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Committee Secretary
Standing Committee on Aboriginal and Torres Strait Islander Affairs
House of Representatives
PO Box 6021
Parliament House
Canberra ACT 2600

via email: atsia.reps@aph.gov.au

Dear Dr Dacre

Thankyou for the opportunity to provide a submission to the inquiry by the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs into the development of Indigenous enterprises.

I am pleased to provide the submission of Indigenous Business Australia (IBA). I hope you will find it useful in your consideration of ways to develop and support Indigenous enterprises and in creating and harnessing opportunities for Indigenous Australians to grow successful small and medium-sized businesses.

IBA recognises that while there have been considerable efforts to date in support of Indigenous enterprise development and economic participation, still more needs to be done. In particular, there remain significant gaps and barriers to address, especially in private sector investment, skills development and business support.

In this regard, IBA believes that generating greater demand for Indigenous enterprises (such as through the minority business council model), combined with the enhancement and improved coordination of existing assistance programs across government, can make an important contribution to addressing the disparity between the Indigenous and mainstream business community. IBA's commercial charter and considerable expertise in supporting Indigenous businesses and stimulating Indigenous commercial involvement make it well placed to help in this important undertaking.

We would be happy to provide further assistance to the Committee in undertaking its inquiry. Please do not hesitate to contact Graeme Boulton, Assistant General Manager – Policy and Partnerships on 02-6121 2612 if you have any questions in this regard, or if you wish to further discuss the details of our submission.

Yours sincerely,

~~Ron Morony~~
General Manager

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INDIGENOUS BUSINESS AUSTRALIA

Submission to the inquiry by the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs into the development of Indigenous enterprises

BACKGROUND:

Origins and purpose of Indigenous Business Australia

Indigenous Business Australia (IBA) is a Commonwealth statutory authority within the Australian Government's Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) portfolio. Its vision is for a nation in which the First Australians are economically independent and an integral part of the economy.

The predecessor of IBA, the Aboriginal and Torres Strait Islander Commercial Development Corporation (CDC), was established in 1990 with the specific purpose of undertaking activities on an independent commercial basis. This was in large part based on the recognition that programs previously aimed at supporting Indigenous economic development often did not achieve the intended result because of the blurring of boundaries between social and commercial objectives. The role of the CDC was to stimulate Indigenous involvement in commercial activity, a prime vehicle for which was the development of joint venture projects involving established industry partners.

Following the abolition of the Aboriginal and Torres Strait Islander Commission (ATSIC) in 2005, IBA's role was expanded to include the Home Ownership and the Business Development and Assistance Programs. Additional capabilities to support Indigenous economic development have been added since then. It now employs some 230 people, 22 per cent of whom are Indigenous Australians.

Throughout this period of expansion, IBA has endeavoured to adhere to its charter to support Indigenous economic independence through maintaining a commercial focus, while at the same time supporting the Government in meeting its broader Indigenous economic development objectives. Importantly, IBA's independence and the advantages of a statutory body subject to the *Commonwealth Authorities and Companies Act 1997* (Cth), rather than the *Financial Management and Accountability Act 1997* (Cth), enable it to act commercially while remaining accountable in its performance to the Minister and the Parliament. This legislative framework enables IBA to operate commercially effective programs on behalf of government, including providing loan products to Indigenous enterprises on a commercial basis, without financial risk to Government.

Barriers to Indigenous business development

The general barriers to Indigenous business development and economic participation, have been documented in previous reviews of Indigenous business (for example, the 2003 *Indigenous Business Review: Report on Support for Indigenous Business* by

Richard Longes) and in the submissions that have been made to the current inquiry. These relate to the low levels of literacy, numeracy and work and business readiness skills amongst Indigenous Australians, which are compounded in more remote areas by lack of access to infrastructure and markets that provide employment or business opportunities.

Although commercially focussed and subject to private sector efficiency disciplines and performance benchmarks, IBA recognises the part it has to play in addressing these barriers and to achieve the broad objectives of the Government in relation to Indigenous affairs. Indeed, IBA believes it can make an important contribution to 'closing the gap' in Indigenous disadvantage by addressing key market failures, leveraging private sector participation, building critical commercial fundamentals and providing opportunities that allow Aboriginal and Torres Strait Islander individuals and communities to achieve sustainable economic advancement.

IBA has paid particular attention over the last couple of years to addressing barriers to commercial participation in the remote parts of Australia. Recent work by IBA as part of the Northern Territory National Emergency Response, for example, provides a useful reference for the particular issues that arise in relation to developing Indigenous small businesses in remote Australia (this is addressed in more detail in the body of the submission).

Indigenous Business Australia's key programs and activities

Collectively, IBA's programs and activities aim to facilitate and enable Indigenous people's engagement in the wider economy. There are three core service delivery programs:

- Business Development and Assistance Program (BDP)
- Equity and Investments Program (E&I)
- Home Ownership Program (HOP)

A conceptual illustration of how IBA programs support Indigenous economic participation is provided at **Attachment A**.

Recently IBA has added a construction and project management arm that provides a specialised service for delivering improved housing design and construction in remote areas. In addition IBA undertakes a range of research and development activities in order to develop innovative commercial solutions in areas where there is entrenched socio-economic disadvantage. For example, IBA is helping design the development and construction of residential and commercial precincts in Hope Vale and Aurukun in Cape York, Queensland. It also developed and implemented the Outback Stores initiative, which is bringing a commercial focus to the operation of community stores in remote areas, as well as delivering increased, more affordable supplies of healthy food. In the last two years, IBA developed and commenced implementation of the Home Ownership on Indigenous Land Program (HOIL).

Indigenous Business Australia's current support for business development

The rest of this submission concentrates on Indigenous enterprise development and support provided through the BDP and E&I programs:

Business Development and Assistance Program (BDP)

The BDP fosters the development of Indigenous enterprises by providing access to professional support and finance for Indigenous business entrepreneurs that cannot access these services in the private sector. Its primary products are:

(a) **Low interest business loans** to acquire and develop sustainable businesses for Indigenous Australians with a viable business proposal but who do not satisfy mainstream bank lending criteria. Proposals are assessed against commercial criteria, including detailed credit assessment and a focus on business viability and the capacity for successful business operation. Loans are provided at subsidised rates (currently 2.5 per cent below the CBA business rate). While loans are managed in a commercial manner, IBA provides a personalised service with close client contact to flexibly manage financial difficulties.

(b) **Business support**, including business planning, business-related skills development and mentoring, is provided through IBA's national network of over 200 professional business advisers, including business planners, accountants and marketers. Advisers have a track record in providing business development advice to small business and in working with Indigenous clients. They assist with skills transfer to empower clients in business operation and to assist them to achieve independence from government support. Such support is critical to the likely success of Indigenous businesses, particularly during the difficult first year.

(c) **Economic development initiatives**, including workshops that provide business related training and introduce clients to business concepts and realities, research that provides useful insights into regional economic opportunities, and outreach and mentoring activities for aspiring business people in regional and remote areas. Initiatives include projects aimed at multiple beneficiaries where the benefit may be long-term business or skills development outcomes. The aim of these initiatives is to build capacity and aspiration for business, and create pathways into business, particularly in regional and remote Australia.

Equity and Investments Program (E&I)

The E&I program brings together Indigenous Australians and industry capability partners into sustainable commercial ventures that provide for profit distribution, employment opportunities and asset accumulation to build the economic self-sufficiency of Indigenous people.

IBA aims to enter into an investment and divest its interest to an Indigenous partner over time once they have the capacity to manage the investment in its own right. In this regard, having the correct structures in place is critical to the process of capability transfer to ensure IBA achieves this aim.

IBA assists Indigenous joint venture partners to develop a set of objectives for the participation in the investment, including the use of future profits for debt retirement, distribution to other programs of the Indigenous organisation, or to finance other investment outcomes. IBA also assists Indigenous partners to establish appropriate distribution policies or agreements to support these objectives into the future.

IBA provides ongoing support to Indigenous partners, in conjunction with industry leaders, to build their commercial capability and capacity. Skills transfer is facilitated through the Indigenous partner's participation in investment management and board representation. This is supported by robust community engagement by the portfolio manager responsible for each investment and participation in modified Company Director's courses (where numeracy and literacy permits) or other activities such as the Westpac "Beyond Survival Course" which focus on the ongoing growth and governance of businesses. Employment opportunities are sought at all levels of the investment.

Further details of current IBA investments and business loan statistics are provided as **Attachment B**. Please note that this information has previously been provided to the Committee but is included again here for convenience.

RESPONSE TO THE TERMS OF REFERENCE:

1. **Whether current government, industry and community programs offering specific enterprise support programs and services to Indigenous enterprises are effective, particularly in building sustainable relationships with the broader business sector;**

Through the Business Development and Assistance Program (BDP) and Equity and Investment Program (E&I), IBA has produced a strong track record of achievements in the effective delivery of enterprise support and service to Indigenous enterprises. IBA also adds significant value to Indigenous enterprise development in Australia, particularly in terms of Indigenous wealth creation, enterprise development and employment generation.

The overall effectiveness and 'value-add' of IBA's programs stems from its core role as an essential 'market gap' provider. Where the mainstream economy has not provided financial services or commercial opportunities that are accessible to Aboriginal people and Torres Strait Islanders, IBA fills the gap by offering unique products that draw together the private sector and Indigenous community.

However, as IBA is only one of many agencies delivering Indigenous enterprise support, IBA believes that the overall whole-of-government effectiveness of these programs could be improved with more efficient and strategic delivery of services. This concept is expanded upon at (C) below.

As IBA has grown rapidly at the same time as inheriting ex-ATSIC programs, IBA has had to manage the expectations of clients more familiar with the approach of Indigenous agencies with a broad social welfare role. The shift away from the former ATSIC grants-based approach to business support to IBA's focus on the commercial viability of business clients is the most pronounced expression of this. IBA's successful track record, as demonstrated in this submission, is based on growing or supporting sustainable Indigenous businesses that succeed, in accordance with our charter, rather than encouraging further dependency on government.

In addition, IBA, as it has grown, has needed to address issues relating to establishing and maintaining adequate staffing levels to meet clients' needs across an extensive state and regional office network. As a service-intensive organisation with a continuing need for experienced personnel with specialist skill sets, IBA is working hard to retain and recruit suitably qualified staff, particularly in regional and remote areas. The present nation-wide skills shortage has also compounded this situation, as it has for many other employers across Australia. However, the situation has more recently improved as the organisation transitions from the initial establishment period and staffing arrangements become more settled.

(A) Business Development and Assistance Program (BDP)

The BDP provides enterprise support and services through the Indigenous Business Development and Assistance Program. The program aims to provide eligible Indigenous applicants with alternate funding products unavailable to them from private sector sources, access to business skills development services and improved

Indigenous business management capabilities. It also seeks to improve the long-term commercial viability of small to medium sized Indigenous enterprises and foster greater Indigenous economic independence from Government.

General program effectiveness

IBA assumed delivery responsibility for the program in March 2005 after considerable program underperformance under ATSIC. The effectiveness of the program since that time can be demonstrated by the following key results:

- In 2006-07, IBA provided 86 low-interest business loans totalling $21.6 million, funded 46 Economic Development Initiatives totalling $4.6 million, approved 701 applications for business support totalling $6.2 million, and created or supported 283 Indigenous jobs through its Indigenous business support activities.

- The program achieved a one-year and three-year small business survival rate significantly higher than the national mainstream average (94 per cent against 74 per cent, and 60 per cent against 48 per cent respectively).

- There has been significant growth in the number of clients assisted in each of the three years and a declining rate of clients not proceeding into business after receiving business support (13 per cent down from 20-30 per cent). Helping people decide not to proceed to business can be a good outcome, as the major contributor to mainstream business failure is people not being personally ready to proceed into business.
- The majority of business support and mentoring activities have led people into mainstream sources of finance, rather than IBA loan products (1,194 activities against 383 which involved IBA lending).

- There are significantly lower default rates currently being experienced (arrears on ATSIC loans run at 25 per cent against IBA loans at 1.47 per cent) being underpinned by adequate assessment processes and risk management practices.

- IBA now has a network of 20 offices around Australia, allowing it to reach more Indigenous enterprises.

IBA as a 'market gap' lender

IBA business loans are an effective 'market gap' product that provides access to business finance on favourable terms for Indigenous business people who are unable to satisfy bank lending criteria. Although business loan applications are assessed in a commercial manner, they are specifically tailored to Indigenous clients who are unable to meet mainstream banking criteria. For example, while security for the loan is a key consideration, as it is for commercial lenders, IBA often accepts a lower security position than mainstream banks. In addition, IBA business loans are generally provided at discounted rates for Indigenous clients, which are lower than the mainstream banks but reflective of the relatively higher risk profile. Further, the packaging of business loans with business planning, business skills development and mentoring services significantly mitigates the risk of business failure.

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

IBA business loans are also accompanied by effective business support and assistance tailored to Indigenous business clients, which mainstream lenders do not provide. IBA's diligent but culturally sensitive management of loans, combined with targeted and Indigenous specific business support services, keeps business loan defaults to a minimum (comparable to or below commercial rates). By balancing competing commercial and social principles, and instilling a strong repayment culture, long-term Indigenous businesses are supported and portfolio integrity is maintained.

Program and service delivery improvements

IBA has also added new services and made a range of improvements to the Indigenous Business Development and Assistance Program and service delivery. In particular, the requirement for IBA to operate in a commercial manner has driven significant improvements in program performance, which in turns increases the funds available to assist Indigenous businesses. Poor performing loans have been substantially addressed with improved debt management and collection, including the realisation of security and guarantees. New loans are considered on the basis of the return to be generated by the client against the risks both the client and IBA are undertaking. Risk mitigation strategies are implemented with each client, based on this assessment process.

The aim of moving Indigenous clients from assisted finance into mainstream finance over time has also meant that IBA has ceased the practice of using capital grants in developing business cases (as provided under ATSIC), as grants create the expectation that loans and other obligations can be avoided and that IBA will underwrite this non-conformance. Without a commitment to conformance there is little prospect of the client moving into the mainstream financial system successfully, which undermines the long-term sustainability of Indigenous enterprises.

IBA has also made changes to substantially reduce the time taken to progress applications through to loan settlement. Previous process delays centred around certain steps in the IBA business loans process that extend timeframes, particularly the incorporation of comprehensive business planning and confirmation of Aboriginality or Torres Strait Islander descent. Other issues also proved critical, such as unrealistic client expectations stemming from the previous ATSIC program and the need for commercial rigor in loan assessment. IBA acknowledges that prompt responses are vital in a commercial environment and action has been taken to reduce both the assessment process and the legal processes of loan establishment. However, risk management practices implemented since the program transitioned to IBA have been retained as these underpin the improved outcomes for clients, including the success rate of businesses. With the new changes in place, IBA business loan processing times will be comparable to those of the mainstream banks.

New initiatives and approaches

A new IBA initiative recently launched is a joint partnership with the National Australia Bank (NAB), under which IBA provide business support and mentoring and NAB provides business loans for Indigenous clients. This initiative will provide unsecured micro-finance for loans of up to $20,000 to small and medium Indigenous enterprises at commercial rates. Applicants must have a business plan, cash flows and financial statements, prepared through either IBA business support or other resources. IBA reviews the business proposal and provides a letter of referral to NAB. NAB assesses the client's financial eligibility and provides funds via a disposable 90-day credit card. A business bank account can be opened with NAB. The client must undertake mandatory 12 months mentoring with IBA.

Micro-finance has an established international reputation for providing a means for people on low incomes to achieve economic independence in developing countries. Not withstanding this success, however, IBA's own experience did not show the micro-finance model to be commercially viable due to high administrative costs, high default rates and high recovery costs for lending arrears involving small loans.

IBA piloted micro-financing programs in three areas – Mount Druitt and Redfern in the Sydney region, the Many Rivers region in Northern New South Wales and Cape York. The IBA program had a 38.5 per cent failure rate with 25 out of 65 loans failing. Issues that IBA has found to impact on micro-finance services included Australia's prescriptive regulation of business activity, taxation and welfare disincentives, availability of other finance such as credit cards, difficulties of business sustainability in rural and remote areas, and small take up rates that potentially inhibit the viability of such schemes. Further details on micro-finance principles and approaches are provided at **Attachment D**.

Despite this experience, IBA has explored commercially viable options to develop small business assistance in partnership with main banks, which led to the NAB partnership. The success of this partnership relies on utilizing the strengths of each party: the micro-lending expertise of the NAB (which has previous experience in this area) combined with the Indigenous business support expertise of IBA. This will allow the delivery of micro-finance assistance in a cost-effective manner.

Indigenous business development in remote areas

IBA has also extended Indigenous enterprise support to remote areas. For example, in 2007, IBA managed the placement of an economic development officer paired with a local Indigenous officer in the Galiwin'ku community and Marthakal Homelands in the Northern Territory. This initiative assisted the creation of 20 new enterprises (including a number of successful IBA business support applications and one loan application), which support 14 full-time and 13 part-time jobs.

In addition, IBA has provided assistance to organisations within the Community Development Employment Projects (CDEP) program in the Northern Territory to transition their activities into viable business. To date, IBA has:

- Visited 49 CDEP organisations across 74 communities in the Northern Territory between September and November 2007;
- Engaged staff, established a panel of available and suitable service providers from the existing network and developed business methods;
- Identified 53 existing activities and 21 opportunities (activities which were not already underway but which could be created in those communities) as having high potential as viable, standalone businesses, potentially resulting in full time employment of 221 individuals. The most promising businesses included market gardens, vehicle repair workshops, road construction and repair, house repair and maintenance, and tourism related businesses; and
- Provided subsequent business support to either transition these activities to small businesses or to further investigate the feasibility of the identified opportunities. During 2007-08, some 27 communities were provided with assistance to start one or more businesses and 68 separate activities were assisted to become standalone, viable businesses. By 30 June 2008, one Indigenous business had commenced.

IBA will continue to offer business support to many of the potential new businesses through IBA's normal enterprise development operations, and it is likely that more Indigenous businesses will successfully commence in future months.

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

(B) Equity and Investment Program (E&I)

The E&I program is effectively building sustainable relationships with the broader business sector through its successful joint-venture investment model. It has a central role in working with the private sector and local Indigenous people to encourage and foster Indigenous economic independence.

Through the E&I program, IBA has five objectives:

- create an environment in which the private sector and Indigenous groups, families and individuals involve each other in business opportunities;
- support Indigenous ownership of enterprises that are likely to generate long-term commercial returns and increase opportunities for economic self-management and self-sufficiency;
- provide ongoing business support and mentoring to Indigenous joint venture partners, and economic development advice to groups and individuals;

- create training and employment opportunities as part of all joint ventures; and
- promote practical working relationships with government agencies and other stakeholders to help deliver IBA's programs.

Through its investments, IBA has provided opportunities for:

- Indigenous income streams (through profit distribution);
- wealth generation (through asset accumulation);
- new enterprise creation (through commercial spin-offs);
- commercial skills development (through board representation and participation in joint venture dealings);
- Indigenous employment; and
- a wide range of social benefits for local Indigenous communities.

In 2006-07, IBA managed a $129 million portfolio of 34 investments located throughout Australia in industries including mining and mine services, tourism, insurance, commercial property, retail, agriculture, forestry and fisheries. A further 88 investment enquiries and proposals were also examined during the year.

Joint venture partnerships approach

IBA's joint venture partnership approach to investments, combined with ongoing business support and mentoring, helps Indigenous partners to establish an appropriate investment vehicle and build capacity in the governance, management and operation of commercial enterprises through skills transfer.

Pre-emptive rights and profit distributions are also provided in joint venture agreements that allow Indigenous partners to increase their equity in the investment over time and/or provide a flow of funds to Indigenous communities. IBA also investigates the potential for small to medium Indigenous enterprise spin-offs from joint ventures (e.g. transport businesses to service tourism or mining joint ventures) and Indigenous employment.

IBA has a solid track record of producing substantial Indigenous asset and wealth accumulation from joint venture partnership investments. For example, in June 2008, IBA and its Indigenous partner Yagdalah Corporation, agreed to sell their combined shares totalling 50 per cent in the Monkey Mia Inn Resort in Western Australia to the majority shareholder, Aspen Group. The sale enabled Yagdalah Corporation to realise approximately 30 per cent return on their investment.

IBA has also experienced an increase in new viable joint venture investment proposals, demonstrating that IBA is an effective organisation for assisting Indigenous Australians to achieve financial and business development goals.

New initiatives and approaches

In February 2008, the IBA Board approved a new loan product to assist Indigenous Australians to purchase equity and invest in commercial opportunities as an investment partner with IBA. This product was devised to compliment existing small business loan products offered by The BDP so as to allow eligible Indigenous clients to participate in larger commercial ventures that IBA currently manages (or is pursuing) between $1 million and $25 million. The terms of the loan include a discounted rate set at 2.5 per cent below CBA business rate over 15 years, or tied to life of investment (whichever is shorter). Standard conditions for eligibility, security, repayment, assessment and qualifying criteria apply.

IBA also established Outback Stores in July 2006 to improve the health and nutrition of Indigenous Australians living in remote communities as well as to provide local employment and business opportunities. It operates to achieve this outcome by applying commercial solutions to address supply chain issues, management problems, infrastructure deficiencies and a general lack of retailing experience. Outback Stores provides a management service that supports a broader range of goods, improved financial performance in stores, and employment and training opportunities within community stores. There are currently 20 stores currently under management, including 16 in the Northern Territory, one in Queensland and 3 in Western Australia. Outback Stores aims to have 40 stores under management by December 2008.

Program and service delivery improvements

IBA is currently reviewing its investments policy to better measure and align investment performance with industry benchmarks. It has also sought to address staffing constraints to service delivery. In particular, the Acquisitions team has been expanded to assist in the timeliness of proposal assessments and the services of a specialist professional in investment acquisition are also currently being sought.

(C) Whole-of-Government Indigenous enterprise support

IBA suggests that the effectiveness of Indigenous enterprise development should also be viewed from a whole-of-government perspective. In particular, many Indigenous clients are currently confronted with a confusing array of programs spread across a number of services providers, at both the state and national level.

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

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

- client-centred focus
- better matching of clients to products and services;

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

On this front, IBA has consulted with DEEWR on aligning the Indigenous Small Business Fund (ISBF) and the Indigenous Capital Assistance Scheme (ICAS) administered by DEEWR to best meet the needs of Indigenous business aspirants.

(D) Innovations in Indigenous economic development

As mentioned previously, IBA is active in the area of research and policy development. This includes investigation of new ways to support Indigenous home ownership, especially with greater involvement from the banks, and providing development pathways for Indigenous clients to get into national and international businesses. Other concepts focus on the development of new professional funds management trusts to assist Indigenous groups and communities to invest mining royalty payments for future generations, options for investment in essential commercial infrastructure in rural and remote Indigenous communities, and supporting the economic development of Torres Strait Islander communities. Some of these initiatives have already progressed, while others are in more preliminary stages of development.

2. Identifying areas of Indigenous commercial advantage and strength;

While there tends to be a focus on the *barriers* to Indigenous economic participation, IBA believes there exists significant Indigenous commercial advantages based on the cultural knowledge and geographic location of many Indigenous Australians, which can be leveraged if the right support is provided. These range from participation in labour intensive industries such as mining to commercial utilisation of the proceeds from income derived from royalties. These advantages are often most self-evident in industries such as arts/culture, tourism, primary industry (such as the pastoral industry and mining) and land management. Some of these opportunities are also likely to be more prominent in remote areas than regional and urban areas, where there is sometimes the coincidence of an economic opportunity provided by a specific industry, such as mining, and a substantial Indigenous population.

IBA is involved in a number of joint ventures where this is the case, such as Ngarda Civil and Mining in Western Australia. There are also instances where cultural knowledge of itself can be leveraged commercially. For example, the Tjapukai Dance Theatre in Cairns was the first major Indigenous tourist attraction in Australia and has won several state and national industry awards. As a proud part of IBA's investment portfolio, it provides an important example of Indigenous commercial advantage that allows visitors to experience every facet of Tjapukai culture and traditional practices.

IBA also seeks to generate and develop commercial advantages directly by providing assistance to develop commercially viable enterprises, pursuing investment joint ventures with Indigenous partners and creating an advantageous business environment for Indigenous enterprises. In particular, the IBA Home Ownership Program provides an increased asset base that provides an Indigenous commercial advantage in business establishment (i.e. in securing a business loan), the Business Development and Assistance (BDP) program offers business support and mentoring that provides Indigenous start-up enterprises with a commercial advantage in the marketplace, and the Investment and Equity (E&I) program provide access to essential business knowledge transfer and advantageous spin-off opportunities for the establishment of Indigenous enterprises. For example, IBA's recent acquisition of the Holiday Inn Townsville will create business and employment opportunities generated and supported from the investment, providing front line involvement of Indigenous Australians in the tourism industry, as IBA has done through its investments at Kakadu in the Northern Territory and Monkey Mia in Western Australia.

From our experience with successful joint venture investment partnerships, IBA believes there is also considerable industry and corporate interest in addressing Indigenous disadvantage and in further developing Indigenous competitive advantages. IBA helps to leverage this interest by harnessing corporate support and fostering a growing sense of corporate social responsibility to provide commercial advantages to Indigenous enterprises. For example, the first of IBA's 'Indigenous Business Conversations' held recently in Perth drew Indigenous commercial organisations and industry leaders together to work through questions of corporate governance, dividend strategies and investment issues. It is expected that this new concept will develop strong and effective partnerships and new commercial institutions to develop Indigenous commercial advantages.

3. The feasibility of adapting the United States minority business/development council model to the Australian context (a background document on the United States minority business council will be available on the committee website shortly); and

IBA understands that this model has met with much success in the US and believes it could be adapted to work here in Australia. In particular, the initiative could be expected to increase demand for Indigenous enterprises and their goods and services, and create opportunities for the development of new Indigenous enterprises. In this way, the model could provide a strong catalyst for Indigenous enterprise growth and help bridge the gap between the Indigenous and non-Indigenous corporate community in Australia.

IBA supports positive initiatives that bring the private sector, Indigenous community and government together in partnership to generate more Indigenous business opportunities and capacity. Indeed, a partnership approach to Indigenous economic development is already being pursued by many prominent business leaders in Australia, including Andrew Forrest and his recent initiative to seek a corporate commitment to the placement of 50,000 Indigenous Australians in jobs.

However, the US model would need to be modified to suit the Australian context. In particular, IBA understands that it relies on business commitment and government legislation for minimum procurement of Indigenous enterprise goods and services. IBA believes an Australian model involving a *voluntary* commitment to pro-active consideration of Indigenous suppliers, in line with business capacity and needs, would be a good first step. A voluntary commitment to minimum procurement rates, rather than a legislated approach, is also more likely to succeed initially, particularly as the support needed for legislative change would be difficult to secure without strong evidence of the impact and support from business.

While Commonwealth Procurement Guidelines may to some extent prescribe government agency participation, IBA is not subject to these guidelines under the *Commonwealth Authorities and Companies Act 1997* (Cth) and are in a position to provide leadership and advise government and corporations on being proactive in this area. Private sector companies could be encouraged to participate, not only on corporate social responsibility grounds, but because it makes good business sense to build capacity in this area.

In addition, IBA suggests that any implementation of this model in Australia will need to address several important hurdles. For example, it will be necessary to avoid overlaps with (or otherwise harness) existing activities that operate (at least partially) in the same space. IBA is already aware of several state and nationally based Indigenous corporate directories and databases (e.g. the Black Pages).

The Australian model will also need to demonstrate longer-term sustainability and a significant flow-on impact for the broader Indigenous population. It will also be important not to create the impression that Indigenous businesses are somehow inferior and need to be supported in non-commercial terms – the initiative needs to be positioned in terms of providing opportunities for Indigenous businesses to compete on the same footing as mainstream businesses.

In addition, the success of any model will need to counter certain Australian corporate realities, such as weaker corporate philanthropy, possibly conservative business perceptions of the scheme's benefits, and the relatively small scale of the existing mainstream and Indigenous business community in Australia.

In this context, IBA believes Government support for the model may be needed during an initial establishment period. The Australian model, if implemented on a voluntary basis, is likely to develop more slowly at first. As the model's viability will depend largely on critical mass of corporate and Indigenous participants, Government support may be required initially. IBA and other government agencies could also play an important early-stage role by providing support for Indigenous business development through business finance, mentoring and advice.

4. Whether incentives should be provided to encourage successful businesses to sub-contract, do business with or mentor new Indigenous enterprises.

IBA believes that carefully targeted intervention that addresses specific barriers or impediments to Indigenous enterprise creation and development, formulated within the context of the Indigenous Economic Development Strategy, should be preferred to more general broad-based incentives. In particular, it is our view that general incentives (e.g. tax incentives) do not tend to achieve the desired effect (e.g. impacts may only be transitory), are often overly complex, open to exploitation and can send the wrong signals about the competency of Indigenous enterprises. Further, such incentives do not necessarily assist Indigenous Australians to own assets or generate wealth, so longer-term Indigenous economic assistance (i.e. closing the gap) would not necessarily be achieved through such a mechanism.

IBA supports an Indigenous incentive fund that directly addresses barriers to investment. The fund could offer investment incentives to attract private sector partnership participation and stimulate investment in Indigenous economies. Such incentives could include funding offsets for relocation costs, wage costs, infrastructure, employment and training, land tenure negotiations, and transport and logistics costs. In this way, the fund would encourage and support the development of Indigenous enterprises and the formation of partnerships with successful businesses.

IBA is also keenly supportive of mentoring for Indigenous enterprises, but is conscious of the need to be realistic about the appropriateness and sustainability of input from large business. For example, the big business approach tends to be systems based and not necessarily scalable to viable small business, requiring considerable adaptation of the big business paradigm to suit small business needs. Further, individuals in big business are often specialised and do not possess the full suit of skills or the breadth of experience that a small business person needs.

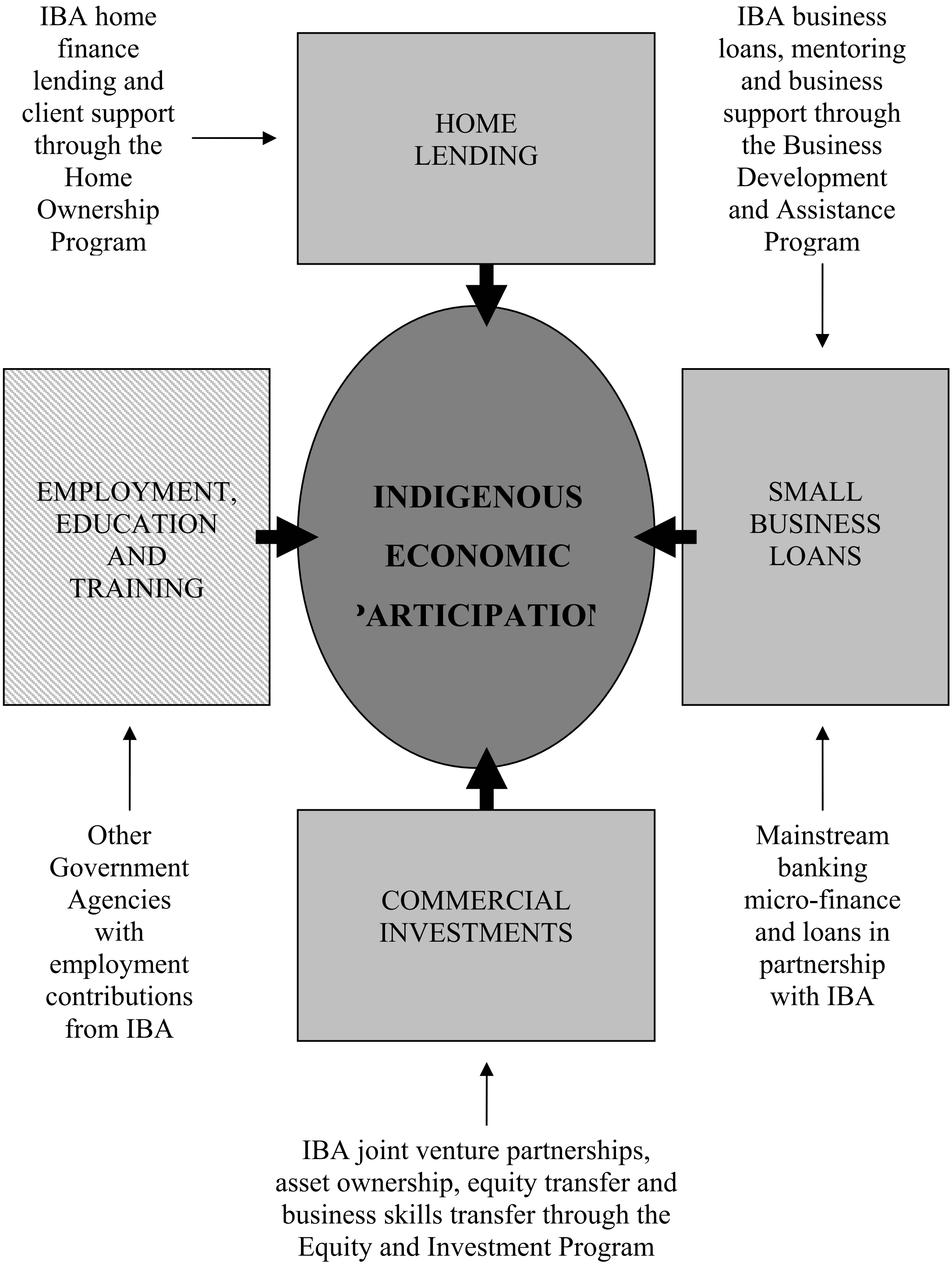
The ability of mentors to effectively communicate cross-culturally with Indigenous clients is also important and requires special skill sets and competencies that are not always found in mainstream businesses. Further, additional access to broader networks of experienced business people and specific industry information (including government support programs) would complement mentoring services.

IBA's new joint micro-enterprises loan product with the National Australia Bank (NAB), under which NAB provides business loans for Indigenous clients, the need to access professional advice, support and mentoring for emerging small business is provided by IBA through its network of business advisers.

IBA is also currently exploring ways that it can better work with big business to leverage outcomes for Indigenous small business clients. For example, IBA is collaborating with Fortescue Metals Group (FMG) with respect to potential opportunities for Indigenous entrepreneurs in Port Hedland. IBA will provide assistance with investigation of the opportunities, subject to the outcome of preliminary investigation by FMG.

ATTACHMENT A

Conceptual illustration: How IBA programs support Indigenous economic participation



ATTACHMENT B

Details of current IBA investments and business loan statistics (previously provided to the Committee)

(1) Equity and Investment Program (E&I)

Current examples of IBA's investments with Indigenous participation that receive either a financial return on their investment or an increase in their shareholding (in lieu of a cash dividend) and employment outcomes are as follows:

Scarborough House

Scarborough House, located in Woden, ACT, is a 15-storey office complex that IBA purchased from the Australian Commonwealth Government in 2001. Along with IBA, there are currently four Indigenous partners that receive a financial dividend on their investment. They are Yarnteen Aboriginal and Torres Strait Islanders Corporation, Gundjehmi Aboriginal Corporation, Wunan Foundation Inc and Groote Eylandt and Bickerton Island Enterprises Aboriginal Corporation.

In 2004 & 2005, Scarborough House was refurbished in a major project that involved a total reconstruction, including the façade and an increase in the floor plates on the northern and western aspects. The reconstruction increased the net lettable area from 11,000m^2 to 16,777m^2. The building contains A-grade office accommodation with an Australian Building Greenhouse Rating of 4½ stars.

Ngarda Civil and Mining Pty Limited

Ngarda Civil and Mining Pty Limited (Ngarda) is a service-based company providing earthmoving, civil engineering and contract mining services to the resources and construction sectors. Headquartered in Belmont, Perth, the majority of the company's business operations are located in the Western Australian Pilbara Region that is dominated by the iron ore, gas and oil industries. Ngarda is owned by the Ngarda Ngarli Yarndu Foundation (25 per cent), IBA (25 per cent) and Leighton Contractors Pty Ltd (50 per cent).

In its pursuit to earn a commercial rate of return, Ngarda regularly achieves its target of an Indigenous employment ratio greater than 50 per cent. This is a big challenge for any business in the remote Pilbara region, where many Indigenous people face significant barriers to education, and where English is often a second language.

The up-skilling of Indigenous employees also results in Ngarda's continuing problem of many Indigenous employees leaving to further their new careers with other major mining companies such as BHP Billiton and Rio Tinto. This is a challenge the company is happy to have and during 2004, Ngarda won the prestigious Prime Minister's Award for Community Business Partnerships in the large business category.

Monkey Mia Dolphin Resort

In May 2002, IBA and the Yadgalah Corporation collectively acquired 50 per cent of the resort, which is located on the Peron Peninsula, a section of World Heritage–listed coastline 850 kilometres north of Perth. In December 2005, Monkey Mia Dolphin Investments sold its 50 per cent equity holding in the resort to the publicly listed Aspen Group. IBA then held 27 per cent equity and Yadgalah 23 per cent.

Monkey Mia is renowned for a pod of visiting dolphins, while the region is widely acclaimed for its significant ecological and biological interest. In November 2007, IBA and Yadgalah agreed to sell their partnership share in Monkey Mia to the Aspen Group. The sale settled in June 2008 and realised Yadgalah a Return on Investment of approximately 30 per cent. The sale enabled Yadgalah to retire $1.5 million in debt and provide the corporation with more than $2.0 million for future investment.

Huntlee Estate

Huntlee Estate is a joint venture, known as Huntlee Holdings Pty Ltd, between IBA, Hardie Holdings, LWP Property Group and Lehman Brothers Ltd to develop a 1,750 hectare residential, lifestyle, commercial and conservation project in the lower Hunter Valley in New South Wales.

IBA has established the Huntlee Estate Indigenous Participation Trust, which will give qualified Indigenous groups an opportunity to acquire a share in the project, and so derive significant long-term financial benefits. The total IBA investment in Huntlee Estate is currently 8.3 per cent of project equity, half of which will be made available to Indigenous sub-investors through the Trust.

Gagudju Crocodile Holiday Inn

The Gagudju Crocodile Holiday Inn is a 4-star rated property located at Jabiru, within the World Heritage–listed Kakadu National Park. The hotel is designed in the shape of a crocodile and is two and a half hours drive from Darwin. IBA holds 70 per cent equity and Gagudju Association (which represents the 10 Indigenous clan groups located at Kakadu) holds the other 30 per cent. IBA is in the process of negotiating the selling down of its equity to its Indigenous partner.

During 2006–07, the hotel completed a major refurbishment program involving extensive renovation works to the entrance and dining room, with 70 rooms undergoing a major refurbishment.

Gagudju Lodge Cooinda

Gagudju Lodge Cooinda (Cooinda), located at the southern end of Kakadu National Park, operates Yellow Water Cruises. Accommodation includes 48 lodge rooms, 34 budget rooms, and 400 powered and non-powered camping sites. There are two swimming pools, a general store, a bar and bistro, a restaurant, and petrol facilities. Cooinda also offers gorge and waterfall tours and operates the Warradjan Cultural Centre.

IBA holds 70 per cent equity and Gagudju Association (which represents the 10 Indigenous clan groups located at Kakadu) holds the other 30 per cent. IBA is in the process of selling its equity to its Indigenous partner.

Kings Canyon Resort

Kings Canyon Resort is located in a loop off the main highway running between Uluru and Alice Springs. The sensitively designed resort is situated seven kilometres from Watarrka National Park, home of Kings Canyon.

IBA holds17.23 per cent equity in the resort; Centrecorp Aboriginal Investment Corporation holds 32.67 per cent; Ngurratjura/Pmara Ntjarra Aboriginal Corporation holds 2.91 per cent; Sitzler Bros (Darwin) Pty Ltd holds 1.15 percent; and the remaining equity is held by Voyages Hotels & Resorts.

Indigenous Fishing Trust

The Indigenous Fishing Trust was conceived between IBA and the former Aboriginal Torres Strait Islander Commission (ATSIC) as a co-operative approach to jointly fund the acquisition of commercial fishing licences. The trust aims to hold the licences, and their associated quotas, for the benefit of present and future generations of Indigenous Australians wishing to enter the commercial fishing industry.

During 2004, the Trust acquired its first licence, being a quota to harvest abalone from the Victorian Western Abalone Fishing Zone, which is located between the Victorian/South Australian Border and Apollo Bay, Victoria.

During 2005, the Trust also purchased a mud crab licence which allows the harvesting of mud crabs in the Northern Territory. IBA currently leases this licence to a local Indigenous fisherman.

Cape Don Experience

In March 2007, IBA and the Djuldjurd Aboriginal Corporation purchased the business known as Cape Don Experience. The business provides accommodation for up to 12 guests, and caters particularly to those interested in sports fishing and ecotourism. IBA holds 90 per cent of the equity in the business with the Djuldjurd Aboriginal Corporation holding the remaining 10 per cent.

Tjapukai Aboriginal Cultural Park

Tjapukai Dance Theatre was the first Indigenous tourist attraction in Australia. Born of a need to portray Indigenous culture with dignity and pride, the operation opened in a Kuranda basement in 1987.

The Park allows visitors to experience every facet of Tjapukai culture, as well as interact and gain a greater understanding about the Tjapukai way of life and traditional practices. Tjapukai also operates an extensive retail outlet and a 250 seat restaurant.

IBA became involved in Tjapukai 1996 when it acquired 19.93 per cent equity in the business. Budadji, representing the local Djabugay people, holds 15.82 per cent, Irukandji representing the Yirrgandyji people holds 10.03 per cent and Ngandjin holds 3.57 per cent. Tjapukai is one of the largest private employers of Indigenous people in Australia. The Tjapukai Board comprises 3 local Indigenous Directors who are nominated by their respective communities.

Tjapukai has won several state and national industry awards, including being inducted into the Australian Tourism Commission Hall of Fame and in 2004 being named Australia's best tourist attraction by the Australian Tourism Export Council.

The Crossing Inn

The Crossing Inn was established in 1897 and sits on the bank of the Fitzroy River. The inn is located about three minutes from the Fitzroy Crossing township, which is approximately 400 kilometres south-east of Broome and 250 kilometres south-east of Derby.

IBA became involved in the business in July 2001, with Leedal Pty Ltd and IBA each holding 42.86 per cent equity, and industry partners holding the remaining equity. In late 2006, Leedal Pty Ltd acquired a further 27.14 per cent equity in The Crossing Inn and at that time was the majority shareholder with a 70 per cent equity holding.

In late 2007 IBA and Leedal agreed to terms for Leedal to acquire IBA's remaining 26.43 per cent partnership interest in The Crossing Inn. Leedal continues to work closely with community representatives regarding the sale of alcohol within the Fitzroy community.

Fitzroy River Lodge

The Fitzroy River Lodge was established in 1989. IBA became involved in the business in July 2001 through the acquisition of a 42.86 per cent equity share. At the same time, Leedal Pty Ltd, who presents local Indigenous groups, acquired a 42.86 per cent equity holding in the investment, with the remaining equity being held by industry partners.

The lodge is built in the style of a pastoral homestead and includes 20 hectares fronting the Fitzroy River. The lodge offers travellers 48 motel rooms, 20 budget rooms, two self-contained family units, two river-view suites with spa, 30 safari lodges with ensuites, 110 powered caravan bays and extensive camping sites. Other amenities include a swimming pool, tennis court, two restaurants, two bars and fuel services.

During 2006, Leedal Pty Ltd acquired a further 27.14 per cent equity in the Fitzroy River Lodge and is now the majority shareholder with a 70 per cent equity holding.

Goldfields Building

IBA, together with the Perth Noongar Foundation (PNF) and the Noongar Country Economic Foundation (NCEF), purchased the Goldfields Building in West Perth in November 2002.

The equity interests of the parties were determined by the initial capital contributions; IBA holds 66.25 per cent, PNF 21.25 per cent and NCEF 12.50 per cent. Over time, surplus rental income will be applied by the Indigenous partners to facilitate a gradual buy-out of IBA's equity in the joint venture.

The building is a modern office development over five levels, and also includes 94 undercover car parking bays. The building is widely considered to be a landmark in West Perth and consists of a mezzanine ground floor with lobby and three upper levels of office accommodation. It was built in 1990 and has a total net lettable area of 4,054.9 square metres. At 30 June 2007, the building occupancy rate was 100 per cent.

Homestead Centre

IBA purchased the Homestead Centre, a retail and office complex in South Hedland, in March 1993, in association with the Port Hedland Regional Aboriginal Corporation (PHRAC). The Homestead Centre is operated as a body corporate and caters for 13 tenancies over 1,441 square metres. Australia Post owns one of these tenancies.

At present, the equity share in this joint venture is IBA 70 per cent and PHRAC 30 per cent. As at 30 June 2008, the occupancy rate was 100 per cent.

(2) Business Development and Assistance Program (BDP)

The BDP supports Indigenous participation in small businesses. Further statistics regarding the outcomes and achievements of the BDP are provided below:

Average size of loan for last 3 years

2005/06	Average loan: $125K
2006/07	Average loan: $278K
2007/08	Average loan: $166K

Each year IBA receives funding of $13.7 million for business loans. When IBA has the capacity to do so, it supplements this funding from its resources. In 2005/06 there was no additional supplementation, while in 2006/07 $10 million was available, with $4 million in 2007/08.

The larger amount available in 2006/07 enabled IBA to fund a number of larger loans that pushed up the average loan amount in that year. Over the 3-year period a total of 223 loans were settled, providing an average loan size of $196,379.

What sort of businesses?

The data shows a high concentration of businesses in the retail industry (e.g. food, hospitality, personal & household goods). This trend continues to distinctly increase over the 3-year period.

Construction also shows an increasing trend, along with the arts industry. Agriculture remains steady over the same period.

Employment Levels of Indigenous Males and Females

2005/06	Employment generated from loans:	137
2006/07	Employment generated from loans:	314
2007/08	Employment generated from loans:	244

The significant increase in employment figures for 2006-07 can be attributed to the increased supplementary funding of $10 million provided for that year.

Are any industries more likely to fail?

Whilst there are no short-term discernable trends that marry business type or industry to business failure, over a 3-year period it appears that businesses either participating in or associated with the transport industry are at a higher risk of failure.

Assuming those IBA loans that have failed (21) are defined as those written off or provisioned for bad debt since 1 July 2005, the following industries are identified:

- Services to Transport – 3 (grader services, truck cleaning, courier)
- Petroleum, Coal, Chemical etc – 2 (service stations)
- Accommodation, Cafés and Restaurants – 2 (franchise café, franchise mobile coffee van)
- Road Transport – 2 (haulage, livestock haulage)
- Machinery and Equipment Manufacture – 1
- Libraries, Museums and The Arts – 1
- Motor Vehicle Retailing and Services – 1
- Other Services – 1
- Tourism – 1
- Property Services – 1
- Construction Trade Services – 1

Do loans in arrears tend to be a particular business type or size?

There does not appear to be a particular business type or size associated with arrears, with the exception that IBA experienced a high failure rate of 38 per cent with its micro-economic development loans.

Are there any trends that suggest that larger loans fail more quickly than smaller loans?

No, the average size of failed loans was $154,036 that is less than the average loan amount over the 3-year period. Among the 223 business loans settled, 7 per cent (16 loans) failed, made up as follows:

- 3 loans failed within the first 6 months. Loan amount was less than $68,800;
- 2 loans failed after the 6-month period and before the 12-month period. Loan amount for one loan was $10,000 and the other $210,000;
- 10 loans failed between 12 - 24 months. Loan value ranged from $38,000 to $550,000;
- 1 loan failed 2 years after being provided. The loan amount was $17,833.

Typical Loan Term

The average loan term over 3 years is 7 years, 4 months.

Interest Rates

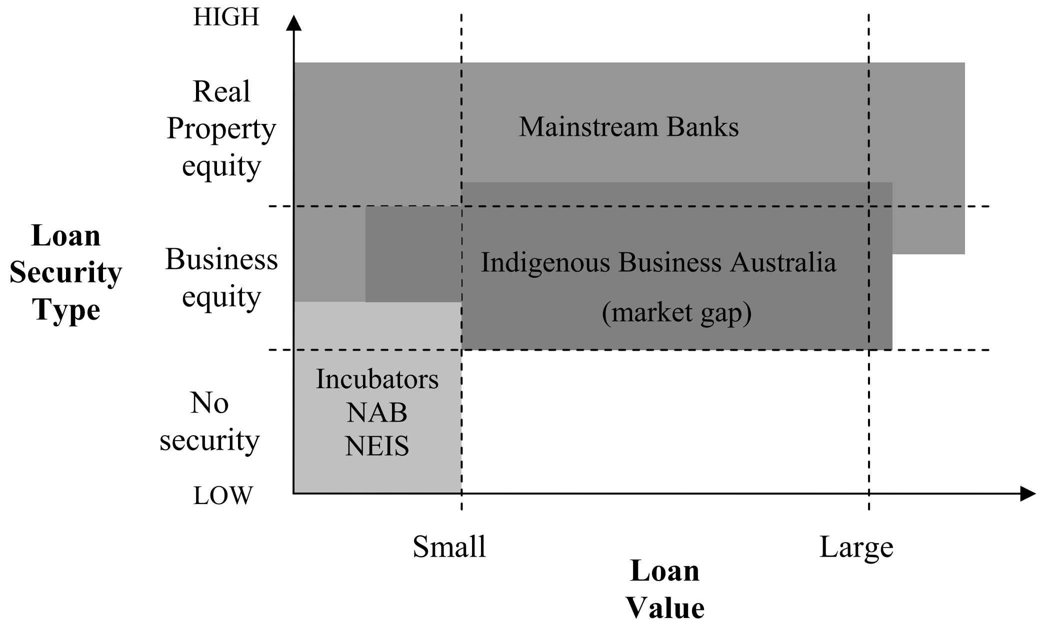
Interest rates are based on a minimum 2.5 per cent reduction of the Commonwealth Bank Business Bank rates and are reviewed twice yearly. The level of security provided relative to the loan amount affects the interest rate payable.

An interest rate of 8 per cent per annum currently applies for loans that are less than 100 per cent secured.

ATTACHMENT C

Conceptual illustration: IBA as a 'Market Gap' Provider in Business Lending

How IBA fills the market gap in business lending



Please note: A third dimension to this conceptual illustration would be the inclusion of interest rates and affordability, which would also further differentiate IBA as a 'market gap' provider in the business lending market.

ATTACHMENT D

An Overview of Microfinance: History, Principles and Approaches

In 2006, in order to consider how it might support a microfinance program, IBA undertook research on micro-enterprise development as outlined below.

At **ATTACHMENT D.1** is a summary of what constitutes micro-enterprises and micro-finance. This attachment also canvasses the differing approaches in developed economies (such as the USA and Canada) and the approach adopted in developing economies (particularly Asia and Africa). IBA can find no accepted definition for the maximum level of micro-finance loans in the Australian context but in reality such a figure would be closer to the USA/Canadian figures ($25,000 to $35,000) than the figures for developing economies (often less than $100).

In respect of the size of micro-finance loans and the volumes of loans that might be expected, there are risks in using micro-financing models from developing countries. To highlight the differences between micro-enterprise development in developed economies, versus developing economies, **ATTACHMENT D.1** also contains the executive summary of a recent report on the difficulties which confronted a UK based micro-lender which had originally been established based on developing economy models. In fact those responsible for developing the Grameen Bank model have expressed caution about duplicating the model in developed countries without careful piloting (CAEPR 1999). The major issues identified in the executive summary are prescriptive regulation of business activity, taxation and welfare disincentives, availability of other (although less attractive) finance such as credit cards, and much smaller take up rates of loans which questions the viability of providing the service without ongoing government and private sector interventions.

Using the Australian and international definitions of a micro-enterprise (less that 5 employees or often sole traders), it is clear that various programs, over the years, have been very active in supporting Indigenous micro-enterprises. The history of these programs is set down at **ATTACHMENT D.2**. There does not appear to be a requirement to target micro-enterprises as such. The issue is assisting those micro-enterprises which require small loans and are unable to address this need through mainstream financial institutions due to lack of security.

What is clear, however, is that previous attempts at providing very small micro-finance loans (small and unsecured) to Indigenous micro-businesses in Australia have been largely unsuccessful. There have been several attempts at the Federal level and each program has ceased. **ATTACHMENT D.3** provides an overview of these previous attempts.

The overseas experience with micro-finance repayments in developing economies appears far more successful with great attention paid to the character of the lender. Interestingly, despite positive claims of similar successes in developed economies, some research suggests that there are higher failure rates with micro-financing in Europe and the USA. **ATTACHMENT D.4** provides an overview of claimed outcomes in the international context and some of the criteria used. This attachment also looks at the failure rates in developed economies. The outcomes of previous government attempts at micro-finance are not as strong when compared to reported international default rates for developing countries. Interestingly, the Australian outcomes are comparable with the early default rates, identified in a 1999 CAEPR report, for micro-finance to specific Indigenous groups in the USA which were running up to 35 per cent.

Given that in a developed economy, micro-finance extends to higher borrowing amounts, it is important to consider the range of programs which are currently in place which are either already supporting micro-enterprise development and have the capacity to provide micro-finance in their current form or with some modification. **ATTACHMENT D.5** provides details on those existing programs.

IBA believes that the most cost effective option is to modify or otherwise utilise existing programs to deliver micro-finance (noting that micro-enterprise support is already a feature of a number of programs). However this option is unlikely to be attractive to state governments and the banks, so if there is realistically a probability that there will be non-federal government contributions, then the next option would be to deliver micro-finance through contested micro-finance providers

ATTACHMENT D.1

MICRO-ENTERPRISE DEVELOPMENT

At the outset, it would be beneficial to have a clear understanding of what micro-enterprise development means and how it applies to the Australian context. The definition of micro-enterprise addresses the size of the business while micro-finance discusses the loan sizes required by a micro-enterprise.

What is a Micro-Enterprise

Based on research of various published material, a micro-enterprise (or micro-business) is generally accepted as one which has less than 5 employees.

Developed Economies

In developed economies, it is a common view that a micro-enterprise is one which employs five or less employees.

In Australia a micro-business is defined as businesses employing less than five employees as well as non-employing businesses (Australian Bureau of Statistics).

The ABS definition is consistent with USA and Canadian definitions of micro-enterprises. For example, in the USA, the Association for Enterprise Opportunity and the micro-enterprise development industry have defined a US based micro-enterprise as a business with five or less employees.

The feature of a micro-enterprise in a developed economy is that it is a registered business, is required to pay taxes, and comply with the usual business rules.

Developing Economies

In developing economies, a micro-enterprise is also generally accepted as one with five employees or less.

There are variations - for example in the context of USA international aid efforts, in 2004 the US State Department defined micro-enterprise as a firm of 10 or fewer employees (including unpaid family workers) that is owned and operated by someone who is poor. It is clear however, that firms with five or fewer employees feature strongly. For example the US State Department reports that firms of five or fewer employees account for half of the non-farm workforce in Latin America and two-thirds of the non-farm workforce in Africa. In Indonesia, firms with five or fewer employees account for almost half of total manufacturing employment.

The USAid agency defines micro-enterprise in developing economies as “very small-scale, informally organized business activity undertaken by poor people”.

Micro-enterprises in developing economies typically are unregistered, and do not pay taxes (ANU).

What is Micro-Finance

In the context of micro-enterprise development the issue arises in respect of the inability of many micro-enterprises to attract mainstream finance due to a lack of security.

Micro-finance is seen as providing small (and often unsecured) loans to assist in the establishment or growth of micro-enterprises. One of the major issues is what constitutes a "small" loan and there are clear differences between micro-finance in a developed economy and micro-finance in a developing economy.

<u>Developed Economies</u>

As micro-enterprises in developed economies are regulated and must pay taxes, start-up needs and overheads (together with local costs of supplies etc) are reflected in the definition of micro-finance.

In a 1999 US Presidential statement, a USA based micro-enterprise is stated as one seeking credit of up to US$25,000. However, by 2005, the Association for Enterprise Opportunity and the micro-enterprise development industry defined a US based micro-enterprise as a business with five or less employees, which requires US$35,000 or less in start up capital, and which does not have access to the traditional commercial banking sector.

According to the US Association for Enterprise Opportunity, a trade association representing some 450 micro-enterprise organisations, a micro-loan is US$35,000 or less made to a company with five or fewer employees. The industry average micro-loan is US$12,000.

The United States Small Business Administration (SBA) advertises a micro-loan program. The program provides "very small" loans to start-up, newly established, or growing small business concerns. Under this program, SBA makes funds available to non-profit community based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to a maximum of US$35,000. The average loan size is about US$10,500. Applications are submitted to the local intermediary and all credit decisions are made on the local level.

The Singapore government administers a micro-loan program on the island which is capped of $50,000 Singapore dollars.

Canada uses a figure of up to CD$25,000 for micro-enterprises within Canada.

An EU funded study of the micro-finance sector in Western Europe states that in Europe any loan less the 25,000 Euros in considered a micro-loan.

<u>Developing Economies</u>

In developing economies the start up or development costs of a micro-business are much smaller reflecting the local economy.

The US Microenterprise for Self-Reliance Act of 2000 set different individual maximum micro-enterprise loan sizes for USAID-assisted programs in different regions: $1,166 or less in Europe and Eurasia; $466 or less in Latin America and the Caribbean; and $350 in sub-Saharan Africa, Asia, and the Near East (all in U.S. dollars at February 2002 prices).

Enterprise International, a Christian aid agency, supports micro-finance loans up to US$2,000 but reports that the size of the loans they make are very small – as low as US$40 and averaging less than US$200. This organisation supports programs in Bangladesh, Egypt, Guatemala, India, Kazakhstan, Mexico, Nepal, Nicaragua, Philippines, Romania, Slovakia, South Africa and Uganda.

A UK Experience

The following is the executive summary from a report on Street UK, a micro-finance provider. The report looks at the first three years of operations and the issues that arose in basing the original business concepts on developing economy micro-enterprise development models.

"Street UK was launched in September 2000 with the mission of supporting low-income self-employed people and owners of tiny businesses within the UK, through the provision of micro-finance.

Its original business plan was adapted from the international model of micro-finance, which emphasises scale and sustainability as the means to achieving permanence and impact. Since starting its operations, Street UK has modified its business plan substantially in the light of the significant differences it has found between the environment in the UK (and industrialised countries in general) and the conditions prevailing in poorer economies.

This paper sets out Street UK's experience in terms of:

- The main constraints it has encountered in the UK environment, which have called for a change to the original business model;
- The solutions and plans it has developed to respond to these constraints;
- The areas where policy changes are needed to support both micro-entrepreneurs and the community development financial institutions (CDFIs) that serve them; and
- The remaining knowledge gaps where further research is needed.

Characteristics of micro-entrepreneurs

The number of micro-entrepreneurs in need of loan finance and sufficiently creditworthy to receive a loan from a micro-finance organisation has been found to be much lower than expected. This is due to both demand and supply factors.

The demand factors include:

- Low levels of financial literacy and cashflow management skills;
- High levels of over-indebtedness to credit card companies, money lenders or retail stores;

- No or very low levels of savings; and
- Lack of adequate insurance protection due to its unavailability or very high cost.

On the supply side:

- The credit market has been found to be highly competitive and the availability of credit widespread amongst poorer communities; and
- Although the terms and conditions of much of this credit may be inappropriate, expensive and even irresponsible, they are nevertheless well packaged, with high initial appeal to potential customers.

Micro-entrepreneurs have also been found to be in great need of good quality and appropriately delivered business support, in order for their businesses to survive and grow, within an environment of:

- High levels of costly regulation and red tape which make it very difficult for them to develop their businesses on a fully legitimate basis, 'forcing' many to operate in the grey market and remain excluded from access to mainstream financial services;
- Significant disincentives within the tax and benefits system to graduate from welfare to self-employment and build their savings; and
- A very mature, competitive marketplace, whatever their trade or profession.

Products and services required

Street UK has found that micro-entrepreneurs in the UK need tailored support beyond the level at which they are considered by charities and policy-makers to be 'in need', all the way through the grey market transition process that gives them eventual access to mainstream financial and business support services.

They need a range of financial services, not just loans, to achieve a number of objectives, including: insurance to reduce risks; and savings to build assets, which are key to long term, secure improvements in their lives and their businesses.

Loans are a critical element for those micro-entrepreneurs who do not first need financial literacy, debt management or social support, and have been shown to have a significant positive impact on their own lives, their families' future prospects and on new, (unsubsidised) job creation within the local community. However,

- The loans need to combine responsible lending features with attention to the packaging elements that make dangerous money-lender products so attractive; and
- Loans need to be made individually, group loans having been found not to work on a large scale, mostly due to the lack of peer group support and peer pressure at levels prevalent in developing countries.

This requirement to make loans 'one at a time' has had a substantial adverse effect on its ability to achieve both high loan volume and repayment and low transaction costs. A raft of financial and business support services are also needed to complement the loan capital, in order to help micro-entrepreneurs become mainstream small businesses.

In terms of the business development advice itself, the emphasis needs to be on helping micro-entrepreneurs to focus on:

- Customer-/revenue- led, rather than investment-led, growth;
- Progress by means of many small manageable steps, rather than by fewer larger jumps, each one being more risky;
- Cashflow, before profitability or asset-building;
- Risk identification and management; and
- A transition strategy to graduate from grey market, cash-based activities to formal, fully regulated small businesses.

Many micro-entrepreneurs are highly motivated to support members of their local communities more disadvantaged than themselves, and provide very effective assistance to people that government agencies and community organisations find hard to reach directly. However, because this is usually achieved by incorporating their assistance within their business activities, they are not recognised as social entrepreneurs and their businesses carry heavy unrelated costs. A separation of the two elements of the business is therefore required, together with grant and technical support services for social enterprise development, accessible by micro-entrepreneurs.

Organisational development issues

The three key components to achieving a high impact, sustainable micro-finance organisation are: high loan volume to achieve scale, high loan repayment rates and low transaction costs.

The main reasons that high loan volume has been difficult for Street UK to achieve are described above. In practice, this has meant that, by the end of year 3, it was only able to make 259 loans, considerably below its original projections. This result is nevertheless in line with the experience of other community finance organisations within the UK, USA and Western Europe.

As regards loan repayment rates, Street UK's original long-term loss projections have also had to be revised up to 8-10 per cent p.a. This is for three principal reasons:

- The average loan officer calibre and relationship with their clients is generally not as strong as is needed to overcome the clients' lack of financial literacy and cashflow management skills;
- The client 'empowerment' factor, which derives from being given unique support by the micro-finance organisation, is greatly weakened by the supply of alternative, initially attractive services; and
- The repayment enforcement process is undermined by a frequently ineffectual court process, for this type of case.

In relation to transaction costs, the two categories of costs which Street UK has found to be much more expensive than anticipated, particularly in terms of time taken, are travelling between branches and fundraising beyond a single regional government boundary. Both of these factors have contributed to the reasons that Street UK has, for the time being, shifted its business model from a national to a (West Midlands) regional scale organisation, the other big factor being the lack of loan volume, which has created an unsustainably high subsidy requirement. Street UK's organisational objective has therefore had to reduce its emphasis on maximising economies of scale, in order to keep the level of subsidy within achievable fundraising limits.

Overall, although Street UK no longer believes that micro-finance organisations in the UK can achieve scale and sustainability with a single loan product only, it does still believe that sustainable organisations can be created by a combination of:

- Adding to their revenue streams through new product development for micro-entrepreneurs, or pursuit of complementary new client markets. Street UK, for example, has developed a back-office loan administration service for other community loan funds, which is now providing a significant proportion of its:
    - trading income;
    - Finding synergies with other organisations through partnerships, mergers and cost-sharing arrangements; and
    - Reducing costs through greater use of volunteers, secondees and non-executive directors, as well as technology in place of staff.

Appropriate support from funders

There is a substantial immediate need for core funding for CDFIs' operations, until they are able to become financially self-sufficient. Although foundations have been very helpful in providing much of the initial funding for this source of support, the government should now increase its role of providing ongoing core funding, both because community finance institutions now have a small but significant track record in providing effective support to their clients and because they will be delivering some of the government's key objectives.

There is a great need for the type of funding provided to be based on the principles of venture philanthropy, particularly in the early years of an organisation's development, allowing institutional capacity-building.

With micro-finance lying between philanthropy and commercial finance, the most appropriate funding in the longer term will come from intermediary forms of finance, along a spectrum ranging from completely philanthropic to completely commercial.

This is still an embryonic market, where there are major opportunities for the development of new financial instruments ranging from patient equity capital to semi-commercial debt. Some of these instruments may be able to be created through partnerships between private, public and voluntary sector funders.

In order to ensure that there is sufficient interest by investors to place funds into each of these new intermediary forms of finance, the fiscal incentives need to be appropriate to the level of financial sacrifice required from the investors, relative to the return they could have obtained from a commercial investment.

In other words, the system of tax relief should be designed as a sliding scale and equated to the level of 'donation-equivalent' involved with each intermediary instrument.

Beyond fiscal incentives, the government also needs to provide a range of additional return-enhancing or risk-reducing incentives, as well as some mandatory regulation to leverage a reasonable minimum level of further investment into CDFIs from both commercial and non-commercial sources.

For financial institutions, the provision of intermediary finance will require changes to their internal organisation structure to enable them to respond appropriately to the needs of the market, while for foundations and trusts, changes to their investment policies, and possibly to the regulatory framework for investing their endowment capital, will be needed.

In addition to providing financial support, funders can play a very helpful role in a number of other ways, particularly commercial banks, whose own activities have much in common with those of micro-finance organisations.

Policy and regulatory issues

Based on Street UK's experience, and that of other organisations with which it has worked, there are a number of policy issues which it believes need to be addressed, if low income micro-entrepreneurs are to be able to advance into mainstream society and develop their businesses to become sufficiently creditworthy for CDFIs to support them into mainstream bankability. These issues are classified into those which directly affect the micro-entrepreneurs themselves, those which affect the organisations that support them and those which are specific to the way government works.

In summary, Street UK's recommendations amount to five major paradigm shifts in public policy thinking:

- A new approach to poverty alleviation which recognises the importance of building savings and assets, the need for protection from predatory lending practices and the objective of designing a tax and benefits system which incentivises people out of dependency more than compensates people in it;

- A new approach to helping low income, self-employed people out of the informal economy, based on cutting taxes, cutting red tape, increasing enforcement and increasing specialised support;

- Recognition of the social and economic value provided by CDFIs, through the creation of a long term, stable mechanism for supporting the sector. This should be based on an understanding of the cost-effectiveness of the value CDFIs provide in relation to many different areas of current government expenditure, including enterprise creation, deprived area regeneration, employment, finance, social services, health and law and order;

- An expansion of the current tax incentives for investors in CDFIs, in order to incentivise a whole raft of intermediary forms of wholesale finance, along a spectrum between fully philanthropic and fully commercial; and

- A much more market-driven approach by government in its support of this sector, in terms of:
    - Reconfiguring its internal organisation structure to effectively address cross-cutting issues that otherwise fall through the cracks between different government departments;
    - Making much more use of the knowledge base and delivery capacity of local community organisations, in its provision of public services; i.e. significantly increasing the number and scope of partnerships between the public and voluntary sectors; and
    - Setting output targets and program rules that are far more closely related to the measures that will actually achieve its objectives, so that community organisations can be funded to undertake the services that will have the greatest impact.

Lending Results

As of March 2004, Street UK had made 259 loans worth £606,000 and had just over 100 current clients. Though these results are a fraction of its original projections (7), they are nevertheless in line with those of other CDFIs serving a similar market.

After three years in operation, Aspire, which lends to micro-entrepreneurs in Northern Ireland, had disbursed 233 loans, while the East End Micro-credit Consortium (8), which lends to low-income women in East London, had disbursed a total of 240 loans between its four member organisations.

Street UK's Lending Results (2001-2004):

	Year ended 31 March 2002	**Year ended 31 March 2003**	**Year ended 31 March 2004**
Loans Disbursed			
Number of loans disbursed	70	80	105
Cumulative number of loans disbursed	74	154	259
Amount disbursed £	131,250	147,422	321,668
Cumulative value of loans disbursed (£)	137,250	284,672	606,340
Number of first loans	60	74	73
Average loan size disbursed (£)	1,875	1,843	3,064
Growth in loans disbursed (%)	-	14	31
Growth in first loans (%)	-	23	-1
Loan Portfolio / Current Clients			
Number of loans outstanding	59	104	148
Number of active loans/current clients	59	88	103
Total gross loan portfolio outstanding (£)	85,997	148,675	303,539
Total net loan portfolio outstanding (£)	85,997	103,795	212,324
Average loan size outstanding (£)	1,458	1,430	2,051
Growth in number of active loans (%)	-	49	47
Growth in net loan portfolio (%)	-	21	105
Loan Repayment Performance			
Average 30 day collection rate (%)	-	63	83
Portfolio at risk (past 30 days due)	-	-	14

Notes:
- The number of active loans and net portfolio value excludes those loans which are more than 180 days in arrears and are written-off for accounting purposes.
- Portfolio at Risk is defined as the (outstanding balance in arrears over 30 days + total gross outstanding principal restructured portfolio)/(total outstanding gross portfolio).
- Collection rate and portfolio at risk figures are as of December 2002 and December 2003. The 2003/4 net loan loss rate on Street UK's portfolio is <10 per cent p.a.

ATTACHMENT D.2

INDIGENOUS MICRO-ENTERPRISES

History of Support for Indigenous Micro-Enterprises

In respect of the size of supported Australian Indigenous businesses, micro-enterprises (less than 5 employees) have received strong support over many years.

The clear majority of businesses assisted through the various Indigenous small business programs would be defined as micro-businesses using the ABS definition. Very few would fit the Other Small Business definition (5 to 20 employees) and fewer again (if any) would meet the definition of a Medium Business.

The former ATSIC (and now IBA) Business Development Program is a response driven program. In reality, the clear majority of businesses funded over the many years of the program would meet the definition of being a micro-enterprise. The following have been extracted from ATSIC annual reports which are currently available on the web:

The 1991-92 ATSIC annual report advises that *"There are currently more than 500 enterprises funded by the BFS. Together they provide full- and part-time employment opportunities for more than 1000 people, most of whom are Aboriginals or Torres Strait Islanders"*. This represents an average employment ration of 2 persons per business.

Employment outcomes were removed as an indicator in subsequent years, but we know that the average employment rate for businesses funded through the BDP program in 2004-05 was 1.8 employees per business.

The trend to micro-businesses would appear to be growing, rather than diminishing. While Indigenous Australians remained three times less likely to be self-employed than other Australians, in 2004 CAEPR reported that recent growth in Indigenous self-employment has been concentrated among small businesses who do not employ anyone else.

This trend also appears to be consistent with the broader business base in Australia. There were almost 1.2 million small businesses in Australia at June 2001. Home based businesses made up 67 per cent of the total small business picture in Australia.

ATTACHMENT D.3

HISTORY OF SUPPORT FOR INDIGENOUS MICRO-FINANCE

There have been a variety of programs which unsuccessfully sought to provide micro-finance products to Indigenous Australians.

Aboriginal Enterprise Incentive Scheme

The Aboriginal Enterprise Incentive Scheme (AEIS) commenced in the 1989-1990 financial year and was part of the then Aboriginal Economic Development Policy. AEIS provided funds to assist Indigenous people to establish their own small businesses. The AEIS was established as an Indigenous-specific counterpart of the New Enterprise Incentive Scheme, and reflected the need to promote alternative approaches to job creation for Indigenous peoples, with particular emphasis on those people requiring only small amounts of capital to establish sole trading businesses for their self-employment.

The AEIS was originally administered by the Department of Employment, Education and Training (DEET) until July 1992 when responsibility for the program was transferred to ATSIC. The transfer involved the administration of a number of existing small interest-free loans. Following transfer of the program, 11 further loans were approved, a marked reduction on the previous year when some 33 loans were approved by the Commonwealth Development Bank, acting as agent for DEET. This reduction reflected ATSIC's requirement that, for a proposal to be funded, it must be assessed as likely to become commercially successful.

A 1992 review of the existing AEIS loans portfolio showed the majority of loans to be in arrears and many businesses to have ceased operations. Because of this, and the high administrative costs associated with running a separate program, ATSIC decided to incorporate the funding into its Business Funding Scheme (BFS) from 1 July 1993.

Fast Track Loans

In 2000 ATSIC sought to respond to a perceived need for micro-finance and introduced a new small loan element to its business development program. A new "Fast Track" loan, capped at a maximum of $12,500, was introduced where the client did not need to satisfy a range of equity and security provisions. Again the outcomes were poor with a high default rate. While IBA does not have access to the source document, in May 2003 an effectiveness review of the BDP policy and procedures recommended that the Fast Track Loan product be dropped from the BDP Policy/ Guidelines as it was found to have incurred an unacceptably high level of arrears (up to 70 per cent in some areas) and proved difficult to administer. The fast track loan program was subsequently abolished.

ATTACHMENT D.4

INTERNATIONAL MICRO-FINANCE OUTCOMES

Many providers of micro-finance products are claiming very good success rates in terms of the percentage of loans repaid.

For developing economies, the following are a range of examples.

- The Micro-banking Bulletin Issues No. 8 reports an average default rate of 2.2 per cent amongst 147 micro-finance providers operating in Africa, South America and Asia.

- The UK based Micro-loan Foundation operates in the Philippines and Malawi reports that to date, over 3700 loans have been made in Malawi and that 97 per cent of the loans are repaid in full.

- ACCION International's partner micro-finance institutions provide loans as low as $100 to poor women and men entrepreneurs in 20 countries in Latin America, the Caribbean and sub-Saharan Africa, and in the U.S. ACCION has disbursed US$7.6 billion in micro-loans to more than 4.7 million borrowers since 1992, with a claimed historical repayment rate of 97 per cent.

- Opportunity International reports that in 2003 it had 487,103 clients with 713,982 loans worth A$207m with a loan repayment rate of 98 per cent.

However the data quoted can be misleading in terms of the day-to-day loan performance. For example, the Microbanking Bulletin no.8 provides links to detailed spread sheets summarising the self reporting by up to 157 micro-finance providers in Africa, South America and Asia. Those spread sheets show that the average value of the loan portfolio with repayments overdue by greater than 30 days is 12.1 per cent and greater than 90 days is 2.7 per cent.

In developed economies, detailed research suggests that the results are also not as positive as is claimed.

- The European Microfinance Network reports that in Europe only 1 per cent of the micro-finance loan portfolio is at risk. However, an EC funded study of the micro-finance sector in Western Europe, comprising 32 organisations, does not support that contention. That report advises:

  - Of 13 micro-lenders who provided information, the average loan repayment rate was 91 per cent;
  - Of 13 micro-lenders who provided information, an average of 6.3 per cent of the portfolio was at risk;
  - Of 14 micro-lenders who provided information, 7 per cent of loans had been written-off; and
  - Of 14 micro-lenders who provided information, 10 per cent of loans had to be rescheduled.

- Street UK, a UK based micro-finance lender, reported that at the end of its first three years of operations, 14 per cent of active loans were at risk (this was after writing off non recoverable debts).

When not to use micro-finance

Opportunity International warns that micro-finance should not be used in the case of extremely poor people who do not have any stable income - such as the very destitute and the homeless, as they will only be pushed further into debt and poverty by loans that they cannot repay. Overseas Governments and aid agencies often wish to use microfinance as a tool to compensate for some other social problem such as flooding, relocation of refugees from civil strife, recent graduates from vocational training, and redundant workers who have been laid off. Since micro-credit has been sold as a poverty reduction tool, it is often expected to respond to these situations where whole classes of individuals have been 'made poor'. Micro-credit programs directed at these types of situations rarely work.

Opportunity International also states that micro-credit serves best those who have identified an economic opportunity and who are in a position to capitalize on that opportunity if they are provided with a small amount of ready cash. Thus, those poor who work in stable or growing economies, who have demonstrated an ability to undertake the proposed activities in an entrepreneurial manner, and who have demonstrated a commitment to repay their debts (instead of feeling that the credit represents some form of social re-vindication), are the best candidates for micro-credit.

The common feature of micro-financing in developing economies and developed economies is a detailed assessment of the character of the applicant (i.e. the clear willingness to service the debt). Many different models are used. Models include interviewing family members and associates of the applicant to establish the character of the applicant – this model results in a collective peer pressure on the applicant to perform. Other models include using successful borrowers as a panel to assess the character of new applicants.

At the end of the day, micro-finance is about non-secured loan to individuals with little or no assets. Businesses can failure for reasons beyond the control of the operator, but a borrower of good standing will make all efforts to retire the debt.

ATTACHMENT D.5

CURRENT AUSTRALIAN PROGRAMS SUPPORTING MICRO-ENTERPRISE DEVELOPMENT

Federal

IBA's Business Development Program

The Business Development Program (BDP) aims to facilitate the establishment of commercially viable enterprises among Aboriginal and Torres Strait Islander people.

By providing Indigenous Australians with vital market intelligence, business skills and alternative funding the BDP helps motivate Aboriginal and Torres Strait Islander people to seek out economic and business development opportunities of their own. The BDP does this by developing strategic alliances with Local, State and Commonwealth Government Programs, as well as the banking industry and private sector.

It also gathers regional market intelligence for analysis and improves awareness of training and entrepreneurial opportunities available to Indigenous people in regional and remote areas.

Apart from facilitating the acquisition of skill equity required by Indigenous operators to manage commercial enterprises, the BDP develops tailored financial products and services that bridge the gap between the financial needs of Aboriginal and Torres Strait Islander people and mainstream financial products and services.

The BDP provides:

- Business support Services – includes access to professional business and marketing assistance, business and management training, mentoring and access to public and private sector services.
- Business finance – reduced interest loans, grants and/or guarantees are available to Indigenous individuals or eligible businesses. For businesses wanting finance the primary consideration is commercial viability.
- BDP also funds Economic Development Initiatives that includes practical guidance on how to develop or implement business ideas, upfront business related skill activities and access to tailored information and products.

DEEWR's Indigenous Self Employment Program

Indigenous Self Employment Program (ISEP) - formerly the Self Help Program - trial assisted individual Indigenous Australians to establish their own small business by providing business advice and support, financial literacy training and up to $5500 (GST inclusive) through a repayable loan.

The ISEP trial was undertaken initially in three regions: Murdi Paaki in New South Wales, Cape York in Queensland and Shepparton in Victoria. Whilst the program trial phase has been completed, a support component for participants will remain in place until the end of the contract period. Consideration is currently being given about whether the ISEP program will continue. While the review report did not provide overall outcome data, it does advise that in terms of the economic viability of businesses funded, the program "appears to be performing below the ideal".

DEEWR's New Enterprise Incentive Scheme (NEIS)

Although not a true micro-finance program as it does not provide loan funds for assets or working capital, the New Enterprise Incentive Scheme is a self employment program for unemployed people who wish to start their own independent business. NEIS Providers are contracted to assess the viability of potential business owners' projects and offer training and support. NEIS is a comprehensive package of assistance, which includes:

- training in small business management business skills and business plan development;
- income maintenance (NEIS Allowance), equivalent to Newstart allowance for up to 52 weeks; and
- business advice and mentor support during the first year of business operation.

From an Indigenous perspective, NEIS have the following limitations:

- It is only available to those on Newstart;
- It does not provide financial support for capital or operating costs; and
- Many Indigenous people have struggled with the NEIS course content due to literacy or numeracy issues.

IBA does not have information on default rates but as the program is aimed at those on Newstart which is effectively converts Newstart allowances to an income supplementation payment during the first 12 months, default may not be an issue. We understand that:

- 20 per cent of NEIS graduates are no longer in business after three months after NEIS assistance has ended; and
- 26 per cent of all NEIS participants are no longer running their original business 18 months after NEIS assistance has ended.

ATTACHMENT E

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

- **Lack of understanding of business operation compared to government support:** Many CDEP operations demonstrated a low understanding of business management or concepts. Some CDEPs indicated that "when grant funding runs out, we ask for more". The full impact of the loss of CDEP and how that would affect employment numbers and profit/loss statements was not understood.

- **Corporate Governance and Leadership:** There appears to be an important link between strong corporate governance, community leadership and sustainable community business. An appropriate model for community business governance structures needs to be investigated.

- **Land use agreements and royalties:** The availability of royalties from mining in some communities acts as a significant disincentive to undertaking both meaningful work and business activities. In effect, royalty income is a financial return to community members with no requirement of effort in return.

- **Environmental uncertainties:** The ability to determine the medium to long-term viability for many prospective businesses in the NT is impaired due to some environmental/structural uncertainties, particularly surrounding changes in NT shire councils from July 2008.

- **Community/private ownership issues:** The transition to business – and to private ownership - of what had previously been a community service or resource has been a concern in many communities. Given that there can be considerable assets attached to some activities and a financial return to the community, reluctance to allow some activities to become individually owned business enterprises is likely to persist in some communities. Of particular concern in some communities is the perception that some particular families will benefit while the rest of the community misses out, even though that view might ignore the effort that the business owners are making. Internal community/CDEP disagreements about asset ownership may make retaining an existing asset for the use of a new business difficult.

- **Land tenure and land use agreements:** Land tenure for businesses, and the processes to obtain land use agreements from the Land Councils and Traditional Owners, can be difficult and/or time consuming. Some CDEP activities may find that obtaining land use agreements for a business operation, or for expanded operations, becomes too difficult for the business to go ahead.

- **Business continuity:** Some small Indigenous enterprises have failed when individuals have left the community for periods at a time for cultural or family reasons. In some cases, businesses such as those involving crops, market gardens or livestock have failed as nobody has maintained the produce while the business owner was away.