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IBA SUBMISSION: SELECT COMMITTEE ON THE EFFECTIVENESS OF THE AUSTRALIAN GOVERNMENT'S NORTHERN AUSTRALIA AGENDA

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OCTOBER 2019



ACKNOWLEDGMENT

IBA pays respect to our Elders past, present and emerging.
We honour the resilience and continuing connection to
country, culture and community by all Aboriginal and
Torres Strait Islander people across Australia.

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1. Introduction

Indigenous Business Australia (IBA) welcomes the opportunity to provide a submission to the Select Committee inquiry on the effectiveness of the Australian Government's Northern Australia Agenda.

By way of background, we refer to our submission to the Joint Standing Committee on Northern Australia in February 2019 (referred to as the "earlier submission"). A summary of the earlier submission is set out below, and a copy of that submission is attached for completeness.

Access to capital

In this submission we explore the ways in which IBA, through its long experience operating in Northern Australia, invests for the benefit of Aboriginal and Torres Strait Islander individuals, communities and groups into Northern Australia, and the ways in which the Northern Australia agenda can assist more effective facilitation of public and private investment in infrastructure and economic development on the Indigenous Estate.¹ We look at IBA's investment in Northern Australia (valued at over \$373 million)² as an example that access to capital is possible.

To further facilitate access to capital, there should be a focus on creating the market conditions to rebalance the risk/return profile of projects on the Indigenous Estate. As a solution to the high-risk nature of many projects in the North, we discuss that a potential solution could include the provision of guarantees and risk insurance facilities domestically.

Similarly, we propose that the Northern Australia Infrastructure Facility (NAIF) could be more effective by having a proportion accessible exclusively for Aboriginal and Torres Strait Islander economic development projects, and by considering whether the Investment Mandate could be refocused particularly for Aboriginal and Torres Strait Islander priorities.

Demand for commercial advice and support

However, we emphasise that capital is only accessible for commercially viable projects that have a developed business model. In our experience, many Aboriginal and Torres Strait Islander led economic development projects are at the pre-loan phase and require assistance with the feasibility aspect of such opportunities. Whilst IBA has the capability to deliver such support, we are restricted by our funding and legislative constraints.

Tenure is not the problem

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

Genuine engagement and partnership with Aboriginal and Torres Strait Islander individuals, groups and communities is critical

For the Northern Australia agenda and its objectives to be effective, genuine engagement and partnership with Aboriginal and Torres Strait Islander people across the North is essential – and relevant for all the points made above.

Given that a large proportion of the land and population in Northern Australia are Indigenous, it is critical that the objectives, design, implementation and evaluation of the agenda, is Indigenous-led.

¹ The assets comprising the Indigenous Estate include tangible assets: the land and waters of the Estate, and the resources located on or within it, and also intangible assets – cultural and intellectual property rights, as they exist in forms of expression

(arts, dance, music, language); traditional cultural, environmental and bioscience practices, and other forms of traditional knowledge.

² Figures current as of 30 June 2019.

Key points from IBA's earlier submission

IBA's earlier submission focused on the opportunities and challenges faced by Traditional Owners in realising their economic development aspirations of the Northern Australia agenda.

These are summarised below and further explored in this submission.

Our earlier submission provides an overview of IBA and a snapshot of the broad array of products, services and activities that IBA provides – throughout Northern Australia – through our Business Solutions, Housing Solutions and Investment and Asset Management divisions.

Development finance, guarantees and risk assurance

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

Incentives through the taxation system

IBA considers 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"³ 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.

More support is needed to assist Aboriginal and Torres Strait Islander land owners access good quality commercial and financial advice

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 for feasibility and scoping studies of potential economic development projects. There is limited funding available nationally to deliver support of this nature.

IBA's strong presence in Northern Australia

Over the past 30 years, IBA has successfully invested in Northern Australia, through our Business Solutions, Investment and Asset Management and Housing Solutions divisions.

In particular, we have successfully invested in Northern Australia in commercial ventures where very few, if any, mainstream investors or lenders would have risked capital.

³ 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.

To 30 June 2019, our performance in Northern Australia included:

Housing Solutions

- IBA's Housing Solutions portfolio of 5,349 loans, 1,244 (23%) were in Northern Australia, with a value of \$304.4 million⁴

Business Solutions

- 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.⁵

Investments and Asset Management

- IBA has invested in 31 investments that are in the Northern Australia region.⁶ 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

Further, additional resources have also been committed exclusively for IBA to provide business loans and supports for Indigenous entrepreneurs in the Northern Territory that operate on Aboriginal Land, Community Living Areas or on remote Native Title areas.

IBA also administers a \$20 million facility to provide Performance and Warranty Bonds for businesses engaged in the construction industry, which is available to eligible customers Australia-wide.



'We did it, you and me, this was our dream and we did it together.' – Carmen and her daughter picking up the keys to their new home.

⁴ As at 30 June 2019.

⁵ At 30 June 2019.

⁶ Since 1993.

Legislative, administrative and funding constraints

In our previous submission we discussed specific constraints that restrict IBA from increasing our investment and activities in Northern Australia.

The 2017-18 Budget included a measure to divert IBA's appropriation for the Business Development and Assistance Program (which is administered by the Business Solutions division) to the Indigenous Advancement Strategy for four years, with IBA then contracted to deliver the relevant services. Previously the program had been funded by annual appropriation.

Further, in early 2017, \$9 million or 25 per cent of IBA's funding, was diverted from the Business Development and Assistance Program to other initiatives outside of IBA.

Based on current capital levels, IBA is funded with \$9.18 million in additional capital for business finance for the whole of Australia each financial year. As demonstrated in our 2018-19 results, and in Northern Australia alone, demand for business finance is certainly much higher.



2. Facilitation of public and private investment in infrastructure and economic development

IBA is committed to supporting Aboriginal and Torres Strait Islander people across Northern Australia to facilitate investment and access economic opportunity – a function IBA has been carrying out for close to 30 years, with a 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.

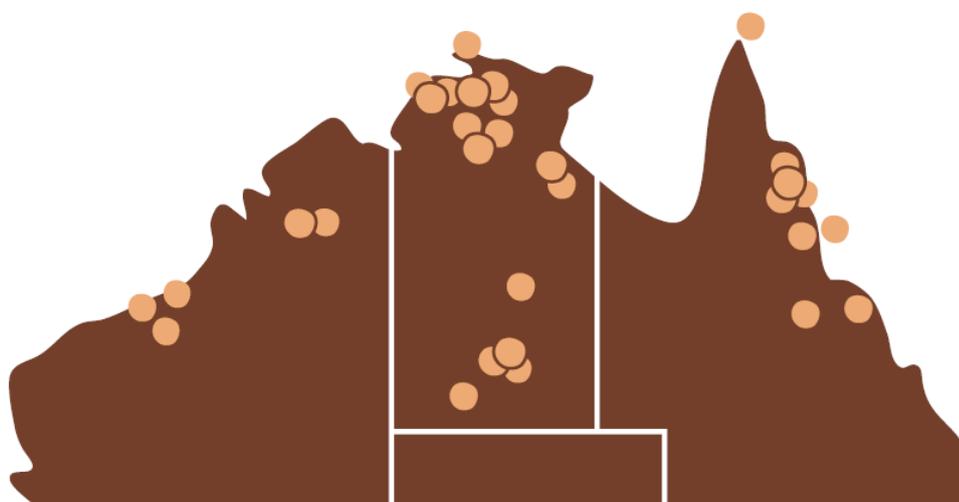
As set out below, IBA's past and current investments are spread across Northern Australia, and in addition to these investments, IBA is presently also working with several hundred businesses and entrepreneurs through our Business Solutions function in Northern Australia.

Access to capital

IBA's model and performance in Northern Australia, indicates that access to capital is possible, including for investments in economic development projects on Indigenous land holdings. Utilising this model – founded on partnerships with local Aboriginal and/or Torres Strait Islander groups in assets that provide financial returns and social outcomes – IBA has successfully provided capital in Northern Australia for ventures where very few, if any, mainstream lenders or investors would have injected capital.

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.

Applying this strategy, since 1993, IBA has invested in 31 investments in Northern Australia as follows:



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 Cooida	NT			
16.	NT Government Centre Katherine	NT	31.	Ngarda Civil and Mining	WA

The limitation to IBA generating more impact is merely constrained by our own capital, although our involvement in transactions as a catalytic investor has facilitated mainstream lenders investing 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.

Demand for pre-bank feasibility support

However, we emphasise that capital is only accessible for commercially viable projects that have a developed business model.

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

Indigenous land tenure is not an issue

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.⁷

Whilst the nature of tenure of the Indigenous estate can vary from jurisdiction, this should not be considered a barrier to realising the economic development aspirations of Northern Australia. The White Paper and Northern Australia agenda places an overemphasis on Indigenous land tenure reform, when there is already capacity for such land to be used for economic development purposes.

For example, whilst Aboriginal land pursuant to the *Aboriginal Land Rights (Northern Territory) Act 1976* 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. 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

⁷ White Paper 2015.

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.⁸ 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.

IBA has worked with ALPA by supporting ALPA to invest in the IBA Funds.⁹ 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.¹⁰

⁸ As at 30 June 2019.

⁹ 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.

¹⁰ Arnhem Land Progress Association Annual Report 2018/19.

3. Securing economic and social benefit for Aboriginal and Torres Strait Islander peoples

Indigenous land tenure comprises a large proportion of the Northern Australia region, including 66 per cent of Queensland, 80 per cent of the Northern Territory and 94 per cent of Western Australia.¹¹ Further, Aboriginal and Torres Strait Islander people make up approximately 15 per cent of the population in Northern Australia and over 25 per cent of the population in the Northern Territory. With 9 per cent of Indigenous businesses in the Northern Australia region,¹² further growth can be achieved through the Northern Australia agenda and in partnership with our organisation.

The Northern Australia agenda provides an opportunity for Aboriginal and Torres Strait Islander people to realise their own economic development aspirations and to be involved in partnerships that result in economic and social benefit.

Northern Australia agenda must be Indigenous-led

The Northern Australia agenda and its objectives will only be effective by adopting an approach of genuine engagement and partnership with Aboriginal and Torres Strait Islander people. Given that a large proportion of the land and population in Northern Australia are Indigenous, it is critical that the objectives, design, implementation and evaluation of the agenda is led by and for Aboriginal and Torres Strait Islander people.

¹¹ <https://www.industry.gov.au/sites/g/files/net3906/f/2018-10/our-north-our-future-developing-northern-australia-2018-implementation-report.pdf>

¹² <https://www.industry.gov.au/sites/g/files/net3906/f/2018-10/our-north-our-future-developing-northern-australia-2018-implementation-report.pdf>

Leveraging the Northern Australia Infrastructure Facility

The Northern Australia Infrastructure Facility (NAIF) notes that its 'focus on benefit and growth, and encouraging private sector and Indigenous involvement in northern Australia are key differentiators from other lenders'. However, whilst the total value of NAIF loan commitments is \$1.4 billion as at 30 September 2019, and although Aboriginal and Torres Strait Islander people and their land interests are very prominent in Northern Australia, only 2.8 per cent of the funds committed have been allocated to Aboriginal and Torres Strait Islander recipients.¹³

Through IBA's Business Solutions division, IBA currently assists 120 customers in Northern Australia, with a collective business loan portfolio valued at \$23.96 million¹⁴ (which equates to 27.2 per cent of IBA's business loan portfolio). The strong presence of IBA's Investments and Asset Management division in Northern Australia has been detailed above. Whilst there is evidenced demand for funding for economic development in the Northern Australia region, in comparison to the NAIF, IBA simply does not have sufficient capital to fund large scale infrastructure projects.

Given the significant capital available under the NAIF, there is an opportunity for meaningful Indigenous procurement and employment outcomes. Whilst the NAIF's Indigenous Engagement Strategy provides a framework to assess project proposals, more could be done around implementing and monitoring Indigenous procurement and employment targets.

IBA recommends that NAIF consider allocating a proportion of the lending facility to Aboriginal and Torres Strait Islander infrastructure projects and that the tangible outcomes of the NAIF's Indigenous Engagement Strategy be reported publicly.

¹³ Based on the NAIF Pipeline <https://naif.gov.au/about-naif-finance/current-pipeline/>

¹⁴ As at 30 June 2019.

Indigenous Ingenuity

The Northern Australia agenda has identified five industry pillars that have the most potential for growth including:

- food and agribusiness;
- resources and energy;
- tourism and hospitality;
- international education; and
- 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.



Antenna currently on the CfAT premises in Alice Springs with a design painted by local Arrernte artist Rosanne Kemarre Ellis.

Photo credit: Geoscience Australia.

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.

4. Evaluation of Northern Australia measures

According to the *Developing Northern Australia Implementation Report 2018* (Implementation Report), "74 per cent of the measures in the White Paper have been implemented—that is, 38 of the 51 measures delivered".¹⁵

IBA recommends that the Implementation Report provide specifics as to the measures that have been successfully implemented and delivered, as well as the tangible economic and social impact on Aboriginal and Torres Strait Islander people in Northern Australia.

The current work being led by the Productivity Commission to develop an Indigenous Evaluation Strategy may be of assistance in this regard.

¹⁵ <https://www.industry.gov.au/sites/g/files/net3906/f/2018-10/our-north-our-future-developing-northern-australia-2018-implementation-report.pdf>

5. 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.

While some progress has been made over the years, we believe the opportunity to scale the impact IBA has generated over the years exists (as outlined in this submission) 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 and challenges that exist, but also the economic development success stories, which are centred around strong partnerships with Aboriginal and Torres Strait Islander people to deliver impactful outcomes.

As noted in this 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, particularly for commercial capability and capacity development and pre-loan and feasibility funding.

