



IBA SUPPLEMENTARY SUBMISSION

Joint Standing Committee on Northern Australia - Inquiry into the
Opportunities and Challenges of the Engagement of Traditional Owners
in the Economic Development of Northern Australia

November 2019

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Introduction

Indigenous Business Australia (IBA) welcomes the opportunity to provide a supplementary submission to the Joint Standing Committee on Northern Australia's Inquiry into the Opportunities and Challenges of the Engagement of Traditional Owners in the Economic Development of Northern Australia.

This supplementary submission summarises the key points from our earlier submission to the inquiry (dated February 2019), provides an update on our performance to 30 June 2019, and addresses the additional dot point added to the terms of reference following the resumption of the inquiry.

Key points from IBA's earlier submission

IBA's earlier submission (February 2019) provided an overview of IBA and detail on the extensive array of products, services and activities provided by IBA in Northern Australia and focused on the opportunities and challenges faced by Traditional Owners in realising their economic development aspirations.

The key points from that submission are summarised below.

1. IBA has a strong presence in Northern Australia

Over the past 30 years IBA has successfully invested in Northern Australia in commercial ventures where very few, if any, mainstream investors or lenders would have risked capital.

This investment and activity has occurred across our Business Solutions, Investment and Asset Management and Housing Solutions divisions.

2. Policy levers like development finance, guarantees and risk assurance are used in international emerging markets to de-risk capital – these tools are not deployed in Northern Australia

A key challenge to attracting private finance and investment capital to fund projects on Aboriginal and Torres Strait Islander land holdings is that there is limited appetite from investors and mainstream banks as most projects do not achieve acceptable returns, based on the level of risk assumed.

IBA plays an important role in mitigating these challenges, by partnering and co-investing with Aboriginal and Torres Strait Islander groups, whilst adhering to prudent financial practices. Additional examples are included in this supplementary submission (KAPCO).

IBA proposed in the earlier submission that consideration be given to the provision of guarantees and risk insurance that development finance agencies routinely use as proven tools for leveraging private capital investment to higher risk markets.

3. The tax system can be utilised as a tool for incentivising investment

Our earlier submission suggested that the tax system could be better utilised to support economic development in Northern Australia. For example, 40-880 of the *Income Tax Assessment Act 1997* currently allows deductions for feasibility and other start-up costs, however, these may only be deducted in equal proportions over five years. The potential impact of allowing deductions to be claimed up-front

by businesses expending capital to develop the Indigenous Estate could be modelled and further considered.

IBA also considers that the “Opportunity Zone”¹ model being adopted in the USA is worth exploring for the potential to stimulate additional investment in remote regions or areas that are economically depressed.

4. Supporting Aboriginal and Torres Strait Islander landowners to access good quality commercial and financial advice is essential

In IBA’s experience, there remains a significant need for Aboriginal and Torres Strait Islander individuals, communities and groups to access good quality commercial and financial advice. There is also increasing demand for capacity and capability development of Aboriginal and Torres Strait Islander boards and the need for support (and funding) for feasibility and scoping studies of potential economic development projects. There is limited funding available nationally to deliver support of this nature.

Performance outcomes since the February 2018 IBA submission

In the financial year to 30 June 2019 IBA continued to push the limits of our financial constraints to support as many Aboriginal and Torres Strait Islander people into stable housing, starting and growing businesses and making informed investments for the future. Overall, IBA had another terrific year, lending or investing more than \$320 million across our home, business and investment products and services. This amount is more than nine times what IBA received in government funding in 2018-19, meaning the overwhelming majority of the financial support we are able to provide our Aboriginal and Torres Strait Islander customers is self-funded.

In just three years since 1 July 2016, IBA has contributed over \$900 million to the Indigenous Estate through our investment and lending activity.

To 30 June 2019, IBA’s performance in Northern Australia has included:

Investments and Asset Management

IBA has invested in 31 investments that are in the Northern Australia region.² IBA’s Investment and Asset Management division’s Northern Australia portfolio comprises of approximately \$51 million of equity held by our Aboriginal and Torres Strait Islander partners.

Business Solutions

¹ Opportunity zones are declared in the USA in areas with challenging economic situations. They are designed to encourage economic development and job creation by providing incentives (tax benefits) to investors who invest eligible capital into the opportunity zone.

² Since 1993.

IBA's Business Solutions division is managing 146 active accounts in Northern Australia in its business loan portfolio (assisting 120 customers) with a total value of \$23.96 million. This represents 27.2 per cent of IBA's business loan portfolio.³

Additional resources have also been committed exclusively for IBA to provide business loans and support for Indigenous entrepreneurs in the Northern Territory who operate on Aboriginal Land, Community Living Areas or on remote Native Title areas, and new national programs and platforms like the Strong Women Strong Businesses online network and mentoring space (which provides peer-to-peer support for Aboriginal and Torres Strait Islander business women) support entrepreneurial activity across Australia.

Housing Solutions

Of IBA's Housing Solutions portfolio of 5,349 loans, 1,244 (23%) were in Northern Australia, with a value of \$304.4 million.⁴ The overwhelming majority (95.6%) of these were for first home buyers and to lower-income borrowers.

Revised term of reference

The resumption of the inquiry into the Opportunities and Challenges of the Engagement of Traditional Owners in the Economic Development of Northern Australia has seen the Terms of Reference expanded to include:

7. *The overall impact these are having on encouraging investment and existing investment.*

Matters of importance to Aboriginal and Torres Strait Islander people, groups and communities should remain at the forefront of Northern Australia policy, particularly with many communities still lacking infrastructure and services related to water, education, economic development, and health. While these issues have traditionally been targeted by government, non-profits and charities, there is obviously an opportunity for targeted investment to play a role as well.

Indeed, IBA, and its predecessor, the Aboriginal and Torres Strait Islander Commercial Development Corporation (CDC) has been pursuing improved social and economic outcomes for Aboriginal and Torres Strait Islander people, groups and communities, through investment for nearly 30 years.

IBA's investment in Northern Australia is presently valued at over \$373 million,⁵ and since 1993, IBA has invested in 31 investments in Northern Australia as set out in Figure 1:

³ At 30 June 2019.

⁴ As at 30 June 2019.

⁵ Figures current as at 30 June 2019.

Figure 1: IBA’s investments in Northern Australia



1.	Kings Canyon Resort	NT	17.	Centre for Appropriate Technology Satellite	NT
2.	Barra Base Fishing Lodge	NT	18.	Chifley Alice Springs Resort	NT
3.	Central Australian Vehicle Dealership	NT	19.	Fitzroy Crossing Inn	WA
4.	Mt Todd Gold Mine	NT	20.	Fitzroy River Lodge	WA
5.	Nitmiluk Gorge (Cicada Lodge)	NT	21.	Commonwealth Centre South Headland	WA
6.	Thursday Island Property Development	QLD	22.	Mitchell Street Development	NT
7.	Ampiji Pty Ltd	NT	23.	Cape Don Experience	NT
8.	Homestead Complex South Hedland	WA	24.	Clifton Shopping Centre	QLD
9.	McArthur River shipping	NT	25.	Central Townsville	QLD
10.	Tjapukai Cultural Theme Park	QLD	26.	Tennant Food Barn	NT
11.	Palm Island Ferry	QLD	27.	Wildman Wilderness Lodge	NT
12.	Carpentaria Shipping Services	NT	28.	Holiday Inn Townsville	QLD
13.	Foxleigh Coal Mine Joint Venture	QLD	29.	Walkerston Shopping Centre	QLD
14.	Gagudju Crocodile Hotel	NT	30.	Adina Grand Darwin Waterfront and Vibe Hotel Darwin	NT
15.	Gagudju Lodge Cooinda	NT			
16.	NT Government Centre Katherine	NT	31.	Ngarda Civil and Mining	WA

Investment, however, is not a panacea for addressing the issues outlined above (i.e., communities still lacking infrastructure and services related to water, education, economic development, and health).

However, with the growing emergence and interest in values-aligned finance, IBA’s proud track record of identifying opportunities, developing bankable businesses, sourcing and linking investors to investments and investing itself in opportunities in partnership with Aboriginal and Torres Strait Islander individuals and groups across Northern Australia is a model of how social and economic impact can be created through investing, whilst also demonstrating market rate returns.

The supply of capital for Indigenous-led projects

IBA's model and performance in Northern Australia demonstrates that access to capital is possible including for investments involving economic development projects on Indigenous land holdings.

This model employed successfully by our Investment and Asset Management division, focuses on investments of between \$5 million and \$25 million in commercially sound ventures across sectors and industries, using a range of investment structures. It is a model fundamentally based on relationships and partnerships with Aboriginal and Torres Strait Islander groups and communities.

In addition to IBA's activities in our Investment and Asset Management division, IBA also provides a range of finance products to support Indigenous businesses to start and grow. Based on current capital levels, IBA is funded with \$9.18 million in additional capital for the whole of Australia each financial year. As demonstrated in our annual results, demand for business finance is certainly much higher.

The limitation to IBA generating more impact through its proven model is consequently limited merely by our own capital – although our involvement in transactions as a catalytic investor has facilitated investments from mainstream investors where otherwise they would not have done so.

Case Study:

Kimberley Agriculture and Pastoral Company

Kimberley Agriculture and Pastoral Company (KAPCO) is a 100% Indigenous owned and operated pastoral business.

KAPCO was established in 2016 with the purpose of acquiring, combining and developing smaller Aboriginal pastoral businesses into a larger, well managed and profitable pastoral business. KAPCO's business model goes beyond financial return and also focuses on providing an avenue for Indigenous people to gain training, skills and employment.

IBA partnered with KAPCO by providing growth capital to acquire the Myroodah cattle station and livestock, with a view to expanding the KAPCO business that already consisted of several other cattle station properties in Western Australia. Acquiring Myroodah also enabled further economies of scale across the KAPCO pastoral portfolio.

IBA played the role as a key foundational investor in the project's capital stack – without IBA's involvement other sources of finance would not have been secured by KAPCO, including from mainstream lenders.

The partnership between KAPCO and IBA facilitates the development of Indigenous land as well as promoting local economic development outcomes.

There are of course numerous other sources of values-aligned finance available that could be applied to catalyse the social, economic and commercial benefit of Aboriginal and Torres Strait Islander groups,

communities and individuals in Northern Australia, and investors – such as mainstream banks, foundations, high net wealth individuals, superannuation funds, etc. Unfortunately, however, in Australia, despite the growth in the impact investing market in Australia has largely been attributed to impact investments that focus on environmental, rather than social, outcomes (which contrasts with global investor sentiment).

The Australia Government has established a Social Impact Investing Taskforce⁶ to facilitate private capital in the social impact investing market in an attempt to address this issue, but the fact remains that at present, most sources of capital in Australia that could provide catalytic capital for Indigenous ventures and outcomes have limited experience with Aboriginal and Torres Strait Islander opportunities.

Financial products

Financial products are necessary to assist values-aligned finance to find investment opportunities. As with the rest of the impact investing market in Australia, the number of financial products for private or institutional capital to invest in Aboriginal and Torres Strait Islander impact is almost non-existent.⁷

Presumably, as the awareness of the impact investing sector grows of the opportunities in Aboriginal and Torres Strait Islander enterprises, groups and communities, the possibility of more client-facing products being built around these opportunities will also grow.

Connecting the market

Access to Aboriginal and Torres Strait Islander investment opportunities is difficult – opportunities typically exist within specific sectors, and potential investors may not have exposure, access or awareness of ready opportunities. Similarly, there is often a wide gulf of cultural understanding between non-Indigenous and Aboriginal and Torres Strait Islander partners.

These, and other supply-related barriers feed into demand-related barriers, which include:

- Levels of trust from Aboriginal and Torres Strait Islander entities in partnering with non-Indigenous stakeholders may be low
- The relatively small size and remoteness of communities and opportunities makes the ultimate market potential of many enterprises limited and reduces the potential for outside investment
- Capability: Although this is rapidly changing, Aboriginal and Torres Strait Islander entrepreneurs may not have the financial and managerial expertise necessary to support external investment
- Governance: uncertainty in community and group politics and dynamics and the independence of project governance can create significant uncertainty for outside investors.

Connecting the market – investors with Aboriginal and Torres Strait Islander investment opportunities – is challenged by these barriers. Addressing some of these barriers will require new sets of skills to emerge in Australia, including:

⁶ See <https://www.pmc.gov.au/domestic-policy/social-impact-investing-taskforce>

⁷ See Impact Investment Partners: <https://www.impactip.com.au/> as one new example.

- Assisting Aboriginal and Torres Strait Islander-led projects and enterprises to become investment-ready (capital is only accessible for commercially viable projects that have a developed business model)⁸
- Developing and structuring financial products to attract capital
- Identification, matching and coordinating capital between investors and projects
- Refocusing social impact investment by aligning the social impact outcomes that Aboriginal and Torres Strait Islander enterprise want to achieve and then matching a suitable investor (as opposed to Indigenous enterprise having to fit within the investor's wants/objectives)
- Educating investors and advisors about opportunities in Aboriginal and Torres Strait Islander enterprises in Northern Australia.

Undoubtedly these skills will continue to emerge as social impact investment gains traction in Australia and the impact investing sector becomes better educated and informed about, and willing to explore investment opportunities in Aboriginal and Torres Strait Islander outcomes in Northern Australia.

Supporting Indigenous Ingenuity

The White Paper on Developing Northern Australia (the White Paper) identifies the following five industry growth pillars as having the most potential for growth:

- Food and agribusiness
- Resources and energy
- Tourism and hospitality
- International education
- Healthcare, medical research and aged care

With the large proportion of land held by Aboriginal and Torres Strait Islander people in the North, there is untapped opportunity to pursue projects that complement the identified industry pillars and to also explore emerging industries and innovative projects.

IBA works alongside our customers to explore new ways to enable Aboriginal and Torres Strait Islander communities, by investing capital where mainstream lenders won't.

An example of the way IBA has supported this ingenuity is our recent investment into an emerging and innovative market, in partnership with the Centre for Appropriate Technology.

⁸ In IBA's experience, many Aboriginal and Torres Strait Islander-led economic development projects are at the pre-loan phase and require assistance with the feasibility aspects of such opportunities. It is evident that there not sufficient funding available across the Indigenous economic development environment, however, there is increasing demand for support of that nature. Although IBA has the capability, IBA is restricted by our funding and legislative constraints in delivering such support.

Case Study:

Centre for Appropriate Technology

Case Study:

Centre for Appropriate Technology

In partnership with the Centre for Appropriate Technology Ltd (CfAT), IBA has invested capital which will assist build Australia's first earth ground station.

CfAT is an Aboriginal not-for-profit science and technology company with a 50% Indigenous workforce that is based in Alice Springs. CfAT was established in the 1980s and operates across regional and remote Australia delivering infrastructure and technology solutions mostly to Aboriginal and Torres Strait Islander communities, providing service and infrastructure platforms that allow people to maintain their relationship with country.

This proposed development, supported by IBA, consists of a ground station with related infrastructure and connectivity (including two satellite dishes). The construction will be undertaken by CfAT.

The investment by IBA in the venture will bring new jobs and economic opportunities to Aboriginal and Torres Strait Islander people in Central Australia. In addition, this project will enable an Indigenous company in Central Australia to be a leading participant and key player in the burgeoning global satellite and space industry. The investment is strongly aligned with the priorities for the Australian Space Agency, which is seeking to increase opportunities within Australia's space industry and develop world-leading core satellite infrastructure.

The Viasat RTE system, to be constructed by CfAT, will be a hybrid space and ground network that is expected to bring affordability and reduced latency to earth observation and remote sensing applications. The Viasat RTE network is typically used by low earth orbit (LEO) satellite operators to bring end-users—environmental, shipping, oil and gas, government among other industries—access to data on demand without the need to invest in a dedicated antenna system. The development will provide a positive contribution to the local economy through contract opportunities for local businesses during the facility construction phase, and ongoing employment opportunities for local Aboriginal people once operational—as the CfAT facilities management team will be providing on-going site maintenance.

Land tenure arrangements to support commercial activities

As set out in the White Paper, Indigenous land tenure comprises a large proportion of the Northern Australia region including approximately:

- 66% of Queensland;
- 80% of the Northern Territory; and

- 94% of Western Australia.⁹

Whilst the nature of tenure of the Indigenous estate can vary from jurisdiction, Indigenous land tenure should not be so readily considered a barrier to realising the economic development aspirations of Aboriginal and Torres Strait Islander people in Northern Australia.

For example, whilst Aboriginal land pursuant to the *Aboriginal Land Rights (Northern Territory) Act 1976* (the *Land Rights Act*) provides communal title to Traditional Owners in the form of Aboriginal freehold held by Land Trusts, this has not hindered substantial investment or the grant of long-term interests. The Alice Springs to Darwin railway line crosses both land granted under the *Land Rights Act* and also where native title rights and interests exist under the *Native Title Act 1993*. The significant investment in that venture is founded upon agreements concluded under the *Land Rights Act* and *Native Title Act*.

Elsewhere in the Northern Territory, long-term leases for commercial stores, tourism ventures, schools, private business etc. operate successfully on Indigenous land, regardless of the inalienable nature of the underlying title (and indeed many millions of dollars have been invested in oil and gas and mining ventures on Indigenous land both in Northern Australia and elsewhere in Australia).

As a further example, through IBA's Business Solutions, Investments and Asset Management and Housing Solutions programs, IBA's investment alone in Northern Australia is valued at over \$373 million.¹⁰ IBA carries out these activities across Northern Australia irrespective of the underlying land tenure arrangements.

Case Study:

Arnhem Land Progress Association

Arnhem Land Progress Association (ALPA) was established in 1972 as a co-operative of community stores in Arnhem Land. ALPA operates 27 retail stores across Northern Australia and has diversified its business to include construction and mechanical repairs. It has grown to be the largest Aboriginal corporation in Australia.

ALPA has invested significant funds into these various economic development projects across Indigenous land holdings with various underlying land tenures, including inalienable Aboriginal land. The success of these ventures and ALPA's growth to be the largest Aboriginal corporation in Australia provides a strong message that tenure is not a barrier to achieving success in economic development.

⁹Figures are as of 2015 and it is most likely that the Indigenous Estate in Northern Australia has increased since that time.

¹⁰ As at 30 June 2019.

IBA has worked with ALPA by supporting ALPA to invest in the IBA Funds.¹¹ As a co-investor in the IBA Funds, in addition to providing the opportunity to invest in the IBA Funds, IBA has assisted ALPA with capability development and the development of an investment strategy.

The returns generated from ALPA's IBA Funds investments are re-invested back into the Corporation and the social programs that ALPA runs. The impact of ALPA's operations is significant on the communities in which it operates: ALPA employs approximately 1,170 Indigenous employees with over 95% of employment within the ALPA stores being Yolngu.¹²

Concluding remarks

Since the establishment of the Commonwealth of Australia in 1901, the desire to develop Northern Australia has been a prominent topic of discussion from local communities right through to Government bodies. The voice of Aboriginal and Torres Strait Islander individuals, groups and communities have often been invisible in such discussions, and IBA commends the work to establish an Indigenous Reference Group to provide input on these matters.

While some progress in Northern Australia and attracting investment has been made, we believe the opportunity to scale the impact IBA has generated over the years exists, and to attract additional investment, so as to create economic independence and self-sufficiency for the Aboriginal and Torres Strait Islander people, groups and communities in Northern Australia. Our submission outlines some of the gaps, challenges and barriers that exist, but also the economic development success stories and opportunities. As we have highlighted, these are founded on relationships and strong partnerships with Aboriginal and Torres Strait Islander people to deliver impactful outcomes.

As noted in this submission and IBA's earlier submission, the contemporary push for Northern Development will be more likely to succeed if efforts and policy settings incorporate, engage with, and are led by the diverse world views of Aboriginal and Torres Strait Islander people, and where all jurisdictions and levels of government work collaboratively to empower and equip Traditional Owners through funding, governance and strategic support, and provide commercial capability and capacity development and pre-loan and feasibility funding.

¹¹ IBA established the Indigenous Prosperity Funds (IPF) and Indigenous Real Estate Investment Trust (I-REIT) – collectively the “IBA Funds” – to meet demand, particularly from groups who want to co-invest with IBA in broader commercial opportunities. The objectives of co-investors in the IBA Funds products were typically characterised as wishing to derive sustainable returns and to grow wealth for current and future generations.

¹² Arnhem Land Progress Association Annual Report 2018/19.