



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON ABORIGINAL AND TORRES
STRAIT ISLANDER AFFAIRS

Reference: Capacity building in Indigenous communities

WEDNESDAY, 11 DECEMBER 2002

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ABORIGINAL AND TORRES STRAIT ISLANDER AFFAIRS

Wednesday, 11 December 2002

Members: Mr Wakelin (*Chair*), Mr Danby, Mrs Draper, Mr Haase, Ms Hoare, Mrs Hull, Dr Lawrence, Mr Lloyd, Mr Snowdon and Mr Tollner.

Members in attendance: Mrs Draper, Ms Hoare, Mrs Hull, Mr Snowdon, Mr Tollner and Mr Wakelin.

Terms of reference for the inquiry:

To inquire into and report on:

Strategies to assist Aboriginals and Torres Strait Islanders better manage the delivery of services within their communities. In particular, the committee will consider building the capacities of:

- (a) community members to better support families, community organisations and representative councils so as to deliver the best outcomes for individuals, families and communities;
- (b) Indigenous organisations to better deliver and influence the delivery of services in the most effective, efficient and accountable way; and
- (c) government agencies so that policy direction and management structures will improve individual and community outcomes for Indigenous people.

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Committee met at 4.53 p.m.**McDONALD, Mr John Gregor (Private capacity)**

CHAIR—Welcome. You understand the proceedings of the parliament and all that goes with that. You have recently taken on a new position, I understand. You might like to explain that. You might also like to make a brief opening statement, then we can have a discussion about your submission.

Mr McDonald—I have had some interest in Indigenous Australians over a period of time through my working life. That was heightened by recent work experience in Canada, of all places, where I was working with international companies tendering for a Canadian government proposal which were required to demonstrate their commitment to North American aboriginals. I was struck by a lot of the similarities between what I saw there and what I have seen here. I actually work for the Department of Employment and Workplace Relations, but I am appearing here in a private capacity. I am basically utilising some experience and interests that I developed mainly before my current job.

Mr McDonald—I would just like to make some opening remarks, if I can.

CHAIR—Yes. But the more you can condense it down, the more we can get into what we would like to draw out.

Mr McDonald—I will only take a couple of minutes. First of all, there is a lot more that I do not know than that I do know.

CHAIR—That sounds familiar to all of us, I think.

Mr McDonald—My submission is motivated by a deep respect for Indigenous Australians because of my involvement with them throughout my working life, as I said, but, more importantly, because of the achievements of Indigenous Australians in a difficult environment. In the paper that I submitted, I brought some Canadian case studies as examples. As I said, I was struck by similarities such as the system of government, the geography and the population. And the indigenous issues are similar: remote areas, life expectancy, poverty, unemployment, education and housing. There is also a young population, as we have. The government is making significant progress, like our government, but the gap is still there. Their expenditure is on a similar scale to our expenditure on Indigenous issues and it is across multiple portfolios, as it is here. So the similarities struck me.

If I may, I will hand out some statistics that I have recently received—they are ABS Indigenous statistics. You have probably seen this before, but I just wanted to distribute one page to maybe heighten the sense of urgency. Those statistics show that we spend \$2.5 billion, which is about \$6,100 per Indigenous Australian—that is on the Indigenous affairs program—yet we have a 34 per cent unemployment rate, and 42 per cent of those earning an income, or reported as earning an income, are in fact earning less than \$10,400 per annum. So I think that, whilst we have made significant steps forward as a nation, there is still a big gap there. There is a sense of urgency, because just under 40 per cent of the Indigenous population is under 16. They are going to be entering the work force soon and they will be after lifestyles like those most of us enjoy.

Returning to my submission, I have addressed mainly the economic aspect of capacity building. I acknowledge that there are social, governance and other issues that complete the picture and they are vital components. But I believe that, in terms of practical reconciliation, economic disparity between Indigenous and non-Indigenous Australians needs to be addressed first. The other aspects of capacity building will have greater meaning when that economic independence has been achieved by Indigenous Australians. Whilst the development of Indigenous small business has been the focus of my submission, equally I submit that some of my points in there would apply to employment generally, rather than just to small business.

So, given the statistics I have provided and the sense of urgency they convey, I believe that the three themes of my submission are heightened a bit. Basically, those themes are, firstly, that we really need to continue to emphasise the whole-of-government approach that people obviously understand but perhaps drive it harder so that we can get the cultural change necessary on a broad front; secondly, that government should use its purchasing power, because it is significant as a catalyst and as a sign of commitment; and, thirdly, that we need to look at ways of getting access to capital for Indigenous small businesses. That concludes my opening remarks.

CHAIR—Why do you think Indigenous Australians would want to set up businesses? What sort of evidence do we have that they are interested in it and that they would want to do it? I will give you a few benchmarks, as we have a few here. In certain parts of Australia about two per cent of the people have a satisfactory literacy rate. You are well aware of these statistics and you have touched on some of the basics here. So, firstly, why do they want to do it and why would they do it? Essentially, they do it, but can you talk about why and how we might do it, which I am sure is part of your submission?

Mr McDonald—As with any community, there are some who will want to enter into small business and some who will not—some who will want to take that risk and some who will not. There are sufficient numbers taking that risk to point to evidence, I believe, that there is a will to do it. Their representative organisations certainly put in place mechanisms to help fund small business.

CHAIR—Can you give us some examples?

Mr McDonald—Indigenous Business Australia—the ATSIIC funds that promote small business development are being used.

CHAIR—Do you know of any non-government examples?

Mr McDonald—No, not of non-government. I suggest—and this is a belief rather than from evidence—that, if they can get control over their own lives and their own economic independence, they are more likely to get a better sense of being part of the broader community. I think that will attract more Indigenous Australians to work for Indigenous small businesses. It would be a more culturally friendly organisation for them to work in, and I feel there is a role for Indigenous businesses to do work that is sublet from, say, some big companies out there that might perceive difficulties in managing an Indigenous work force.

CHAIR—Yet some in the corporate sector have had as much success as anyone, as you may be aware.

Mr McDonald—They have.

CHAIR—Limited, though, and nowhere near what most Australians would want it to be.

Mr McDonald—I think recent government programs which are publicly available would indicate that they are getting success in gaining corporate leaders, for example, as outlined at a recent conference in September. So that is true.

CHAIR—My last question concerns leverage. You talked about it in terms of government service provision. What model would you like to see? You mentioned the Canadian experience, so maybe you would like to draw on that.

Mr McDonald—The Canadians set small business target objectives for each of their portfolios to achieve. One criterion was the number of small businesses they supported. Another criterion was the contract value written up by small businesses doing business with the Canadian federal government portfolios. They were some of the ways. In Australia, as I have indicated in my paper, there is an estimated \$33 billion worth of recurring expenditure. I think the area of least risk to Indigenous businesses would be in goods and services—so that is \$33 billion in goods and services—not in capital expenditure, where there are peaks and troughs; that would not be a good environment in which to start a small business.

CHAIR—Have you thought about a reasonable percentage that they could aspire to over a certain time line?

Mr McDonald—They are sitting around one point something at the moment—I cannot remember the exact figure—in terms of their population. I think five per cent over a period of five years would be a reasonable target to set.

CHAIR—You did not address my question about literacy—basic issues about the capacity of individuals. Do you have an opinion on that? There is no doubt in my mind about the capacity of Aboriginal people, but there are basic skills that are needed for small business.

Mr McDonald—I think the ability to run a small business is innate as much as it is environmental. So literacy, whilst it is an issue, is not everything—that is, anybody might have business acumen. But I do agree that literacy needs to be addressed. I believe there are Commonwealth programs in place that can help small businesses, be they through mainstream or Indigenous funds.

Ms HOARE—I am interested in linking your recommendation about the Indigenous Small Business Fund incorporating strategies used in NEIS with the increase in the number of regional transaction centres. I come from a background similar to yours. I was responsible for delivering NEIS type programs. At that stage—about 10 years ago, I suppose—80 per cent of small businesses which started up failed. However, 80 per cent of small businesses which started up under NEIS did not fail. I am interested in pursuing that. Regional and support services for people starting up a small business under NEIS are available—small business incubators and things like that—and I can see that linking in with having more regional transaction centres that could incorporate small business incubators and also connecting to that possible micro credit schemes. Can you elaborate a bit further on that for me, John?

Mr McDonald—I will talk to the Indigenous Small Business Fund as it exists and its purpose, go on to NEIS and then come back to the issue of micro credits. The Indigenous Small Business Fund helps Indigenous people to identify and facilitate opportunities. It helps them to start the business, and it is normally applied through some sort of consultancy support, external support, to them. For organisations, it is jointly funded by ATSIIC and Department of Employment and Workplace Relations; for individuals, the funding comes from ATSIIC. I believe the issue there is in the risk, which you pointed out. They do not include some of the things that NEIS does, which look at the risk issues and addresses things like training in small business management, business skills, business plan development, income maintenance, business advice and mentor support. They are the things offered mainstream that maybe should be used to augment some of the more Indigenous focused issues to reduce the risk of small business failure.

Part of the success of NEIS, I believe, is due to the fact that, through their up-front instruction, they actually sort out those who really wanted to be in small business from those who thought it might be a good idea and get dissuaded by some of the complexities that follow. I think that is why NEIS is successful. As to whether there is a risk in taking it out of the mainstream and whether it would apply to Indigenous Australians, I suspect it would. But would it apply to the same extent? Maybe not. Maybe there are some additional things we need to look at.

In terms of micro finance, I noted with interest that the terms of reference for this inquiry tended not to emphasise access to finance as much. But I am coming at this from a small business perspective and not from the general capacity building perspective. I think if an Indigenous person in a remote community sees an opportunity and wants to buy a boat or a piece of machinery to start up a small business, it is important that \$5,000 or \$6,000 that they might not otherwise get is available to him or her to do that. There is evidence to suggest that it is not a high-risk activity for financial institutions. In fact, people on low incomes who are given small loans have low default rates in paying back the amount loaned by the financial institutions. I think small loans are important to encourage the grassroots capitalism that is seen by some as a way of building capacity.

Mr TOLLNER—Following on from that, who bears the financial risk?

Mr McDonald—The financial risk is borne by the Indigenous business.

Mr TOLLNER—In what regard?

Mr McDonald—If the Indigenous business fails then, like any other small business, they will have liabilities at the end of that that they will need to—

Mr TOLLNER—That is right, but any other small business owner will have mortgaged a house or have land that a bank or a lending institution can put a lien on.

Mr McDonald—That is correct, but what we are talking about in micro finance are small loans that can be made on an unsecured basis. We are talking in the range of \$5,000 to \$10,000; we are talking really small.

Mr TOLLNER—Yes, but at the end of the day the financing company wants to be able to have the ability to get their money back.

Mr McDonald—I agree. All I can say is that the evidence from some of the poorer countries around the world—for example, Bangladesh—suggests that the default rates on small loans in poor nations are very low compared with the wider community. That is all I can offer in terms of offsetting the risk: the risk is low in terms of default rates.

Mr TOLLNER—I gather you are saying that this is not an area for commercial lending institutions to foray into. Generally, they want some sort of collateral. They want to know that if the loan falls over there is something there and, as you know, people in remote communities are very unlikely to have any assets at all. To suggest that they could get \$5,000 or \$6,000 from somewhere to repay a loan—

Mr McDonald—I do not know what the solution will be for Australia, but I have put up a few options—some of which are the more commercial traditional type banks, some of which are the community type banks and some of which suggest that Indigenous Business Australia or ATSIIC could do that. I guess I am recommending that that issue needs to be studied in depth, but I am saying that there is hope. There is a whole range of options there and I do not believe the risk is—

Mr TOLLNER—But my initial question was: who bears the risk? In this case, if we were to give a loan to these people to start small businesses without any security—that is, an unsecured loan—the taxpayer would be bearing the risk.

Mr McDonald—Yes, if the solution was to use a government organisation to make the loans available. I think there are other options as well. I am not saying that a government organisation should not do it, and maybe that is the ultimate solution. I am suggesting that there has been some interest by some of the community banks around this very issue—Bendigo Bank, for example—and there has been some interest by Westpac. Whether that actually results in making loans available, I do not know. I am just saying that it needs to be studied.

Ms HOARE—I think, too, when you look at the safeguards that we are talking about building in here, they are the safeguards that are built into NEIS and the record of the NEIS program stands alone. If somebody is approved by NEIS to set up a small business under NEIS then that is a surety for whatever lender is lending that particular person money to start up the small business. I think the financial institutions also have a social responsibility, as you say, to investigate microcredit type schemes.

Mr TOLLNER—We have not seen many financial institutions that have exercised social responsibility lately—to anybody.

Mr McDonald—Can I answer that? If you take the Canadian example, the Bank of Montreal saw an opportunity to go into the North American aboriginal communities; they saw it as an untapped market. They are a traditional bank and their approach was to employ a section that focused on that area headed by an indigenous person who then went out and tried to give small loans to North American aboriginal businesses. They have succeeded in capturing that market share in Quebec, and it is growing. In Canada, there are other approaches too. There are

indigenous organisations that are partnering with traditional banks to build up expertise over time, with the ultimate aim of eventually becoming wholly indigenous owned.

CHAIR—Do you think it was spotter driven or do you think it was driven by corporate responsibility?

Mr McDonald—I think they are interrelated.

CHAIR—That is what I hoped you might say, and I agree.

Mr McDonald—And the ‘good citizen’ requirement has a profit motive behind it too, I suspect.

CHAIR—Yes.

Mr SNOWDON—I make the observation that there are any number of examples of successful Aboriginal businesses in joint venture arrangements with prominent businesses in the Northern Territory. One of the biggest Toyota dealerships in Australia is 50 per cent owned by Indigenous interests. Indigenous interests own a sizeable chunk of real estate in Alice Springs. They own the Yeperenye Shopping Centre and tour operations in the Top End and the Centre. We need to understand that banks are able to lend, and do lend, large amounts of money to Aboriginal organisations. The issue for me, though, is NEIS. I was responsible for NEIS in a previous life and, indeed, was an advocate for it at an international meeting in Washington, so I do understand it. But there are no brokers for NEIS in Central Australia. So the limitations to the provision of these services are issues.

Your submission is a very good one. It is very thought provoking in pointing us in the direction of examining in a critical way some of these key issues. One of the issues that I think we have got to overcome, and one which the chairman alluded to, is that of literacy and numeracy and whether or not that includes financial literacy. You refer to understanding financial institutions and the work done by Westbury and McDonnell. We have previously had some discussions about that. I am interested to know how we actually get these services into the communities where they are most needed. In most urban parts of Australia, for example, if you live in Redfern, you will be able to access a NEIS program. However, if you live at Kaltukatjara, the Docker River, in the Northern Territory, you will not. Even if you overcome the problem of literacy and numeracy, how do you overcome the problem of the dispersed nature of populations in remote communities, the economies of scale et cetera?

Mr McDonald—That is a real problem. The regional transaction centre is a recent, new initiative, but I think that it offers a lot of potential to get face-to-face, across-the-counter involvement with Indigenous people, which will get them on to those sorts of programs. Maybe we need to work through regional transaction centres or, for that matter, any other third party entity that has the capability to deliver. Maybe we should not consider it as an in-house core competency within the administration; maybe we should think a little laterally and work through the existing infrastructure, and regional transaction centres would be a good one.

Mr SNOWDON—I do not dismiss that. Only a fortnight ago, we saw that there will be a very good transaction centre at Wadeye in the Northern Territory, but it will be limited in the services it provides—and this is not a political statement—because it does not get the full range

of government services. For example, Centrelink does not provide the full range of its services. We appreciate that, yes, we can have an RTC, but the issue is that, if we do not have services from all governments, not just the federal government, being provided to all its citizens in a way that meets their needs, we are not going to deliver the service. If you look at the way services are dispersed across remote Australia, and I suspect this is as true of the chair's constituency as it is of mine, you cannot get access to advisers—when I say 'advisers' I mean trainers—in a lot of communities. The post-school infrastructure is all but non-existent, even in terms of getting the sort of mentoring that you might have in other places.

Mr McDonald—Maybe in remote communities where we have mining companies that are interested in being the good citizen they can get that experience, rather than just employ Indigenous Australians. In fact, some mining companies are doing that already, and maybe some financial institutions can deliver that. Some are, but I do not think I can say which ones. Some are involved on the ground, donating a certain proportion of their time to Indigenous communities and dealing with those very issues.

It appears to me that there is a whole potpourri of solutions to the important question you are asking. I think we need to address it in a holistic manner. There are solutions out there, but I do not know which one is best. Whether we use regional transaction centres in some cases, banks in other cases and mining companies in other cases—we might have to use whatever infrastructure we have.

Mr SNOWDON—Apart from the very substantial issues that you raise in your document, what about access to credit? Are you aware of the Indigenous credit union?

Mr McDonald—Yes.

Mr SNOWDON—They basically started out from the savings of Indigenous communities across the Top End. They have the capacity to provide loans, underwritten by whatever savings are put in. They do not have any capital base, such as Westpac or any of the big credit unions have, but it seems to me that they provide a very good model, because they already loan money and they could manage micro credit, there is no question about that. But they need to have a solid capital base, so it seems to me that marrying the ideas you have discussed with giving people access to credit would not be a bad idea, and getting someone, perhaps government, to intervene in a proactive way with the financial sector, as they do in other parts of the world, to require them to set aside a portion of their funds for these sorts of purposes.

Mrs HULL—I am a little confused. At the last hearing we heard from witnesses from the IBA, and they wanted the independence handed back to the community—for community competence, I guess, and being in control of their communities. You have spoken about economic independence, the chairman has spoken about the need for education so as to understand how the two meld together and, at other hearings, we have heard witnesses say that we have to recognise the cultural individuality of our Indigenous communities and that they want to be recognised with that culture.

From previous experience I have had in trying to assist Indigenous people to set up a business, the culture of the community was such that there was no way we could ever achieve it. I was told, 'You must accept that if we don't come back for five weeks that's our culture; it is to move away and do something for another five weeks or eight weeks or 10 weeks,' which is not

the way a normal business can be run. I am not being disrespectful at all; it is a clear and concise fact. So the business opportunity completely fell over.

With your experience, perhaps the Canadian experience or experience with other Indigenous communities, how do you combine the cultural aspects of an Indigenous community that moves into a business profile, which means that for five days or seven days a week, depending on what you are doing, you are tied to and operating a business proposition and you cannot walk away and leave it for some time while you accede to your cultural values?

Mr McDonald—I think the issue you raise is spot on, and I think it is an argument for Indigenous small businesses as much as it is against. One of the examples I have given is in the Western Australian goldfields, where one of the Indigenous businesses is acting as an RTO labour hire organisation, saying to the mining company: ‘We will provide you with the trained labour as you require it. It might not be Mr Bloggs today, tomorrow and the next day; it might be Mr Bloggs and Mrs Smith. There will be a variation but we will meet our commitment in providing you with the trained operators that you need. Allow us the flexibility to deliver them to you.’ In other words, they are saying: ‘Allow us to manage those very issues that you are raising. If somebody’s got some other commitments that he or she needs to attend to, we can allow that to occur and we can still meet our commitment to the company with which we have a business relationship.’ I think there is an opportunity to exploit the Indigenous knowledge of their own culture by subletting work to them and allowing them to manage that.

Mrs HULL—With respect, John, that is not the way small business communities operate. If you are in an employment/work force situation, that can work. I can understand that and I would applaud that and indicate that that would be a favourable outcome. But, with respect, small business does not operate like that in an employment/work force operation. If you are going to sell pencils and rulers or run a smash repair or mechanics business, that is not the way it operates. It actually operates on an everyday basis. I would like to understand how the community can have respect for the cultural aspects of the community when also needing an ongoing business proposition that goes for probably 11 hours a day every day. The confusion I have is that, if I were operating my smash repair business, it would need to operate 24 hours a day and I could not walk away from it. I just need to understand how you cover and cross that problem of culture versus the need to understand the business operation in order to become a successful business.

Mr McDonald—I agree with the point you are making. I will just say that there are cases where you can make it work and there may be other businesses where it will not work, depending on the nature of the business. Maybe we can address those sorts of issues at the very outset. When somebody identifies themselves as wishing to start up a business, maybe that can be part of the NEIS like training program—even though it has a particular Indigenous focus—and be addressed up front before they become involved. It is not easy.

Mrs HULL—Thank you.

Mr SNOWDON—There are plenty of examples of Indigenous people who, as a collective, have small businesses that run on that basis. There is a fish farm on Bathurst Island, for example. I do not know if you are aware of the work that Nabalco is doing in training people for business. There are plenty of good examples. There are plenty of tour operations in the Northern Territory that survive on itinerant labour—in effect, a collective of people who work in the same

business but who are not available all the time. Their business operates, but not all of them get paid for five days; they might get paid for two days.

Mr McDonald—It is the nature of the business.

Mr SNOWDON—Yes, it is the nature of the business. But they are not running a smash repair business.

Mrs HULL—Yes, I understand that and I recognise that, but we are in different regions with different communities and different considerations and expectations. There are some great Indigenous people in business, there is no doubt about that, but in my electorate you would be expected to operate a business in the same way as you would operate everything else. How do I then respect the Indigenous cultural needs when another population expects that business to be open? There are not always the opportunities for cooperatives—fish cooperatives or whatever. It might be that the business is just going to be a refrigerator repair man, and people would not expect that business to just shut up in two weeks time.

Mr SNOWDON—It would not last as a business, would it? The point is that people will learn that, if they open a small business fixing refrigerators and they are not there when people's fridges break down, their business will go broke. They will soon learn that exercise: they will not have a business.

Mrs HULL—That is right, and we lose the money.

CHAIR—But I suppose the small business entity is the owner-operator, isn't it?

Mr McDonald—Yes.

CHAIR—That model of the labour hire is the corporate structure, isn't it?

Mr McDonald—That is getting up to medium level—small to medium.

CHAIR—But your micro small business is your owner-operator.

Mr McDonald—To cater for the bloke who wants to buy a fishing bag.

CHAIR—I think you agreed with Mrs Hull on that issue of regularly turning up, that the key to surviving is to maintain the business

Mr McDonald—Yes.

CHAIR—Do you have any suggestions as to how we might overcome that, how we might keep the incentive and the interest going? I am sure there are some Aboriginal people who do it, but certainly the reputation of many is that it is not part of their nature to do it that way.

Mr McDonald—I think we agree that it needs to be addressed up front in a NEIS like approach before they actually make the decision to enter small business. Earlier, you asked about the percentage. It is a pretty low percentage because, generally speaking, only a small

proportion of the general population enter into small business anyway. So only a small percentage of Indigenous people would probably want to go down that route, but the benefits that could provide the community would become capacity building.

CHAIR—I suppose the purpose of my question is to find out how we can make it attractive for Aboriginal people. Have you seen something that would? How do we say, ‘This is great to be in’? A lot of Australians do not want a bar of it—they think you are mad. I came from small business, and there is a reward. Is there anything distinctive in our committee work on Aboriginal issues that says, ‘This works because of this’? That is the sort of discussion that we are trying to get going so that we can pick up on the example. As you say, we know a lot about what we do not know, but we do not know a lot about what we should know. That is the point.

Mr McDonald—I am afraid I do not have the answer.

CHAIR—That is fine, but they are the challenges for us—I think you would agree, and that is why you are showing such a great interest. If there are no more questions, we will bring this hearing to a close. Mr McDonald, thank you very much for your interest and your effort. As Mr Snowdon said, it really is very gratifying to see someone put that sort of effort into this. Good luck in your new job. How long have you been there?

Mr McDonald—I have been there for three months. I have been through a cultural change.

CHAIR—I suppose you will help us sweat through this over the next 12 months to see what we can come up with.

Mr McDonald—Thank you very much for the opportunity; I appreciate that.

Resolved (on motion by **Mrs Hull**):

That the document entitled *Some key stats—Indigenous Australians*, presented by Mr John McDonald, be received as evidence to the committee inquiring into capacity building in Indigenous communities.

Resolved (on motion by **Mrs Hull**):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 5.32 p.m.