

Senate Community Affairs Committee
ANSWERS TO ESTIMATES QUESTIONS ON NOTICE
FAMILIES, HOUSING, COMMUNITY SERVICES AND
INDIGENOUS AFFAIRS PORTFOLIO
2011-12 Budget Estimates Hearings

Outcome Number: 7

Question No: 243

Topic: IBA Business Loans Criteria

Hansard Page: Written

Senator Payne asked:

I have heard concerns that the IBA has excessively onerous arrangements. The Minerals Council of Australia, which of course has extensive dealings with Indigenous businesses, has said that these arrangements 'require emerging businesses to meet equivalent hurdles that are required by mainstream investment options such as banks, and have tended to favour investment in businesses that would be sustainable and economically viable even without investment by IBA'. Surely IBA's purpose with these loans is to facilitate Indigenous business that would not otherwise find support. Can you please outline the bases on which applications are assessed?

While I understand the need to have arrangements that are not excessively risky, how strict are your lending criteria for businesses? What administrative and substantive hurdles are in place for businesses to pass?

Answer:

The purpose of IBA Business Loans is to help Indigenous clients to access finance for viable business proposals.

IBA is aware that Indigenous clients that experience failure in business suffer a range of adverse consequences. Therefore, based on past experience and in order to minimise these potential adverse consequences of business failure, IBA Business Loan clients need to:

- demonstrate an ability to operate a business in the mainstream culture
- clearly outline their business and the commitment needed to run a business
- have industry experience directly related to the industry or business
- have a knowledge base sufficient to operate a business
- demonstrate their proposed business is viable through an appropriately detailed business plan.

Whilst normal commercial credit assessment considerations of equity contribution, security and debt servicing capacity are extended to IBA Business Loans, IBA generally accepts a higher risk than that accepted by mainstream lenders.

Over the last three years IBA has provided 101 loans under \$50,000 totalling \$2.8 million, of which only nine loans required security. IBA's business loans generally require less equity contribution, less security, and less servicing capacity from our customers and as such our lending criteria is less onerous than mainstream financiers.

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Whilst mainstream lenders would generally undertake the same assessment of their clients and the business proposal, IBA assists clients to develop their business skills, establish the feasibility of their proposed business and develop their business plans by providing access to Into Business Workshops and appropriate Business Support.

An additional requirement that IBA clients need to satisfy (that is not required by mainstream lenders) is the provision of proof of Aboriginality.