

RioTinto

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**Submission to the House Standing  
Committee Inquiry to develop Indigenous  
Enterprises**

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## **List of Abbreviations**

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ABEC	Aboriginal Business Enterprise Centre
BEE	Black Economic Empowerment
CAEPR	Centre for Aboriginal Economic Policy Research
CDEP	Community Development Employment Projects
CRA	Conzinc Riotinto of Australia
CRC	Cooperative Research Centre
DEWR	Department of Workplace Relations (Now incorporates education)
ERA	Energy Resources of Australia
FAB	First Australians for Business
HWE	Henry Walker Elton contracting business
IBA	Indigenous Business Australia
ICAS	Indigenous Capital Assistance Scheme
ILC	Indigenous Land Corporation
ILUA	Indigenous Land Use Agreements
ISBF	Indigenous Small Business Fund
ISX	Indigenous Stock Exchange
MBDA	Minority Business Development Agency
MMCNC	Marnda Mia Central Negotiating Committee
NGO	Non Government Organisation
PSAB	Procurement Strategy for Aboriginal Business
RTIO	Rio Tinto Iron Ore
STEP	Structured Training and Employment Projects

## **1. Executive Summary**

Rio Tinto is committed to working in partnership with Indigenous communities and the Australian Government to deliver intergenerational prosperity for Indigenous people in areas impacted by the company's mining operations. 'Closing the gap' on Indigenous disadvantage cannot be achieved by governments alone and Rio Tinto is committed to working with Indigenous people and the Australian Government to build on good practice already in place.

Rio Tinto has made significant investments in the communities around its operations through employment and training initiatives that have developed pathways for local Indigenous people into the Rio Tinto business. This investment has developed Indigenous people's understanding of business particularly in the mining and mining services industry while also equipping them with highly sought after and transferable job skills. The challenge for Indigenous people in these areas is developing the knowledge and capacity to establish, run and grow commercially viable businesses in their region. It is Rio Tinto's expectation that the development of business capacity will ensure sustainable futures and incomes for communities after mining operations cease.

Rio Tinto's engagement with Indigenous enterprise includes innovative approaches to procurement through its mining operations and the development of contracting policies and guidelines that where possible give preference to Indigenous contractors and correctly advise people of their requirements when tendering for a Rio Tinto contract. Policies include giving positive weighting which takes into account the ownership base of a business, or the capacity for a contractor to employ Indigenous people when awarding contracts. This has driven the development of new capabilities particularly in the mining industry where businesses must demonstrate this capacity in order to successfully win a Rio Tinto contract.

### **Building Preparedness**

The Australian Government should be commended for identifying Indigenous business development as the next step towards full economic participation of Indigenous people in Australia. It currently has a major opportunity to build upon the commitment of companies like Rio Tinto and achieve sustainable enterprise development to address Indigenous disadvantage, particularly during a time of unprecedented opportunities generated through resource development.

Currently the Australian mining industry is leading the way in creating real opportunities for Indigenous business but these cannot translate into real business growth until the right level of investment is made in building Indigenous business preparedness. While there have been some important government investments in this area, the current environment lacks an effective and coordinated enabling framework. The growth of Indigenous enterprise has been limited by a lack of tailored, effective and accessible business services for Indigenous people. This has created a situation in mining regions where opportunities abound for Indigenous people but they lack the preparedness to engage in the regional economy.

Rio Tinto would welcome government supported Indigenous enterprise development programmes that provide Indigenous communities with the skills required to manage and run commercial enterprises, whether through the establishment of regional centres for business development or individual case management support through skilled enterprise facilitators. Staff and programmes need to bridge Indigenous cultural, social and economic contexts with the sometimes vastly different values, realities and complexities of mainstream Australian business. Every possible means of support should be provided to people who genuinely want to establish a business in their identified area of interest or expertise – it is crucial that ventures are not foisted on an individual, family or community, that people are not set up for failure where this can be avoided, and that there is a realistic understanding of business success on the part of both the entrepreneurs and those supporting them.

Finally, from its own extensive experience supporting Indigenous economic participation through employment and enterprise, Rio Tinto holds the view that direct employment is the

best pathway to self-employment. Continued industry support by government in this area is therefore of vital importance to any strategy that aims to develop Indigenous enterprise. While Rio Tinto has made considerable investment due to the Company's own drive to engage and work with Indigenous communities, it cannot achieve better economic outcomes alone. Industry is reliant on government to establish supportive frameworks that encourage Indigenous employment, entrepreneurship and business development.

## **Maximising Opportunities**

In addition to building business preparedness, the Australian Government can create opportunities for Indigenous business by driving industry commitment and programmes through the development of

- a nominated contracts model for its own contracts, and
- an incentive-based model that makes industry engagement with Indigenous businesses cost-neutral. The additional cost investment required by industry to drive such a model could be offset by government through a tax credit or rebate.

A Government-led nominated contract model for government service provision and infrastructure development would pave the way for industry to make its own shift to a nominated contract model. Greater nominated contracting across both government and industry would mean more Joint Ventures and more Indigenous businesses bidding for and winning contracts, thereby distributing increased income into communities that can be used for future investments and economic development.

Rio Tinto's Canada operations, namely Diavik, offer some of the elements of a possible contracting model for Australia, to be led by government. Diavik's approach includes a shift to a nominated contracts model, support for Joint Venture partnerships with high performing non-Indigenous businesses and preclusion of sole-client contracting. A shift to this kind of approach would require government to rethink its traditional procurement methods and practices and take on an increased responsibility for Indigenous business development rather than relying heavily on opportunities provided by industry.

## **Scope of this submission**

This submission sets out Rio Tinto's views regarding the current limitations and opportunities for the development of Indigenous enterprise, with some reference to Rio Tinto's experience both in Australia and overseas. The document addresses the committee's four terms of reference which are:

1. whether current government, industry and community programmes offering specific enterprise support programmes and services to Indigenous enterprises are effective; particularly in building sustainable relationships with the broader business sector;
2. identifying areas of Indigenous commercial advantage and strength;
3. the feasibility of adapting the US minority business/development council model to the Australian context; and
4. whether incentives should be provided to encourage successful businesses to sub contract, do business with or mentor new Indigenous enterprises.

### **These terms of reference are addressed as follows:**

- Section 2 gives an overview of the company's current policies and practice in indigenous business development
- Section 3 examines key issues for Indigenous economies and business development. It offers practical case studies and evidence-based solutions in the areas of Indigenous entrepreneurship, business leadership and capacity building, government and industry support and discusses incentive-based models to build support for Indigenous business.
- Section 4 examines some models for consideration including the US Minority business development council model and its feasibility for Australia.

## Closing the Gap – Key Issues & Recommendations

Issue	Recommendation
<b>3.1 Indigenous Entrepreneurship</b>	
<ul style="list-style-type: none"> <li>Indigenous business initiatives and participants need to be self-driven and any business development should have local organic support</li> <li>Many Indigenous businesses are faced with managing tensions between commercial imperatives, immediate community, cultural or customary needs and broader social goals</li> <li>Key areas of Indigenous commercial advantage &amp; strength include mining &amp; mining services, civil construction &amp; infrastructure, pastoral &amp; agriculture, and conservation &amp; land management.</li> <li>Access to finance is often an inhibitor or deterrent to new enterprises.</li> </ul>	<p>Support intrinsically driven individuals or businesses to represent their business at appropriate regional and national forums which bring together Indigenous and non-Indigenous businesses and entrepreneurs around key industry sectors.</p> <p>Investment in entrepreneurship competitions for communities, supported by government and Industry</p> <p>Better market-based systems and brokering mechanisms which allow Indigenous people to 'sell' land management skills and knowledge</p> <p>Improved access to appropriate finance including micro finance as well as traditional avenues for business loans and an improved, streamlined process for existing government seed and growth funding</p>
<b>3.2 Business leadership and capacity building</b>	
<ul style="list-style-type: none"> <li>Business leadership education and getting basic governance structures right from the start, for people that are carrying out business activity, are vital to the establishment of successful Indigenous enterprises</li> <li>Business coaching is required for Indigenous people who want to successfully translate benefits from resource companies into viable commercial enterprises</li> <li>Financial literacy, money management and financial knowledge are a vital but missing link in Indigenous business preparedness for growth</li> </ul>	<p>Investment in education programmes that focus on basic entrepreneurship and business leadership would assist people to run their businesses</p> <p>Build network of skilled business facilitators that are locally-based, trusted by communities and can offer industry-relevant advice</p> <p>Government-funded yet privately run Indigenous enterprise services located regionally that provide business support to actual enterprises rather than 'match' opportunities to people</p>
<b>3.3 Government Programmes</b>	
<ul style="list-style-type: none"> <li>Indigenous businesses find it hard to access necessary business advice from existing programmes or identify business support so they can</li> </ul>	<p>Government driven and supported projects that encourage joint venture models of Indigenous business</p>

Issue	Recommendation
<p>act on opportunities</p> <ul style="list-style-type: none"> <li>• Good governance training is difficult to obtain and there is a lack of sound business advice from trusted parties</li> <li>• State and federal agencies and programmes are not streamlined to ensure these programmes are an efficient and effective use of public funds and Indigenous people's time and efforts</li> <li>• Expectations by governments for indigenous enterprises to deliver on community development, such as work readiness training, when it is not part of the businesses service can stymie a businesses growth. Indigenous businesses need to be allowed to focus on business only and not be burdened unnecessarily with social goals that non indigenous businesses do not have</li> <li>• Staff sometimes lack the capability or experience to effectively advise Indigenous business</li> </ul>	<p>contractors. This allows Indigenous businesses to learn from their high performing partner while still meeting contract requirements</p> <p>Ensure continued investment and infrastructure support for essential services in regional and remote areas so as not to put undue pressure on growth of local commercial businesses</p> <p>Greater investment in capability of staff providing business support to Indigenous people</p>
<p><b>3.4 Industry Programmes</b></p>	
<ul style="list-style-type: none"> <li>• Current procurement models still exclude Indigenous business and don't guarantee growth that stimulates Indigenous business development while maintaining high performance standards</li> <li>• Indigenous business support frameworks are not aligned with industry and do not prepare Indigenous business for industry expectations</li> <li>• Government needs to support industry more effectively to grow Indigenous business around their operations</li> <li>• Nominated contracting models are an untapped tool that could be further developed to support Indigenous-owned businesses – this has the potential to be led by Government</li> </ul>	<p>Consider a nominated contracting model for government like that profiled at Diavik Diamond Mine in Canada, tailored for the Australian context</p> <p>Joint venture partnerships encouraged alongside nominated contracts model to build capacity of Indigenous businesses to meet industry expectations until they can stand alone</p> <p>Government to encourage industry models for Indigenous business development through their own contracting model and an incentive-based system that makes awarding contracts to Indigenous businesses cost-neutral to industry</p>
<p><b>3.5 Incentive-Based Models for Government</b></p>	
<ul style="list-style-type: none"> <li>• Government programmes lack real drivers and incentives for Indigenous people to invest in business</li> <li>• Good business support frameworks will not stimulate Indigenous enterprise growth alone</li> <li>• Government models can and must stimulate actual</li> </ul>	<p>Smarter government contracting with preferred Indigenous enterprise models like that being used by the Canadian government through the Procurement Strategy for Indigenous Business. This could be replicated in Australia</p>



Issue	Recommendation
<p>opportunities for Indigenous business</p> <ul style="list-style-type: none"><li>• Traditional procurement models in Australia could be redeveloped to create opportunities for Indigenous business</li></ul>	<p>Development of a tax offset system as an incentive to industry to support Indigenous businesses.</p>
<p><b>4. Models for Consideration</b></p> <ul style="list-style-type: none"><li>• US minority business development agency is a good model that connects people with business services as well as industry networks and experts. It could be replicated in Australia and similar models have been in Esperance, WA</li></ul>	<p>Consider existing and emerging models being developed in Australia</p>

## **2. Rio Tinto**

### **2.1 Company Overview**

Rio Tinto is a leading international mining group, listed in both the UK and Australia. Rio Tinto's business is finding, mining and processing the earth's mineral resources. The Group's objective is to maximise the overall long term return to shareholders through a strategy of investing in large cost competitive mines driven by the quality of each opportunity, not the choice of commodity.

Major products are aluminium, copper, diamonds, energy (coal and uranium), gold, industrial minerals (borax, titanium dioxide, salt, talc) and iron ore. Activities span the world, but are strongly represented in Australia and North America, with significant businesses in South America, Asia, Europe and southern Africa.

Rio Tinto's businesses in Australia make up around one third of its global assets, and include the Australian parts of Rio Tinto Alcan and Rio Tinto Iron Ore and HIs melt, Northparkes, Argyle Diamonds, Energy Resources of Australia (ERA), Dampier Salt, Three Springs Talc, Rio Tinto Coal Australia and Coal & Allied. Rio Tinto also manages Australian and south Asian exploration from a base in Perth. Rio Tinto's Australian corporate headquarters, its global shipping centre and worldwide technical services presence are based in Melbourne. In Australia Rio Tinto employs approximately 16,000 people.

### **2.2 Rio Tinto & Sustainable Development**

Mining is a long term, capital intensive business, in which assets are often situated in remote locations. The extended timescale means that if Rio Tinto is to deliver financial returns to host the governments, local communities and shareholders, we need economic, environmental and social stability.

Rio Tinto is committed to sustainable development not just because it is the responsible and ethical approach to managing the earth's natural resources, but also because it makes sound business sense. Our business success is built on access to land, people and capital. Rio Tinto believes we can help ensure access by building a strong reputation in our care for the environment, our social policies and our contribution to economic prosperity.

Sustainable development is integrated into all aspects of Rio Tinto's business through a number of policies, standards, strategies and performance indicators.

## 2.3 Rio Tinto Operations & Communities



Rio Tinto's policy worldwide is to recognise and work with local and land connected peoples in the planning of its operations. In 1995, the Group embarked on a strategy of formally working in active partnerships with Indigenous people in Australia.<sup>1</sup> Wherever Rio Tinto operates in Australia, the Group seeks consultative mine development and land access agreements with Indigenous traditional owners.<sup>2</sup>

Since 1996, Rio Tinto has signed nine major mine development agreements and negotiated more than 100 exploration agreements across Australia. Through these times Rio Tinto has committed to affected Aboriginal communities over the next 20 years a total sum of economic and social investments in the order of \$1.4 billion. This includes the most recent commitment of \$1 billion through Binding Initial Agreements between Rio Tinto Iron Ore and Traditional Owners of the Pilbara. Among other things, the monies distributed through such agreements are allocated to benefits-receiving trusts and programmes related to education, training and employment, business development, cultural heritage protection, environmental co-management and cross cultural education.<sup>3</sup> Many of these distributions will contribute to regional economic development to Indigenous communities across Australia over the course of next 20 to 30 years.

<sup>1</sup> Davis, L. 'New Directions for CRA', paper delivered to the Securities Institute of Australia, March 1995, p.4

<sup>2</sup> Rio Tinto Limited (2002), 'Submission to the Joint Committee on Native Title & Aboriginal & Torres Strait Islander Land Fund- Inquiry into the Effectiveness of the National Native Title Tribunal', October.

<sup>3</sup> Ibid.

### Rio Tinto Aboriginal and Torres Strait Islander Policy

#### Rio Tinto Aboriginal and Torres Strait Islander policy

In all exploration and development in Australia, Rio Tinto will always consider Aboriginal and Torres Strait Islander peoples' issues.

Where there are traditional or historical connections to particular land and waters, Rio Tinto will engage with Aboriginal and Torres Strait Islands stakeholders and their representatives to find mutually advantageous outcomes.

Outcomes for Aboriginal and Torres Strait Islands people will result from listening to them.

Economic independence through direct employment, business development and training are among advantages that Rio Tinto will offer.

Strong support will be given to activities that are sustainable after Rio Tinto has left the area.

In implementing the policy, Rio Tinto is committed to the process of reconciliation between Indigenous and non-Indigenous Australians. This is supported by *The Way We Work*, Rio Tinto's policy framework for business practice, which encourages mutual respect and active partnership in community relationships. Under these policies and frameworks Rio Tinto:

- Wishes to work in partnership with Aboriginal and Torres Strait Islander people at the local level to support programmes that develop local capability including strategies for direct employment and contracting; and
- Is committed to achieving a growth in employment and business development for Indigenous Australians in areas where it has business operations.

Through its focus on building enduring relationships, supporting intergenerational prosperity and sharing mutual benefits with Indigenous communities, Rio Tinto has broken new ground in agreement-making between companies and local Indigenous people and Traditional Owners, particularly through its Indigenous Land Use Agreements and Regional Participation Agreements. Rio Tinto has made a notable contribution to regional and remote socio-economic development through the stimulation of local business activity, local employment outcomes and improvements in training and skills development.

## 2.4 Rio Tinto Indigenous Business Relationships

Rio Tinto's engagement with Indigenous enterprise includes innovative approaches to procurement through its mining operations and the development of contracting policies and guidelines that where possible give preference to Indigenous contractors and correctly advise people of their requirements when tendering for a Rio Tinto contract. Policies include weightings in tendering and procurement processes that favour Indigenous enterprise and development of incentive-based models which guarantee business to Indigenous-owned enterprises through agreement to procure services. These policies consider the ownership base of a business or the capacity for a contractor to employ Indigenous people when awarding contracts. This has driven the development of new capabilities particularly in the mining industry where businesses must demonstrate this capacity in order to successfully win a Rio Tinto contract.

Through its nine Indigenous Land Use Agreements, Rio Tinto has assisted more than 30 start-up Indigenous businesses over the past 10 years. These range from stand alone businesses to Joint Venture arrangements. Company preference is for Joint Venture arrangements to build capacity within Indigenous companies and ensure that the partner brings strong business and financial management skills.

The spread of business development is diverse but predominantly in mining and earthmoving. This includes camp and catering, tourism, land rehabilitation, cultural awareness and heritage management. As a company we are developing consistent contracting data sets across our

Australian operations to build a clear picture of what we contribute to Indigenous enterprises. We expect to see this grow and do not have limitations on the level of procurement. It is in our interests to increase capability and Indigenous businesses in our regions as this enables us to contribute to intergenerational prosperity and build robust, sustainable regional economies.

### 3. Key Issues, Programmes that Work, What is Needed?

#### 3.1 Indigenous Entrepreneurship

##### Key Issues

- Indigenous business initiatives and participants need to be self-driven and any business development should have local organic support
- Many Indigenous businesses are faced with managing tensions between commercial imperatives on the one hand and immediate community, cultural, customary needs or expectations and broader social goals on the other.
- Key areas of Indigenous commercial advantage & strength include mining & mining services, civil construction & infrastructure, pastoralism & agriculture, and conservation & land management.

#### Understanding Indigenous Entrepreneurship

It is important to understand the unique socioeconomic context in which Indigenous enterprises emerge. Hindle and Lansdowne provide a useful definition of Indigenous entrepreneurship:

*"Indigenous entrepreneurship is the creation, management and development of new ventures by Indigenous people for the benefit of Indigenous people... The desired and achieved benefits of venturing can range from the narrow view of economic profit for a single individual or family to the broad view of multiple, social and economic advantages for entire communities."*<sup>4</sup>

There are important tensions that many Indigenous businesses must manage as distinct from non-Indigenous businesses. Indigenous enterprises are often required to balance non-monetary considerations with commercial objectives. Whether by choice, by association with an Indigenous community and or even in some cases through pressures from government or industry, these considerations add a layer of considerable complexity to a business. They are of particular concern when they result in unrealistic expectations placed upon the business which prevent it from being able to grow like any other.

Indigenous businesses, regardless of whether they have a view of economic profit or a broader social objective, need specialised assistance in navigating the workings of mainstream Australian business. This becomes even more important when tensions emerge between commercial imperatives on the one hand, and immediate community, cultural or customary needs and broader social goals on the other.

Examples of the expectations and unique pressures that Indigenous businesses must face while trying to maintain a core business focus include:

- The redirection of profits by Indigenous businesses into much needed community and social services is not uncommon, particularly in remote locations. Often Indigenous communities own significant commercial assets but these generate little income for their owners because the benefits of their labour are spread thinly among the rest of

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<sup>4</sup> K.Hindle & M.Lansdowne (2005), 'Brave spirits on new paths: toward a globally relevant paradigm of Indigenous entrepreneurship research,' *Journal of Small Business & Entrepreneurship*, Vol.18, no.2, special issue on Indigenous entrepreneurship.

the community. This is a significant problem, because for a small business to continue to grow and sustain itself, it needs a surplus to be retained for reinvestment in the business.

- Some Indigenous businesses are established to provide a direct return to local communities and as such operate through a company trust structure, but struggle with how to best manage the redistribution of profits to meet community expectations. For example, Leedal in Fitzroy Crossing has a major stake in the town's two pubs and was set up to benefit five local impoverished Indigenous communities. The company recently came under fire for not providing financial assistance to the town's aged care hostel, a service which company management saw not as its primary responsibility, but rather the responsibility of the Federal Government and the Shire.
- Some small Indigenous contracting businesses find themselves caught between meeting their contractual obligations and meeting their community expectations to be a local employer of their own people. These companies can carry a financial impost: as they are trying to carry the cost of training and supporting people with relatively low skills, they must also compete to meet contractual obligations against larger companies which are profit-focused and not concerned with returning a local social dividend.
- Meeting local service delivery needs is sometimes even imposed upon Indigenous businesses by governments, detracting from their core business to the detriment of their stability and growth. For example, Indigenous businesses have been known to be approached by government to implement CDEP programmes.

These issues need to be explored carefully by government agencies and representatives supporting Indigenous enterprises. All Indigenous enterprises, regardless of whether they are community, family or individually owned and operated, need to be built on a strong economic foundation, with long-term goals and in the context of a clearly articulated business plan. All business support programmes need to help Indigenous businesses to understand and prepare for these unique challenges.

Indigenous businesses need assistance in how to manage social, cultural and community objectives whilst ensuring commercial, entrepreneurial initiatives are clearly rooted in the economy so that they continue to prosper and succeed. Government and industry need to ensure that unrealistic or unfair expectations do not detract from their core business. Most of all, Indigenous entrepreneurs need to be supported into a dynamic and realistic engagement with capitalism which supports their aspirations.

## **Identifying areas of Indigenous commercial advantage and strength**

For Indigenous entrepreneurship to grow and prosper there is a need for better ways of identifying markets and opportunities that are able to generate profits on a sustainable basis. Often there are markets that exist that people aren't yet aware of. It is important not to cater for markets that don't exist or to direct Indigenous people or communities into already established, tight, highly competitive markets where they do not have a strong competitive advantage. Often duplication of Indigenous businesses occurs and work needs to be done through government programmes to prevent this.

It is also important to develop opportunities which are community-driven and aligned with Indigenous peoples' aspirations: a community is more likely to embrace entrepreneurship and ventures are more likely to succeed if ideas receive local organic support and people envision how an entrepreneurial project will help them to achieve their goals. Dr. Ernesto Sirolli suggests that people should not be forced into business, but that they need to come to the process through their own engagement with a business idea or aspiration.<sup>5</sup> While there may

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<sup>5</sup> Sirolli, E. (2006) *Ripples from the Zambezi: Passion, Entrepreneurship and the Rebirth of Local Economies*, New Society Publishers.

be plenty of business opportunities, it is the desire, aspiration and preparedness to be involved and take risks that turns a business idea into a reality. As many as four out of five businesses fail in the first five years. It is therefore crucial that ventures are not foisted on an individual, family or community, and that there is a realistic understanding of business success on the part of both the entrepreneurs and those supporting them.

In identifying areas of Indigenous commercial advantage and strength it is also important to recognise the diverse forms of economic participation that occur in regional and remote locations, instead of focusing only on mainstream solutions that may not be available.<sup>6</sup> Jon Altman has written about the non-market or customary economy, which represents a form of economic activity from which a combination of commercial and State or NGO supported market activity can emerge. This has been referred to as the hybrid economy, which is made up of three sectors – customary, market and State. Activities include hunting, fishing, collection of bush foods, art and culture, all of which are customary activities but have the potential to be at least partially commercialised. Land and water management and conservation can be supported by the private sector, the State, NGOs and/or philanthropic bodies.

The Canadian Eco Trust model, which is currently being explored for application across Northern Australia, is one way of building the hybrid economy in regional and remote Indigenous communities by harnessing and combining all of these resources.<sup>7</sup> It focuses on six sectors which were identified as critical to transforming British Columbia's coastal economy: forestry, fisheries, aquaculture, real estate, energy and tourism. Within these sectors, Ecotrust Canada builds capacity through information and resource management, business consulting and organisational development; capital through business lending, equity investing and fundraising; and connections through policy and research, networking and communications.<sup>8</sup>

The following is an overview of some key areas which Rio Tinto sees as offering commercial advantage and strength to Indigenous communities:

#### **Resource Development & Infrastructure**

Resource development has been identified as a significant source of opportunities for Indigenous enterprise development, however it is now becoming widely acknowledged that this cannot be relied upon by communities or governments as the sole source of economic opportunity in regions where little other economic activity or investment currently occurs.

Many States and regions across Australia are set for extensive infrastructure growth. The strong growth of the Indigenous population will have to be matched by significant infrastructure and utilities investment in many years to come. Indigenous people can have a direct hand in this growth as contracting businesses or sole operators involved in civil construction and maintenance of assets such as roads when construction has ceased.

#### **Pastoralism & Agriculture**

Indigenous people are significant pastoral landowners in Australia. There are around 520 pastoral leases in Western Australia, some 60 of which are held by Indigenous communities. Indigenous people own some thirty pastoral stations totaling about eight million hectares in the Kimberley region alone, which accounts for more than 30% of Kimberley pastoral land. They control a further five million hectares of Indigenous reserve land.

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<sup>6</sup> Altman, J (2005), 'Land Tenure, Land Management and Indigenous Economic Development,' Centre for Aboriginal Economic Policy Research, Australian National University, Canberra.

<sup>7</sup> Australian Conservation Foundation (2008), 'A Cultural & Conservation Economy for Northern Australia,' Land and Water Australia, Canberra.

<sup>8</sup> Ian Hill (2005) 'Building a Sustainable Economy in Remote Canada,' EcoTrust Canada, Vancouver

However Indigenous people often own the poorest land that is marginal or unproductive. It is not surprising then that most communally owned cattle stations are actually run as small family enterprises, and generate little benefit for most of the people on whose traditional lands they lie. As a whole, Indigenous-held pastoral properties do not perform as well as other pastoral properties on standard commercial indicators and a large proportion are not commercially viable as standalone pastoral businesses.

A recent review undertaken on behalf of the West Australian Government exploring options for Indigenous pastoralism development found that only 18 of the 51 Aboriginal held pastoral holdings in Western Australia have the potential to support commercially viable pastoral businesses that deliver significant economic benefits to their owners. However, the review notes that it should not be assumed that low potential pastoral leases have no economic or other value to their lessees. It gives examples of where low potential leases have been used in other ways, such as in the establishment of tourism operations, roadhouses, housing maintenance and construction teams, civil works contracts, or training programmes to prepare for employment in mines and on neighbouring stations. Others have generated income by making land available for sub-leasing and agistment.<sup>9</sup>

### **Conservation & Land Management**

Markets for Indigenous environmental knowledge and management need to be explored creatively and collaboratively by governments, industry, economists, research bodies and Indigenous people and communities. Managing and caring for land and sea country could become a potential opportunity of Indigenous commercial advantage and strength in addressing climate change and greenhouse gas emissions, particularly with the planned introduction of a national carbon trading scheme, in water resource monitoring and in carbon sequestration and abatement. For example, Indigenous ranger knowledge about fire management and the burning of native vegetation can help to reduce emissions in national parks, Indigenous lands and pastoral lands. These techniques and this knowledge could be applied on broader landscape scales.

### **Programmes that work – Rio Tinto Business Development Initiatives**

Each of Rio Tinto's group companies have implemented or contributed to a range of programmes to help identify and establish businesses in areas of Indigenous commercial advantage and strength.

#### **Argyle Diamonds – Slingair – Luridgii Partnership**

Argyle Diamonds has supported the partnership between a Traditional Owner Business, Luridgii Eco-Cultural Enterprises, and Slingair, an established provider of transport and tourism in the East Kimberley, to deliver the Ground Tours at Argyle Diamond Mine. This is an example of assisting people to establish viable businesses beyond mining.

The partnership has included the establishment of TAFE accredited traineeships in tourism and operations backed by mine management. Working onsite, trainees learn the ropes of tour guiding, with support from the mine's trainee department. The nationally accredited certificates allow them to operate as tour guides anywhere in Australia.

The Luridgii and Slingair partnership is an example of a business that takes advantage of economic opportunities directly available through resource development but which is not solely reliant on mining. Because of the diversified nature of its business it will be able to continue long after mining has ceased in the region.

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<sup>9</sup> 'Lands of Promise and Opportunity: Aboriginal Pastoralism in Western Australia: Report to the Minister for Planning and Infrastructure,' June 2008, p.8



Luridgii is also independently delivering a range of one and two day cross cultural awareness training to Argyle Diamond staff.

**Argyle Diamonds – Jirrawun Arts**

Argyle Diamonds assisted the Gidja people to establish their own arts and culture organisation, Jirrawun Arts, through financial assistance and governance support. The artists of the Jirrawun group include internationally acclaimed artists such as Freddy Timms and Paddy Bedford. The company also assisted in the Jirrawun Group presenting at the Perth International Arts Festival and Melbourne International Arts Festival in 2002 with their acclaimed performance of *Fire Fire Burning Bright*.

**Alaska Indigenous Business Entrepreneurship Competition**

This competition-based model is taken from the World Bank. The competition has been established in Alaska recently in order to develop individual Indigenous entrepreneurs or individually-owned Indigenous businesses.

The competition allows people to enter an entrepreneurial idea or business plan to be judged by industry experts. Ideas are then short listed and on an agreed day within the community, judges come to judge the competition with the view to awarding the winner with cash investment or seed money to develop their business for one year and then report back their progress. Funding for the prize is sourced from local industry and government as a means of encouraging participation.

The competition has proven to be a good means of developing and building local aspirations and dreams, particularly for younger members of the community. Sequestered Solutions Pty Ltd won the competition in 2004 and is now a successful business providing information technology services to enterprises on a local, national and international level. Their main service includes operation of a major server farm in Anchorage, for which they originally won the competition.

**What is Needed?**

Indigenous people would benefit from new strategies for identifying financially, commercially sustainable enterprise opportunities. This can be an enormous challenge to people with little or minimal understanding of and exposure to mainstream market mechanisms. Many Indigenous people live where there are vast natural resources or in communities with considerable artistic and cultural knowledge – but they need assistance in identifying the economic value of those resources and support to translate these opportunities into viable businesses.

Government could consider a coordinated programme of regional and national forums which bring together Indigenous and non-Indigenous businesses and entrepreneurs. These forums could focus on key industry sectors or areas of Indigenous commercial advantage and strength. They would help businesses to build partnerships, establish joint ventures and expand their client or contractor base. It would however, be essential that such forums respond to actual demand and that people are intrinsically motivated to attend rather than being guests or observers otherwise such forums hold very little value. Such a forum currently exists in the form of the Aboriginal Enterprise in Mining, Exploration & Energy (AEMEE) conference. Rio Tinto is a supporter of the AEMEE conference. This is an annual event that has as its focus; exploring building Indigenous capacity and economic opportunities to communities and individual businesses. It brings together both private companies and indigenous entrepreneurs in a forum for sharing knowledge, networking and exploring potential business opportunities. The ‘Australian Indigenous Tourism Conference’ is an other example of industry specific efforts to build networks and opportunities for indigenous enterprises.

As seen in the example above, competitions have proven to be an effective way to stimulate entrepreneurial thinking amongst Indigenous communities in Alaska. In many Australian regions such as the Pilbara and East Kimberley there is a plethora of opportunities for

Indigenous business but not necessarily the capital or start up funds required to establish the business. A competition that is run annually in these regions would develop community aspirations while providing a forum for sharing business ideas. Government could pilot the competition in two locations over three years to determine the success and outcomes of an entrepreneur competition for Indigenous people. Prize funds or seed money could be easily sourced from local industry and should be supported by government commitment and administration of the competition.

### **Finance**

The availability of a range of finance options is essential for any business and Indigenous businesses should not have to rely solely on monies from trusts or government programmes. Micro finance options such as Many Rivers Opportunities and other conventional banking loans all need to be made accessible.

### **Conservation & Land Management**

The Government in partnership with Aboriginal people could facilitate the design and establishment of market-based systems and brokering mechanisms which allow Indigenous people to 'sell' their land management skills and knowledge. A recent paper published by the Desert Knowledge CRC explores this concept in detail for the spinifex region and makes several recommendations.<sup>10</sup> This is a significant research project for the Australian Government as there are many challenges associated with assigning immediate economic value to such activities. Indigenous land tenure arrangements are also inextricably linked to the capacity and need to enable this type of 'conservation economy' to emerge in Indigenous communities.

## **3.2 Business Leadership and Capacity Building**

### **Key issues**

- Business leadership education and getting basic governance structures right from the start, for people that are carrying out business activity, are vital to the establishment of successful Indigenous enterprises
- Business coaching is required for Indigenous people who want to successfully translate benefits from resource companies into viable commercial enterprises
- Financial literacy, money management and financial knowledge are a vital but missing link in Indigenous business preparedness for growth

### **3.2.1 Business Leadership & Governance**

Strong leadership is a fundamental principle or foundation for a successful business. Indigenous enterprises often suffer problems associated with board governance and management issues including confusion of roles and responsibilities. These problems can severely affect business success. Governance more broadly is vital to the success of communities in and around mining operations, both for the strategic management of trusts and for translation of benefits into successful business ventures.

Business leadership support programmes should provide Indigenous people with the skills to be able to make sound business decisions, particularly in times of difficulty. A business with strong leadership and a good governance structure is more likely to be successful, more resilient and adaptive to change and more responsive to economic opportunity. In the case of

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<sup>10</sup> Desert Knowledge Cooperative Research Centre (2007) 'Enabling the Market: Incentives for Biodiversity in the Rangelands: Report to the Australian Government Department of the Environment and Water Resources,' Report no.18.

the resource industry, such a business can better maximise the benefits of resource development whilst building its capability as a viable, profitable business that can sustain itself after mining operations have ceased.

A better system of business leadership and governance training and support through skilled facilitators is required to meet the needs of Indigenous people. While a range of Indigenous business and governance facilitators do exist in Australia, very few are effective and skilled in this specialist role. Indigenous businesses and communities need regionally-based, trusted, industry-connected people who understand the unique challenges that Indigenous businesses face. Their expertise needs to bridge the specificities of Indigenous cultural, social and economic contexts with the sometimes vastly different values, realities and complexities of mainstream Australian business.

### 3.2.2 Financial Literacy

In order to build capability in business management, Indigenous communities require programmes that improve financial literacy, money management and financial knowledge. This requires Commonwealth, State and Territory governments to work with Indigenous organisations, and the finance and banking sector to develop appropriate teaching tools. Several of the banks have developed programmes which have been implemented in some communities across Australia. The most significant of these is the Financial Income Management programme operated through Westpac in Cape York. Provision of such support on a large scale needs to be more readily available.

Financial literacy would be useful to a number of different groups in regional and remote locations seeking to grow their business capability. It is particularly an issue for people managing large amounts of money for a business or for trusts receiving royalties from land use agreements with mining companies.

#### Programmes that work

##### Aurora Project

A new business management training program has been developed by the Aurora Project with AGSM Executive Programs to provide business management training to a wide range of Indigenous organisations. The program, consisting of three 3-day modules over a six month period, will be delivered directly into Indigenous communities and tailored to meet the specific needs of participating Indigenous businesses organisations and their managers. A pilot of the program is being delivered in 2008 in the Miwatj region of North East Arnhem Land.

The program follows on from a successful executive development program for Native Title Representative Body chief executives and senior management piloted by Aurora and AGSM Executive Programs in 2007. The program offered advanced training in the areas of strategic thinking and decision making, human resource management, community relations, stakeholder management and corporate governance.

##### What is Needed?

It would be worthwhile exploring the feasibility of establishing a network of skilled Indigenous business facilitators capable of guiding Indigenous people and communities through their commercial aspirations and business processes. There needs to be a coordinated framework for attracting, investing in and supporting these people to ensure they are locally-based, trusted by communities and can offer practical, industry relevant advice while also taking account of the unique set of challenges and pressures that Indigenous businesses face. The Aurora Project mentioned above is an example of innovative ways to enhance business leadership in Indigenous entrepreneurs.

The individual support of business facilitators can be coupled with the development of regional enterprise centres which provide a full range of business support services. This may be offered through existing state-based small business enterprise centres to utilise existing infrastructure. The development of these centres should only occur in locations where real

economic opportunity exists. These centres would be responsible for guiding and stimulating the development of new businesses as well as providing long-term assistance to facilitate growth and build long-term stability of existing businesses.

### 3.3 Government Programmes

#### Key issues

- Indigenous businesses find it hard to access necessary business advice or a clear pathway to accessing business support so they can act on business opportunities
- Good governance training is difficult to obtain and there is a lack of sound business advice from trusted parties
- State and federal agencies and programmes are not streamlined to ensure these programmes are an efficient and effective use of public funds and Indigenous people's time and efforts.
- Government pressures and expectations on Indigenous businesses to support local service delivery impact business growth.
- Staff sometimes lack the capability or experience to effectively advise Indigenous business

Up until now the success of many Indigenous businesses, particularly in the Pilbara, has been due to personal and industry-related relationships. This relates to other issues facing Indigenous business people associated with their lack of industry networks and contacts which are significant in driving and creating business opportunities.

Government business support and lending programmes for Indigenous people seem to be plagued with similar problems to Indigenous community service delivery experiences across Australia. This includes a lack of streamlined service provision and adequate and direct access to support services. Indeed, it is currently very difficult for Indigenous people to access good financial advice and governance training in order to identify potential opportunities and turn them into successful business ventures. This is partly due to the fact that it is often unclear what the government sector is providing, and to the difficulties Indigenous people face in accessing necessary funding for their business establishment. Currently, funding for business establishment is too piecemeal and does not allow business to access all the funds it requires for effective startup.

Additionally, people require assistance in navigating the paper-based processes and requirements of running a business, such as bookkeeping, tender submissions, tax requirements and BAS statements. These types of services are simply not available for all Indigenous people and there seems to be no consistent access point from which they are offered. More dynamic models need to be built on existing business support frameworks that consider the needs of Indigenous people in enterprise, including the cultural, social and community contexts which affect the way they do business.

State and federal agencies and programmes are also not streamlined to ensure these programmes are an efficient and effective use of public funds. For example, the Indigenous Small Business Fund and Indigenous Business Australia programmes can provide funding support for people to complete a feasibility study or tender application. Several businesses may participate but only one project will succeed, so there is no return for either the business or the government on the expense and effort put into the unsuccessful applications.

Indigenous people have not had intergenerational exposure to enterprise development and need access to a network of skilled and capable entrepreneurs who can provide this advice and background. Perhaps the best preparation for business is through direct employment and the experience this delivers to the individual regarding business knowledge and skills. Direct employment experience can introduce people to industry networks, professionals and opportunities outside of their normal family or social environment.

Indigenous businesses, particularly those that are community owned, can face unique problems and pressures not experienced by mainstream businesses. This is exacerbated by

high expectations placed on Indigenous enterprise to perform, as experienced by businesses which are expected by government to provide essential services to communities, even if this service is not part their expertise. In addition, as mentioned in section 3.1, business ideas, rather than being driven by a community or individual, are sometimes imposed by government agencies and representatives. This can set people up for failure and result in duplication of businesses in already tight or non-existent markets.

In order to build capability in this area, government focus should be on providing every possible means of support to people who genuinely want to establish a business in their identified area of interest or expertise. This means increased investment in Indigenous business services as well as better delivery of Indigenous business training Australia wide. In the case of communities close to Rio Tinto operations, remoteness has often limited access to adequate business training, which means that regionally-based business services require significant investment.

Government selection of staff for business support programmes and the need for people with good experience and proven track records in this area of work is also of vital importance. Many government service providers operating in regional and remote Australia lack skilled, capable staff that can recognise and support the development of opportunities as they emerge. Neither university nor industry is able effectively to supply a stream of professionals with the appropriate skills.<sup>11</sup> It is important that business services staff understand the nuances of Indigenous business and possess entrepreneurial zeal for the work they undertake with Indigenous people.

Some of the government sector business services available to Indigenous people have been profiled below.

#### **Indigenous Business Australia (IBA)**

Indigenous Business Australia provides business loans and support to assist Indigenous people to establish and grow businesses. IBA's loans programmes are designed to provided Indigenous people with access to capital where they otherwise may not access these funds through private sector finance institutions. IBA also run a business support programme which can provide funds for governance training, planning marketing and other business advice.

IBA has increasingly come under scrutiny for failing in some of its service delivery. Some problems highlighted have been the long processing time for finance loans which can take between 9-12 months to process and can severely affect a person's ability to act on a business opportunity. Others issues are the scope and delivery of services which often don't reach some parts of the country where business advice and support is in high demand. In the Pilbara in Western Australia for example, Indigenous communities with many opportunities for business development around the mining and pastoral industries find it difficult to access the IBA business support programme due to the office location in Port Headland. For people based in the West Pilbara it requires a trip of between two and five hours to access services in Port Headland.

In the East Kimberley however, IBA programmes are working well to assist Indigenous people in the establishment of new business and in business growth planning. While other areas are excluded due to their remoteness, it seems this region is accessing one-on-one case management support for their business through IBA. Indigenous people would benefit from a consistent approach in IBA's programme delivery. This would require increased investment by government to ensure locations are not excluded from business services. If there are ample business opportunities in areas then funding should be allocated for a locally based office close to those communities. This would be of particular benefit to people in the Pilbara who in some cases are three to four hours from the Port Headland IBA office.

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<sup>11</sup> Ibid.

Rio Tinto recognises that individual case management approaches is perhaps the best model for developing Indigenous enterprise but that government services find it hard to deliver such tailored programmes. However, the lack of locally trusted and familiar people in some locations severely affects Indigenous peoples' capacity to establish and grow their business successfully. Due to a history of bad experiences when conducting business Indigenous people have developed preferences in particular ways of doing things. This includes having a good relationship based on mutual respect with business consultants and lending officers that they that work alongside to establish their business. It is advisable that those that provide advice and those that provide finance are not the same but separate entities.

#### Other Government Programmes

- **Indigenous Capital Assistance Scheme (ICAS)**  
ICAS is designed to provide access to capital and business finance needs to Indigenous people that may find it difficult to access funds through normal commercial channels. By doing so, it aims to grow Indigenous business as a means of providing increased employment opportunity and pathways for Indigenous people.
- **Indigenous Land Corporation (ILC)**  
ILC provides assistance to Indigenous people to acquire land and manage Indigenous held land in order to provide sustainable cultural, social and economic benefits for the future. The programme is run through the National Indigenous Land Strategy, a policy framework which supports the ILC programmes and aims to deliver outcomes in economic development for Indigenous people and help to redress issues associated with urban land issues.
- **Indigenous Small Business Fund (ISBF)**  
ISBF provides funds to community owned Indigenous business and/or community based organisations and aims to assist Indigenous people to experience and learn about business to develop their business skills. The funding provided by ISBF is not for commercially-based business ventures or individual entrepreneurs but can be used for developing and growing incorporated Indigenous organisations as well as for training and support.

#### Programmes that work – Government

##### **IBA Joint Venture partnerships**

IBA has been significant in its support for Joint Venture partnerships in the mining industry as a way to grow Indigenous businesses. Through such initiatives IBA has contributed to the successful establishment of companies such as Ngarda Civil and Mining.

Ngarda is a contract mining business based in import Headland in the Pilbara region of Western Australia. The business is half-owned by Indigenous interests and the other half by Leighton Contractors (previously HWE). IBA and the Ngarda Nagarli Yarndu Foundation each hold a 25% share.

In the first nine months of its operations, Ngarda secured approximately \$9.2 million in contracts for work over the next five years. In 2005 HWE went into administration, putting significant pressure on Ngarda. This proved to be a catalyst for growth for the company and since 2005 Ngarda has set up its own supply contracts, finances and payroll systems.

Ngarda continues to be a presence in the Pilbara. Currently, it holds contracts with BHP Billiton and Robe River. These projects alone have resulted in the employment of over 100 local Indigenous people. Ngarda Indigenous employment participation is some of the best in the industry.

The support from government to assist Indigenous people into Joint Ventures with high capacity non-Indigenous businesses is perhaps the most secure and successful way to build the capability of Indigenous businesses around the mining industry. In the case of Ngarda, HWE experience and expertise were invaluable in assisting Ngarda to develop its skills as a contractor until the business was ready to stand alone.

The Joint Venture was a win for both businesses in the partnership: the Indigenous contractor can gain industry experience and build the capability of its business skills while the non-Indigenous business gains valuable experience and engagement with Indigenous people, satisfying the sustainability goals of their clients.

### **What is Needed?**

Currently there is no coordinated and consistent framework of enterprise support which Indigenous people can access in order to establish and manage a business. It is recommended that government review current programmes in place in order to design and implement a model that fills the gaps for Indigenous business while building on existing support structures in place. This model would need to give Indigenous business people access to:

- Advice for early phase business establishment, structure and governance;
- Assistance with business processes including bookkeeping, BAS statements and tendering documents;
- Marketing, communication, advocacy and public relations support;
- Business forecasting information and investment advice;
- Links into industry networks and contracting opportunities
- Contracting advice;
- Business skills, governance training and business up-skilling programmes;
- Links in with financial capital and lending institutions;
- Whole-of-business approach to seed funding, and
- Case-managed finance and investment processes

Many models have been suggested, but a service-orientated approach is required that incorporates all of the above needs in one central office. Even if the office does not offer the service it should have the ability and capability in its staff to connect Indigenous people to these services and industry networks.

Government could review its programmes to reflect Indigenous business development best practice. This includes providing incentives for Joint Venture partnerships between high capacity businesses and newly established Indigenous enterprises in order to develop capacity.

A role model-based programme is another means by which to develop and grow the capability of Indigenous business. Similar to Joint Ventures, this is a capacity building model for Indigenous business. It would be in the form of a more informal partnership between high capacity business people in the region and Indigenous businesses. The high capacity person plays a facilitating and mentoring role in coaching and advising the Indigenous business regularly. The concept would aim to build Indigenous business capacity by providing them with examples of the way successful people run their business and the skills and processes they use while also introducing Indigenous people to networks with other local business people.

Finally, to ensure quality of staff employed in business support services, government needs to ensure their investment in staff capability is tantamount to their investment in the programmes themselves. This requires appropriate remuneration for people doing this work and strong staff support frameworks and infrastructure. It requires people who are effective, enthusiastic and results driven rather than having a strict adherence to a formula or process at the expense of business growth. Entrepreneurial zeal is a valuable trait.



## 3.4 Industry Programmes

### Key issues

- Current procurement models still exclude Indigenous business and don't guarantee growth that stimulates Indigenous business development while maintaining high performance standards
- Indigenous business support frameworks are not aligned with industry and do not prepare Indigenous business for industry expectations
- Government need to support industry more effectively to grow Indigenous business around their operations
- Nominated contracting models are an untapped tool that could be further developed to support Indigenous-owned businesses – this has the potential to be led by Government.

### 3.4.1 Support & Incentives for Indigenous Business

Rio Tinto has been a strong supporter of Indigenous business through its commitments in land use agreements that support the development of Indigenous enterprise. Each of Rio Tinto's group companies have implemented or contributed to a range of programmes aimed at enhancing Indigenous business development alongside their operations. However, while the outcomes of these programmes have been positive, they have taken considerable time and commitment and no one business is an iconic example of success. For the potential for business growth in these regions to be fully realised, investment of a much higher order needs also to come from the government sector.

Smarter contracting and procurement policies are a means by which the company have increased Indigenous participation in the mining industry and supported Indigenous business and economic development. Many Rio Tinto businesses have weightings in their tendering and procurement processes that favour Indigenous enterprise and some have developed incentive-based models which guarantee business to Indigenous-owned enterprises through agreement to procure their services. Rio Tinto is careful in considering incentive-based solutions to Indigenous business development. The company prefers to provide incentives to Indigenous business based on the utilisation of the business service through procurement, rather than through monetary or shared equity incentives.

Rio Tinto Alcan Weipa has contributed to Indigenous enterprise in several ways. It has hired Indigenous businesses to carry out work for the mine, offered support and advice throughout the contractor prequalification process, offered logistical support and encouraged non-Indigenous companies to hire and train Indigenous people in order to build capacity within the community. The company also has improvement plans which are used as part of the prequalification and re-qualification process which occurs every two years. This process enables small, medium and large contracting businesses to work closely with the company to improve their ability to meet contractual obligations and contribute to capacity building within their community.

Issues have arisen from guaranteed contracting where some Indigenous businesses have inflated their prices in the belief that they will still be awarded the contract without being competitive. It is important to note that although many companies are willing to pay premiums of as much as 15% to engage Indigenous contractors, they still have tightly controlled budgets allocated to projects. Alliancing models between Indigenous businesses and companies are a good practice that can alleviate this problem by building an open relationship between the company and the contractor and maintaining clear expectations around job costs and performance. Better education through government supported programmes can also ensure Indigenous people understand the business they are tendering to whilst also providing them with business skills for price and tendering for jobs.

Nominated contract models are another means by which companies can provide an incentive for Indigenous businesses to take-up opportunities – these are explored further below in 3.4.2.



### Programmes that work – Industry

#### **Marnda Mia CNC (MMCNC) and the Victoria Hotel, Roebourne WA**

The MMCNC is an Indigenous organisation representing seven traditional owner groups of the Pilbara region in Western Australia. The company recently made steps to acquire the Victoria Hotel in Roebourne which is a town close to the Rio Tinto Iron Ore (RTIO) mining ports, Karratha and Dampier both of which during the western Australian mining boom are suffering from a severe lack of accommodation for people moving to the region for work.

In order to assist the MMCNC to access the finance required to purchase the Victoria Hotel business and site, RTIO guaranteed occupancy of the hotel as a means of solving the accommodation issues faced by many RTIO staff in the Pilbara. RTIO guaranteed that they would utilise the accommodation service of the hotel to satisfy the lending institution loan criteria. This guarantee meant that MMCNC could demonstrate that their business would meet local accommodation demands for the region and as such be a commercially viable business into the long-term foreseeable future or until mining operations cease.

As a result MMCNC were successful in their loan application and have guaranteed business for the foreseeable future. The incentive provided by RTIO enabled the MMCNC to confidently act upon the opportunity to develop the Victoria Hotel knowing that their investment had some guaranteed returns. As part of the new business model being developed the new owners have surrendered the hotel's liquor license.

### **3.4.2 Contracting Models**

Best practice for developing Indigenous business is through a nominated contracts model. In Australia, government and industry are currently focused on achieving better employment outcomes through contracting policies which give positive weighting to contractors and subcontractors employing Indigenous people. In contrast, a nominated contracts model aims to build direct ownership and participation of Indigenous businesses in the economy by designating contracts to Indigenous people. This is an untapped resource in Australia and is perhaps the model that provides the most direct pathway to developing businesses and building business capacity.

Issues associated with the current arrangements for contracting in the Australian mining industry, which is tender-driven and competitively based, continue to exclude Indigenous businesses from being established and from building their capability. There is an expectation that if contracting procedures are accessible to an Indigenous supplier base, then high capacity and well performing Indigenous-owned businesses will present themselves for such opportunities. Unfortunately this has not regularly been the case – with the support of industry, government needs to first develop Indigenous enterprise preparedness and then create real opportunities for Indigenous business. Rio Tinto acknowledges this and considers it in the interest of communities and the company to drive economic development opportunities and capacity in the communities in which it operates.

In undertaking this task, Rio Tinto has applied lessons learnt in its employment and training experiences with Indigenous people; that is to link training with real employment outcomes. This can be transferred to Indigenous business development through incubation of commercial ventures with real business opportunities through real contracts rather than just 'perceived' opportunities. In the same way, government programmes for business capacity building must be linked to real industry opportunities.

While Rio Tinto in Australia is achieving results through its procurement systems which give positive weighting to Indigenous business, Indigenous contractor growth and development is limited by a capacity to understand the business they tender to. Joint Venture models such as those described below in Canada can be utilised in the Australian context to build capability of existing Indigenous business. This can be through Joint Venture partnerships with high performing contractors and be modeled directly on the Canadian example.

Rio Tinto has several mine operations that have developed Indigenous business projects in recent years. The Rio Tinto Diavik mine alone has spent \$1.5 billion on Indigenous contracts in the last six years. Other leaders in Canada include Syncrude, a mineral sands oil producer and Cameco Areva, a uranium miner in Saskatoon. Syncrude have spent over \$604million in the last five years and over a billion dollars since 1992 on contracts with indigenous business<sup>12</sup>. In 2007 Cameco sourced 71% of their procurement contracts with Northern businesses<sup>13</sup>. The elements of success in Rio Tinto's Diavik operations have been profiled below.

#### Programmes that work – Rio Tinto Canada

##### Developing Indigenous Business Through Contracting – Diavik Diamond Mine

The Rio Tinto procurement model in Canada which is implemented at Diavik Diamond Mine demonstrates fundamental differences to Australian contracting arrangements and it is these elements that have made Canada more successful in Indigenous business development than Australia.

Some elements contributing to this success are:

- **A shift to nominated contracts model.** Diavik has shifted to a nominated contracts model which means that certain contracts within the business are automatically awarded or nominated for Indigenous business. This encourages businesses to develop their capability over a longer period of time in certain services and to drive down their services cost to the company through an open and ongoing relationship of trust and sharing of expertise.
- **Enterprises receiving the contracts must be 51% Indigenous-owned.** This builds Indigenous business management and business running skills capability through the contracting of Indigenous led business.
- **Diavik encourages Joint Venture partnerships with high performing non-Indigenous businesses.** This develops the Indigenous enterprise's capability and allows both ventures to share knowledge and expertise. This has been particularly successful for businesses that may not meet tender requirements alone but through the Joint Venture can perform satisfactorily.
- **Built-in exit arrangement for Joint Venture partnerships.** This allows the Indigenous business to buy out the non-Indigenous business if their capacity is increased to meet contract requirements alone.
- **Prohibition of sole-client contracting.** This means an Indigenous contractor cannot be 100% dependent on contracts and business from one company. If awarded, Rio Tinto contracts the business must achieve contracts with other companies. This creates incentives for Indigenous enterprise to diversify their business and build capability. It also encourages the business' sustainability beyond mining operations and acts as a buffer to the 'resource curse' for communities near mining operations.<sup>14</sup>

**The model has delivered overall success in business development outcomes but does present some risks. These are:**

<sup>12</sup> Syncrude, "2007 Aboriginal Review", [www.syncrude.ca](http://www.syncrude.ca)

<sup>13</sup> Cameco, "Driven to Succeed: 2008 Business Review", [www.cameco.com](http://www.cameco.com)

<sup>14</sup> Langton, M. & Mazel, O. (2008), 'Poverty in the midst of plenty: Aboriginal people, the 'resource curse' and Australia's mining boom,' *Journal of Energy and Natural Resources Law*, vol.26, no.2

- Tokenistic business development
- High implementation costs and higher contract costs to the company, although the financial gain for Indigenous business is high (this is the trade-off for the investment). Joint Venture arrangements require higher cost to the company due to the need for a manager, although the financial gain for Indigenous business is high.
- This model does not always guarantee increased Indigenous participation through employment and does not build employment and training capability in Indigenous communities. To achieve this, a commitment to a targeted number of trained and employed Indigenous people would need to be incorporated into Joint Venture agreements.

The financial gains from the Canadian model can build aspirations and self determination within communities, whilst the money groups receive through their contracts can also assist in local economic development. Although the Canadian model is more focused on Indigenous ownership and management of enterprise, it has shown some success in improving Indigenous workplace participation. As of last financial year, approximately 33% of Diavik's workforce was Indigenous and 38% of its contracting was with northern Indigenous businesses to the value of \$276 million.<sup>15</sup> It is recommended that any model that is developed for Australia should incorporate skills development and economic participation through employment and training and not just focus on Indigenous ownership and management of enterprise.

### **What is Needed?**

Currently the Australian mining industry is leading the way in creating real opportunities for Indigenous business, but these cannot translate into real business growth until the right level of investment is made in building Indigenous business preparedness.

In addition to building business preparedness, the Australian Government can create opportunities for Indigenous business by driving industry commitment and programmes through the development of a nominated contract model for its own contracts, particularly in central and northern Australia. This would lead the way for industry to make a shift to a nominated contract model. A nominated contract model across both government and industry would mean more Joint Ventures and more Indigenous businesses bidding for and winning contracts, thereby distributing increased income into communities that can be used for future investments and economic development.

Ways in which the Diavik model outlined above may be adapted for Australia:

- A shift to nominated contracts or alliancing model – this would encourage an open-book, collaborative relationship between the contractor and the contractee.
- Encouraging Joint Venture partnerships with high performing businesses.
- Built-in exit arrangement for Joint Venture partnerships.
- Prohibition of sole-client contracting – however the model would need to ensure that this does not discourage companies from awarding contracts to newly established business needing support. An exception or special condition could be applied to these businesses.

A shift to a nominated contract model would mean a significant investment by both government and industry in Indigenous businesses to be able to meet contractual requirements. It would need to be government's role to provide incentives to ensure that companies deliver contracts to Indigenous people. The additional cost investment of the

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<sup>15</sup> Christensen, E. (2008) 'Participation Agreements: Some reflections on the Diavik Experience', Diavik Diamond Mines Inc, p.6

company to drive such a model could be offset by government through a tax credit or rebate. This is explored further in the next section, (3.5 Incentive-Based Models).

There is no reason why the models developed in Canada cannot be applied by the Australian Government to directly invest in Indigenous business development through their own role as a major contractor, and this is explored further in section 3.5. Whatever model is established by the Australian Government, it is clear that a shift in thinking and culture is needed by both government and industry to truly embrace Indigenous business development needs. This relates to the culture of contracting and procurement policies within government and industry as well as the way we all do business with Indigenous people.

### 3.6 Incentive-Based Models

#### Key issues

- Government programmes lack real drivers and incentives for Indigenous people and industry to invest in business.
- Government needs to be aware that good business support and training alone will not achieve Indigenous business growth – contracting models will stimulate real opportunities.
- The Canadian government shows best practice through procurement targets that award nominated contracts to Indigenous businesses.
- This can be replicated by the Australian Government to develop Indigenous business.
- This will require a shift in the government's culture and thinking about procurement practice and policy in Australia.

It has been outlined throughout this submission that the Australian Government could do more in its role to support a shift to better practice models that stimulate Indigenous enterprise growth through opportunities rather than simply business support. These models have been canvassed in the previous sections and look at nominated contracting and joint ventures as a means for industry to encourage the development of Indigenous business. It is important to note that good support programmes for Indigenous business will not drive Indigenous business development alone and real government investment is required in models that actually stimulate business opportunities.

It seems the gap in Australia is a real incentive or driver for these changes on the part of industry: this gap could be filled by government. In the Australian mining industry it has been mining companies themselves that have been driving much of their own success in Indigenous engagement projects from employment participation, to land and heritage management and business development. This is reflected in the willingness by companies such as Rio Tinto to accept a 15% premium on the average quote from Indigenous contractors.

#### Programmes that Work

##### **Queensland Government Indigenous Employment Policy for the Civil Construction Industry**

The Queensland Government has committed to policy model that reflects some of the principles of government incentives. The policy aims to increase Indigenous participation in the State's remote civil construction projects through enforcing Indigenous employment targets with their contractors. The policy sets targets for at least 20% Indigenous labour hours on selected government civil construction projects. All contracting jobs in remote communities require engagement by contractors with Indigenous people – this is a prerequisite to being awarded a contract with the Queensland government. However, the policy only applies to remote community projects and does not have a focus on Indigenous business development with all contractors at a State-wide level. As such, it does not drive business opportunities; rather it focuses on jobs and participation in remote areas only.

**Canada Federal Government Procurement Strategy for Aboriginal Business (PSAB)**

The goal of this strategy is to increase the number of Indigenous suppliers bidding for and winning federal contracts. PSAB also encourages subcontracting with Indigenous ventures and promotes joint venture relationships between Indigenous and non-Indigenous businesses. The government uses a nominated contracting system as described in other sections which puts aside certain procurement contracts for competition amongst Indigenous businesses and joint ventures.<sup>16</sup>

The PSAB has helped to grow Indigenous businesses in Canada across a range of sectors not just around the mining industry but also in areas such as information technology. This growth has taken place through the increased access of Indigenous ventures to government contracts and may not have occurred without the nominated procurement model being in place.

**What is Needed?**

The Australian Government has had some success in building a potential cohort of entrepreneurs through employment strategies undertaken through STEP and the Corporate Leaders for Indigenous Employment Programme. This programme has provided strong incentives to industry, and led to significant employment outcomes. Government can build on this success through an incentive-based programme which rewards industry for business development outcomes.

For example, it could establish a tax credit or rebate system which offsets the additional costs incurred by companies seeking to engage with Indigenous businesses, making it no more expensive for industry to engage an Indigenous business over a non-Indigenous business. Government can also be a significant driver of business development through its own contract arrangements through the use of a nominated contracting model. Such incentives may support an industry-wide movement to a nominated contracting model.

Government procurement policies reveal an untapped resource for developing Indigenous business in Australia and could be used to create enterprise opportunities for communities through nominated contracts which set benchmarks and targets for awarding contracts to Indigenous ventures. The model could nominate contracts for everything from essential services to garbage and rubbish collection, roads and land maintenance to employment and training. There are several ways this model can be developed drawing from the elements of the Canadian government model, some of which are outlined below:

1. In order to ensure these targets and commitments are met, the Federal Government can use its leveraging power through its tied grants to state and local government as an incentive for state and local governments to award a proportion of contracts to Indigenous businesses. If local Indigenous businesses do not have the capacity to meet contract requirements this would encourage Joint Venture partnerships in these instances. This model has been canvassed in the Government Programmes section (3.3) but is an additional model that can work alongside nominated contracting to support Indigenous businesses into contracting opportunities.
2. The nominated contracting model for government could be aligned with industry contracts awarded to Indigenous business. For example, if an Indigenous business is awarded a contract worth \$2 million dollars in earthmoving by a mining company then local or state government should aim to match that contract through its own tender for services in road maintenance or similar. This type of model would help to diversify

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<sup>16</sup> Standing Senate Committee on Aboriginal Peoples, *Sharing Canada's Prosperity- A hand up not a hand out*, Final Reports- Special Study on the involvement of Aboriginal communities and business in economic development activities in Canada, March 2007, p.28

Indigenous businesses, helping them to grow and develop their capability across a range of sectors instead of being dependent on one company for their contracts.

#### **4. Further Models for Consideration**

Contracting and incentive-based models have been discussed in the two previous sections, namely a nominated contracting model initiated by Government based on the Diavik experience, and a tax incentive model that supports industry engagement of Indigenous contractors. Outlined below are some other models for consideration by the Australian Government and their potential relevance to Australia.

##### **US Minority Business Development Agency (MBDA)**

Established in 1969 and placed within the US Department of Commerce, the MBDA is the only federal agency in America established to foster growth and development for minority owned business. The Agency was created to promote growth for minority business of all sizes and actively coordinates public and private sector programmes that support minority business development. The agency receives its authority through Executive Order 11625 signed by Richard Nixon in 1971 which prescribes the arrangements for developing and coordinating a national programme for minority business development.<sup>17</sup>

Through its government funding, MBDA has established a strong network of Minority Business Development Centres across America in both regional and metropolitan locations. These are coordinated with other business service centres such as the Native American Business Development Centres and Business Resource Centres. These offices provide minority groups and individuals with one-on-one expert entrepreneurial advice for business planning, marketing, finance, management, information regarding e-commerce, technical assistance, financial planning, contracting requirements as well as providing industry networking assistance to people wanting to act on business opportunities.

The MBDA has recently updated its Internet portal which provides access and information for all the services the agency provides. The website also has the ability to put people in touch with the correct networks that can provide minority entrepreneurs with finance, business tools, industry networks and general guides for running and establishing enterprises including information about insurance and strategy planning.

The concepts and principals of the MBDA are replicable in the Australian context and could be applied to frameworks that support the development of Indigenous business. Work undertaken in specific locations in Western Australia has been developing similar models to the MBDA based on Dr. Ernesto Sirolli's work. Sirolli provides four key principles on which to base business development which underpin an approach called Local Enterprise Facilitation. These principles are:

1. Only work with individuals that invite you
2. Do not attempt to motivate individuals to do anything they do not wish to do
3. Trust that they are naturally drawn towards self improvement
4. Have faith in community and the higher social needs that bond it together

Sirolli identifies three requirements for a successful business:

- Technical skills to product the goods;
- Capacity to market goods and services; and
- Ability to manage business finances.

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<sup>17</sup> US Dept. Of Commerce Minority Business Development Agency website, [www.mbda.gov](http://www.mbda.gov) >about us>Tell me about MBDA> Executive Order, accessed July 9<sup>th</sup> 2008.

In his book 'Ripples in the Zambezi', Sirolli outlines a model for community economic development which he calls Enterprise Facilitation.<sup>18</sup> This model is based on the identification of an individual's entrepreneurial passion and taking it from a personal dream to a real business. This model can and has been exercised within communities to great effect, with establishment of small businesses, local employment and real economic benefits to communities. Under the model communities employ a facilitator to enable this development. A project developed in Western Australia is also similar to the MBDA model and based on Sirolli's principals, which is profiled below.

#### **Programmes that work – Esperance Business Enterprise Centre**

The Esperance Business Enterprise Centre recently celebrated its 20<sup>th</sup> anniversary. The centre was established based on Sirolli's principles which aim to help small business people realise their dreams.

The centre is based on an enterprise facilitation model. Since its establishment the centre's services have contributed to \$190 million in revenue to the local Esperance economy and assists with an average of 40 new business starts ups each year.

Elements of the centre's success include:

- Locally based access to business advice and expertise and;
- Commitment to assist business incubation for ventures with real opportunities.

The Aboriginal Business Enterprise Centre (ABEC) is a model being developed for the Pilbara region in Western Australia which has parallels with the MBDA model. It aims to provide Indigenous people with access to business services and networks across business, industry and government. Whilst the benefits of the ABEC model are yet to be proven, it is a model worth watching for replication.

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<sup>18</sup> Sirolli, E. (2006) *Ripples from the Zambezi: Passion, Entrepreneurship and the Rebirth of Local Economies*, New Society Publishers.



## **5. Conclusion**

It has been said that two things make a business: opportunity and preparedness<sup>19</sup>. This report has considered the enabling factors from both an industry and government perspective which can build preparedness and enable Indigenous people to take advantage of opportunities for enterprise development and growth.

Government programmes, with industry commitment and support, are central to building preparedness. However, what we have seen in the mining industry over the past decade in Australia is that there are plenty of opportunities, but very few programmes, services and networks to build preparedness. And without preparedness, there can be no sustainable outcomes for Indigenous businesses.

If we are serious about “closing the gap”, we have to do considerably more to prepare people for enterprise and that requires coordinated government services and recognition that Indigenous people are capable of and currently running successful businesses. It is now time for the Australian Government to invest in the frameworks that will support this in becoming the norm, rather than the exception. Mining companies, our suppliers and contractors can all contribute, but they cannot do this alone.

Until now, mining companies have been significant drivers of opportunities for Indigenous businesses near their operations. This is not sustainable unless Indigenous businesses continue to prosper after mining operations cease. Government can assist in diversifying local businesses and economies by providing contracts for work associated with infrastructure development and service delivery. Government can also play a leadership role with industry in establishing its own best practice contracting model and incentives to industry that promote Indigenous business.

In considering experiences of Indigenous economic development, in both Australia and internationally there are some valuable examples of sustainable business success. There is significant potential for Australian Indigenous business development initiatives to draw from these examples and create its own international best practice model which delivers intergenerational prosperity to the Indigenous people of this country.

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<sup>19</sup> O’Byrne, M. Keynote address to the Aboriginal Mining and Business 3<sup>rd</sup> Annual Conference, Cairns, November 2007.



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