Inquiry into the Opportunities and Challenges of the Engagement of Traditional Owners in the Economic Development of Northern Australia
Submission 14
Attachment 1

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IBA SUBMISSION: JOINT STANDING COMMITTEE ON NORTHERN AUSTRALIA - INQUIRY INTO THE OPPORTUNITIES AND CHALLENGES OF THE ENGAGEMENT OF TRADITIONAL OWNERS IN THE ECONOMIC DEVELOPMENT OF NORTHERN AUSTRALIA

28 FEBRUARY 2019

INDIGENOUS BUSINESS AUSTRALIA

The design of our new brand was inspired by artwork from Indigenous artist Penny Evans.

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1. Introduction

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

IBA is a commercially focused statutory authority with a unique and important role to play in Indigenous Economic Development across Australia.

In parallel with this Inquiry, IBA has also been actively engaged with the Northern Australia Indigenous Reference Group throughout its deliberations and discussions.

IBA was established:

- to assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency; and
- to advance the commercial and economic interests of Aboriginal persons and Torres Strait Islanders by accumulating and using a substantial capital asset for the benefit of the Aboriginal and Torres Strait Islander peoples.[1]

IBA's vision is for a nation in which Aboriginal and Torres Strait Islander people are economically independent and an integral part of the economy and endeavours to achieve this via three main activities:

Investments and wealth

IBA invests where others won't, in partnership with Aboriginal and Torres Strait Islander organisations and businesses to identify and access impactful investment opportunities and source and link investors to investments to grow wealth.

Home ownership

We support Aboriginal and Torres Strait Islander people to achieve their aspirations for home ownership.

Business and entrepreneurs

We provide financial and business support to Aboriginal and Torres Strait Islander business owners and entrepreneurs.

In pursuing our purpose, IBA is required under its legislation to engage in commercial activities, and we have years of successful service as an Aboriginal and Torres Strait Islander-specific commercial organisation working on the seemingly intractable issue of Aboriginal and Torres Strait Islander economic development.

In carrying out our activities, IBA is a unique organisation in the Indigenous Affairs portfolio, in that most of our commercially-focused solutions are funded by self-generated revenue – from our home and business lending activity and from returns from our investment portfolios.

[1] Section 146 of the *Aboriginal and Torres Strait Islander Act 2005.*

A small portion of the amount we lend each year to support home ownership outcomes is received from the Commonwealth. In 2017-18, IBA committed $312 million to home lending through our Housing Solutions division, which equates to 13 times the Commonwealth contribution of $22.85 million for the 2017-18 Financial Year.

Similarly, a small portion of our business lending activities are funded via the Indigenous Advancement Strategy from the Department of Prime Minister and Cabinet (PM&C). For the 2017-18 Financial Year, IBA received $9.855 million for business finance from PM&C as part of its delivery of the Business Development and Assistance Program (BDAP), however IBA provided $51.5 million in business finance to customers via its diverse range of Business Solutions products.

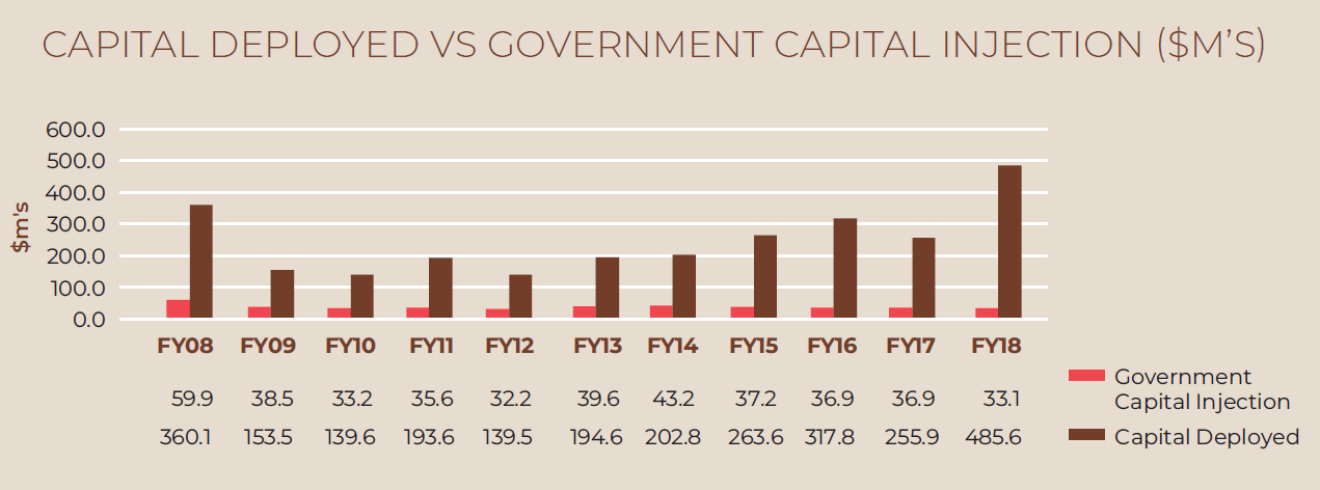


Figure 1: Capital deployed compared to Government capital injections from 2008

Indeed, in the 2017-18 Financial Year, IBA invested or financed more than $400 million across our areas of work – our biggest year on record. This represents more than 12 times the amount of funds IBA received from the Commonwealth.

Despite IBA's record results, our capital and resources are finite and IBA is heavily reliant on the returns from our investments, business loan and home loan portfolio to meet current and new demand.

Our total capital deployed across our programs equates to over $400 million, which could easily be consumed by a single project or a small number of large infrastructure projects of the kind discussed in the context of the development of the North. Although our resources and size are constrained, IBA has committed substantial resources to Northern Australia over time relative to other regions and we have successfully invested in Northern Australia in ventures where very few, if any, mainstream investors or lenders would have risked capital.

2. The enhancement of economic development opportunities in Northern Australia

One of the key challenges to attracting private loan finance and investment capital to projects on Aboriginal and Torres Strait Islander land holdings is that most projects do not achieve acceptable returns based on the level of risk. IBA plays an important role in mitigating these challenges, by partnering and co-investing with Aboriginal and Torres Strait Islander groups (to achieve the types of outcomes which are outlined below in case studies), whilst adhering to prudent financial practices.

Generally, high risk projects will need to achieve higher returns to meet the risk/return parameters of banks and other financiers, or investors. However, creating the market conditions that rebalance the risk/return profile of projects on the Indigenous Estate will require long-term investment, including in potentially expensive enabling infrastructure such as transport as well as other measures that might stimulate revenue and create incentives for a broader range of industries to invest so that markets are strengthened over time.

Human resource issues are also important given that IBA considers opportunities to build the commercial capability of Traditional Owners through increasing the availability of commercial advice and assistance through additional resourcing.

Other specific potential measures for enhancing economic development outcomes might include:

Development finance, guarantees and risk insurance

The Australian Government (through the Export Finance and Insurance Corporation) offers risk insurance, guarantees, and concessional loan finance to Australian companies seeking to access emerging markets overseas. Other developed countries have established similar development finance agencies. For example, the US Government's Overseas Private Investment Corporation (OPIC) mobilises private capital to help solve critical economic challenges in developing countries. OPIC provides investors with financing, guarantees, political risk insurance, and support for private equity investment funds, and these facilities are underwritten by the US Treasury.

The provision of guarantees and risk insurance by these types of development finance agencies is a proven model for leveraging private capital investment to high risk markets. IBA considers that the development of these types of facilities domestically could encourage private investment into the Indigenous Estate in Northern Australia.

This could be achieved by expanding the capacity of existing facilities (for instance IBA currently has a limited capacity to offer guarantees with the consent of the Commonwealth's Finance Minister[2]) or establishing new development finance facilities. Essentially, this approach involves the public sector providing credit enhancement and/or take-up the "first loss piece" (eg risk equity component) of development activity, so that other private investors and financiers can participate. Domestic examples in

[2]IBA can play a role with a development finance approach. However, IBA is capital constrained. This means that IBA's capacity to provide guarantees, concessional finance and investment capital (etc.) is limited by the size of its capital base. A significantly bigger facility would be needed to make an appreciable difference to capital flows to projects on the Indigenous estate.

other markets would be the Clean Energy Finance Corporation and the Australian Renewable Energy Agency.

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.

Support for commercial capability of Indigenous land owners

In IBA's experience, there remains a significant need for Traditional Owners to access good quality commercial and financial advice.

Private investors may be reluctant to risk capital where they are uncertain of the commercial capacity of a prospective partner. Assisting Traditional Owners and Aboriginal and Torres Strait Islander entities who own land to make sound commercial decisions by supporting the establishment of a funding pool that can be used to subsidise commercial and financial advice, to provide funding for feasibility studies, and to build the commercial capability of Traditional Owners (and other Aboriginal and Torres Strait Islander land-owning entities), would be beneficial. There are many participants in the commercial advisory/capacity building space including the private sector, professional networks, educational institutions, and governments. IBA also has a role, which we are keen to play.

Any approach to delivery will need to be cognisant of the multi-faceted environment in which commercial capability services are delivered.

IBA supports Prescribed Bodies Corporate (PBCs) through our existing products, services and activities and recognises that there is a growing need to support PBCs to access PBC development funding for capacity building. This is an issue particularly relevant to Northern Australia, given the number of PBCs located in Northern Australia.

3. How IBA supports Aboriginal and Torres Strait Islander people to achieve economic development

IBA's services and activities deliver positive social and economic outcomes which contribute towards the wellbeing of our customers and their communities, whilst also achieving savings for Governments and contributing towards the broader economy (through growth in GDP).

Housing Solutions division

Home ownership is an important indicator of wealth and savings, as owning a home provides a secure asset base against which people can borrow. Home ownership also contributes to financial stability and provides opportunity for wealth creation. Beyond the creation of intergenerational wealth, home ownership has a broad impact on an individual's life and contributes to a range of other beneficial social and economic outcomes – including contributing to feelings of stability and security; and autonomy and independence.

IBA's Housing Solutions division offers a suite of products and is one of the longest standing programs successfully supporting self-management and economic self-sufficiency for Aboriginal and Torres Strait Islander people through the delivery of access to an affordable home loan for Aboriginal and Torres Strait Islander people who do not qualify for mainstream bank financing.

IBA's Housing Solutions division manages the Indigenous Home Ownership Program (IHOP), which has successfully supported Indigenous Australians into home ownership for over 40 years. IBA does this by providing access to affordable housing loan finance and supports home buyers to build their financial literacy to transition to mainstream lenders.

Features of IBA home loans

The program aims to address a range of barriers that aspiring Aboriginal and Torres Strait Islander home owners face, including an inability to access loans from mainstream banks due to:

- low deposits and savings;
- an inability to borrow sufficient loan funds from a mainstream lender due to bank credit and risk assessment processes; and
- previous loan defaults.

The program addresses these barriers by offering:

- attractive interest rates;
- lower deposit requirements; and
- extended loan terms and not requiring lenders mortgage insurance.

Significant increases in house prices in the last 15 years have exceeded average wage and salary increases over the same period, impacting on affordability – this is a broader public policy issue, but one that impacts upon IBA and our customers. In carrying out its activities in the Housing Solutions division, IBA does not compete with commercial mortgage providers but provides products for customers who are often considered 'high risk' and therefore operates in a space that other providers simply do not have the appetite for.

External factors are also influencing the growth in demand for IBA's home loan product. As widely reported in the press, lenders are tightening the availability of housing credit which will invariably "squeeze out" customers in the lower income bands. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission) has the potential to increase regulatory pressure on mainstream lenders further.

Over the life of the program, more than 18,000 Aboriginal and Torres Strait Islander families have been supported into home ownership, equating to more than $2.3 billion in assets in Aboriginal and Torres Strait Islander hands.

Business Solutions division

Businesses create real and lasting benefits for their owners, employees, families and communities and also drive the creation of jobs, through direct employment. More than just a means for providing economic independence, Aboriginal and Torres Strait Islander business owners also use their business as a vehicle to drive positive change for their family and wider community, to develop capacity to pursue careers, and to build leadership, resilience and pride.[3]

Features of IBA's Business Solutions products and services

IBA's Business Solutions activities include a range of services, as well as financial support:

- workshops to develop business skills;

[3] R Burton and E Tomkinson, The Sleeping Giant – A Social Return on Investment Report on Supply Nation Certified Suppliers, Supply Nation <https://supplynation.org.au/wp-content/uploads/2018/08/Sleeping-Giant-Report.pdf>, (April 2017).

- access to resources, knowledge, insights and other support; and
- financial support through loans, leasing or access to capital

IBA's Business Solutions division is a key participant in the shift in the national narrative, which is being driven by the growth in Aboriginal and Torres Strait Islander businesses, from welfare and dependence, to self-empowerment, independence and the achievement of excellence.

A function of the Business Solutions division is operation of the Business Development and Assistance Programme (BDAP). IBA has had responsibility for delivery of the BDAP since 2005, when this key economic program was transferred from the Aboriginal and Torres Strait Islander Commercial Development Corporation (ATSIC) to IBA.

Increasing demand and innovation in service delivery

IBA has seen strong and increasing demand for its products and services and has delivered a range of new initiatives and products, including:

- initiating strategic partnerships to enable Aboriginal and Torres Strait Islander entrepreneurs to receive support in different locations and sectors;
- focusing on start-up businesses through products such as the IBA "Start-up Finance Package";
- working strongly to support more Aboriginal and Torres Strait Islander women into business and to increase the representation of women and youth in IBA's customer base; and
- developing a performance bond, the provision of bank guarantees to eligible Aboriginal and Torres Strait Islander suppliers to enable those suppliers to win and fulfil major construction and engineering contracts.

This focus on new products has continued into the 2018-19 financial year which has seen IBA deliver the Northern Territory Start-up package, which is exclusively available to start-up and pre-bank stage businesses operating the Northern Territory on Aboriginal land held pursuant to the *Aboriginal Land Rights (Northern Territory) Act 1976*, on Community Living Areas, or on remote native title areas.

Investment and Asset Management division

IBA's Investment and Asset Management division is a long-standing impact investor: since 1991 it has looked to make investments into assets with the intention of generating a measurable, beneficial social impact alongside a financial return and particularly in markets in remote Australia where few, if any, other investors are willing to risk capital.

IBA's Investment and Asset Management division aims to act as a catalyst to build wealth by partnering with Aboriginal and Torres Strait Islander organisations and businesses to assist them to increase their commercial capability, to grow their wealth and build an intergenerational asset base and ultimately reduces dependence on government assistance.

IBA assists Aboriginal and Torres Strait Islander people to achieve economic independence through investment and participation in commercial enterprises that produce financial returns and employment, training and supply chain opportunities.

The Investment and Asset Management division has developed an integrated product and service offering to meet the growing needs of our customers and support wealth accumulation, whilst also creating

employment, training and procurement benefits. IBA's Investment and Asset Management program does not rely on any Government funding to operate – having been entirely self-funded since 1999. The program costs and activities are fully funded by returns on our investment portfolio.

Features of IBA's Investment and Asset Management division

Unlike our Housing or Business Solutions which focus primarily on individuals, our Investment and Asset Management division works with Aboriginal and Torres Strait Islander communities and organisations to provide sustainable commercial investments by:

- applying our capital, experience and skills to access financially sound opportunities;
- bringing together Aboriginal and Torres Strait Islander people, industry specialists and private investors; and
- building commercial capability through partnership, hands-on mentoring, employment and training.

In doing so, and through the direct management of businesses and investments and the provision of managed investments, the program provides Aboriginal and Torres Strait Islander people with meaningful opportunities for:

- asset ownership;
- stable and enduring income streams;
- capacity development and other investment support;
- employment and training; and
- supply chain contracts.

IBA's investment approach is delivered in a strategic, planned and commercially astute manner, taking advantage of wider economic opportunities, from initiatives in remote or regional Australia, where many of our investment customers are located, to urban areas so our customers can derive value and returns from participating fully in commercial markets.

IBA has investments located across Australia, and in our history, we have invested in every State and Territory. IBA plays a key role in bringing together private sector capability partners, private investors and Aboriginal and Torres Strait Islander people into sustainable commercial partnerships, a capacity we have demonstrated many times over, to create ventures that generate Aboriginal and Torres Strait Islander economic impact.

4. IBA's performance in Northern Australia

IBA's legislative mandate is to support Aboriginal and Torres Strait Islander people across Australia – we have a prominent national footprint and a desire to continue growing the positive impact generated through our programs. In respect of the Northern Australia region, IBA operates five offices (out of 14 nationally) and, through our programs, we support Aboriginal and Torres Strait Islander people that are spread across major cities, inner regional, outer regional, remote and very remote locations of Northern Australia.

IBA carries out our activities across Northern Australia irrespective of the underlying land tenure arrangements and our engagement is not restricted to Traditional Owner groups. Our customers range from those seeking economic development opportunities within their communities, to entities seeking "off country" investment opportunities to maximise economic activity and returns that are not available in their immediate region.

Despite our national remit, we have committed substantial resources to Northern Australia over time relative to other regions, and over the past 30 years of our history we have successfully invested in Northern Australia in ventures where very few, if any, mainstream investors or lenders would have risked capital.

As noted above, despite our small size relative to other Government departments and agencies, and substantially reduced funding relative to 2016-17 and earlier years, IBA achieved a record level of investment and lending in 2017-18 – recording results substantially higher than any one year in our history.

Much of this work in 2017-18 was in regional and remote Australia, including across Northern Australia which:

At 31 December 2018, IBA's investment in Northern Australia was valued at over $300 million

- captured over 20% of IBA's investment activity;
- encompassed over 40% of IBA's active business finance portfolio; and
- received 32% of the external business support provided by IBA.

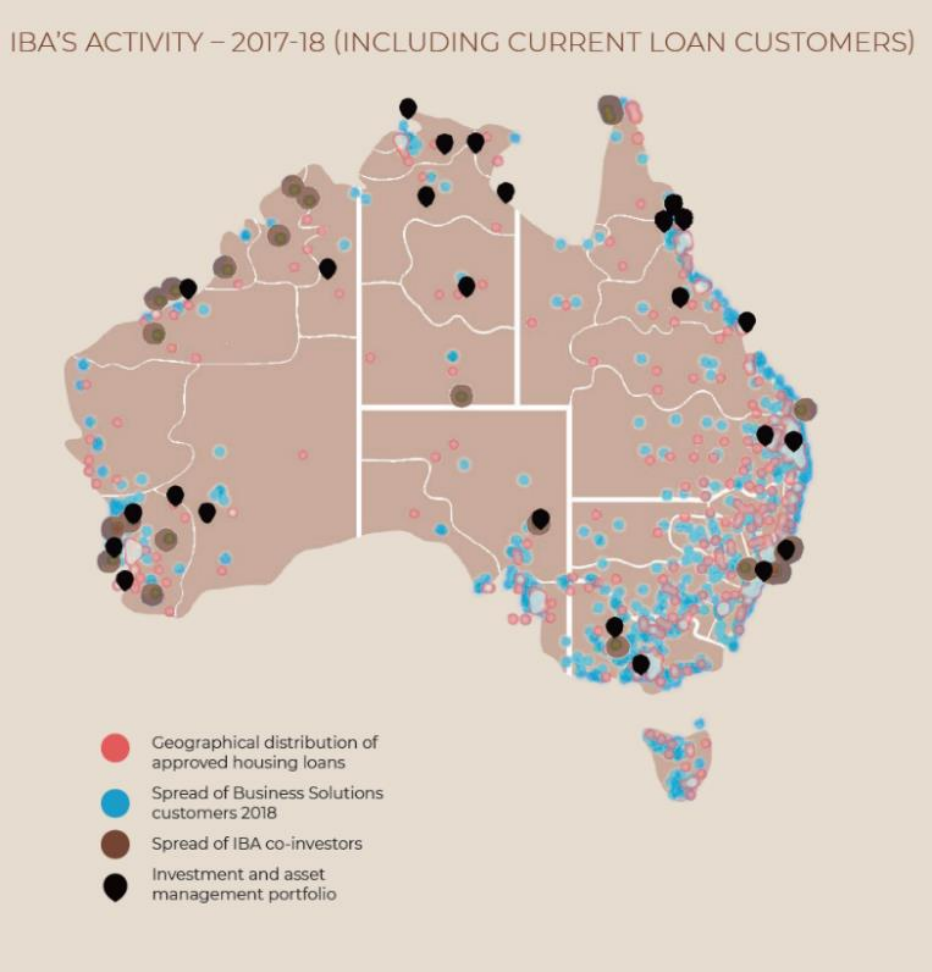


Figure 2. IBA's activity in FY2017-18

Performance: Housing Solutions division – Northern Australia

IBA's customers in our Housing Solutions division are overwhelmingly first home buyers, often the first in their family and are in the three lowest income bands (being (i) up to $42,429, (ii) between $42,430 to $72,129 and (iii) between $72,130 to $118,802 per year per household). Notwithstanding lower population levels of Aboriginal and Torres Strait Islander people relative to other areas in Australia, IBA's Housing Solutions division has strongly contributed towards increasing home ownership levels in Northern Australia:

- over the last 20 years, 2,748 loans (or 26% of all approvals in the IHOP) have occurred within Northern Australia;
- as at 31 December 2018, in IBA's portfolio of 5,146 loans, 1,078 (21%) were in Northern Australia, with a value of $242.5 million; and
- in the 2017-18 Financial Year, of the 913 loans approved by IBA, 155 (17%) were located in Northern Australia, with a value of $51.1 million.

Performance: Business Solutions – Northern Australia

Since 1 July 2017 to 31 December 2018, in Northern Australia, IBA's Business Solutions division:

- had approved 105 loans (to 91 customers) with a value of $15.2 million;

- had provided 165 customers with external business support (identification of an appropriate consultant to work with the business and then funding for that consultant) with a value of $2.2 million; and
- had conducted 31 workshops (to 214 participants).

At 31 December 2018, the Business Solutions division is managing 129 active accounts in Northern Australia in its business loan portfolio (assisting 114 customers) with a total value of $23.6 million. This represents 42 per cent of IBA's business loan portfolio.

For the calendar year January 2018 to 31 December 2018, through its asset leasing program the Business Solutions division, is managing 44 equipment finance leases and is assisting 20 customers with a total value of $5.1 million.

Further, for the same period, IBA's Business Solutions division assisted an additional 11 customers through the Indigenous Economic Development Trust[4] in the Northern Australia region and includes 64 equipment finance and property leases with a total value of $4.02 million.

The Business Solutions division has also committed $732,990 worth of Northern Territory start-up grant loan/lease packages to 31 December 2018. This product provides a mixture of grant and loan funding and is tailored to remote Aboriginal and Torres Strait Islander businesses which are located on land held by Aboriginal Land Trusts[5], on native title areas and on Community Living Areas in the Northern Territory.

Performance: Investment and Asset Management division – Northern Australia

IBA's 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 – and typically in partnership with a local Aboriginal and/or Torres Strait Islander group in assets that ideally provide financial returns, employment outcomes and social impact.

Applying this strategy, since 1993, IBA has invested in 29 investments that are in the Northern Australia region, as set out below:

	Name of investment			Name of investment	
1.	Kings Canyon Resort	NT	**16.**	NT Government Centre Katherine	NT
2.	Barra Base Fishing Lodge	NT	**17.**	Ngarda Civil and Mining	WA
3.	Central Australian Vehicle Dealership	NT	**18.**	Fitzroy Crossing Inn	WA
4.	Mt Todd Gold Mine	NT	**19.**	Fitzroy River Lodge	WA
5.	Nitmiluk Gorge (Cicada Lodge)	NT	**20.**	Commonwealth Centre South Headland	WA
6.	Thursday Island Property Development	Qld	**21.**	Mitchell Street Development	NT
7.	Ampiji Pty Ltd	NT	**22.**	Cape Don Experience	NT

[4] IBA is the Trustee of the Indigenous Economic Development Trust.
[5] Pursuant to the *Aboriginal Land Rights (Northern Territory) Act 1976.*

8.	Homestead Complex South Hedland	WA	**23.**	Anderleigh Enterprises	Qld
9.	McArthur River shipping	NT	**24.**	Central Townsville	Qld
10.	Tjapukai Cultural Theme Park	Qld	**25.**	Tennant Food Barn	NT
11.	Palm Island Ferry	Qld	**26.**	Wildman Wilderness Lodge	NT
12.	Carpentaria Shipping Services	NT	**27.**	Holiday Inn Townsville	Qld
13.	Foxleigh Coal Mine Joint Venture	Qld	**28.**	Chifley Alice Springs Resort	NT
14.	Gagudju Crocodile Hotel	NT	**29.**	Adina Grand Darwin Waterfront and Vibe Hotel Darwin	NT
15.	Gagudju Lodge Cooinda	NT			

In addition to our direct investment strategy (which achieves wealth creation and beneficial supply chain and employment outcomes from these investments) Aboriginal and Torres Strait Islander people are increasingly accessing funds through settlements, royalties and commercial activity.

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

The IPF was launched in 2015 to provide eligible Aboriginal and Torres Strait peoples with the opportunity to invest in a diversified portfolio of investments, including exposure to Australian and international shares, bonds, property and cash. The IPF comprise the Growth, Income and Cash funds. The I-REIT was launched in 2013 to give Indigenous investors the opportunity to invest in an actively managed commercial property fund alongside IBA and other Indigenous organisations.

Of the 41 Aboriginal and Torres Strait Islander groups who currently co-invest alongside IBA in the IPF and I-REIT, 27 are in Northern Australia (67%) – these Northern Australian Aboriginal and Torres Strait Islander investors have investments worth $102.9 million in the IPF and I-REIT (at 31 January 2019). Increasing exposure and investment in Northern Australia, the portfolio of the I-REIT includes a number of commercial properties in Northern Australia (Katherine, Townsville and Clifton Beach).

This investment activity is in addition to the $21.2 million worth of equity held by our Aboriginal and Torres Strait Islander partners in IBA's direct investment Northern Australia portfolio.

5. Case studies

(i) Wealth creation for current and future generations

Case Study: IBA Funds – the Indigenous Real Estate Investment Trust and the Indigenous Prosperity Fund

IBA currently supports Aboriginal and Torres Strait Islander entities and groups in remote Northern Australia across our divisions.

An example of an IBA initiative that is available to remote Northern Australia groups is the Indigenous Real Estate Investment Trust and the Indigenous Prosperity Fund. These investment fund products provide Aboriginal and Torres Strait Islander groups with access to stable, prudently managed 'off-country' investment opportunities, with the returns generated from the funds reinvested into the remote communities in which such co-investors are located.

(ii) Renewable Energy Sector Strategy

With a focus on remote and regional opportunities, IBA has successfully implemented a Renewable Energy Sector Strategy in its Investment and Asset Management division since 2017.

The Renewable Energy Sector Strategy has a focus on identifying renewable energy investment opportunities in remote and very remote Aboriginal and Torres Strait Islander communities and our work has successfully assisted in replacing diesel-fired electricity generation with renewable energy and storage solutions. In the implementation of this sector strategy, IBA has undertaken considerable work to build technical capability, industry contacts and relationships with key industry players to develop this sector.

This strategy was adopted by the IBA Board because of the importance of access to reliable and affordable energy for remote communities and has been particularly successful in assisting remote communities around Tennant Creek achieve broader economic development outcomes, as widely reported in media reports.

Case Study: Manungurra Aboriginal Corporation and IBA's Renewable Energy Strategy

Indigenous Business Australia (IBA) and the Manungurra Aboriginal Corporation (Manungurra) have worked together to provide two Aboriginal communities in the Barkly region (NT) with solar power.

The solar panels and batteries, which were supplied and installed by an Aboriginal-owned business have allowed the communities of Ngurrara and Kurnturlpara to shift to a renewable power source that is 50% cheaper than diesel generators – bringing power costs to an affordable level for families.

This shift has contributed to these Communities now being fully occupied – growing from two permanent adults to 30-40 adults and children who are now able to live more independently on their own country.

This transition was made possible through IBA's Asset Leasing program which purchased the solar panels and batteries and leased them to Manungurra.

Manungurra, which was established when the Bootu Creek manganese mine opened, invested some of its royalties in IBA's Indigenous Real Estate Investment Trust (IREIT).

Through the stable, well managed investment alongside IBA in the IREIT, Manungurra was able to establish income stability in order to pursue community development such as this solar leasing project.

The installation of solar power at Ngurrara and Kurnturlpara provided power for air-conditioning to the local school building which has improved the education outcomes for 15 children via the School of Air program.

Employment opportunities have been generated for the local community through this project with potential for further employment and skills as part of the maintenance program.

The communities have been actively involved in this project – helping to install concrete slabs and unloading the panels and batteries on site and they now have plans to develop primary industry on country with considerations given for development of a base for a ranger group.

Manungurra CEO Graeme Smith has said that another of the flow on effect from the project is securing the administration of NTG Office Local Government funding and Remote Jobs & Community Programs for these communities.

Manungurra have noted that the shift to solar power has the potential to strengthen cultural ties to country and sites plus songlines and the ability to explore sustainable land use activities that bring jobs, training and an income – building a sustainable economy on homelands.

(iii) Support for infrastructure development

IBA has the capability to partner with local Aboriginal and Torres Strait Islanders businesses in large infrastructure projects in Northern Australia. However, it is important to note that IBA's resources and capital constrains our ability to scale and realise such opportunities.

To put this in perspective, IBA's total capital that is deployed across its programs which equates to over $400 million. This amount could easily be consumed by a single project or a small number of large infrastructure projects of the kind discussed in the context of the development of the North.

Case Study: Infrastructure - Moonamang Joint Venture

In 2010, IBA formed a joint venture with Leighton Contractors Pty Ltd as part of the Ord-East Kimberley Development Project in Kununurra, Western Australia.

This $44 million infrastructure contract consisted of constructing 19km of irrigation channel, a 13km road extension and irrigation control structures. The joint venture was a result of IBA's continued interest and desire to create sustainable economic development for Indigenous people from construction activity and in particular public investment in remote and regional infrastructure development. IBA's involvement in this project came about through a desire to try a direct approach, embedding IBA in project delivery where we could influence project design to create better economic development outcomes for Indigenous people.

The Ord-East Kimberley Development Project had a unique delivery structure that contributed to an enabling environment to realise Indigenous economic development outcomes. This included:

- The fact that the project was linked to a native title settlement;
- A procurement process heavily weighted in favour of proponents who demonstrated a commitment and expertise in achieving sustainable Indigenous development outcomes beyond the reasonable

endeavours benchmark. The Indigenous development components of the tender were worth 50% of the overall assessment, compared to a 25% weighting for price;

- A demonstrated commitment from the Western Australian State Government that Indigenous economic outcomes were a priority;
- A project structure that supported this commitment and resourced the achievement of these outcomes; and
- The opportunity to develop the capacity of an Indigenous organisation (Miriuwung Gajerrong Aboriginal Corporation), community and individuals through project works.

The Project resulted in 62 Indigenous people (over 50% Miriuwung Gajerrong) employed directly on the project works with a further 14 placed in 'town based' (non-project related) employment. The joint venture also resulted in contracting local Indigenous businesses to work on the project, one of which was a new business.

(iv) IBA's approach to impact investing opportunities

IBA's direct investment approach, operated by our Investment and Asset Management division, aims to generate both financial and social impact by directly investing in businesses and providing management expertise and engagement.

Case Study: impact investment – Tennant Creek IGA

In 2008, IBA partnered with the Julalikari Council Aboriginal Corporation to acquire the IGA in Tennant Creek.

The IGA is the only supermarket for hundreds of kilometres – providing opportunities for employment and health outcomes for the local Indigenous population.

The investment also provides an opportunity for Julalikari to diversify their business and secure a stable source of income to reinvest in local development.

<u>Ownership structure</u>

Julalikari's share of the investment has increased over time from 10% at the start to 50% in 2018 and with plans to become the sole owner by 2023.

<u>Social outcomes</u>

The IGA employs 22 Indigenous employees (30% of the total staff) and provides procurement opportunities for local Indigenous businesses and suppliers.

In 2018, the IGA started procuring fresh fruit and vegetables from Manungurra Aboriginal Corporation, a community organisation based 140km north of Tennant Creek that recently established a market garden employing 10 local Aboriginal people.

<u>Financial returns</u>

IRR of 24% per annum (since commencement).

(v) Scaling enterprise and supporting women starting or in business

IBA's Business Solutions activities include a range of services, as well as financial support workshops to develop business skills and access to IBA's internal expertise; access to resources, insights and other support; and financial support through loans, leasing or access to capital. The Business Solutions division has delivered these services through significant innovation, including accelerator programs and running events and a new digital platform to provide a community of support to Aboriginal and Torres Strait Islander women starting or in business. IBA has recently extended the success of its accelerator programs to Alice Springs.

Case Study: Bush Medijina – Groote Eylandt

Bush Medijina began in 2016 and operates out of the remote Aboriginal community of Angurugu on Groote Eylandt, in the Northern Territory.

Bush Medijina use native produce as well as other materials to make a range of body products, applying ancient cultural knowledge and traditional practices.

Bush Medijina's business model goes beyond financial return and the enterprises' impact extends to both social and cultural outcomes.

Bush Medijina was born from the desire of Warningakalina elders to address the need to build culture and capability across the archipelago to positively impact the livelihoods of women, children and families. Bush Medijina women work hard so that they can support themselves and their families and it also assists the women to keep their minds and bodies strong. Bush Medijina has an all-female board and one hundred percent of the team are women. The enterprise provides regular governance, leadership and women's advocacy opportunities for the team and the wider community throughout the year.

IBA supported Bush Medijina with a range of activities, including by providing an opportunity to attend an accelerator program for Aboriginal and Torres Strait Islander entrepreneurs, run in partnership with Investible. The intensive eight week start-up program provided Bush Medijina and a range of other Aboriginal and Torres Strait Islander entrepreneurs with the opportunity to learn from experts with access to investors, mentors and coaches and provided participants with the support, capital and networks they need to thrive in developing and realising their visions.

Bush Medijina also attended IBA's Strong Women Strong Business conference, which was convened by IBA in May 2018 in Adelaide. Applications were received from 463 individuals, with over 180 attending and well over 100 women live-streaming in each day from around Australia. The Strong Women Strong Business Digital Platform was also launched on 28 June 2018 (www.strongwomenstrongbusiness.com). The platform will facilitate mentorship and build skills in relevant areas.

"The support of Indigenous Business Australia (IBA) and their network of business advisors (such as early-stage investment firm, Investible), has provided Bush Medijina with invaluable business support, allowing us to take our program from a small shed on Groote Eylandt to an international audience"

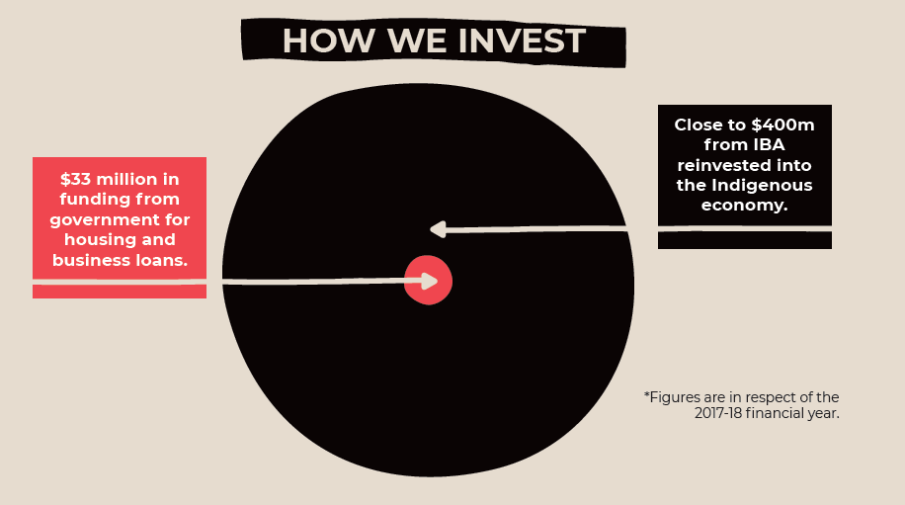
6. Resourcing of IBA

IBA's budget is communicated in the Commonwealth Portfolio Budget Statements and Portfolio Additional Estimates statements process under the Prime Minister and Cabinet (PM&C) portfolio. The budgeted financial statements are approved by the IBA Board and incorporated in the Portfolio Budget Statements.

Despite these funding arrangements, as noted above, most of IBA's operations are funded by self-generated revenue from home and business loan interest and returns from IBA's investment portfolios.

IBA receives appropriations from the Commonwealth to assist with the operations of our Housing Solutions division and receives a capital injection to use for home lending. The capital injection only comprises a small portion of the total amount lent each year and has not grown since 2005 when IBA took over stewardship of the IHOP.

The activities of the Business Development and Assistance Program (BDAP), which is delivered by the Business Solutions division, is currently funded via grant through the Indigenous Advancement Strategy and delivered under contract from PM&C. Up until 2015, the BDAP was funded via an appropriation from the Commonwealth.

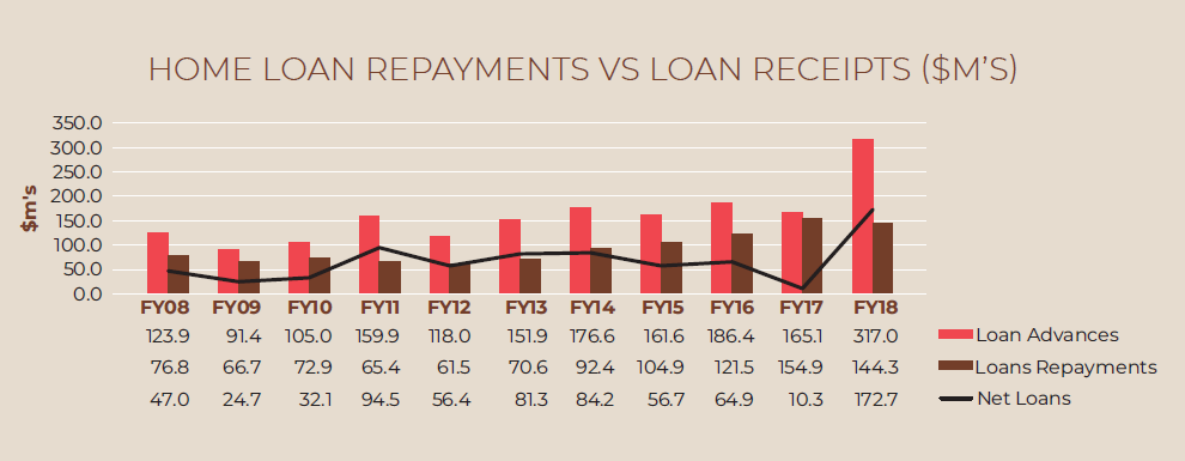


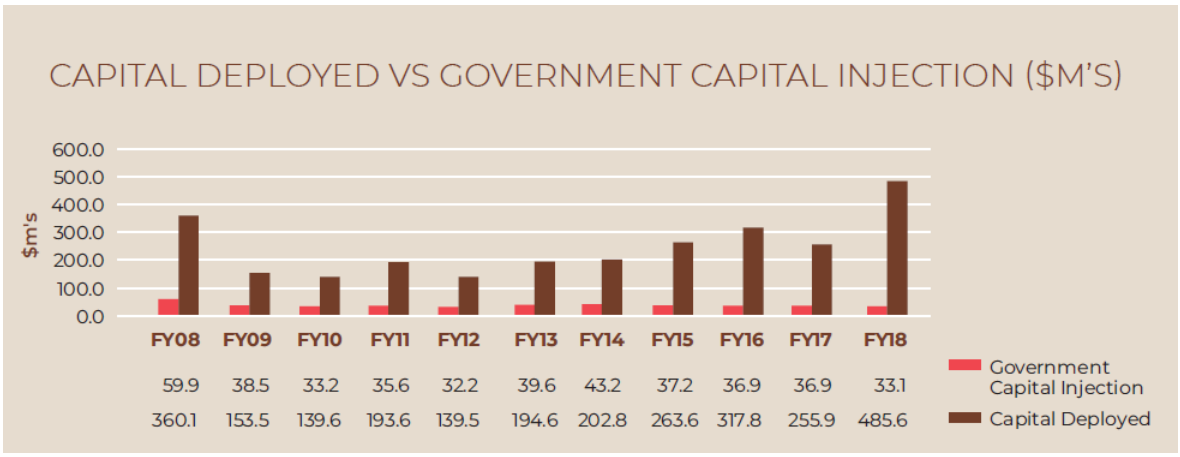
The level of funding that IBA receives for delivery of the BDAP has not increased since IBA assumed responsibility for the program in 2005, despite the growth in the size and scale of the Aboriginal and Torres Strait Islander business sector, and its demand for support (against a backdrop where availability of finance for businesses is tightening because of a range of external factors).

In the 2017-18 Financial Year, IBA received $33 million in capital from the Commonwealth for housing and business loans. In contrast, IBA invested or financed more than $400 million across our areas of work. This is a significant amount and represents more than 12 times the amount of funds IBA received from the Commonwealth.

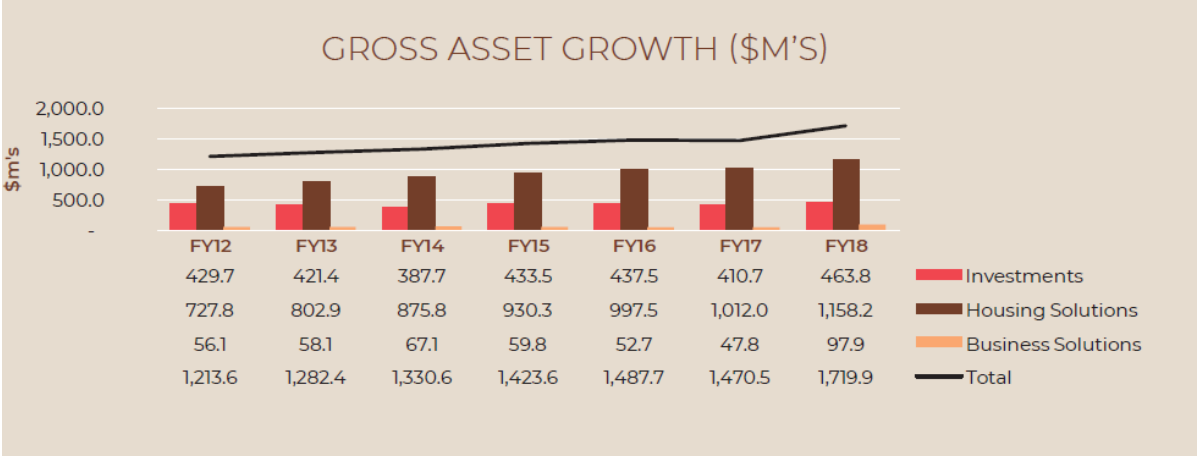
Financial information

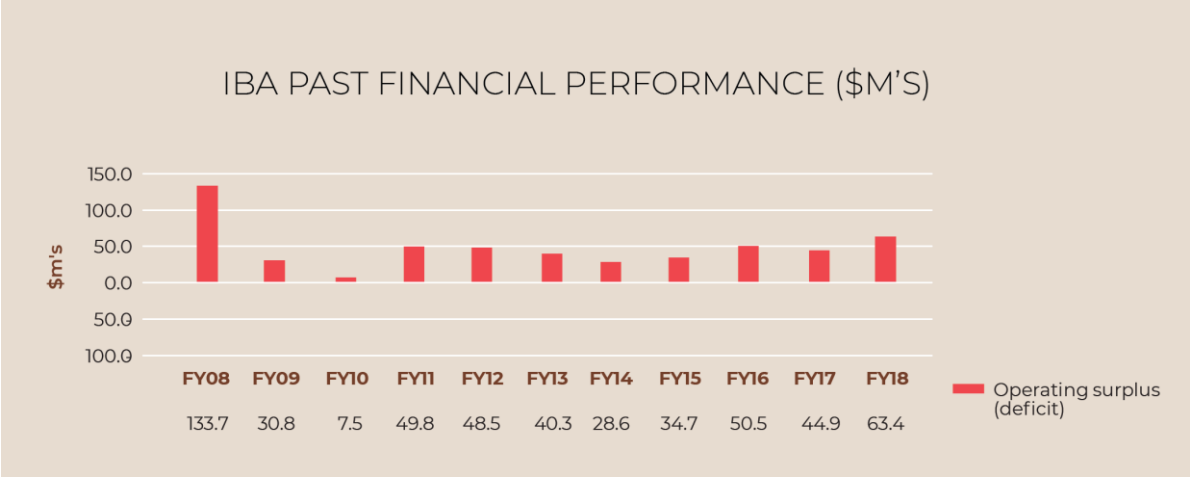
- Net loans have increased by nearly 400% in the past 10 years.
- Loan advances for FY17-18 ($317m) were nearly double that of FY16-17 ($165.1m).
- 913 home ownership outcomes were achieved in FY17-18, nearly double the average of the last 5 years (544).
- IBA's capital deployment has been financed by Housing and Business Loan repayments, equity contributions from Indigenous Partners and proceeds received from disposals of investments.
- Capital deployed by IBA has trebled since 2009 whilst Government Contributions have remained relatively unchanged.





- Gross Asset Growth which comprises of equity contributions and surplus on continuing operations, increased 41.7% over the period of 2012 to 2018.
- In this manner, all surpluses are reinvested back into IBA's respective programs.
- The Operating surplus has trended upwards in line with the Housing Loan portfolio growth and some increases in Investments earnings.
- FY18 Operating Surplus is the second highest on record and the highest since FY08.


GROSS ASSET GROWTH ($M'S)
$m's
2,000.0
1,500.0
1,000.0
500.0
-
FY12 FY13 FY14 FY15 FY16 FY17 FY18
429.7 421.4 387.7 433.5 437.5 410.7 463.8
727.8 802.9 875.8 930.3 997.5 1,012.0 1,158.2
56.1 58.1 67.1 59.8 52.7 47.8 97.9
1,213.6 1,282.4 1,330.6 1,423.6 1,487.7 1,470.5 1,719.9
Investments
Housing Solutions
Business Solutions
Total


IBA PAST FINANCIAL PERFORMANCE ($M'S)
$m's
150.0
100.0
50.0
0.0
50.0
100.0
FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18
133.7 30.8 7.5 49.8 48.5 40.3 28.6 34.7 50.5 44.9 63.4
Operating surplus (deficit)

7. Legislative, administrative and funding constraints

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.

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.

IBA has worked closely with PM&C in negotiating contracts for the delivery of the program since the 2016-17 Budget and has performed exceptionally well in exceeding Key Performance Indicators.

Based on current capital levels, IBA is funded with $9.855 million in additional capital for business finance for the whole of Australia each financial year. As demonstrated in our 2017-18 results, and in Northern Australia alone, demand for business finance is certainly much higher.

An additional $3 million for the 2018-19 financial year in resources is 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.

IBA has the skills, capability and relationships, and we are confident in our ability to grow the scale and impact of our products and services to support the success of our customers, including in Northern Australia.