



**Australian Government**  
**Indigenous Business Australia**

19 August 2010

Ms Toni Matulick  
Committee Secretary  
Senate Select Committee on Regional and Remote Indigenous Communities  
PO Box 6100  
Parliament House  
Canberra ACT 2600

via email: [indig.sen@aph.gov.au](mailto:indig.sen@aph.gov.au)

Dear Ms Matulick

Please find enclosed the submission of Indigenous Business Australia to the inquiry of the Senate Select Committee on Regional and Remote Indigenous Communities.

Indigenous Business Australia (IBA) values the work of the Committee and is pleased to be able to contribute to the inquiry. Given IBA's responsibilities in assisting Indigenous economic development, our submission focuses on the Committee's Terms of Reference relating to employment and enterprise opportunities in regional and remote Indigenous communities.

If the Committee has any queries regarding the details of our submission, or requires further information, please contact Graeme Boulton, Assistant General Manager – Policy and Partnerships, on 02-6121 2612.

Yours sincerely

**Bruce Gemmell**  
Chief Executive Officer (General Manager)



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# INDIGENOUS BUSINESS AUSTRALIA

## Submission to the inquiry by the Senate Select Committee on Regional and Remote Indigenous Communities

### OVERVIEW:

Indigenous Business Australia (IBA) is an independent statutory authority that was created to assist and enhance the self-management and economic self-sufficiency of Aboriginal and Torres Strait Islander peoples. Over its 20 year history, IBA has made a substantial contribution to Indigenous economic development. Our vision is for a nation in which the First Australians are economically independent and an integral part of the economy.

Amongst government agencies, IBA's commercial focus makes it unique in Indigenous affairs. IBA assists Indigenous Australians through a range of programs and activities, including in home ownership, small business finance and support, joint venture equity investment, construction and project management, commercial and business skills development, and applied research projects. IBA's consolidated operations are funded partly by self generated revenue (77.2 per cent of revenue in 2009-10) and partly by the Commonwealth via appropriations (22.8 per cent of revenue in 2009-10). The organisation employs around 240 people, about 22 per cent of whom are Indigenous Australians, and has 19 offices located around Australia.

IBA's challenge is to provide enabling investments and support for sustainable business development to Indigenous Australians who as a group have lower rates of economic participation than non-Indigenous Australians. For example, Indigenous Australian are three times less likely to be self-employed than non-Indigenous Australians (5.6 per cent versus 16.3 per cent)<sup>1</sup>. Under its charter IBA must apply prudent commercial standards and practices while applying these to the circumstances of Indigenous Australians. IBA is a market gap provider - assisting those generally unable to access mainstream commercial services by providing more intensive support and reducing the barriers to accessing capital. This entails a focus on developing long term relationships and tailoring solutions to the individual.

Through our networks, programs and activities, IBA has a strong presence in regional and remote Australia. IBA works closely with other government agencies and the private sector, at the local, regional and national level. We offer a wealth of experience and corporate knowledge, facilitate access to information and expertise, and provide substantial personal support and financial assistance for Indigenous enterprise development, employment creation and training.

Consistent with IBA's role and experience, this submission has a particular focus on our programs and activities that support the development of Indigenous enterprise and employment opportunities in regional and remote Indigenous communities. It also shares some lessons learned from our experience as well as solutions.

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<sup>1</sup> Australian Bureau of Statistics 4722.0.55.009 – Self-employed Aboriginal & Torres Strait Islander People, 2006.

In particular, from our experience in commercial infrastructure and enterprise development in remote Indigenous communities, project viability requires several critical prerequisites, such as extensive pre-planning and preparation, local support and flexibility, a range of necessary local capacity attributes, and considerable Government support in terms of capital investment and local capacity building.

Other key issues influencing enterprise and commercial development in regional and remote communities include land tenure, native title, and a range of general barriers to Indigenous business development. These are discussed in more detail in this submission.

## **BACKGROUND:**

### **Brief history**

IBA started in Canberra with a small number of staff and seed funding of \$10 million in 1990. It has since grown to an organisation employing around 240 employees in 19 offices nationwide with an asset base of around \$1 billion today.

IBA was originally established as the Aboriginal and Torres Strait Islander Commercial Development Corporation (CDC). In 2001, CDC was changed to IBA to provide a commercial focus for the Government's approach to sustainable Indigenous economic development. Until 2005, IBA's primary activity was facilitating equity involvement of Indigenous Australians in sound commercial ventures, usually by way of joint venture arrangements with industry partners, through its Equity and Investments Program.

Following the abolition of the Aboriginal and Torres Strait Islander Commission (ATSIC) in 2005, IBA's role expanded to include the administration of the Home Ownership and Business Development and Assistance Programs. Since then, IBA has developed additional capabilities to further support Government initiatives that work toward a sustainable economic future for Indigenous Australians.

### **IBA's role in addressing the barriers to Indigenous economic development**

The barriers to Indigenous business development and economic participation have been documented in a number of reviews and inquiries into Indigenous business and employment<sup>2</sup>. These relate to low levels of literacy, numeracy, and work and business readiness skills. These barriers are compounded in remote areas by lack of access to infrastructure and markets that provide employment or business opportunities. In conducting the current inquiry, the Committee would also be well

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<sup>2</sup> Some of the major reviews are: *Inquiry into Indigenous Business*, House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs (HORSCATSIA) 1997; *Removing the Welfare Shackles: A Discussion Paper on a Reform Initiative for Indigenous Economic Development*, Unpublished paper released by Minister for Aboriginal Affairs, John Herron 1998; *Reforming Indigenous economic development : a review of removing the welfare shackles and getting on with business*, Ian Harper, 1998; *Indigenous Business Review*, Richard Longes, 2004; *Indigenous Australians at Work: successful initiatives in Indigenous employment*, report of the inquiry into Indigenous employment, HORSCATSIA 2007; *Inquiry into the development of Indigenous enterprises*, HORSCATSIA, 2008.

aware of the importance of getting the fundamentals right with respect to education, health, and the social and home environment to enable effective economic participation.

IBA recognises the part it has to play in addressing the barriers specific to Indigenous economic development, alongside the effort that is being made to address the broader social disadvantage of Indigenous Australians. IBA believes it can make an important contribution to ‘closing the gap’ in Indigenous disadvantage by addressing key market failures, leveraging private sector participation, building commercial capacity and supporting Aboriginal and Torres Strait Islander individuals and communities aspiring to achieve sustainable economic advancement.

IBA is able to contribute holistically to the economic development of Indigenous people through its suite of complementary programs. It is a key player in the whole of government approach to Indigenous economic development and works closely with its portfolio department, the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), and the Department of Education, Employment and Workplace Relations (DEEWR), as well as state and territory agencies engaged in Indigenous economic development.

### **Key programs and activities**

Collectively, IBA’s programs and activities facilitate and enable Indigenous people’s engagement in the wider economy. There are four core service delivery programs:

- Business Development and Assistance Program
- Equity and Investments Program
- Home Ownership Program
- Home Ownership on Indigenous Land Program

Through the **Business Development and Assistance Program**, IBA assists eligible Indigenous Australians to establish, acquire and grow small to medium businesses through business support services and business loans. Business support is tailored to the individual needs of clients and delivered through a panel of business consultants in a manner that helps clients to achieve self-reliance.

The **Equity and Investments Program** develops investment opportunities that benefit Indigenous Australians. IBA brings together Indigenous corporations, communities and individuals, private sector business and industry partners to invest in sustainable, commercially viable businesses and ventures. These in turn provide the basis for profit distribution, employment opportunities, skills transfer and asset accumulation for Indigenous Australians.

The **Home Ownership Program** provides targeted home loan finance to Indigenous first-home buyers so they have an entry point to home ownership that would not otherwise be available to them. IBA’s concessional home loan products enable eligible Indigenous Australians to purchase an established residential property, purchase land and construct a new home, or make essential improvements to an existing home.

Since the Australian Government announced its initiative to enable Indigenous Australians living on remote community titled land to buy their own home in 2005, IBA has worked with other government agencies to make this a reality. IBA has developed and implemented its **Home Ownership on Indigenous Land Program**, which provides similar concessional home loans and support for prospective Indigenous home buyers living on community titled land in regional and remote locations. This IBA program has been explicitly tailored to address the multiple barriers that Indigenous people in remote areas of Australia face in trying to buy their own home and participate in the mainstream economy. This is described in further detail below.

In the last few years IBA has developed a construction and project management arm originally to support the Australian government in its delivery of construction-related projects in the Northern Territory Emergency Response. Since then, IBA has been exploring opportunities to use this expertise to support increased Indigenous involvement in the construction industry in regional and remote areas. In 2009, IBA formed a consortium with industry experts to seek major contracts to maximise Indigenous involvement, known as DRIIVE - Delivering Regional Innovative and Indigenous Vibrant Economies. Its purpose is to secure contracts to deliver residential, commercial and civil construction projects in a way that maximises skills development, employment and economic development for regional economies.

IBA also developed and implemented the Outback Stores initiative, which brings a commercial focus to the operation of community stores in remote areas, as well as delivering increased, more affordable supplies of healthy food. This initiative has since been transferred to FaHCSIA.

In addition, IBA undertakes a range of research and development activities to develop innovative and practical commercial solutions to improving the economic participation of Indigenous Australians in the Australian economy.

Further details on relevant programs and activities are provided in the remainder of this submission and at [Attachment A](#). A conceptual illustration of how IBA programs support Indigenous economic participation is provided at [Attachment B](#).

#### *Providing a support and information network around Australia*

IBA has a strong regional and remote presence with 19 offices around Australia and a network of State Coordinators. Ten offices are co-located with Indigenous Coordination Centres. Skilled home loan and business development officers provide local support and case management. IBA's regional presence, and in many cases co- location with other Commonwealth programs, allows it to coordinate its activities with other organisations and helps avoid the overlap and duplication of services.

Since 2007, four State Coordinators have ensured that IBA has a strong representation at a state and regional level. IBA State Coordinators work with our program areas and other Commonwealth and state government agencies to identify and coordinate a collaborative approach to Indigenous commercial opportunities. They provide advice, analysis and expertise to assist Indigenous business people, private enterprise and Government stakeholders to achieve real results on the ground.

## **RESPONSE TO THE TERMS OF REFERENCE:**

Owing to the nature of IBA's role, programs and activities outlined above, this submission focuses on the following component of the Terms of Reference for this inquiry:

### ***d) Employment and enterprise opportunities in regional and remote Indigenous communities;***

IBA notes that under its terms of reference the Committee seeks an understanding of the measurable impact of government policies and programs on regional and remote Indigenous communities. In particular, in this submission IBA seeks to respond to the Committee's desire to learn more of IBA's detailed role in Indigenous economic development as noted in its First Report<sup>3</sup>.

## **(1) Supporting opportunities for enterprise development**

### *Business Development and Assistance*

The Business Development and Assistance Program comprises three integrated products: concessional business loans; business support; and Economic Development Initiatives (EDIs).

Typically, clients come to IBA with a business idea looking to establish or purchase a business. We assess the viability of the business and may provide a loan where essential assessment criteria are met. As part of that process, we may also provide access to business support and mentoring to assist clients in preparing an application for the loan. However, clients do not have to have a loan with IBA to access business support or EDIs.

Business support involves business consultants, selected for their business acumen, working with IBA's clients to provide pre-start up (e.g. assistance with the preparation of feasibility studies and strategic marketing plans) and post-start up support (e.g. mentoring and business-related training and assistance). Business-related skills development is also provided throughout the business life-cycle. EDIs are designed to raise awareness of local economic opportunities and test individual aspirations to enter the small business market. EDIs are most frequently carried out in regional and remote areas. Further details of the program are provided at [Attachment A](#).

In some circumstances, the client's business proposal might include equity provided by the individual, by the private sector through a loan or by other means. IBA business loans can fill the funding gap, which typically ranges from a few thousand dollars up to \$2 million. While there is no maximum loan amount, the size of the loan is usually dictated by either the supportability of the debt or the value of appropriation available to IBA, which effectively provides a cap for the program.

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<sup>3</sup> Senate Select Committee on Regional and Remote Indigenous Communities, First Report, September 2008, page 50.

IBA seeks to facilitate access to capital whatever the scale of the business. Under a partnership established between IBA and the National Australia Bank (NAB), IBA provides clients with business support and the NAB provides them with micro-finance loans of between \$500 and \$20,000. The loans are provided on an unsecured basis, for terms up to three years. This product allows Indigenous entrepreneurs to get involved with a private sector bank early in the life of their business while benefiting from IBA's expert business support.

IBA's business loan figures are one indicator of achievement in Indigenous economic development. At 30 June 2010, IBA had 309 active business loans valued at \$58.7 million. Over the last three years, IBA has approved an average of around 80 loans per year. In addition, 600-1,000 business support actions and 50-60 EDIs have been delivered each year. For the 2009-10 financial year, the business development and support program had approved 81 loans (valued at \$13.5 million) and 652 business support actions to assist with assessing the feasibility of a business idea, the commencement of a business or a business expansion. At the same time, there were 12 business ready skills workshops held that provided relevant information and advice to individuals contemplating entry into small business.

IBA's success in helping Indigenous Australians to succeed in business can also be measured by the long-term viability of those businesses. As at the end of June 2010, IBA recorded a 91.58 per cent survival rate for businesses in the first 12 months, 77.08 per cent after two years and 68.60 per cent after three years based on loans drawn for start-ups and purchase of existing businesses.

For its size, the program is also well represented in regional and remote communities. Based on the location of loans compared to the Australian Bureau of Statistics (ABS) standard remoteness classes, more than half are located in regional areas and most of these are in outer regional or remote areas.

Businesses supported by IBA occur predominantly in the following industry sectors: agriculture, fisheries and forestry; retail trade; construction; professional and technical services; accommodation and food services; manufacturing; transport, postal and warehousing; and other services.

Although it is recognised that every business faces ongoing risks of sustainability and viability, IBA seeks to assist Indigenous business clients to ensure they are business ready and have access to good initial advice and support. We also closely monitor their performance once operating and provide further support and mentoring as necessary to maximise their chances of success and long-term sustainability. IBA has found that a key ingredient for successful business development is the business readiness of the client. For example, the client needs to be able to define their business idea, develop a business plan including knowledge of the market and risks, have had some knowledge and experience in their proposed type of business, and have an appreciation for what is involved in running a business (e.g. from managing cash flow and keeping clients satisfied to having appropriate family support). IBA has also identified some potentially limiting factors for success, including low levels of client equity and limitations on available security for a business loan.

## *Equity and Investment*

Through this program IBA provides Indigenous corporations with the means to invest by providing them with opportunities and access to equity and capability partners. It helps them succeed by providing them with ongoing support and training to equip them to manage and grow their investments. Over time, IBA aims to transfer capability and full ownership of its share of the asset to its Indigenous partners. Details of the business model for the program are provided at [Attachment A](#).

IBA considers that while return on investment is a key criterion in making investment decisions, it is also important to ensure that its investment portfolio is diversified across industry groups and geographically (spread across metropolitan, regional centres and remote locations). In some cases, the presence of an IBA investment might be the only opportunity for Indigenous economic development to exist in that location.

At 30 June 2010, IBA had 28 investments (valued at \$168 million) in commercial property, tourism and hotel accommodation, primary industries, mining and mine services, manufacturing and retail. These investments are located in metropolitan (50 per cent), regional (29 per cent) and remote regions (21 per cent) of Australia. The employment outcomes obtained from these investments are described later in this submission. To illustrate to the Committee the nature of Indigenous involvement and broad range of outcomes from IBA's investment activity, a brief description is provided here of some recent joint ventures (most established in the last 18 months).

In November 2008, IBA and the Julalikari Council Aboriginal Corporation in the Northern Territory purchased the Tennant Food Barn and four specialty stores. The new joint venture serves approximately 3,000 residents, most of whom are Indigenous. It is the only grocery retailer in Tennant Creek and a wholesaler to outlying community stores and stations.

In partnership with the Larrakia Development Corporation, IBA acquired a 50 per cent interest in the Vibe Medina Darwin City Waterfront. The Vibe Medina Hotel complex forms part of a larger waterfront development known as the Darwin City Waterfront. This investment's goal is to provide economic benefit to all Larrakia people through the creation of enterprises that provide employment and training in addition to operating as commercial entities with a view to generating a profit.

IBA acquired a 45 per cent interest in the Alice Springs Resort in conjunction with Centrecorp Aboriginal Corporation who jointly own 45 per cent of the Resort, and a private sector partner who owns the remaining interest. This partnership has been formed with plans to employ local Aboriginal people in the resort and develop the resort as a hub for supporting smaller tourism businesses in the Central Australian area.

IBA acquired Wrotham Park Lodge, North Queensland, and completed its relocation to Darwin as part of developing the Wildman Wilderness Resort site in Mary River National Park in the Northern Territory with a view to bringing in Indigenous partners.



Ridley Corporation (Australia's largest manufacturer of agri-products) and IBA formed a joint venture to upgrade a factory in Inverell to produce commercial grade fish feed. Production commenced in November 2009 and has recently reported its first month of profit. IBA views its investment in this joint venture as an important element in generating sustainable regional economic development. There are currently four Indigenous employees at the facility and IBA is looking forward to the joint venture delivering positive economic and social benefits to the local community of Inverell.

IBA sold down a 50 per cent interest in the Brand Street Building South Hedland to a new Indigenous partner and it is expected that the partner will have 100 per cent ownership of the asset in approximately two years.

From IBA's experience, one of the key ingredients for investment success is the need to have a good capability partner or experience in the sector. While achieving commercial return is paramount, IBA makes sure it establishes early what the broader social and/or economic objectives of the investment are and ensures these are also met. Indigenous partner mentoring is also a key element of our approach, along with the need to have a realistic but flexible divestment plan with the Indigenous partner. However, although social outcomes from investment are important, IBA also recognises that some Indigenous community groups may simply be looking for pure investment opportunities, especially those with large investable funds flowing from Native Title agreements. Finally, IBA considers that investments and business loans can be better tailored and targeted if viewed as part of a fully developed regional economic strategy.

## **(2) Creating and supporting employment and training opportunities**

### *Employment*

Through IBA's commercially focused operations, over 1,100 jobs were created or supported in 2009-10, including at least 418 filled by Indigenous Australians. Given the distribution of IBA's investments and businesses supported by IBA, many of these jobs are located in outer regional and remote parts of Australia.

During 2009-10, IBA business loans assisted clients to create or support a further 226 jobs in Indigenous-owned businesses. Indigenous Australians held 170 of these jobs.

The IBA investment portfolio also created or supported an additional 952 jobs during 2009-10, the majority of these in outer regional and remote Australia. Some 248 of these positions, or around 26 per cent, were held by Indigenous Australians. This includes 27 Indigenous jobs created so far by the recent joint venture between Leighton Contractors and IBA for construction work in the Ord-East Kimberley Expansion Project in Western Australia. The majority of employment opportunities were in the tourism and hotel accommodation and mining and mine services investment asset clusters.

IBA itself employs around 240 people in 19 locations around Australia, including in regional and remote areas, 22 per cent of which are Indigenous Australians. Through its Reconciliation Action Plan, IBA supports the employment, retention and

advancement of Indigenous Australians in the work force. We also offer young Indigenous people entry-level employment opportunities as trainees, cadets and graduates.

### *Training*

One of the critical success factors in IBA's Equity and Investments and Business Development and Assistance programs has been the level of mentoring and support for skill development that IBA provides. In particular, IBA focuses on supporting its Indigenous clients and partners to develop the appropriate corporate governance and business management skills essential to run a viable and sustainable business. Business skills training is an essential aspect of the business support function of the Business Development and Assistance program, as described above. IBA is also active in mentoring Indigenous investment partners and facilitating skills transfer through Board participation, investment negotiations and through direct experience with capability partners operating the business.

In addition to the substantial support and mentoring that IBA itself provides, IBA has also facilitated access to more formal training and capacity building for Indigenous partners. In 2008–09, IBA assisted in the development of the Indigenous Corporate Governance Training Program by the Australian Institute of Company Directors (AICD). The program addresses the need for commercial corporate governance training for some of IBA's client and partner organisations, targeting those that have been in operation for some time and where there is need to understand company director issues and responsibilities. The program was successfully piloted with the Larrakia Nation Aboriginal Corporation in the Northern Territory and the Miriuwung Gajerrong Corporation in Western Australia. The AICD are also promoting it as a tool for Indigenous organisations to employ.

In June 2009, IBA commenced financial literacy workshops to Indigenous joint venture partners on a needs basis. The workshops clarify financial language and explain essential accounting principles. Feedback from participants indicates that these have been highly successful.

IBA also introduced a Scholarship Fund in 2008–09, allowing IBA to contribute to economic development in Indigenous communities by providing opportunities for mature-age Indigenous people to develop their financial knowledge and skills through further education. The Fund provides a broad range of financial assistance to assist individuals to achieve qualifications in economics, commerce, business and similar disciplines. Scholarship holders receive comprehensive financial support to study, often away from their homes, and is targeted towards those who intend to subsequently use their skills within their home community. To date, IBA has provided 14 scholarships through this initiative.

### **(3) Measuring progress and continuous improvement**

IBA receives regular feedback on the management and performance of its programs directly from its clients and stakeholders and through the conduct of formal reviews and inquiries by IBA and external auditors, researchers and Parliament.

Since it acquired additional programs from ATSIC, IBA has worked hard to integrate the operations of its programs and ensure they are aligned with the expectations of clients, the Government and other stakeholders. An important aspect of this work has been to strive for continuous improvement in service delivery to clients. At the same time, IBA has sought to improve its ability to report on the enterprise, investment and employment outcomes that result from its programs. This was also a recommendation of the Office of Evaluation and Audit's (OEA) evaluation of IBA's programs<sup>4</sup>.

While achieving many positive outcomes for Indigenous business, IBA is seeking to achieve better results from its business development program, notwithstanding that the lending we do is high risk and some provision needs to be made for adverse outcomes. For example, IBA has applied increased rigour in business loan assessment processes and strengthened loan management requirements. Since 2008, these changes have resulted in a greater percentage of approved Business Loan applications proceeding to settlement and an increase in Business Support for mentoring once a client is in business. The process of continuous improvement in 2010-11 will focus on loan process improvement, client business preparedness (through business readiness workshops) and a better tailored product mix.

Collectively and over time, as investments have been acquired and divested, substantial social and economic benefits have accrued to Indigenous Australians from IBA's investment activities. To gain an indication of the overall contribution this activity has made to the economic advancement of Indigenous Australians and their communities, IBA has recently developed a Social Return on Investment (SROI) tool to measure the social and economic value of employment, training and dividends to our Indigenous partners. This tool will be applied from 2010-11 to all IBA investments so that the outcomes from the program can be consistently and formally measured.

#### **(4) Other economic development activities**

##### *Enterprise development and employment through construction services and activities*

In recent years, IBA has recognised the potential benefits of increased Indigenous participation in the construction industry and the key role the industry can play in fostering economic development in remote and regional areas by using and developing local labour and expertise. In 2006, IBA started a new commercial venture managing construction activities on behalf of government agencies with a view to providing more employment and business opportunities for Indigenous people, particularly in remote areas of the Northern Territory.

IBA's construction services have completed a number of projects for FaHCSIA as part of the Northern Territory Emergency Response. IBA has also undertaken other housing construction activities in the Northern Territory over the past three years. Requirements for Indigenous training and employment have been included in contracts where feasible.

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<sup>4</sup> Australian Government Department of Finance and Deregulation - Office of Evaluation and Audit (Indigenous Programs), *Evaluation of Indigenous Business Australia (IBA)*, December 2007.

Thousands of hours of employment of local community members have resulted from housing, civil infrastructure and staff accommodation projects (refer to page 82 of IBA's 2008-09 annual report for details). For example, a Children's Service Centre, Safe House and Staff Accommodation has been constructed at Wadeye, in north-east Northern Territory resulting in 2,500 hours of employment of local Indigenous people and provided training in building and construction skills. The centre will allow for placement for 60 children and also provide facilities for meetings and training courses.

IBA believes that the construction industry currently presents a singular and robust economic driver in remote regions in the coming years, and a chance to leverage Indigenous groups and individuals into the mainstream economy. There is opportunity for Indigenous involvement in the delivery of projects: as sub-contractors, suppliers, employees and in some cases as owners of companies.

IBA believes long term alliances with industry partners provides a platform that gives some surety for investment – especially for native title groups such as in north-west Western Australia – as well as offering a framework for Indigenous participation according to level and capability in circumstances where the usual short term, intermittent focus on piecemeal programs and tender contracts militates against achieving sustainable Indigenous outcomes.

The DRIIVE consortium comprising Bluescope Steel, Indigenous Business Australia, Leighton Contractors and Sinclair Knight Merz has been formed with a delivery methodology that will achieve capacity development in Indigenous communities and achieve the infrastructure objectives. The crucial foundation for DRIIVE's methodologies is that it needs to operate within a program of works sufficient in size and timeframe to allow substantial long-term sustainable business and social achievements to be embedded within the Indigenous communities and supported by the wider community.

A joint venture between Indigenous Business Australia and Leighton Contractors has been selected as preferred proponent for the first phase of the \$220 million Ord-East Kimberley Expansion Project in Western Australia. The construction contract will see the joint venture build a 19km irrigation channel, a 13km road extension and irrigation control structures. This project will be supported by a number of Indigenous and local employment and business programs, which IBA will work closely with to ensure they are able to take advantage of this significant opportunity.

Greater competition for major government construction projects, and the governments' ramping-up of requirements for Indigenous outcomes in their procurement process, means IBA is actively being consulted by numerous private sector corporations in the mining and construction industries as a source of advice and a critical player in helping companies to achieve Indigenous employment and enterprise outcomes. Similarly, major mining companies are demanding Indigenous outcomes from their major supply contractors (in order to fulfill their obligations under Indigenous Land Use Agreements) and both mining companies and their major tenderers/suppliers are also consulting IBA for the same reasons.

### *Supporting viable business through the Indigenous Economic Development Trust*

The Indigenous Economic Development Trust (the Trust) was established by IBA to support Indigenous economic development and national Community Development Employment Projects (CDEP) policy reforms. Assets previously funded through grants from the Australian Government, and over which the Commonwealth holds a contractual or equitable interest, can be transferred to the Trust once a CDEP organisation has ceased to deliver the program for which the asset was originally funded. Assets owned by other government agencies may also be transferred to the Trust. The Trust leases, purchases and manages assets to support Indigenous economic and business development. The Trust provides leasing options to eligible Aboriginal or Torres Strait Islander individuals, partnerships or organisations. Competitive leasing terms are available for vehicles, machinery, plant and equipment or property that can be used to establish, consolidate or expand commercially viable businesses. The Trust can also assist existing CDEP organisations to lease new or existing assets.

### *Support for Indigenous involvement in procurement and business organisations*

Accessing procurement opportunities provided by the government and private sector is an important avenue for establishing and growing a business, especially in view of the recent surge in government infrastructure and housing spending in remote Australia. Supporting Indigenous entrepreneurs accessing these opportunities has been one of the key drivers for IBA's participation in the construction industry as detailed above.

IBA was supportive of the proposal to establish the Australian Indigenous Minority Supplier Council which aims to match Indigenous suppliers with corporate procurement requirements. Inspired by similar minority group supplier models in the United States, Canada and the United Kingdom, the Council works to build the links between the Indigenous and non-Indigenous corporate community in Australia. IBA will continue to work alongside the Council and other procurement based initiatives to develop Indigenous supplier capacity and referral pathways.

IBA is also assisting in the development of supportive Indigenous networks, such as through chambers of commerce. Several regional and state-based bodies have been established and IBA has assisted in some instances. IBA notes the establishment of the Indigenous Business Council of Australia (IBCA) that as an umbrella organisation, hopes to nurture the development of locally and regionally based networks and local Indigenous chambers of commerce.

### *Exploring opportunities through applied research*

IBA has a targeted program of applied research that seeks to leverage its accumulated specialised knowledge of Indigenous economic development to produce practical solutions to improving economic participation of Indigenous Australians. IBA is strongly focused on identifying and developing opportunities relevant to regional and remote Australia and on improving the quality of information regarding Indigenous business development outcomes. Projects currently underway include: measuring the social and economic benefits from IBA's investments; action research on stimulating very small businesses development in remote Australia (described further below); and

longitudinal research on the attitudes and perceptions of clients and the outcomes achieved from the Business Development and Assistance program.

### *Business Briefings*

IBA has convened a series of *Business Conversations* and *Business Briefings* at various locations around Australia since 2008. These are day-long forums where Indigenous organisations and businesses, industry experts and government representatives come together to discuss issues of strategic importance to the development of local business opportunities, as well as to provide practical advice, information about programs and networking opportunities. So far, Briefings have been held in Perth, Sydney, Coffs Harbour, Wollongong, Cairns and Darwin. This is another way that IBA has sought to stimulate economic development and access to opportunities for regional businesses.

### *Developing opportunities in emerging markets*

Over the past couple of years, many Indigenous groups have been interested to find out the potential implications of, and opportunities presented by, the Australian Government's proposed Carbon Pollution Reduction Scheme (CPRS) and the emerging carbon and renewable energies markets in Australia. Development of the industry generally has been slowed due to the delay in the introduction of the CPRS legislation. During the early stages, IBA has been helping to facilitate Indigenous access to relevant information and expertise regarding policy and technical advice, managing business risk and developing new business opportunities in this area. Through its Business Briefing series, in particular, IBA has provided expert briefings to Indigenous organisations and businesses at several regional locations: Coffs Harbour (April 2009), Wollongong (October 2009), and Cairns (March 2010).

### *Supporting home ownership*

IBA's Home Ownership Program (HOP), established in 1975, helps to provide affordable entry into home ownership for Indigenous people, particularly those on lower incomes who have difficulty obtaining finance from mainstream commercial lenders. By building an asset base, home ownership can act as a powerful catalyst for further economic development. In addition, the ability to borrow against home equity also supports potential business development by Indigenous Australians. IBA has assisted over 14,100 families into home ownership since 1975. During 2009–10, IBA approved 363 new home loans with a total value of \$82.2 million. Some 92 per cent of these loans were to first homebuyers. HOP caters mostly to clients in regional and rural areas (60 per cent of the total loan portfolio is in regional/rural and 40 per cent in metropolitan areas). This contrasts with industry comparisons that weigh in favour of metropolitan areas (70 per cent at March 2010).

There is high demand for HOP and the number of eligible applicants on the waiting list is over 1,000. IBA has adopted various strategies to address this unmet demand. A major strategy for 2009-10 was to promote, encourage and assist clients to obtain all or part of their home loan from an external funding source through our 'Split Loan' product. Under an IBA Split Loan, certain IBA clients are required to borrow some of the loan funds needed to complete a home purchase from a commercial lender, with the remainder of the loan funds borrowed from IBA. This product has

been developed specifically to leverage private sector funds for Indigenous home lending, address current capital constraints faced by the HOP and reduce the growing loan waiting list of clients seeking support from this popular program. As a result, clients were able to obtain an aggregate \$14.1 million in home loan borrowing from mainstream providers over the year. This approach will enable more effective use of IBA's limited funds and allow more loans to be made.

Despite the fact that IBA's appetite for risk is necessarily greater than other lending institutions, the overall balance of loans in arrears compares favourably to mainstream lenders. The reason for the success of the HOP program is the personalised ongoing support that IBA provides to borrowers, which operates beyond the normal mandate of a bank or other financial institution. The program's loan management practices are more intensive. In the pre-loan period clients are provided with comprehensive information about the responsibilities that home ownership brings (maintenance, paying rates etc.). A close relationship is established between the loan officers (located in Service Delivery Units throughout Australia) and the client and this is maintained for the course of the loan enabling support to be provided when needed.

The Home Ownership on Indigenous Land Program (HOIL), initiated in 2006, is also starting to yield results. By establishing a housing market in remote areas, the program seeks to tackle both the constraints that affect home ownership and economic development in those locations. IBA works with FaHCSIA to deliver HOIL.

Reform of Indigenous specific land legislation in some states and the Northern Territory has been necessary to establish the framework for the potential sale of homes in Aboriginal communities. Extensive community consultation and education is an ongoing part of the program.

The program provides a comprehensive package of support, including: low interest rates home loans, grants that contribute towards the property purchase and money management education. Interest in the program has been strong, however its implementation is dependent on there being the necessary land tenure and administrative arrangements in place to support long term leasing of communal land for private ownership.

Most activity so far has been in the Northern Territory and Queensland. The 15 loans made to date are all in the Tiwi Islands in the Northern Territory. As the land tenure preconditions for the program are being addressed in other communities, it is expected more loans will be made in the coming year and into the future.

As part of this program, IBA developed the 'HOIL Kick-Start' initiative as a model to accelerate the take-up of home ownership and HOIL lending. This involved IBA subleasing four residential lots in Nguuu and the construction of four houses for sale as house and land packages to eligible borrowers under the HOIL program. All four houses were constructed within the past 12 months and three of the four have been sold.

## **(5) IBA's experience in regional and remote economic development**

### *Approaches to economic development*

IBA has direct experience in implementing various approaches to stimulating Indigenous economic development in outer regional or remote areas. This has occurred both as part of broader government actions, such as the Northern Territory Emergency Response, and as a result of other targeted initiatives instigated by IBA as part of its charter to address barriers to Indigenous commercial participation.

IBA's approach to economic development is to harness commercial rigour and partnerships to produce practical and sustainable outcomes in terms of wealth creation, housing and employment. Key elements of IBA's approach include:

- providing tailored services and support not available to Indigenous Australians through the private sector;
- maintaining a commercial focus in all activities;
- providing individualised support arrangements to increase capacity and experience;
- working with clients in partnership over the longer term; and
- helping shape and inform private sector and whole-of-government initiatives to improve economic development outcomes for Indigenous people.

At the core of IBA's approach is the relationship that IBA builds with its clients. This relationship enables us to understand issues that clients face through trust and effective communication. In turn, this helps IBA to assist clients to address problems and mitigates IBA's commercial risk.

In this section of the submission, some of the key pieces of work and perspectives gained from this work are described. These relate to:

- issues concerning land tenure arrangements;
- remote small business development;
- commercial infrastructure; and
- issues concerning native title organisations.

### *Land tenure*

Secure land tenure arrangements are a prerequisite for economic development on Indigenous land and achieving these often adds another layer of complexity to broader capacity and remoteness issues. Many remote Indigenous communities are located on land that is communally held and inalienable under statutory land rights regimes. In these cases, for private home ownership or other development to occur, long-term individual lease arrangements are required to support commercial investment. Reform of Indigenous land legislation may be required as was the case in the Northern Territory and Queensland. In many cases, native title rights also need to be considered. This often involves complex negotiations over and beyond what is normally required in relation to development of freehold land in towns and cities.

IBA has worked closely with FaHCSIA, state and territory government agencies and Indigenous organisations in resolving land tenure issues and engaging communities ready to participate in the HOIL program. From IBA's experience, early action and a considerable investment of time and resources are required to ensure tenure and



related administrative issues are resolved to enable economic development. In all jurisdictions, it takes time to work through government leasing and administrative arrangements, planning approvals, and provide for adequate community consultation and education about home ownership or other economic development opportunities. This may take several years.

### *Native Title agreements*

IBA's experience has been that Native Title agreements resulting in compensation paid to traditional owners are variable in both quality and value. Generally, large compensation packages are rare, and the transaction costs of reaching the agreements are high. Confidentiality provisions make third party assessments of the agreements difficult to reach, and even where some elements are publicly known, other details remain confidential.

IBA also believes the quality of agreements would be greatly enhanced by a mix of different skills and expertise at different stages in the negotiation, implementation and ongoing management of native title agreements. For example, commercial, legal and community engagement skills are commonly required in the negotiation stage. Once implemented, the financial flows require specialist financial management and advice. Traditional owners may wish to engage a fund manager(s) to ensure funds are of benefit to future generations. Ongoing engagement with members is needed, to review and refine commercial and investment objectives and to build their commercial capacity over time.

It is also worth noting that transaction costs in negotiating agreements are relatively high, regardless of the end value of each agreement. Low value agreements require commercial and financial advice no less than high value agreements. It is possible that the low value of many agreements may in part reflect a lack of such advice in the first place.

IBA is seeking to make programs and commercial expertise available and accessible to Indigenous Native Title claimants to facilitate and support resolution of Native Title claims and the implementation of settlement agreements. Building Indigenous capacity is at the heart of the IBA business model through its highly successful joint venture approach and IBA has substantial experience in this regard. This support not only provides immediate capacity to Indigenous boards of directors, but also serves to transfer governance skills and capacity to Indigenous board members over time. It also has the secondary benefit of engaging industry in working at a range of levels with local groups - governance, employment and so on.

IBA is aware, however, that there are increasing numbers of Native Title bodies accruing significant assets in benefits packages, and that a more comprehensive strategy is needed. Groups require access to commercial expertise earlier - sometimes before packages are settled - to identify broad possibilities and models that help groups to maximise achievable outcomes from their benefit settlements. There would be benefit in working with a number of groups within a region to mitigate fragmented settlements of limited commercial application, and to maximise economies of scale and skill.

### *Remote commercial infrastructure development*

In recent years, IBA has been seeking to promote greater Indigenous economic participation in remote communities, particularly through exploring options for investment in essential commercial infrastructure that would provide a catalyst for local economic development, the normalisation of community services and the creation of enterprise and employment opportunities.

IBA's experience to date includes involvement in exploratory work and feasibility studies for commercial centres, business precincts and residential housing in selected remote Indigenous communities.

The essential premise for IBA's involvement in these projects was that income flows, both locally and externally generated, would be captured and retained within the community to increase its economic sustainability. Strong rental income streams from an anchor tenant, such as a local supermarket, combined with offices and general retail would provide the basis for business activity, employment and commercial viability. An additional accommodation component could further support the business model by harnessing local tourism potential and strong demand from government service providers, where a lack of accommodation posed a barrier to service delivery.

In reality, however, investment in new commercial infrastructure in these communities has proven problematic and shown little commercial viability. The reasons for this include a range of variables, such as high remote area construction costs, low profit margins and long-term returns, land tenure difficulties, insufficient local and external demand to support business or retail tenancies, low local rental rates and anchor tenant uncertainties, a lack of local capacity for facility management, closed local communities and local council inflexibility, poor prospects for local asset growth and risk exposure to local community dysfunction. A summary table of issues in commercial infrastructure development from IBA's experience in different locations is provided below.

Based on IBA's experience, the success of regional and remote economic development projects require a range of essential prerequisites, including flexible local government, open communities and some potential for commercial viability as a minimum. However, sustainable success also hinges on overcoming remoteness - the underlying barriers to economic development in regional and remote communities, including the lack, or poor standard, of basic infrastructure such as roads, power, water supply and information technology. Overcoming these barriers and enabling access to external markets will require some combination of key ingredients, such as external capital, government incentives and support, and fundamental local attributes or 'qualities of place'. As such an undertaking is likely to be beyond the means of any one local community or organisation, success may ultimately depend on better coordination and the leveraged efforts of a genuine partnership between key government, industry and local community interests.

**Table 1: Issues from IBA’s experience in remote commercial infrastructure development**

	Location 1 Commercial Centre	Location 2 Business Precinct	Location 3 Accommodation and Office Facility
<b>Project Overview</b>	<ul style="list-style-type: none"> <li>○ Construction of a new retail centre and motel units, with additional business support services provided.</li> <li>○ Selection of location determined by agreement with Government agency and local Council.</li> </ul>	<ul style="list-style-type: none"> <li>○ Redevelopment of existing commercial centre to provide commercial and retail space, with additional business support services provided.</li> <li>○ Selection of location determined by an external committee without IBA input.</li> </ul>	<ul style="list-style-type: none"> <li>○ Construction of a new accommodation and office with additional business support services provided.</li> <li>○ Selection of location determined by IBA through consultation, research and assessment of key local social and economic attributes.</li> </ul>
<b>Specific Issues</b>	<ul style="list-style-type: none"> <li>○ Local Council enthusiastic about projects but adamant that only locally-owned businesses should occupy the centre.</li> <li>○ Anchor tenant key to project viability but not committed to the new centre.</li> </ul>	<ul style="list-style-type: none"> <li>○ Local Council unwilling to enter into a shared ownership venture with IBA.</li> <li>○ Local land tenure unresolved, making it unlikely that IBA could hold a lease on land in the community.</li> </ul>	<ul style="list-style-type: none"> <li>○ Local Indigenous commercial development corporation engaged in joint partnership and business operation, but lacked commercial skills.</li> </ul>
<b>Common Issues</b>	<ul style="list-style-type: none"> <li>○ Projects are unable to operate on a commercial basis if the cost of capital works is to be recouped through operating profits. Government support through grant funding, guarantees or buy-back arrangements would be needed to improve project viability and reduce investment risk.</li> <li>○ Rents in remote communities are generally far below those in regional hubs. Remote communities are generally unable to sustain full commercial rents and there are often poor short-term prospects for rental tenancies. Projected rental and other income streams cover only building operation and maintenance costs, but are insufficient to cover loan repayments.</li> <li>○ Limited local capacity for ongoing property management and business servicing is a significant constraint in remote communities. Government support is needed for local capacity building, including in business management and other skills essential to such projects.</li> <li>○ New construction often involves long lead times for pre-requisite work, including planning and land survey, negotiation of land use agreements, and finalisation of native title and cultural heritage assessments. There are also significant new construction costs in remote communities that cannot easily be matched with a commercially viable business model.</li> </ul>		

## *Remote Enterprise Development*

### Assisting Community Development Employment Project enterprises

Recent work by IBA as part of the Northern Territory National Emergency Response, for example, provides a useful reference for the particular issues that arise in relation to developing Indigenous small businesses in remote Australia.

IBA offered assistance to CDEP providers that had been advised that their CDEP contracts would end on 30 June 2009. The assistance was offered in conjunction with the alternative assistance offered by FaHCSIA and DEEWR. IBA provided seven of the 40 organisations whose CDEP contracts would end with tailored business support.

Through its work on this initiative, IBA has identified various barriers and impediments to Indigenous enterprise development in remote communities, including environmental uncertainty (in terms of changes to government programs and local governance arrangements), asset ownership issues, land tenure and land use complications, lack of business continuity and royalty payment disincentives to work. A more detailed list and explanation of these are provided at [Attachment C](#).

### East Arnhem Land Business Development Approach

Following completion of a feasibility study in mid 2007, IBA implemented a new small business development program in selected East Arnhem Land communities. This project has supported the establishment of more than 20 small and micro Indigenous enterprises in the region.

Like the other projects above, this program demonstrates many of the key attributes and requirements necessary for working in regional and remote communities. It also highlights the importance of starting small, being practical and flexible, working with existing resources, understanding local context, minimising the need for capital and getting relationships right.

While the program has been successful in the selected communities, it relies on the applicant's underlying 'capacity for business', which is generally lower among those from remote areas and is exacerbated by a range of factors common to remote communities. The development of these small businesses therefore requires relatively intensive business support delivered over a long period of time.

IBA is currently trialling extending this program, as the *Indigenous Communities in Business Program* to other remote communities in Queensland and the Northern Territory. Further details about the program, including an analysis of success factors and key issues arising from its implementation, are provided in [Attachment D](#).

## **(6) Whole-of-Government Indigenous enterprise support**

The effectiveness of Indigenous enterprise development should also be viewed from a whole-of-government perspective. In particular, Indigenous clients have for many years been confronted with a confusing array of programs spread across a number of services providers, at both the state and national level. The frustration that many people feel with having to negotiate bureaucratic complexity is well illustrated in the evidence provided to the Committee.

Services to Indigenous business people are provided at the Commonwealth level by IBA, DEEWR, the Department of Innovation, Industry, Science and Research (DIISR), the Department of Resources, Energy and Tourism (RET) and the Indigenous Land Corporation (ILC). While these agencies have already been working to coordinate the provision of products and services, there remains scope for further improvement.

From IBA's experience, the following principles should be considered in guiding improved coordination:

- client-centred focus;
- better matching of clients to products and services;
- better design of eligibility criteria to avoid gaps and overlaps;
- simpler and less bureaucratic access for clients;
- improving the reach of programs by delivery through a single service network;
- improving choice, for example, selecting elements of the full suite of programs to best fit the needs of individual clients;
- more flexibility to adapt programs to address emerging needs and government priorities; and
- adopting the most effective delivery techniques for similar programs.

In this regard, IBA has been actively contributing its program and commercial expertise to deliver commercial solutions to remote and regional communities. In particular, IBA has been consulting with DEEWR on aligning the Indigenous Employment Program and IBA's business support program to best meet the needs of Indigenous business aspirants. IBA is currently negotiating a Memorandum of Understanding with DEEWR that aims to better define roles and program boundaries, jointly improve service delivery and processes, and create a more integrated and cohesive pathway for Indigenous small business development.

We are also aware that the National Partnership on Remote Services Delivery seeks to improve whole-of-government service provision. By utilising a partnership between all levels of government, this initiative aims to implement a new remote service delivery model that clearly identifies service delivery standards, roles, responsibilities and parameters for remote Indigenous communities. IBA welcomes this initiative and the opportunity to contribute its experience to generating improved outcomes. Through our State Coordinators we are playing an active role in the development of implementation plans under this National Partnership.

## **Overview of relevant IBA Programs and Activities**

### **Business Development and Assistance Program**

Small business is the engine-room of economic development in all developed economies. However, the 2006 Australian Census indicates that 5.5 per cent of employed Indigenous Australians are self-employed, compared with 16.4 per cent for the total Australian employed population.

IBA aims to reduce this gap by providing business support and business loans to Indigenous Australians who can demonstrate that they have a sound business proposal and are able to satisfy IBA's commercial criteria. In this way, IBA assists Indigenous people to establish, acquire and grow viable businesses, thereby contributing to employment, wealth creation and economic participation.

#### *Program overview*

The Business Development and Assistance Program assists Indigenous Australians who are not usually eligible for bank assistance to enter the small business arena. It also offers clients the support they need before they commit themselves to a business and assists clients to establish commercially viable businesses.

To be eligible to participate in the program, applicants must be over 18 years of age and at least one applicant must be of Aboriginal and/or Torres Strait Islander descent. At least 50 per cent of the ownership of the business must be by a person(s) of Aboriginal and/or Torres Strait Islander descent.

The program comprises three integrated products: business loans, business support and Economic Development Initiatives.

#### *Business loans*

In its provision of business loans, IBA primarily has regard to the commercial viability of the proposed business, the capacity of the proponents to operate the business, the degree of risk and the security offered.

IBA offers eligible applicants concessional interest rates, with terms structured to help them overcome any barriers that might prevent them from progressing into business. Business loans are assessed and settled in-house.

IBA business loans are also an effective 'market gap' product that provides access to business finance on favourable terms that are otherwise unavailable. Although business loan applications are assessed in a commercial manner, they are specifically tailored to Indigenous clients who are unable to meet mainstream banking criteria. For example, while security for the loan is a key consideration, as it is for commercial lenders, IBA often accepts a lower security position than mainstream banks. In addition, IBA business loans are generally provided at discounted rates for Indigenous clients, which are lower than the mainstream banks but reflective of the relatively higher risk profile.

This means IBA business loans are a unique product that meets unmet demand and does not compete with (or otherwise duplicate) private sector finance. IBA also seeks to eventually transition Indigenous clients to private sector financing arrangements, providing an effective means of ensuring that funds assist a greater number of clients and is available to those most in need. A conceptual illustration of the lending market space in which IBA operates is provided as Attachment D.

### *Business support*

Business support tailored to the individual needs of clients is an integral part of IBA's small business products. Business support is delivered through a panel of business consultants selected for their business acumen. These work with IBA's clients to conduct feasibility studies, plan the business and undertake business-related skills development. Skills acquired during the business life-cycle can include marketing strategy development, setting up a website and cash flow management.

Pre-start up support is provided to clients who have not yet commenced in business. Typically this includes assistance with the preparation of feasibility studies and strategic marketing plans, and the provision of business-related training. Post-start up support is provided to clients that have already started in business. Typically this includes mentoring and business-related training and assistance to analyse and resolve difficulties clients may be experiencing with their business. The business-related training given in each period focuses on different aspects.

### *Economic Development Initiatives*

Economic Development Initiatives (EDIs) are designed to help Indigenous people inform themselves about economic opportunities before deciding whether they want to take the next step of starting up a business. EDIs include assessing and studying the local economy and identifying opportunities in selected regions. Presentations are designed to raise awareness and respond to individual aspirations to enter the small business market. EDIs are most frequently carried out in regional and remote areas. Participants often find that they are not able to make the level of commitment that comes with being in business. This important first step can often be the trigger to help people decide whether to proceed or take another path.

EDIs aim to support Indigenous economic and business development through funding projects that facilitate the development of business-related skills, knowledge, research of economic opportunities and support to overcome barriers and access relevant information and assistance.

EDIs differ from business support in that they support multiple beneficiaries or overcome an identified skills gap, whereas business support is delivered to one identified client or business. With a skills gap, for example, clients who are assessed as not being business ready can be referred to skill development workshops to improve their business skills. As their skills improve, they go on to access one-on-one business support.

## **Equity and Investment Program**

Indigenous participation in the economy at all levels has the potential to ease many of the social issues that arise from poverty. A number of commercially focused Indigenous corporations are developing the knowledge and skills in the medium to large business sector and are also able to support smaller Indigenous businesses to grow and develop.

The objective of the Equity and Investments Program is to bring together Indigenous Australians and other skilled partners into sustainable commercial ventures which provide opportunities for asset ownership, capability transfer, wealth accumulation and employment opportunities for Indigenous Australians. These include cash for further investments, the improvement of employment opportunities and the use of assets to develop broader business opportunities.

Assets investment provides Indigenous Australians with an avenue to bridge the 'gap', because it gives them access to income and capital growth, which can underpin the future financial structure of the Indigenous corporations and communities.

### *Program overview*

The Equity and Investment Program is not supported by an annual Government appropriation. As a result, IBA's investment portfolio must deliver a positive net return after management and operating expenses. Each investment is selected on the basis that the asset can produce a sustainable benefit to Indigenous groups, organisations and corporations. Indigenous partners benefit from being able to acquire an interest in large, active capital assets with relatively small levels of equity and risk exposure.

IBA also ensures that, over time, its Indigenous partners obtain the industry knowledge and skills they need to manage their investments without the assistance of IBA. Other significant potential benefits include increased economic activity and flow of funds to Indigenous communities that participate in joint ventures with IBA.

### *Business model*

IBA's preferred joint venture business model is one that brings together IBA, Indigenous partners and private sector capability partners. Experience has shown that the inclusion of private sector partners is a critical component of any successful commercial venture as it can provide either equity or capability management services.

The investment is structured to facilitate, over time, the divestment of IBA's interests to the Indigenous partner, usually relying on the profits from the venture to acquire that equity. During the partnership, IBA's business model facilitates skill transfer from the industry expert to the Indigenous partner.

IBA and its Indigenous partners also invest in strategic assets, such as commercial property, to provide low-risk medium returns on capital. This strategy provides for good annual capital growth and dividend flow which the Indigenous partners can then use to finance and support commercial and social activities in their communities.



### *Capability transfer and ongoing support*

Through its investment activities, IBA provides opportunities for its Indigenous partners to take up board positions, employment and small business opportunities. This increases the Indigenous partners' ability to manage and operate commercial enterprises and exercise due governance.

IBA assists its Indigenous partners to gain access to advice and skills development needed to undertake governance, management and operational roles required by an investment. This often requires IBA to facilitate the relationship between the Indigenous and non-Indigenous partners while ensuring that the investment meets the needs of both parties.

IBA also encourages governance training through the Indigenous Governance Program developed by the AICD and has recently developed a series of financial literacy workshops, titled *MoneyTalk*, which take into account the varying skills and knowledge base of IBA's Indigenous partners. In addition, a number of IBA's investments include a range of direct employment and training initiatives to support and develop the capacity of Indigenous joint venture partners.

Where required, IBA provides ongoing support for its Indigenous partners during the life of each investment and after its divestment. By ensuring that its Indigenous partners have commercial and industry knowledge and skills, IBA equips them to manage the investment without its assistance.

In entering into an investment, IBA documents with the Indigenous partner the objectives sought from the investment. Those objectives will include the use of future profits to retire debt, to distribute to other programs managed by the Indigenous organisation or to finance other investment outcomes. IBA will also measure and report on employment outcomes associated with the investment and on any measurable social outcomes that flow from the investment to the community.

From time to time, potential Indigenous partners may not have the cash reserves to take an equity position in an investment. In such circumstances, IBA may lend them the required equity provided the projected cash returns can support the repayment of the investment loan.

### *Capital base*

IBA's investment portfolio operates within the initial capital base contributed by the Australian Government and from the portfolio's subsequent growth. IBA's approach is relatively conservative (compared to that of mainstream investment funds), particularly taking into consideration the size of its investment portfolio and the extent of the need within Indigenous Australian corporations. IBA's approach is to minimise risks with a view to preserving its capital base.

The growth in IBA's capital base has been an essential part of being able to support more groups who wish to participate in local ventures. To achieve a positive net return, IBA identifies and manages portfolio risk by:

- maintaining an appropriately diversified portfolio by geography, industry and asset cluster;
- matching the risk profile of investments to the current and future economic environment;
- developing a portfolio that balances risk and return so that a comparable commercial rate of return relative to the cost of capital is achieved;
- reducing investment losses by constant monitoring and early intervention; and
- releasing capital for reinvestment by active portfolio management through divestments or partial equity sell-downs.

### *Monitoring portfolio performance*

IBA actively manages its investment portfolio by considering the following factors throughout an individual investment's life cycle:

- the investment's current performance, outlook, management, future investment requirements and any specific factors (e.g. social returns) that determine whether to hold the investment, invest further, or seek to divest it;
- potential options for IBA to exit the investment and indicative timeframes;
- any proposed changes to distributions and continued alignment with original investment objectives; and
- impacts on the risk profile of the portfolio arising from any proposed investment or divestment, including factors that will trigger certain targets.

If IBA does not have experience or internal capability in a sector or an investment, it engages industry experts to assist with due diligence and to act as independent and external directors on those particular assets until it develops the internal capability.

IBA looks to diversify its portfolio not only by asset cluster, risk and reward, but also geographically on a state and territory basis and a metropolitan, regional and rural basis. IBA will consider investment opportunities anywhere in Australia and believes that it is important to ensure that its investments portfolio is geographically spread not only across states and territories, but also in capital cities, regional centres and remote locations. In some cases, the presence of an IBA investment might be the only opportunity for Indigenous economic development to exist in that location.

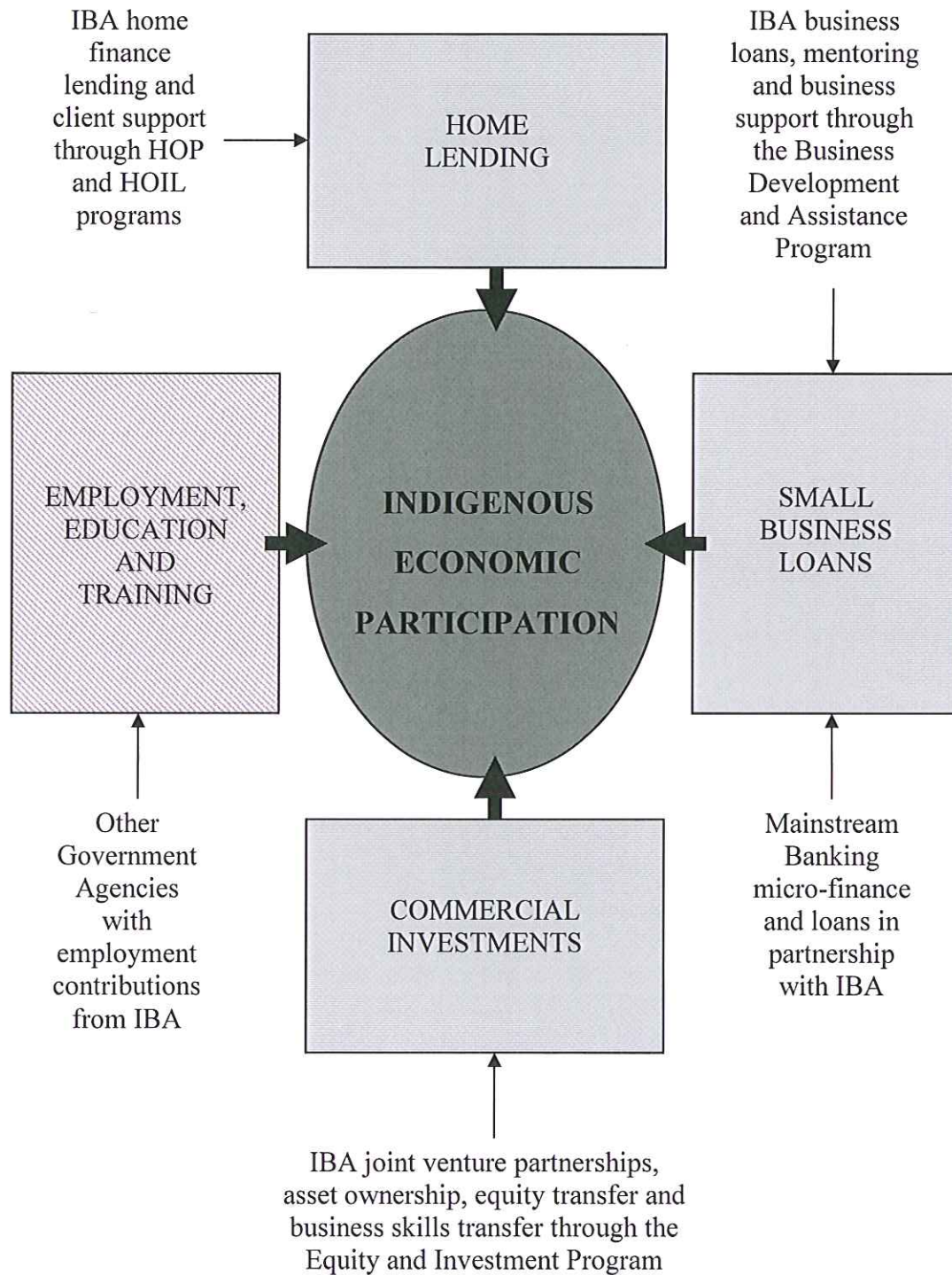
### *Investment portfolio profile*

In 2009–10, IBA held investments in commercial property, retail, tourism and hotel accommodation, primary industries, mining and mine services, and manufacturing.

IBA will consider investment opportunities in all industry sectors, except those that represent a level of risk that is considered incompatible with the protection of the capital base of the portfolio or that would lead to undesirable social outcomes. IBA prefers to invest in sectors where there is a clearly identifiable and acceptable level of risk, internal or partner expertise and no prior market failure.

IBA also has an opportunity to position itself in emerging sectors such as land management, renewable energy and the carbon market. Investment proposals come from either the private sector or the local Indigenous group, who may have been approached by a prospective developer.

**Conceptual illustration: How IBA supports Indigenous economic participation**



**Common issues impacting on Indigenous enterprises in remote communities**  
*(Derived from IBA's work in transitioning CDEPs to viable businesses in the Northern Territory)*

- **Lack of understanding of business operation compared to government support:** Many CDEP operations demonstrated a low understanding of business management or concepts. Some CDEPs indicated that “when grant funding runs out, we ask for more”. The full impact of the loss of CDEP and how that would affect employment numbers and profit/loss statements was not understood.
- **Corporate Governance and Leadership:** There appears to be an important link between strong corporate governance, community leadership and sustainable community business. An appropriate model for community business governance structures needs to be investigated.
- **Land use agreements and royalties:** The availability of royalties from mining in some communities acts as a significant disincentive to undertaking both meaningful work and business activities. In effect, royalty income is a financial return to community members with no requirement of effort in return.
- **Environmental uncertainties:** The ability to determine the medium to long-term viability for many prospective businesses in the NT is impaired due to some environmental/structural uncertainties, particularly surrounding changes in NT shire councils from July 2008.
- **Community/private ownership issues:** The transition to business – and to private ownership - of what had previously been a community service or resource has been a concern in many communities. Given that there can be considerable assets attached to some activities and a financial return to the community, reluctance to allow some activities to become individually owned business enterprises is likely to persist in some communities. Of particular concern in some communities is the perception that some particular families will benefit while the rest of the community misses out, even though that view might ignore the effort that the business owners are making. Internal community/CDEP disagreements about asset ownership may make retaining an existing asset for the use of a new business difficult.
- **Land tenure and land use agreements:** Land tenure for businesses, and the processes to obtain land use agreements from the Land Councils and Traditional Owners, can be difficult and/or time consuming. Some CDEP activities may find that obtaining land use agreements for a business operation, or for expanded operations, becomes too difficult for the business to go ahead.
- **Business continuity:** Some small Indigenous enterprises have failed when individuals have left the community for periods at a time for cultural or family reasons. In some cases, businesses such as those involving crops, market gardens or livestock have failed as nobody has maintained the produce while the business owner was away.

## **Case Study: East Arnhem Land Business Development Approach**

### **Background**

The East Arnhem Land approach has been established by IBA to provide direct small business development and support services on the ground in regional and remote Indigenous communities. It differs from previous business models used in urban and regional indigenous communities by having a strong capability component focussed on supporting the community.

In remote indigenous regions and communities, access to appropriate ongoing enterprise development support is extremely limited. The resourcing required to implement the approach includes the engagement of a facilitator who spends time working with the community and the employment of an Economic Development Officer from the community.

The approach has two stages: Stage 1 – the development of an initial scoping study to understand the region and the communities prior to implementation; and Stage 2 – a five-step implementation process (identification and evaluation of ideas; client screening; reality testing; implementing appropriate business structures and business management processes; and providing ongoing support to clients).

More than 20 enterprises were created, including stand alone sole trader businesses (with registered Australian Business Numbers (ABN)), joint ventures, non-ABN sole traders and CDEP supported enterprises. These generated 8 full time positions and 43 part time positions. This is a substantive achievement considering the general lack of independent small enterprises that operate in most remote Indigenous communities.

Also achieved was the establishment of a local monthly market. This provided a place for budding entrepreneurs to sell their wares. This has proven to be very successful with an average of 9 stall holders and huge community turnout. In addition to the direct benefits to the community a range of indirect benefits were observed. As the majority of enterprises were providing goods, services and opportunities within and for the local community, this is generating the potential for a range of indirect benefits at the local level. For example, the market gardens and nursery enterprise is providing fresh and cheaper produce to the community store and homelands, with added health benefits to the community.

### **Analysis**

*Understanding Context is Critical:* Scoping the context (including cultural and historical context) and background, economic profile and a way forward played a fundamental and influential role in the development of this approach and its implementation. In addition, the facilitator's familiarity with the region and his practical experience of working in communities assisted the understanding of the context.

*Importance of Key Personnel:* Critically, the success of the approach relies upon experienced facilitation. Training in facilitation should be delivered by an

appropriately qualified and experienced facilitator, and wherever possible, at the regional and local level during implementation.

*Getting Relationships Right:* An important element is ensuring the facilitator supports and engenders reliance rather than establishing relationships of dependency. Respecting confidentiality about an individual's business enterprises is also important.

*Practical Application:* The approach applies standard small business development practices that could easily apply in any context. The simplicity of the approach and its action focussed principles means it can be readily communicated and demonstrated to clients and the broader community.

*Innovative Approach:* The approach demonstrates innovation through adaptive use of existing local resources in lieu of investment in a new resource. It also works independently and directly with clients on a case by case basis.

*Keeping it simple:* The approach starts small (below the GST threshold of \$75,000pa turnover in most instances) and tends to work with personal capital rather employing business loans. This has the particular benefit of allowing the business owner to cease trading for periods of time if needed (such as for family or cultural reasons) and then return to trading without needing to service a loan in the intervening period. As a result, the business owner is more easily able to remain in business.

#### **Issues:**

- *Local attributes:* The region has a strong traditional community. Cultural obligations are important and are prioritised before work commitments. The people and the region also have a strong traditional history of trade and enterprise. Traditionally, enterprise and business are family oriented (individual, family/clan based – not community owned and operated). The concept of ownership often rests at the family level, but the culture can allow for recognition of the individual entrepreneur.
- *Local context:* The understanding of the remote Indigenous context should be as broad-based as possible. A 'five foundations' approach is recommended, including an assessment of both mainstream and traditional practices within the following five foundations:
  - Governance, decision-making and regulatory arrangements and practices;
  - The availability and quality of physical resources;
  - The health and wellbeing of the population (physical, social, and cultural factors);
  - The knowledge, education and training levels of the population; and
  - The level of economic security and development within the community or region.

Each of these foundations is critical to policy, program or project success. Where any one of these foundations is weak, the stability of all is under threat.

- *Appropriateness to context:* This is achieved by the preparation of an initial scoping study providing a rigorous and comprehensive description of the local and

regional context. An initial scoping study is regarded as a necessary element of this approach, particularly given the propensity for sudden and wide ranging changes to local circumstances, primarily driven by government actions.

- *Sustainability*: The business enterprise must be personally and financially sustainable for the client or family situation. Key considerations are: Does the business require too many resources, too much capital and require too much personal commitment from the client? Does it have regard to cultural and community obligations?
- *Finance*: The approach seeks to avoid or discourage the need for finance. Having a substantial debt to pay off doesn't fit well with the potential lack of continuity of business activity and the impact on income to pay off the debt. Further, businesses in these communities are often cognisant of seasonal influences, cultural and community obligations and therefore need to be flexible in their approach.
- *Resources*: The fundamental concept is to start 'small and quietly'. The main considerations are what minimum resources are needed to sustain the start up and how will they be sourced? The approach seeks to work with existing resources, including the existing capabilities of the client. It also allows a business start-up to take its first steps 'under the community radar' to build client confidence and protect local reputations. This means that nothing significant is lost should the business fail. For example, a client approached with the idea to start a clothes-making and mending business. The client already owned a sewing machine. The advice was to start offering the service from home. Without any further assistance, and using simple word of mouth, they have started a business.
- *Relationships*: The implementation of the approach relies upon a strong 'working with' principle. The approach has a clear emphasis on establishing a good understanding of the regional and local context before acting. This includes working with five key interests during implementation: clients and the community; other economic development activities and local business; local governance structures; government (territory and federal); and the private sector.
- *Practicality*: Practicality is another important principle for success in remote Indigenous regions and communities. The generally low level of development in this context, and other complicating factors such as remoteness, make it important for activities to be practical. Regional and local populations appreciate practicality and these populations have a strong tendency to more actively engage with practical activities. Practical tools and techniques are those that work efficiently and effectively because they are adapted to or specifically designed to the purpose at hand. The resources that are required to support the application of practical tools and techniques are also relatively easy to obtain.
- *Flexibility*: Flexibility is also important in remote Indigenous communities, particularly given the relatively high degree of instability there. Local conditions are dynamic and the remote Indigenous community context is more likely to be marked by unusual or unexpected changes to conditions (e.g. the introduction of major intervening new government policies and programs, the weather, or a sudden lack of essential goods or services such as fuel and power supply).