
Gunya Discussion Paper

Indigenous Economic Development Scheme:

A solution to create employment opportunities within Indigenous communities

Increased private investment is the key to establishing a sustainable economic base within Indigenous communities

The Indigenous Economic Development Scheme will encourage private investment to provide employment and build local economies

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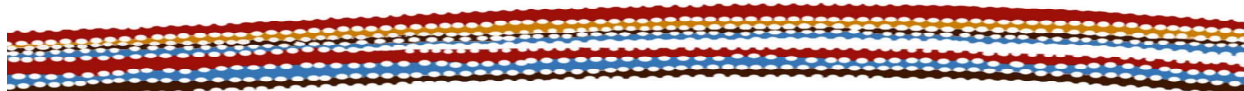


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Forward from Bill Moss AM

Gunya Founder



I have always believed that to solve a social problem you need an economic answer and political leadership.

The social problems within Australia's Indigenous communities have been the subject of much debate in recent weeks. I have been astounded that across this debate little if any discussion has focused on solutions.

For over 200 hundred years Australia has struggled to address these issues, what is needed at this point in time is a multi-sector approach involving community, business and particularly, political leadership.

I first announced my intention to develop this paper during the Global Foundations "Australia Unlimited" symposium conducted in Melbourne in May 2007. The response from this gathering of eminent Australians was very encouraging with a unanimous vote of support for the initiative in the closing session of the symposium.

This paper has been prepared in an attempt to generate informed discussion regarding private and corporate sector investment within Indigenous communities. It canvasses key issues around the development of initiatives to foster, recruit and support private and corporate sector investment in community development programs within indigenous communities.

The basic underlying theme of the paper is the concept of providing Indigenous communities and individuals with *"a hand up and not a hand out"*. The proposed scheme seeks to enhance community development outcomes through encouraging private sector engagement and investment.

I have for a long time held a personal belief that the answer to many of the issues faced by Indigenous Australians was employment. Employment is the cornerstone of economic development around the world, without it communities can not sustain themselves economically.

A large number of schemes, programs and initiatives have been trialed and implemented over the last twenty years. Most have failed because they did not develop long term, sustainable and meaningful employment within Indigenous communities.

Economic disadvantage leads to social dysfunction and has dramatic negative impact on education, health and general well being. It is widely recognised that increasing indigenous participation in enterprise development activity would provide widespread economic and social benefits to Indigenous communities.

Cottage industry development and incubation I believe is a proven strategy in generating localised economic activity and employment opportunities. The paper will seek to highlight the advantages in utilising the principle of cottage industry development and incubation in the building of commercial enterprise within Indigenous communities. From this, sustainable and vibrant communities will grow. Australia's economic base has come from industries built on these principles over time.

The importance of Indigenous peoples' contribution to the economy both nationally and locally cannot be understated. Enterprise development provides a platform for job creation, education and community development and well being outcomes. The biggest barrier to this is the absence of the financial resources and commercial acumen, skills and experience available within Indigenous communities.

This paper proposes a solution.

I would like to express my thanks to my fellow board members of Gunya Australia particularly Paul Conlon and Dennis Mycock whose observations and assistance in the development of this discussion paper were vital and to those with whom we have consulted across the process.

Bill Moss AM

(Bill Moss A.M. was formerly the Group Head & CEO of Macquarie Banks Banking and Property Group. With over 30 years' experience in the banking and finance industry, Bill is a leading figure in the Australian financial community.

Executive Summary

The Gunya discussion paper seeks to generate informed discussion regarding private and corporate investment within indigenous communities across Australia.

The underlying theme of the Gunya paper is to provide Indigenous communities and individuals with “a hand up and not a hand out” by creating employment.

The federal government’s response to a range of issues within Aboriginal communities in the Northern Territory over the past few months has concentrated on the problems, with little if any debate about long term solutions. This paper provides a platform to create real change within Indigenous communities, by creating employment. It is only through the development of a sustainable economic base within communities that many of these issues can be truly addressed and eradicated.

Employment is the corner stone of economic sustainability and social harmony. Without investment, real and meaningful employment can not be achieved. This paper will propose that through government led incentives for investment and following cottage industry development principles, sustainable economies can be developed within Aboriginal communities.

The key issues around initiatives that foster, recruit and support private and corporate sector investment in community development programs within indigenous communities are addressed.

Background

Over the past 200 years of white settlement history in Australia, successive governments both state and federal have failed to engage indigenous Australians in sustainable economic development.

This reflects a lack of understanding of the ways, practices and customs of Indigenous Australians by bureaucracy at all levels. Government funding over time has built and supported high reliance by indigenous communities on government supported social security and funded initiatives.

This reliance has had a long term negative impact on indigenous communities in many ways, as highlighted within many sectors of the media recently.

Indigenous communities have entrenched levels of poverty and intergenerational unemployment, in some communities 100%.

The philanthropic sector, while providing much needed support to indigenous communities through the provision of education and health services, does not provide meaningful and sustainable economic development.

Both the government and philanthropic sectors build reliance within Indigenous communities that support the ‘hand out’ mentality. This approach has failed around the world, when seeking to build sustainable, socially functional communities. It provides a “band aid “and not a cure.

The Challenge

Unemployment within Aboriginal communities is a chronic problem that debilitates the community's abilities and capacities to address social issues.

Australian indigenous communities face major challenges in obtaining capital required to build a sustainable economic base that can create jobs.

The commercial sector within Australia has avoided investing in developing Indigenous communities, arguably Australia's most needy communities, largely due to both real and perceived risks associated with this type of investment.

Investment risks stem from a range of issues in indigenous communities including; lack of infrastructure, lack of training and education opportunities, in some areas language barriers, and the tyranny of distance. (Most Australian indigenous communities are located in remote and regional areas)

Australian major lenders will not lend on business proposals within Indigenous communities. The challenge is to find a way to encourage the private sector to invest in employment generating businesses with suitable level of risk.

The corporate sector has only shown a willingness to donate where tax deductibility has been made available.

Government can clearly play a significant role in the process of developing indigenous communities by providing incentives and other mechanisms to investors within accredited programs that create employment and build the economic development in these communities.

The Solution

This paper provides a way to address the challenge by introducing a government supported "Indigenous Economic Development Scheme".

The Indigenous Economic Development Scheme (IEDS) is a program of incentives to stimulate much needed investment in economic development within Indigenous communities from both individuals and corporate investors.

IEDS investors can achieve both a return on investment whilst also improving social and community environmental conditions, and at the same time reduce the reliance on long term government funding.

Cottage industry in the short term usually will not be economic and viable, but in the longer term will create skills and knowledge that will lead to economical sustainability. It is in the short term that political leadership and support needs to encourage investment.

The financial modeling of IEDS highlights the direct net saving to government of \$24,000 for every full time job created within an Aboriginal community. The modeling also highlights the extended economic impact within that community through the creation of a single job as being \$39,000.

Indigenous Economic Development Scheme:

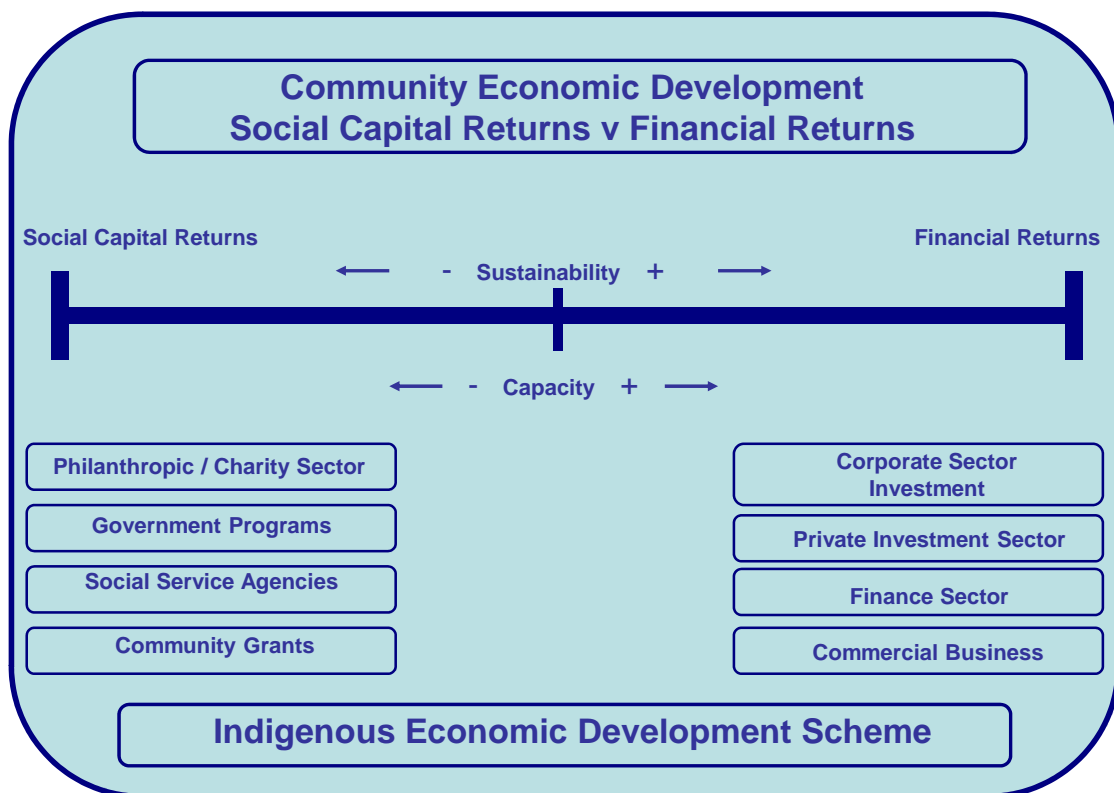
- For over 200 years Australia has failed to provide a framework within indigenous communities to encourage the development of commercially sustainable activities. This failure has led to high levels of welfare dependency, a lack of meaningful employment, wealth creation, incentives for education, and worst of all, a lack of hope for future generations. Australia needs to introduce tax based incentives to encourage commercial enterprise within Indigenous communities.
- Currently there are no incentives provided to the corporate and private sector to encourage 'cottage industry development' within Indigenous communities. Communities are totally dependent on government funding, which provides a framework for welfare dependency rather than self sustainability.
- The provision of corporate and private sector investment into indigenous communities will lead to;
 - Job creation and sustainable employment
 - Establishing an economic base
 - Encouraging investment from the non government sector
 - Reducing dependence on government funding
 - Increasing self esteem for both individuals and the community
 - Providing hope and opportunity for future generations
- The cottage industry for centuries has been the cornerstone of economic development; it is a central component in under developed countries for start up enterprise around world. The fostering of cottage industry by government and global charities has a proven track record to leading a greater chance of economic prosperity; this is enhanced by bringing the commercial acumen of the corporate and private sector to developing communities.
- Currently in Australia, the commercial acumen to create cottage industry is not provided or supported by government. These skills exist in the corporate and private sector however there is a reluctance to provide them to indigenous communities due to low economic return and high risks.
- IEDS provides a structure to encourage corporate and private sector to invest capital and business acumen in the development of cottage industry in indigenous communities in return for government tax incentives

The scheme is not a “not for profit” scheme, it seeks profits in order to deliver sustainability.

The Australian government in the past has successfully proven that it can stimulate investment with the resulting outcome of job creation and economic activity in the film sector, mining and rural sectors by the provision of tax incentives. (Examples provided later in the paper)

The IEDS model is an opportunity for indigenous communities— indeed all communities—to share in many rich social, economic and diverse cultural benefits.

Given the potential benefits of achieving this aim, both for the Indigenous community and for our country as a whole, it is a challenge that demands our immediate action and ongoing commitment.



Australia 2007

Indigenous Disadvantage



Indigenous Australians remain the most disadvantaged and marginalised group in Australia. On all the standard indicators of poverty and disadvantage, Indigenous people emerge as the most socially and economically deprived.

Although poverty in Australia is evident among other groups, it is Indigenous Australians who appear most profoundly affected by poverty. Research has shown, over the past thirty years since the Henderson Inquiry into poverty, that Indigenous Australians are significantly worse off than non-Indigenous Australians, according to all social indicators.

Not only is poverty deeply entrenched, the causes are complex. Despite government policies directed towards achieving economic equality for Indigenous Australians, there has been little improvement to their relative socio-economic status, according to standard social indicators.

There are significant difficulties in defining and measuring Indigenous poverty. There is both a lack of data and the available data is often unreliable. In addition, measures of poverty tend to be culturally-specific as well as subjective.

In the case of income distribution statistics, several issues have been highlighted. One is the inappropriate use of the nuclear family as the income unit in which income is assumed to be shared – Aboriginal culture places considerable emphasis on the extended rather than the nuclear family and there are strong cultural obligations to share resources.

In addition, the non-material poverty, in terms of dispossession from the land, and absolute material deprivation suffered by Aboriginal people suggest a different order of poverty from that experienced by the rest of the population.

Successive government studies have noted that given the depth and multi-faceted nature of Aboriginal poverty it is questionable whether comparative studies of income poverty between Indigenous and non-Indigenous Australians are relevant.

Numerous reports and studies have outlined the nature and extent of poverty among Indigenous Australians. The Aboriginal and Torres Strait Islander Commission (ATSIC) also noted that whereas commentators have indicated that most poverty in Australia is relative poverty, some Indigenous communities also face absolute poverty which is reflected in high infant mortality rates and severe malnutrition.

Indigenous communities in Australia possess a range of socio-economic and cultural characteristics which differ from the general population. For example, health, education and employment rates are significantly lower in the Indigenous community, and Indigenous people are over-represented in the criminal justice system. In its election policy, *Our Path to Reconciliation* (2002), the Australian government acknowledged that this profile is the legacy of past injustice and expressed a commitment to take the symbolic and material actions necessary to ensure a just future for all Australians.

Existing economic and social marginalisation is transmitted to future generations where children “grow up in circumstances that limit the development of their potential, compromise their health, impair their sense of self and generally restrict their opportunities for future economic success and social participation” (Daly and Smith 2003).

It is possible to identify communities at risk of intergenerational economic and social marginalisation by analysing the table below. Indigenous communities unfortunately rate poorly with regard to these indicators.

<i>Indicator</i>	<i>Indigenous Profile</i>
<i>Income Level</i>	<i>The mean equivalised gross household income for Aboriginal and Torres Strait Islander people was \$364 per week; this is 62% of the amount (\$585 per week) for non-Indigenous people (ABS 2001)</i>
<i>Welfare Reliance</i>	<i>In 1991 the Community Development Employment Program (CDEP) accounted for 14% of all Indigenous employment; this proportion rose to 20.6% in 1996 and is projected to reach 27% by 2006 (Taylor and Hunter 1998)</i>
<i>Parental and other adult educational status</i>	<i>Lone parent families are twice as common among Indigenous families as other Australian families (Ross 1999). Indigenous people are three times more likely to be unemployed than other Australians (ABS 2004). Indigenous women are the least likely of all groups to be in the labour force, with a participation rate of 43% (ABS 1998)</i>
<i>Health status</i>	<i>Life expectancy for Indigenous Australians is 20 years less than it is for other Australians (AMA 2002). Indigenous children are three times more likely than non-Indigenous children to die before the age of one (Healthinfonet, 2004)</i>

(Statistical indicators of intergenerational transmission of economic disadvantage)

The Aboriginal Torres Strait Islander Commission (ATSIC) prior to its demise stated that the poverty among Indigenous people can be illustrated through a number of key points;

- Most indicators of poverty and related disadvantage show that Indigenous people are between two and three times worse off than non-Indigenous people in Australia.
- About 30 per cent of indigenous households are in income poverty, which indicates that over 120,000 indigenous people are living below the poverty line.
- Indigenous unemployment rates, which are affected by Community Development Employment Projects (CDEP) participation, are well over twice that of non-indigenous people in cities and regional centres and are much higher in remote areas.
- Being fully engaged in either employment or education decreases the likelihood of poverty. Indigenous people in full-time employment or education are around 30 per cent of each age cohort, compared to at least 50 per cent of non-Indigenous people in each age cohort.
- The proportion of indigenous teenagers (aged 15 to 19 years) not fully engaged in work or education is three times that of non-Indigenous people.
- Approximately 70 per cent of young indigenous adults (aged 20-24 years), are not fully engaged with work or education.
- Approximately 50 per cent of indigenous adults are reliant on some form of welfare payment and for young people (aged 15 to 24 years) the proportion is only slightly lower.
- Indigenous people suffer ill-health and disability at greater rates than non-Indigenous people.
- This leads to life expectancy rates for Indigenous people being around 20 years less than non-Indigenous rates. Ill-health impacts significantly on work opportunities and places a burden of care on individuals and communities.
- Some remote Indigenous communities live in absolute poverty, measured by poor infrastructure with associated diseases that are largely eradicated in other parts of Australia.

The Problem – Unemployment

Having a job that pays adequately and provides opportunities for self development is important to most people. Employment is a critical element in raising living standards, self-esteem and overall wellbeing. It is also important to the family. Children who have a parent who is employed are more likely to attend school and stay on past the compulsory school age. They are also more likely to enter into post secondary education and gain employment.

Unemployment can have a major impact on education, poor health and mortality, domestic violence, homelessness, substance misuse and community dysfunction.

Australia's unemployment rate was reported at a level of 4.3% in mid July 2007. Indigenous unemployment rates however are currently reported at level of approx 20%.

The Centre for Aboriginal Economic Policy Research (CAEPR) says the Northern Territory's Indigenous unemployment rate is the worst in the country and would be even worse if work-for-the-dole schemes were taken out of the equation.

CAEPR Professor Jon Altman says Australian Bureau of Statistic (ABS) figures for the three years to 2004 show Australia's Indigenous unemployment rate is 16.8 per cent, in the Northern Territory, it is 19.4 per cent.

Professor Altman says without work-for-the-dole schemes, such as CDEP, the figure would blow out even further. "You could see unemployment rates increasing to 60, 70, 80 per cent, and in some cases 100%. So on one hand the CDEP scheme doesn't represent real employment - it's only part-time employment, people working for the dole," he said.

"No society can function and provide an acceptable social fabric where unemployment rates are as high as 60% to 100%. Ultimately these factors have lead to anarchy, social unrest and revolution." - Bill Moss AM.

The Problem – No Investment

Australian based business and private investors would rather invest in third world countries to create jobs rather than Indigenous communities, in fact in many cases they receive tax credits and incentives for doing so. The Government and philanthropic sector focus on service delivery and provide only band aid solutions. They do not generally invest in business initiatives that create employment due to a lack of confidence, security and economic returns.

A lack of confidence leads to no investment, why?

- High risks
- Low returns
- Lack of viable projects
- Lack of skilled or low skilled work force
- No management expertise
- Lack of education
- Lack of commercial acumen
- Lack of understanding the profit motives
- Lack of finance
- Lack of qualified commercial support / supportive environments
- Overall a lack of a framework for supervised sustainable commercial investment

The Solution – Indigenous Economic Development Scheme

The Indigenous Economic Development Scheme (IEDS) is a program of incentives to stimulate much needed investment in economic development within Indigenous communities from both individuals and corporate investors.

Indigenous Economic Development Scheme:

- For over 200 years Australia has failed to provide a framework within indigenous communities to encourage the development of commercially sustainable activities. This failure has led to high levels of welfare dependency, a lack of meaningful employment, wealth creation, incentives for education, and worst of all, a lack of hope for future generations. Australia needs to introduce tax based incentives to encourage commercial enterprise within Indigenous communities
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- Currently in Australia, the commercial acumen to create cottage industry is not provided or supported by government. These skills exist in the corporate and private sector however there is a reluctance to provide them to indigenous communities due to low economic return and high risks.
- IEDS provides a structure to encourage corporate and private sector to invest capital and business acumen in the development of cottage industry in indigenous communities in return for government tax incentive

Indigenous Economic Development Scheme – IEDS

Generating greater participation in the national economy and improved business development opportunities for indigenous Australians is crucial in overcoming social and economic disadvantage and increasing employment.

IEDS addresses the employment needs of the Indigenous community by encouraging Indigenous industry development through long-term sustainable community enterprise development and incubation.

IEDS is designed to assist indigenous Australians to achieve greater levels of self determination through the development of a sustainable economic base which will improve social outcomes such as unemployment and intergenerational poverty.

The sustainable development of a commercially viable indigenous enterprise is a challenge that will require active cooperation and partnerships between the Indigenous community, investors, government and other stakeholders. But this is an opportunity for indigenous communities to share in many rich social, economic and cultural benefits. Given the potential benefits of achieving this aim, both for the Indigenous community and for the country as a whole, it is a challenge that demands our immediate action and ongoing commitment.

There are a range of business opportunities well suited to remote and isolated areas where many indigenous communities are located. Moreover, many of these business opportunities could also allow indigenous communities to utilise and preserve traditional skills and knowledge and in some cases to become reacquainted with the ecology of their traditional lands.

Nevertheless, it is recognised in Australia that the indigenous business sector is in the early stages of its development, with significant resource gaps in terms of direct business experience, technical training, access to finance and development of entrepreneurial skills. As a result, it will be some time before Australia's indigenous community as a whole can develop the depth of experience and financial resources necessary to initiate and self-fund business enterprises without external assistance.

True reconciliation will only be achieved in the Australian community when there is equality of opportunity and experience between indigenous and non-indigenous. If existing disadvantage is to be relieved through the involvement of Indigenous people in business, the special needs of Indigenous people in the context of business development, capital acquisition and training must be recognised and addressed.

Indigenous people in Australia have argued that economic development is required in Indigenous communities if persistent social problems are to be alleviated. Specifically, the creation of business and employment opportunities for Indigenous people has been identified as a mechanism through which the material and psychological wellbeing of the nation's Indigenous people can be improved.

Indigenous communities and individuals do not participate in the nation's economy to the same extent as other Australians. If this continues and is not addressed economic exclusion would render attempts to ameliorate social problems ineffective and ultimately futile.

The goal of IEDS is to facilitate real gains in autonomy, independence and self determination for Indigenous communities through the development of indigenous owned and operated business enterprises. It is nevertheless imperative that the kind of economic inclusion and participation that Indigenous people pursue be appropriate, viable and sustainable.

There are many industries and business opportunities which are culturally appropriate and commercially sustainable that can generate employment opportunities in rural and remote areas. This document outlines a strategy through which such gains can be realised.

For a multitude of reasons, general business management skills are often lacking in Indigenous communities, as is the capacity to finance ventures. As a result, these factors have contributed to the failure of indigenous enterprise in the past.

Consultation with a wide range of Indigenous communities around Australia undertaken by Gunya has revealed the following:

- Inadequate funding
- Poor training and education
- lack of support
- Failure to consider the cultural implications of the operation of projects

These have greatly restricted the initiation of business and employment generation opportunities.

While indigenous individuals and communities wishing to initiate businesses will need to work in collaboration with Government and other stakeholders to ensure the factors listed above are addressed, it is also important that the needs and capacities of each community are considered when planning indigenous business development opportunities.

Increased private and corporate sector investment is the key to establishing a sustainable economic base within indigenous communities. However the challenge for government is that investors require a level of certainty and security, difficult to achieve within the community development sector, particularly within indigenous communities. Projects within this sector have traditionally only provided only a negative rate of return in the initial start up and incubation stages.

IEDS Guidelines

This paper proposes the establishment of a government lead initiative to address the issues discussed and to achieve the desired outcomes. Essentially the proposed IEDS provides:

- A tax credit on initial start up investment with the initial (start up) investment capital considered expenses in that financial year
- Initial capital cost i.e. all start up expenses will be subject to a 150% tax credit, paid the year in which they are incurred
- Operating losses for the first 5 years will be subject to a 150% tax credit, paid the year in which they are incurred
- To gain the tax credit the approval process would need to have clearly defined eligibility criteria including the use of Accredited Managers with a proven record in the area of community development and a minimum of 3 years experience
- Any project must be undertaken with the community's engagement and agreement not imposed upon them by an individual, family or group
- Those seeking the tax credit must be prepared to provide expertise and support to the development of the project
- An incentive to enter welfare to work program to be implemented, to encourage residents of Indigenous communities to work. This incorporates an elevated tax free threshold to off set current abolition and changes to Community Development Employment Program (CDEP)

Incentives for individuals are required to encourage participation within Welfare to Work programs. The current structure and system discourages participation, as the participants net position is often only a marginal enhancement. A person taking part time employment as a top up on their social security payments, pays tax at the marginal rate on their earnings and often also lose social security entitlements. This only serves as a disincentive and results in non participation.

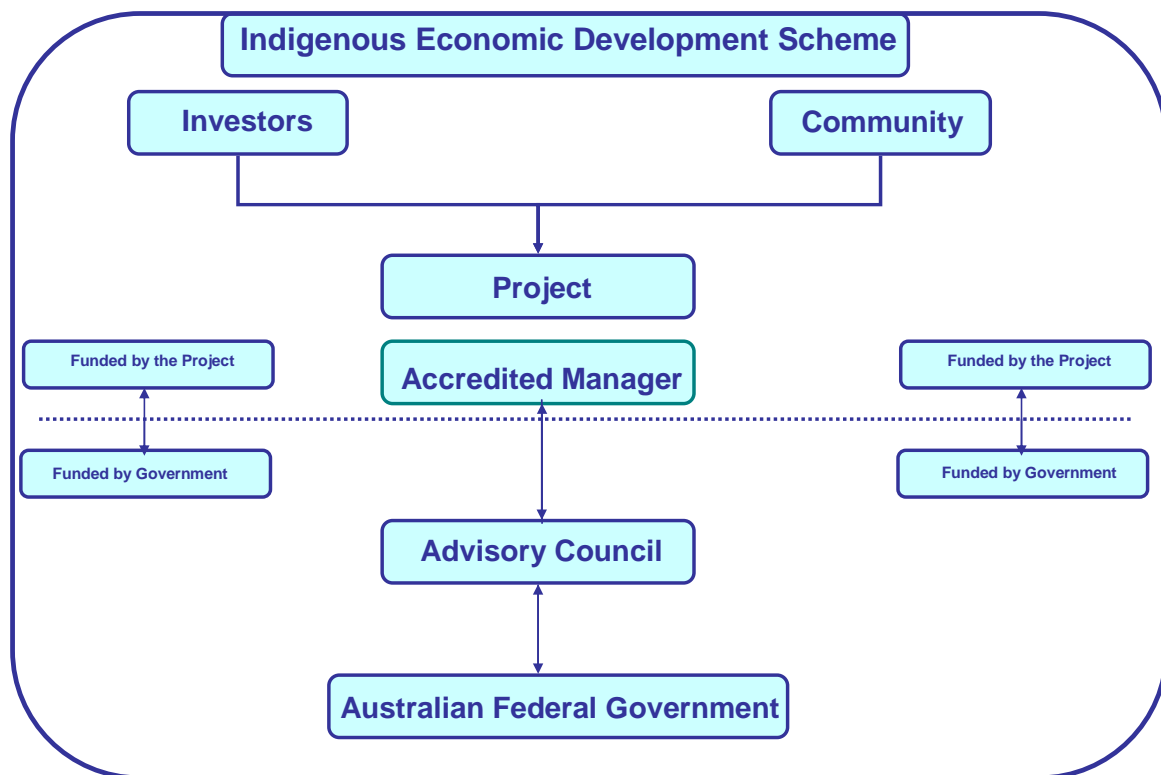
IEDS – Community Outcomes

The Indigenous community will seek outcomes from IEDS as follows;

- Generation of meaningful and sustainable localised employment opportunities
- Transition of business skills – knowledge pool
- Breaking the welfare / poverty cycle
- Increasing community self sustainability levels
- Lowering of community government dependencies
- Lowering of individual government dependencies
- Community engagement – self determination
- Unification of the community through the introduction of commercial enterprise
- Enhancements in community cohesion
- Enhance self esteem levels of individuals
- Education valued by individuals / community
- Establishment of localised sustainable economy
- Generation and incubation of ancillary cottage industries

IEDS – Business Investor Outcomes

- Acceptable return on investment adjusted for tax concessions
- Business growth potential
- Risk mitigation
- Security for investment
- Meaningful participation with indigenous communities in management and training programs
- Ability to transfer skills



Accredited Management

The IEDS requires an accredited management system to ensure that stated outcomes of the initiative are protected and delivered. Incentive schemes have been introduced across a number of industries in the past, whilst most, if not all, have had outstanding levels of success in generating investment within the targeted industry many have deviated from the initiative precepts and principles.

The accredited management system within the IEDS aims to directly address this issue, giving both government and investor assurance and security in the knowledge that only initiatives matching the stated outcomes of IEDS will be implemented. It also ensures that the management of the programs within the IEDS is delivered in an appropriate manner that is both culturally appropriate and works within proven management and governance structures.

The key to this accredited management process is a level of community development experience (a minimum of 3 years), together with an appropriate level of commercial experience and business management qualifications. This is to ensure that only people with the appropriate level of skills and understanding of the issues are engaged.

It is proposed that all managers will be required to fulfill an accreditation process to be developed as a means of filtering out under qualified persons. The accreditation process once developed should also include the identified community's involvement; this is an integral part of this process. Communities must have a say in this approval process.

An ongoing project monitoring process report, at 6 monthly intervals would help ensure the ongoing development of the project, management of the project and adherence to the state social benefits this report would also be signed by a representative of the community

The accredited manager reports to the IEDS Advisory Council and performs the following key functions;

- Project development and identification
- Matching investors, communities and projects
- IEDS Eligibility assessment
- Feasibility study
- Recommendation reports to Advisory Council
- 6 monthly project progress report
- Ongoing project financial monitoring
- Ongoing project community benefits assessment

Advisory Council

IEDS requires the establishment of an Advisory Council. The charter of the Advisory Council is to review and evaluate in detail projects put forward under IEDS assessing their eligibility and suitability, approving the projects accessing the benefits available under IEDS.

The membership of the Advisory Council should be representative of leaders from the corporate sector and other eminent Australians, who have the appropriate business and community development skills and experience and who can value add to IEDS. The Advisory Council should also have proportional Indigenous representation within its membership. The IEDS Advisory Council reports to the Federal Government (the appropriate Minister).

Major Tasks	Role and Function		
	Community / Investors	Accredited Manager	Advisory Council
Project Identification	✓	✓	
Project matching Community - Investors	✓	✓	
IEDS Eligibility Assessment	✓	✓	
Feasibility Study	✓	✓	
Recommendation Report to Advisory Council		✓	✓
Project Approval Process		✓	✓
Progress Reporting	✓	✓	✓
Financial Monitoring		✓	✓
Community Benefits Assessment	✓	✓	✓

What project criteria will advisory council look for?

Only projects meeting the predetermined criteria will be recommended and approved. Identified projects must:

- Provide the generation of meaningful and sustainable employment opportunities
- Present training and education opportunities for participants
- Equity levels to the community of no less than 25%
- Have community representation and engagement at a senior management level (Board membership)
- Be culturally and environmentally appropriate for the identified area
- Display respect for the dignity and value of all people
- Exhibit responsible management practices
- Provide a net saving to government in the long term through reducing social security payments etc...
- Support and involve the community
- Fulfill basic economic fundamentals, feasibility etc
- Meet the preset fundamental criteria set by the Advisory Council
- Ongoing adherence to IEDS guidelines and performance indicators

Further the scheme will support projects that;

- Have inherent low internal rate of return long start up period, but have a chance of economic delivering sustainability
- Generate localised employment for predominately Indigenous labour, at market rates
- Assist in diminishing the gap between economic development in mainstream communities and the almost non existent economic development within Indigenous communities across Australia
- Have already gained community acceptance and approval
- Outline an operating procedure which clearly defines the roles and responsibilities and must provide for a level of community accountability
- Provide substantial indirect social benefits
- Have been endorsed by the accredited manager
- Have been approved by the IEDS Advisory Council

IEDS Financial Modelling

Savings to Government Outcomes of IEDS

Conclusion

The simple replacement on a single CDEP job with a market job would reduce governments' net budget demands by around \$24,000. Value adding to the economy would increase by an estimated \$39,000.

(Dr Graham Kirby, Director of Economics, Department of Business, Economic and regional Development, NT Government., July 2007)

Assumes a salary of \$42,800.00 employed under IEDS program (IEDS employee) and removal of CDEP benefits.

Indirect impact on economy

Fiscal Impact on Commonwealth & Territory Governments

(Savings areas to Government P/A)

Direct CDEP payments to participants	\$12,800.00
Administration cost savings on CDEP	\$1,280.00
Public health services	\$2,300.00
Extra taxation revenue	\$7,440.00
Estimated Total Fiscal Impact P/A	\$23,820.00

Economic Impacts

Market job salary (assume \$42,800) less CDEP	\$30,000.00
Extra economic activity due to income multiplier (1.3)	\$9,000.00
Estimated Total Economic Impact P/A	\$39,000.00

Why IEDS Works for Government, Investors and the Community

A Hypothetical Financial Model

Based on the savings model presented above a hypothetical business generating 5 full time positions under the IEDS would present an economic impact within a community of over \$314,000 p/a or over \$3m over a ten year period.

	Single Job Created	5 year Projection	10 year Projection
Direct savings to Government (per job created)	\$23,850.00	\$119,000.00	\$238,500.00
Economic Impact per Job created	\$39,000.00	\$195,000.00	\$390,000.00
Total Impact per Job Created	\$62,850.00	\$314,250.00	\$628,500.00
	5 Jobs Created	5 year Projection	10 year Projection
Direct Savings Direct to Government 5 Jobs created	\$119,100.00	\$595,500.00	\$1,191,000.00
Economic Impact 5 Jobs created	\$195,000.00	\$975,000.00	\$1,950,000.00
Total Impact 5 Jobs Created	\$314,100.00	\$1,570,500.00	\$3,141,000.00

(Assumes 5 full time positions created, at today's value)

The model below highlights a hypothetical business established under IEDS. The capital start up costs are set at \$750,000 and an operating loss of \$100,000 P/A for 5 years.

The total government outlay over 5 years is estimated at \$1.8m. This level of investment under IDES would generate 5 full time positions and a viable profitable business creating a taxable base after 5 years. This model presents outstanding value to government. The model assumes community and social benefits such as increased health and education outcomes which have not been costed.

Year 1				
IEDS Project Outlays	Private Investment	Proposed IEDS Rate Tax Credit	Tax Deduction	Cost to Government at 30% Tax Rate
Initial Capital Cost	\$ 750,000	150%	\$1,125,000	\$337,500
Annual Loss P/A	\$ 100,000	150%	\$150,000	\$45,000
Total	\$ 850,000	150%	\$1,275,000	\$382,500
5 Year Projected				
IEDS Project Outlays	Private Investment	Proposed IEDS Rate Tax Credit	Tax Deduction	Cost to Government at 30% Tax Rate
Initial Capital Cost	\$ 750,000	150%	\$1,125,000	\$337,500
Loss Over 5 Years	\$ 500,000	150%	\$750,000	\$225,000
Total	\$ 1,250,000	150%	\$1,875,000	\$562,500

Summary

In the above model for an investment of \$1,250,000 over 5 years with 150% tax incentive, the government would provide tax deductibility of \$1,875,000 at a 30% tax rate. This is a rebate of \$562,000

For the cost of \$562,000 the government would receive;

- An economic impact of \$195,000 per year
- Direct savings of \$119,000 per year
- Future tax benefits year 5 – 10
- Further capital gain tax revenues
- Additional GST
- Widespread social benefits

IEDS Stakeholders Benefits

Government

A way forward, a solution

Marginal short term cost

Reduced social security

Engages the private sector

Builds a taxable base

Harmonious communities

Sustainable localised economies

Breaking the poverty cycle

Economically better off

Enhanced Health of the Community

Enhanced Education of the Community

Direct Fiscal savings

Indirect Fiscal Savings

Investor

Incentive encourages investment

Incentives turns a marginal project into a viable project

Security

Profit

Mitigation of risks

Social Conscience

Business growth

Corporate Citizenship

Partnership with community

Partnership with Government

Community

Employment

Increased personal wealth

Reduced dependency on Government hand outs

Increased social benefits

Education
School attendance
Enhanced health benefits

Wealth creation
Profit sharing

Community harmony

Lowering crime rates

Generation of cottage industry

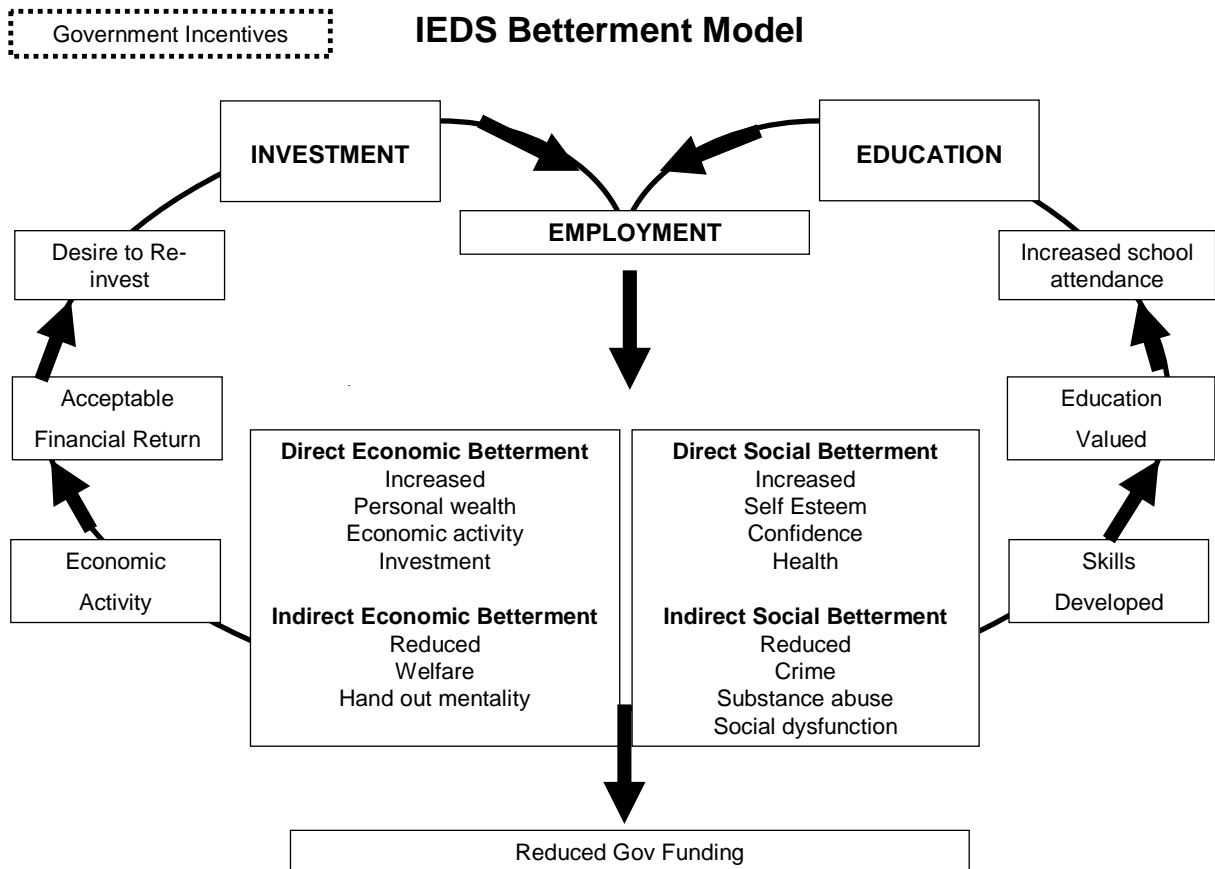
Transition of skills

Sustainable community

Reduced substance abuse

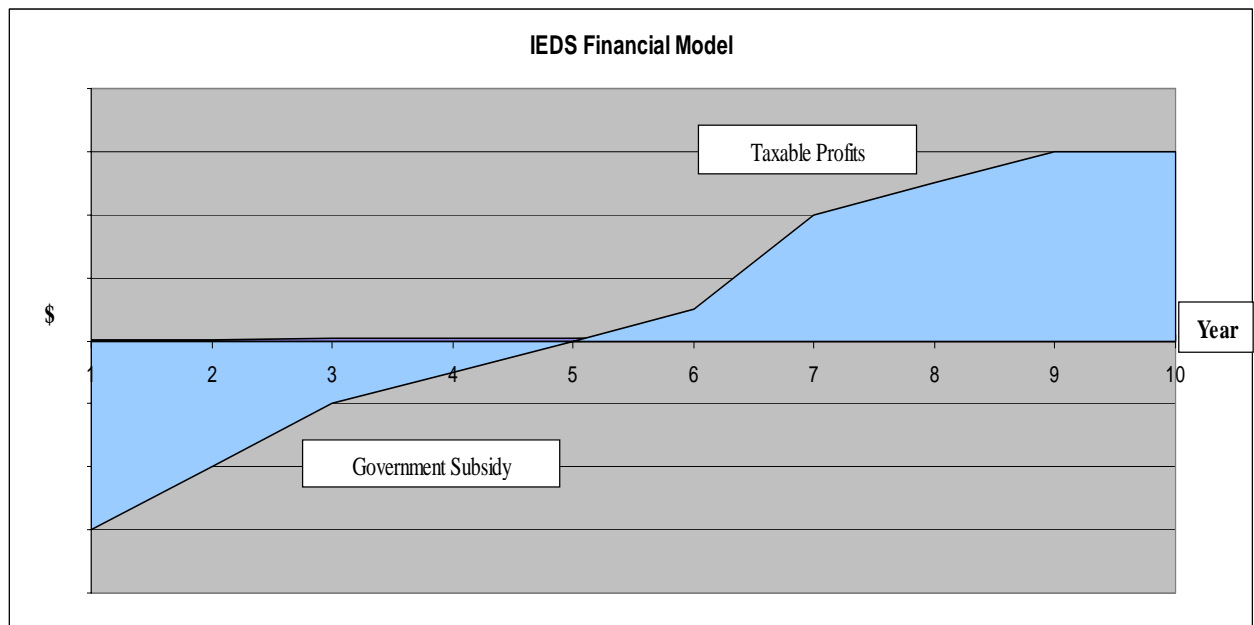
Economically better off

IEDS Betterment Model



Government Investment leading to a Taxable Base

The chart below highlights short term (5 years) government investment / subsidies under IEDS lead to the establishment of a taxable base and revenue source for government in the long term. The IEDS model and feasibility guidelines will ensure that only projects that can deliver this fiscal outcome to government progress and qualify for inclusion within the scheme. A further consideration is the social outcomes generated for both communities and individuals through this process, these outcomes also carry a fiscal value to government through the reduction in the reliance of government funding.



Previous Tax Incentives to Stimulate Investment

Successive Australian governments have over a long period of time introduced incentives to stimulate investment and activity within a range of industries. These industries include, the Australian film making industry and sectors of the forestry industry to name a few.

The Commonwealth Government has also established a range of measures – regulatory, budget, tax and a range of favourable interpretations and definitions designed to support the identified industries.

Internationally governments have utilised tax incentives to stimulate investment within identified industries and geographical regions.

The examples below highlight that these types of incentives are very effective in generating private sector investment for the targeted industry. Over time these industries have delivered a range of outcomes for all stakeholders; the industry, investors, government and the broader community.

The Australian Film Industry Example

In examining the tax incentives offered to the Australian film industry a range of initiatives have been introduced of time, these proved to be extremely successful from the time they were first introduced. The film industry in the early 1980's was awarded tax concessions to a level of 150% on the initial capital outlay by investors. As a direct result of this government initiative the Australian film making industry was leading the world in the production of quality and successful films

Films such as "Crocodile Dundee", "The Year of Living Dangerously", "Gallipoli", "The Man from Snowy River" and "Mad Max". These movies thrilled audiences in Australia and around the world. Moreover, during the 1980's the Australian box office share was roust, taking over ten per cent for four years of that decade.

The availability of tax concessions proved attractive to investors and brought to the industry a level of funding that allowed much more ambitious and better-resourced projects to be made. The tax concessions meant that productions could largely be funded from Australia, stimulating export revenue.

During the Eighties the Government utilised the 10BA measures as a mechanism to create the foundation of modern film making industry. At the time, this was perceived by other nations as being an innovative and constructive approach to stimulating the film and television industry. Governments in other jurisdictions use private investment taxation regimes proactively as an instrument of public policy, allowing for governments to intervene and achieve desire policy outcomes.

These initiatives are also proven internationally where tax incentives are used extensively as an integral tool in the mix of support essential to support a healthy film industry. Investor based incentives are the most widespread source of public support.

These are in place in Ireland (Section 481 scheme), in the UK (section42 and Section 48), in France (SOFICAs), in Germany (former Medien Fund) and in Brazil (Articles 1 & 3 of Audiovisual Law, Rouanet Law, Funcines). A system of tax-credits operates in a number of countries such as Canada, New Zealand and South Africa.

The Australian Agricultural

Management Investment Scheme (MIS) Example

Tax incentives have over time been introduced to encourage investment in areas where market failure was seen to exist. This was particularly true in the case in agriculture, where “long gestation periods, volatility of commodity markets and erratic seasonal conditions” were seen to increase risks and stifle investment. Tax incentives were promoted by government as a way of addressing under-investment and balancing risk between the investor and the state.

Management Investment Scheme (MIS) were seen as balancing the risk of investment in developing industries over large numbers of investors. Pooling funds in this way was meant to allow the plantation industry to rapidly up-scale, and to potentially develop the value-added component of the industry (down-stream processing, such as pulp-mills). These schemes have attracted significant investment through favorable tax incentives and have stimulated a rapid growth. There is little doubt that the principle motivation for investment in the plantation industry schemes is the up-front tax breaks.

Managed Investment Schemes (MIS) have been a high profile source of investment in rural industries. In recent years, these are believed to have accounted for around \$300 million per annum of investment in rural industries — mostly in forestry, viticulture/wine, olives and almonds. While a minor source of investment in the total picture, MIS have been important in the development of some industries — notably blue gum forestry and olives.

When originally introduced, the tax incentives were designed to allow investment where a market failure existed.

Gunya Tourism – A Working Model

Gunya Tourism has operated since early 2004 with its first Indigenous tourism resort opening in Titjikala, NT in August 2004. Titjikala is a small remote Aboriginal community of approx 300 people, 120kms south east of Alice Springs, on the outskirts of the Simpson Desert. Since its opening

Gunya Tourism bases its business model on pure cottage industry development and incubation principles. Gunya assists the community to assist itself through the development of commercial enterprise and seeks to unite the community through this process.

Gunya sees itself more as a community developer than a tourism operator. Tourism was chosen as a vehicle to deliver community development outcomes. The nature of the business it builds on the natural attributes of Aboriginal people, the worlds oldest story tellers. Tourism operations also generate a wide range of employment opportunities with the ability to train staff on the job.

The project has been funded to date through private funds invested by members of the Gunya Board. The initial capital investment came from Bill Moss AM, who had a personal belief that cottage industry development was the most effective way to provide employment and build economic sustainability within Indigenous communities.

Gunya has grown from its humble beginnings involving only one single safari tent to today where it operates a five safari tented resort constructed and operating in a very environmentally and culturally sensitive manner.

Gunya Titjikala is a joint venture between Gunya Tourism and the Titjikala community. 80% of its guests come from overseas, predominantly Europe. Occupancy rates are set at only 25%. This is a business flow level that the community is comfortable with and has proven its capacities to deliver a consistent service at this rate. As community capacities grow so to will the occupancy targets. This enables the business to grow at rates that reflect capacities within the community.

In its early planning Gunya forecasted operating losses of \$75K to \$100K per year, with a break even position to be achieved within 5 years. 3 years in the business operates at near break even and is forecasted to make a marginal profit next year. The business is still in the incubation stage of development with a focus on cementing the skills and capacities of the community prior to moving forward.

The Gunya Tourism model has proven to be an outstanding success both in terms of community engagement and its operations as a tourism operator. The model reflects the cultural considerations of Indigenous people.

Other corporate entities' operating within Indigenous communities present a mainstream business model requiring Indigenous people to confirm. The Gunya model reflects the communities preferred operational business model and interprets this to the mainstream community. A corner stone of the Gunya model is community engagement and empowerment. Respect for land, culture and people is also a critical component.

When operating losses are analysed against the community outcomes delivered the Gunya model presents great value, in that the outcomes delivered could not directly be produced for that level of funding.

The Gunya Model has delivered:

- Creation of meaningful and sustainable employment opportunities
- On the job training and education opportunities
- An equity level to the community of 50%
- Community representation and engagement at a senior management level (Board membership)
- A business that is culturally and environmentally accepted by the community
- A business that supports and incubates the development other enterprise within the community
- Exposed the community to commercial enterprise
- A vehicle for community unity
- A valuing of education by the community
- Enhanced community confidence
- Built individual and community self esteem
- Passive learning through exposure to peoples from around the world

The major outcomes delivered through the Gunya model are, education and employment. In 2003 the year before Gunya was established only 1 high school student from the community was attending school, today there are 24 students attending high school. Their motivation is the opportunity to work within the tourism operations and to do so the students have recognised that they require an education.

A range of employment opportunities have been created covering a multitude of roles and functions, catering, tour guides, house keeping etc. The community's engagement within these employment opportunities has been extremely high with a near 100% attendance rates across all areas of the operations. Staff enjoy their engagement with the tourists and gain a real sense of fulfilment from their efforts; a real work ethic is being developed.

“Australia cannot proudly profess to have a national identity unless its indigenous people and their culture are celebrated. Indigenous art and culture might be promoted to the international tourism and art markets but Australia needs to find a better way in helping its indigenous people and invest them with a self esteem in our society today. Australia as a nation must succeed in providing real opportunities for its indigenous people to find their place within the broader Australian society.

It has in the main failed to do so over the past 200 hundred years. The reliance on social security and government subsidy mentality has lead to social and or cultural disintegration for many indigenous communities and individuals. What is required is assistance not reliance, “a hand up not a hand out”.

Gunya Australia has a model that we think, works; It can be applied to industries other than tourism. It is based on generating employment, commercial sustainability with a view to profit making, not maximised profits at the cost of social benefit, but profits nevertheless to ensure sustainability”.

(Dennis Mycock, Director Gunya Australia)