporate flexible standards that allow Indigenous firms to partner on innovative solutions, such as Arctic surveillance tech. Additionally, adopt a vendor performance management (VPM) system to track and reward reliable Indigenous suppliers, addressing inefficiencies in large, bundled contracts.
- **Integrate Explicit Indigenous Participation into the ITB Policy:** Amend the ITB Policy to include a 5% target for obligations directed toward Indigenous firms, mirroring the PSIB, along with a 1.5-2x credit multiplier in the Value Proposition for Indigenous-focused activities and mandatory integration of

scored Indigenous plans in all ITB bids. Tighter alignment between IPPs and ITB frameworks, including common metrics and dual credits, would fill the current voluntary gap without distorting market competition. In the short term (1-2 years), this could increase participation by 50-100%; over the medium term (3-5 years), by 200-400%. Annual reporting for transparency would ensure accountability.

- **Boost Early Engagement, Training, and Data Transparency:** Mandate Indigenous awareness training for all procurement staff, including workshops on cultural protocols and economic reconciliation. Host in-person outreach sessions with Indigenous communities near defence sites, providing procurement forecasts and one-on-one mentoring. Develop a government-wide data framework for tracking Indigenous contracts, with public reporting to monitor progress toward targets. Incentives, such as tying performance reviews to target achievement, could motivate departments. The Joint Indigenous Procurement Strategy with Defence Construction Canada exemplifies this, through Indigenous Participation Plans (IPPs) that require 5% subcontracting in major contracts like the Future Air Crew Training Program.

These reforms would not only help DND meet procurement objectives but also leverage Indigenous knowledge for strategic defence, such as in northern operations.

Proposed Solutions from the Indigenous Business Perspective

Indigenous businesses need targeted support to overcome financial, process, and capacity barriers while building resilience. Solutions focus on empowerment and collaboration.

- **Address Financial and Bonding Barriers:** Advocate for policy changes to waive or reduce bonding requirements for low-risk contracts, using alternatives such as letters of credit or government-backed guarantees. Businesses should seek ISC resources for bid support and diversify revenue streams to mitigate cash flow issues from delayed payments. Forming strategic joint ventures with non-Indigenous firms, verified through programs like the Progressive Aboriginal Relations (PAR), ensures equitable benefits and skill transfers.
- **Navigate Complex Processes and Build Capacity:** Participate in government workshops on RFP completion and use simplified overviews (1-2 pages) advocated in reforms. Register in the IBD and leverage platforms like the CCIB's Indigenous Procurement Marketplace for visibility. Seek mentorship from experienced Indigenous entrepreneurs or organizations like the Canadian Council for Indigenous Business (CCIB) to demystify processes. Invest in workforce training, addressing skills gaps through partnerships with DND programs like IPPs, which offer apprenticeships and on-the-job training. For ITB-related opportunities, engage in subcontracting in areas like supply chain logistics and maintenance to unlock revenue streams and technology transfers.

- **Enhance Feedback Loops and Networking:** Request detailed post-bid feedback to improve future submissions, and push for longer contract terms to allow capacity building. Engage in networking events hosted by DND or PSPC, building relationships with procurement officers. Collaborate with national Indigenous organizations for advocacy, ensuring voices shape policies like PSIB modernization.

These steps empower businesses to scale, contributing to defence while advancing economic sovereignty.