



TRIBAL WEALTH: An inclusive prosperity agenda

G20 Cairns, Queensland, Australia

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There is an urgent need for change to enable Indigenous people to prosper. Continued delay and failure to activate economic opportunity will result in further economic stagnation and consequential social, environmental and cultural decline.



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THE PURPOSE OF THIS PAPER

The purpose of this paper is to stimulate discussion and ideas across two key areas:

1. A Tribal Wealth agenda that elevates the importance and understanding of our right to development.
2. Through the Tribal Wealth agenda, more effectively connect financial and human capital with Indigenous opportunity via new Investment interface mechanisms, and building and managing Tribal Wealth Funds.

INTRODUCTION: OPPORTUNITY CALLS

We currently have a window of opportunity in which Indigenous Australians can begin to truly realise our right to development and free ourselves from the shackles of dependence on government and welfare.

Like the bottom billion in the world's poorest countries who are 'stuck' in terms of development, Indigenous people within Australia have not benefited as one might expect from two decades of unprecedented national economic growth. In terms of employment we have, if anything, slipped backwards in recent years.

The approach to Indigenous affairs in this country continues to be dominated by government transfers and social policy provisioning. This narrow focus cannot lift Indigenous people out of poverty.

To overcome development challenges we must take an inclusive development approach that empowers Indigenous people through opportunity, capability and choice.

This is what we call the Tribal Wealth agenda. It is a new approach to Indigenous-led development.

Economic opportunities are just now emerging. In many ways we find ourselves standing at the threshold of a new dawn in Indigenous development.

Through land rights and native title, more than 20 per cent or 1.5 million square kilometres of the Australian land mass is now Indigenous-owned or controlled. Land is now a significant asset for us, with attendant economic opportunities to be realised.

Many Indigenous people are building the individual capabilities required to succeed in work and business. Increasingly, successful Indigenous enterprises are being established across the country. These businesses are 100 times more likely to employ Indigenous Australians than other businesses (Forrest 2014).

Building more Indigenous businesses must be at the centre of our development efforts, especially in remote areas where the employment crisis faced by Indigenous people is most acute. While there is limited data about Indigenous businesses, we do know:

- Self-employment has increased steadily from 4,600 self-employed Indigenous people in 1991 to 12,500 in 2011.
- Most Indigenous self-employed businesses are in mainstream industries, such as freight transport, construction, building and cleaning services, carpentry, creative arts and other domestic or personal services.
- Most entrepreneurs are in the south east corner where there is also stronger Indigenous education outcomes, higher population densities and demand for goods and services (Hunter 2013).

We must position ourselves to accelerate the realisation of Indigenous opportunity in remote regions, so that no one is left stuck. We must empower all Indigenous people (collectively and individually) through jobs, business, asset and wealth creation.

One of the challenges we must overcome is the lack of access to appropriate financial and human capital to support Indigenous economic development opportunities. We must find ways to far more effectively connect private sector investment and expertise, with Indigenous opportunity.

In Cape York we now understand what can potentially be achieved by tapping into venture capital models of finance, for example, to support new Indigenous start-ups. We are also grasping the enormous value of access to first class advisors, executives and managers who are helping to create Indigenous operators who can function in both George and Collins Streets, and Cape York.

We cannot rely on government to fulfil these needs; government alone will never be able to provide what is required. In this paper we put forward 'Investment Interface' mechanisms to connect opportunities for those at the bottom with investment from the top.

In creating Tribal Wealth, we must ensure that we are making the best use of what we do have, including mining and other land-rights related benefits. We propose Tribal Wealth Funds be used to ensure that income derived from land effectively creates intergenerational wealth for Indigenous people.

THE BOTTOM BILLION: CHALLENGES TO INDIGENOUS DEVELOPMENT

Concentrations of intergenerational poverty exist in Indigenous Australia despite Australia being one of the world's wealthiest nations. This is particularly the case in remote areas where, despite the opportunities, communities labour under an employment crisis and extremely limited economic development.

Paul Collier (2007) identifies that around a billion people in the developing world live in countries where development is stuck. He states that 'the countries at the bottom coexist with the 21st century, but their reality is the 14th century: civil war, plague, ignorance' (2007, p.3).

For those in the bottom billion we can ask: why has the 'rising tide' of strong global economic growth in the developing world not 'lifted all the boats'? And why has the traditional approach of providing aid to the world's poorest countries been ineffective in lifting the bottom billion?

Collier (2007) identifies that unlike other developing countries, the countries of the bottom billion often fail to progress because they suffer from one or more development traps:

1. The geographical trap - when poor landlocked countries with poor neighbours find it almost impossible to tap into opportunities flowing from world economic growth. Without a coastline to allow trade with the world, landlocked countries primarily trade with their neighbours. Poor infrastructure and high transport costs mean limited access to markets.
2. The natural resource trap - when countries rich in resources are paradoxically worse off because resources become a curse rather than a blessing. Conflict for resources is more likely. Government may not need to tax its citizens appropriately meaning citizens are less likely to demand accountability in return.
3. The conflict trap - when countries experience violence, civil wars and political coups and the associated substantial economic costs. The longer a country stays in a state of conflict, players that profit from the tumult become more entrenched and the situation becomes increasingly intractable.
4. The bad governance trap - when small countries with poor governance and policies destroy an economy at alarming speed. Smallness discourages potential investors unfamiliar with local conditions and risks, who instead opt for China or India. Poor governance means there is limited ability to disburse aid effectively.

We can ask similar questions in Australia: why, despite the 'rising tide' of Australian economic growth, are the development prospects of many Indigenous communities stuck? And why has government funding and social services not been effective in lifting Indigenous people out of poverty?

Collier's notion of development traps has some application.

1. The geographical trap - remote Indigenous communities have limited access to markets and employment opportunities, often due to lack of infrastructure such as sealed, weather proof roads.
2. The natural resource trap - royalty income flowing from mining on Indigenous land may increase conflict and do little to increase development outcomes.
3. The conflict trap - a high level of violence and conflict impedes development and deters investment. As this becomes entrenched, industries are built around this dysfunction.
4. The bad governance trap - the problems of 'Balkanisation' caused by the fragmentation of small, under-resourced organisations in the post native title world limit development (see e.g. Langton, forthcoming). Poor governance has seen a very high proportion of funds earmarked to assist Indigenous people out of disadvantage being spent on administration.

Beyond Collier's development traps, we might add other 'home grown' development traps specific to the Indigenous Australian context:

5. The 'welfare trap' - when income support has set up perverse incentives that encourage people to stay on welfare and not engage in real economic activity. This passive welfare system not only leads to intergenerational poverty and social dysfunction, but has corrosive effects on culture, language, and connection with ancestral Indigenous lands. We must continue to reform the Australian welfare system to remove the vicious cycle of passive welfare.
6. The 'communalism trap' - when land-rich Indigenous people are not able to align private interests with community interests it deters investment. There are complex negotiations and high transaction costs. The potential for development and its income increases conflict and forms of 'lateral violence' where intra group politics, 'free rider' and 'rent seeker' behaviour¹ discourages enterprising individuals (see text box 1). There has been little policy focus on ways to better align individual interests and community interests² or how to minimise the adverse impacts of 'lateral violence' on the development prospects of individuals and communities. Creative thinking is required to find structural solutions.

¹ Communal landholders may unrealistically expect to benefit from wealth creation through enterprise without paying for any cost of the benefit, or without making a work contribution towards creating it. Indigenous communalism, cultural practices of 'demand sharing' and a passive welfare mentality may reinforce these forms of 'lateral violence'. It should be noted that this use of the term 'rent-seeking' carries a different meaning to how it would ordinarily be used by economists.

² Some land reforms and innovative approaches are occurring that can assist; we must proceed carefully with land reforms to ensure they do not tear down the hard fought gains we have made through land rights.



Text box 1: Lateral violence and crabs in a bucket

The term lateral violence describes displaced violence directed against one's peers rather than one's true adversaries, and has frequently been used in analyses of Native Americans and Canadians, as well as Indigenous Australians.

We can extend the use of the phrase to describe the problems and conflicts that arise amongst Indigenous people themselves as a result of real or perceived tensions between our communal culture and individual interests.

In *The Australian* on 6 August 2011, Noel Pearson, then Director of the Cape York Institute discusses the dynamic by relating it to former Prime Minister Paul Keating's striking metaphor:

Paul Keating once told me, the problem with your mob is you're like crabs in a bucket. If one of you starts climbing out and gets his claws on the rim, about to pull himself over the top to freedom, the other mob will be pulling him back down into the bucket. You all end up cooked.

Pearson continues to describe the consequences of this dynamic in the following way:

Aboriginal individualism is at odds with Aboriginal community. As it is, the latter is constraining the former. Nay, not just constraining but crushing.

The implications this has on prospects for Indigenous development are obvious. It's easier for a white fella from outside a community to set up a shop in a Cape York community than it is for a community member to do so. This is not just because the local may not have the means or the capabilities: it would be even harder for a member of that community with the money and the means to do so than a local person without.

Source: Pearson 2011

It is useful to understand that challenges faced by Indigenous communities may have unique dimensions, but are not dissimilar to those impacting on development globally.

The provision of aid to countries in the bottom billion has not overcome the development traps identified by Collier. Nor will the provision of government funds alone overcome the compounding destructive impact of the traps hindering economic development across Indigenous Australia.

We need to conceive and enact broad development policies that overcome the adverse effects of these traps and, over time, remove them.

A NEW PARADIGM: TRIBAL WEALTH

To address the traps and achieve development a new approach is required—one that elevates the right to development and empowers Indigenous people (collectively and individually) to embrace and drive development. This is the Tribal Wealth approach.

The ‘right to development’ is more often associated with the bottom billion people in the world’s poorest countries, not Indigenous Australians. However Indigenous Australians, like all people, have a right to development.

‘The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realized.’

(Article 1.1, Declaration on the Right to Development, UN General Assembly 1986)

The words ‘participate’ and ‘contribute’ emphasise active involvement. The right to development entitles us to be key actors in our own development, including our own economic development, rather than passive recipients of commodities and services.

We want to create wealth our way—in a way that is consistent with the needs and values of Indigenous people. We do not approach ‘development’ or ‘wealth’ in purely economic terms; as Indigenous people, we value ‘development’ and ‘wealth’ across different dimensions—including economic, social, cultural and environmental.

Nonetheless it is difficult to drive development outcomes in any dimension if people are economically disempowered, passive and disengaged. We must focus on building capability and choice. We build on the work of Nobel Laureate Amartya Sen (1989) who argues that the extent to which development is successful will depend on people’s capabilities to choose a life that they have reason to value.

Currently Indigenous people have too little agency when it comes to determining development outcomes. For example, despite the size of Indigenous land-holdings and some of the largest mineral deposits worldwide, we struggle to achieve development outcomes according to our own goals and aspirations.

While this may be, in part, due to lack of capability, it is also impacted by how we are linked to the development process: passively and as opponents to the developers or development, rather than active partners and agents.

Indigenous landholders are frequently the last parties to be engaged in development processes.

Often, the mining sector seeks to profit from extracting natural resources on Indigenous land and the environmental movement seeks to prevent this. Indigenous landowners are side-players caught in the crossfire.

Government attempts to balance the importance of economic growth and the urgency of environmental protection routinely pay scant regard for the wishes of traditional owners (see figure 1).

In recent years this zero sum game has become all too familiar to the people of Cape York and across Australia.



Figure 1: Indigenous people want starring roles in our own development.

Indigenous people are generally dependent on this balancing act, and on reacting to the movements of either the environmental or the business sector. As a consequence, Indigenous people may seem to be fundamentally 'opposed' to:

- Developers - we are seen as an impediment to enterprise when we exercise the leverage afforded by our procedural rights to deny access or delay development and our right to negotiate benefits.
- Environmentalists - we are seen as being opposed to conservation outcomes when we seek to keep development options open on our land.

Economic, social, cultural and environmental values are not mutually exclusive. They are part and parcel of the broader development agenda. If we want to choose where the balance should sit, we must be in the starting blocks. At present, we are not well positioned to proactively drive the development outcomes we want.

When agreements are reached setting out the terms under which development on Indigenous land is to occur, the benefits that flow to our people are usually in the form of passive royalty-type payments. Agreements to provide Indigenous people with real skin in the game and commercial incentives, such as through shareholding, joint venture or other participatory arrangements, are very much the exception rather than the rule.

Shifting to a new Tribal Wealth paradigm will require capability building. We need to build capacity in education, health and employment and, more specifically, in Indigenous business development and social and economic entrepreneurialism.

However, capability building alone is not enough; we must transform the broader structural and policy environment to enable Indigenous people to be the key actors in our own development. There is a great deal of work to be done.

CONNECTING OPPORTUNITY AT THE BOTTOM WITH INVESTMENT FROM THE TOP: THE INVESTMENT INTERFACE

Nine in every 10 jobs are created by the private sector in both emerging and fully developed markets (World Bank 2013).

In Australia, there has been successful private investment into remote Indigenous communities, but examples are largely limited to resource extraction activities (see Langton 2012).

Predominantly, Indigenous communities are public sector service economies. For example, the private sector is virtually non-existent in Cape York's Indigenous communities (see Appendix A for a comparison of a Cape York Indigenous community with similar sized mainstream towns).

To create more diversified Indigenous economies, including in remote regions, we need a range of Indigenous enterprise development involving:

- Industries in which scalable businesses can be built. For example in the Cape there are opportunities in resources, agriculture, base commodities, timber, tourism and renewable energy. Through these, we can deliver significant job creation outcomes that, in turn, generate further business opportunities.
- Micro, small and medium (MSME) entrepreneurial and community-based/social enterprises. These normally provide the majority of jobs in developing economies and the base for economic expansion.

While there are many large and small business opportunities, Indigenous people often lack the business expertise or access to finance required to effectively capitalise on the opportunities (e.g. see Morley 2014; EY 2014).

Access to finance is limited by low inter-generational transmission of wealth, difficulties in obtaining commercial sources of capital using communal land as collateral and the paucity of 'bankable' investment grade Indigenous business operators. Again there are parallels between Indigenous Australia and the bottom billion.

Although opportunities do exist, it is difficult to attract investment in small, remote places that feature multiple development traps especially when investors are unfamiliar with the local opportunities, conditions and true risks. Perceived risk of investment is high. Typically the local and regional economies are small and the community of private investors understands little about them—absorbing information is costly in time and resources (Collier 2007, pp. 87-89). In a bid to overcome this in the developing world, there has been a substantial focus on improving investment interface mechanisms that will accelerate development (see e.g. text box 2).

Text box 2: Ernst & Young Investment Centres

Investment interface mechanisms are a key part of the Ernst & Young Private Sector Development Framework applied in countries worldwide. Under the framework, investment centres have been used to identify investment opportunities in specific regions and to present these opportunities to investors. This was done in various ways, including through one-on-one sessions with large corporates and 'Investment Expos'. This approach has helped to create over 200,000 jobs in India's Madhya Pradesh province, for example.

Source: EY 2014

While in Australia we have tended to rely on government funds and social service provisioning to create the diverse economy and the jobs we need, it is clear we need private sector involvement in capital formation, facilitation of investment and entrepreneurship, and skill development.

However, we are positioned to deal with the private sector in opposition or passively, as described above.

We must better position ourselves to work with the private sector in a manner that is consistent with our Tribal Wealth agenda. How can we be enabled to proactively engage private investment to drive development as active participants and proponents not merely as reactive or passive beneficiaries?

There are a number of transformations that may need to occur.³ One is certainly the creation of new investment interface mechanisms to actively facilitate the connection of Indigenous opportunities with private investment and know-how. We are long on opportunity, but short on an effective and sustainable means by which to interface with mainstream human and financial capital.

New investment interface mechanisms must empower Indigenous people to play an active role, and maximise skill development. To achieve this, investment interface mechanisms will need to facilitate a balance between different forms of grant, debt and equity capital. In particular, a broader range of finance, including seed, expansion and joint venture capital must be brought to bear.

³ For example, procurement and tax measures could complement investment interface mechanisms, to incentivise private investment in Indigenous businesses in remote areas. Tax incentives could be structured along the same lines as the R&D tax incentive. The R&D refundable benefit ensures skin in the game, encourages considered investment, cost control, and provides a (rebate) cash benefit which incentivises investment and reduces risk by effectively reducing the cost of investment required to fund start-up or investment opportunities. Tax incentives could also attach to Indigenous land to encourage investment, and could be conditional on reforms that support local economic development such as to enable private enterprise.

- Currently many Indigenous businesses are heavily reliant on grant capital. While this has its place (i.e. as a hand up), it provides investors with no skin in the game and does nothing to ensure that qualified financial and business expertise is highly engaged in building the Indigenous enterprise.
- Debt and equity models provide a higher level of incentive for investors to build the capacity of Indigenous operators (for return on capital and reputation reasons). Clearly, owning a share (equity) of an Indigenous business heightens an investor's interest in its growth and success.

For start-ups, the connection must be made early in the process and include intensive and ongoing involvement as the business develops and grows. A great deal of work must be done to build the 'business foundations' so that capital providers can confidently invest.

One model might involve executive and non-executive management expertise in advance of financial capital. Our experience in the Cape reveals that this is increasingly possible as more senior executives step back from business life and look for new adventures and opportunities to 'make a difference'. Once the human capital is investment grade, the financial capital will flow more readily.

A key task for this management must be to develop a new generation of Indigenous operators and entrepreneurs that can manage and grow the business in the long-term, through mentoring, education and on the job training. In Cape York we want both access to, and development of, senior operators who can function in George and Collins Streets, and in Cape York.

This model provides a hands-on approach beyond that found in the usual grants and loan frameworks used to support emerging Indigenous enterprise. Such a hands-on strategy, however, is familiar throughout the venture capital world (see text box 3).

Text box 3: Venture capital in the Apple story

The venture capital process is much messier than the process of just getting a loan, or other forms of finance to support an emerging business idea. The venture capitalist becomes intensively involved in the start-up stages of business development. One author describes the role of venture capital in the Apple story as follows:

*Often, you start with a ragtag guerilla outfit, with no obvious path forward. In the documentary *Something Ventured*, venture capitalist Don Valentine relates how no one wanted to invest in Steve Jobs and Steve Wozniak in 1977. Before he would invest in Apple, Valentine had to convince the two entrepreneurs to accept an experienced executive, Mike Markkula, as their CEO. As Markkula describes in the film, 'The two of them did not make a good impression on people. They were bearded, they didn't smell good, they dressed funny, young, naïve.'*

Source: Forbes 2012

While governments do have an important role in creating the enabling environment for Indigenous enterprise, it must be recognised that government is not the natural capacity builder, the private sector is.

There is a wide range of Australian and state government programs that offer business support services to Indigenous people through grants and low cost loans, business mentoring, development assistance, facilitating procurement from Indigenous businesses and providing connections to markets. However, the 'sheer number and complexity' of such programs and services has been criticised as being 'confusing and daunting to emerging Indigenous entrepreneurs' (HRSCATSIA 2008, p. 37).

There are two key government funded statutory bodies, the Indigenous Business Australia (IBA) and the Indigenous Land Corporation (ILC), that provide grants and loans to Indigenous organisations and in the case of the IBA, to individuals. A recent review of the ILC and IBA, however, found that these organisations 'could not support' the need for access to capital in a timeframe or of a scale required to effectively stimulate Indigenous economic development (EY 2014, p. 12). The IBA has limited debt and equity products; for example, equity investment opportunities are only available above a \$5 million threshold.

Indigenous enterprise presents a unique value proposition for private investors who choose engagement as a means of reconciliation. In light of the rapidly increasing size of ethical investment funds in Australia (both social and environmental), and the growing recognition of the importance of Corporate Social Responsibility, this unique value proposition can help to attract private investment into Indigenous opportunities.

Finally, the range of capital and business expertise required to support Indigenous economic development will vary enormously.

It is unlikely that a single investment interface will adequately cater for the range of capital and expertise needs. Further consideration should be paid to the merit of an investment interface in the form of a bank. This might be an Enterprise Bank focused on supporting MSMEs, an entirely new structure or through reform of an existing structure such as the IBA.

Questions

How can the expertise and resources of private investors be harnessed by us to drive innovative solutions for disadvantaged Indigenous communities?

How can people in disadvantaged Indigenous communities be supported to become successful entrepreneurs?

What are the best ways to connect Indigenous businesses with entrepreneurial advice and support?

What can be done to attract large investments to remote Indigenous communities?

What is the optimal architecture of investment interface mechanisms?

Do we need an Enterprise Bank model to focus on growing small-scale Indigenous enterprises in remote areas?

Could reforms of the existing IBA model fill the gap we have identified, in whole or in part?

MAKING THE MOST OF WHAT WE HAVE: BUILDING AND MANAGING TRIBAL WEALTH FUNDS

Recognition of our rights has increasingly enabled Indigenous people to win a share of the wealth extracted from ancestral lands.

For example, under the 'right to negotiate' provisions of the Native Title Act 1993 (Cth), there are many agreements between Indigenous landholders and private corporations and governments that set out the terms on which commercial development, especially mining, occurs on our land.

Financial payments or 'quasi-royalty' payments under such agreements are commonly channelled into investment funds managed through charitable and discretionary trust structures. They may also be made by individual distributions.

How these revenues, especially mining revenues, can contribute to economic and social development is highly contested in the 'resource curse' debate (see e.g. O'Faircheallaigh 2011).

It is clear that effective, accountable and transparent governance arrangements are needed to manage funding flows to ensure they support sustainable long-term development outcomes. Without this, what should be a blessing becomes a curse when the allocation and utilisation of benefits is beset by conflict and dependency.

In Australia the details of negotiated agreements and the resulting investment funds are usually confidential. This makes it difficult to be clear about the combined scale of land-related funds, or 'tell the story' of these funds in order to inform policy development.

- Based on audited accounts for the financial year 2011-12, the Minerals Council of Australia has advised that the annual native title monies coming from the mining industry was worth around \$3 billion (Taxation of Native Title and Traditional Owner Benefits and Governances Working Group 2013).
- The total amount of land-related capital that Indigenous groups are accumulating is a multiple of that figure, and has been estimated by industry sources to be around \$12 billion.

Clearly these funds have the potential to play a critical role in creating the opportunities and capabilities to support a Tribal Wealth agenda.

We must ask ourselves: is the current governance and management of these funds effectively enabling Indigenous people (collectively and individually) to build intergenerational wealth?

Significant concerns have been flagged about the current governance and management of land-related payments (Taxation of Native Title and Traditional Owner Benefits and Governances Working Group 2013). We believe that the time is right for alternatives to be created.

We propose that a transformation must occur to allow us to create Tribal Wealth Funds, through which we can far more effectively manage our own wealth prudently for the long-term to enable development.

The use of Tribal Wealth Funds would be voluntary, available on an opt-in basis, but incentivised through tax exempt status. It would be up to Indigenous people to decide if continuing with current practices is preferred, or whether ‘agreement’ payments are to be managed by Tribal Wealth Funds.

In establishing Tribal Wealth Funds we can draw upon and learn from experience across the globe, including from Sovereign Wealth Funds which also focus on managing wealth for the benefit of ‘peoples’ rather than individuals (see text box 4).

Text box 4: Learning from Sovereign Wealth Funds

Although Sovereign Wealth Funds are managed by governments, and our Tribal Wealth Funds would be operated by Indigenous people, they face similar challenges in terms of investment strategies, intergenerational equity, allocation of income to current consumption versus long-term investment, utilisation of income generated by funds and in some cases the finite nature of the natural resource revenues generating income for the fund.

The Santiago Principals provide guiding principles for Sovereign Wealth Funds, initiated by the International Working Group of Sovereign Wealth Funds. These principals can provide guidance to Tribal Wealth Funds in terms of how to promote transparent and sound governance structures and processes in managing our funds.

Source: International Working Group of Sovereign Wealth Funds 2008

Further consideration should also be given to Singapore’s Central Provident Fund established by Lee Kuan Yew in 1955. Individual compulsory savings in Singapore are directed to the Central Provident Fund which is deliberately focused on enabling individual capital formation (e.g. through funds to support home ownership), and funding health care and retirement, rather than supporting individual consumption (see text box 5).

Text box 5: Closing the structures around capital formation in Singapore

The importance of closing the structures around capital formation has been highlighted by Singapore’s ex-prime minister Lee Kuan Yew. In the book *From Third World to First: The Singapore Story: 1965-2000*, he explains how his policies were purposefully aimed at enabling his people to be development agents, primarily by supporting them to accumulate capital and giving them the opportunity to invest their capital effectively.

This was done through strict regulation around the Central Provident Fund, and by powerful reforms in the housing market. Citizens of Singapore were obligated to save substantial (and increasing) portions of their income in the Central Provident Fund, where every citizen had an individual account. The money in these accounts could be used as old-age pensions or as funding for home-ownership—which further enabled capital formation. In this way structures around capital accumulation played a key role in enabling long-term wealth creation.

Source: Lee 2000

The clear lesson from Singapore is that we must think carefully about how income should flow from Tribal Wealth Funds to Indigenous individuals and families in a way that is consistent with the goal of long-term returns. For example, we could enable individual capital formation through supporting Indigenous people to buy their own home or invest in other discrete assets. We should drive aspects of capability building (such as health, through funding private health insurance) through the operation of Tribal Wealth Funds.

Tribal Wealth Funds provide an opportunity to overcome problems with the governance and management of payments made to Indigenous people under agreements.

For example, the taxation of income streams into and out of investment funds means that many agreements establish charitable trusts to act as the vehicle for investment funds. However, this has serious implications:

- It focuses on the concept of charity which is aligned to welfare rather than an empowering conception of development.
- It seriously reduces the ability of Indigenous people to use their income in the variety of ways they may wish, e.g. to establish business enterprises, as use of the fund income must be limited to certain purposes such as the relief of poverty.
- The accumulation of benefits for future generations of Indigenous people is discouraged (Taxation of Native Title and Traditional Owner Benefits and Governances Working Group 2013).

It is possible to provide a legal structure and tax treatment for Tribal Wealth Funds that transforms these issues.

Many existing funds involve ‘dead capital’ where monies are accumulating in trust structures that do not have a clear framework or mandate for wealth creation and distribution.⁴

There are agreements that provide significant benefits over multiple decades. One fund established in 2001 to benefit communities with a combined population of 3000-4000, was valued at more than \$50 million in 2010 (O’Faircheallaigh 2010).

However, it is more often the case that native title holders receive smaller payments from a number of mining agreements that, on their own, are not able to contribute to development outcomes.

⁴ Indeed, despite the urgent need for Indigenous development outcomes, our Indigenous investment funds have generally been established to ‘freeze’ funds for extended periods in order to ensure a source of income remains after mining ends, that the funds can provide inter-generational equity, and to ensure that the funds are used prudently—particularly given the complexity of establishing these structures and the fact that few Indigenous people involved have expertise in managing and applying substantial flows of money. Many of our funds are still in a ‘capital building’ phase and have yet to generate substantial income flows (O’Faircheallaigh 2010).

Tribal Wealth Funds would permit the accumulation of substantial funds, rather than the collective value of these benefits being lost through individual distributions. A single Tribal Wealth Fund could receive funds from a number of sources and apply them to a wide range of purposes, and, in doing so, minimise duplication and administrative inefficiency.

This would also offer a longer-term approach to investment and management of funds, and ensure that funds are used to create ongoing income streams through effective investment strategies and support of business activities.

Finally, there is a clear need for an appropriate prudential framework to apply to the governance and management of native title and other traditional owner benefits held in investment funds.

Australia already has a strong prudential regulation framework designed to ensure that financial promises made by insurance and superannuation funds, for example, can be met within a stable, efficient and competitive financial system. The Australian Prudential Regulation Authority (APRA) is an independent regulator responsible for prudential supervision of the financial institutions involved.

Our Indigenous funds sit outside of this system and are remarkably unregulated when compared to other investment funds.

For the same reason that a regulatory framework applies to insurance and super funds, a regulatory framework for our funds is required. Such a framework could help to ensure proper management and investment of fund monies on behalf of and in the best interest of the beneficiaries, beneficiaries who themselves are not in a position to assess fully whether the funds are well managed. As is the case of insurance and super funds, the prudential framework could provide:

- capital adequacy-type standards to ensure funds must maintain sufficient assets
- a range of operating standards and other rules that establish a broad framework for the accumulation, investment and payment of benefits from the assets of funds— e.g. standards that create rules around investment, borrowing and lending, an accounting and reporting framework, and standards for the various parties involved in managing, investing and accounting for fund monies.

The creation of Tribal Wealth Funds could also help Indigenous people to proactively set the ground rules for development to occur, thereby reducing transaction costs and creating greater certainty about how development on Indigenous land can occur.

Such rules would apply to internal/intra group proponents (e.g. individual entrepreneurs) and external proponents of development. This would help to better align individual and community interests to support private enterprise.

For example, Tribal Wealth Funds might have an established 'guaranteed profit share' (e.g. 10 or 15%). Negotiations could still take place when the group sought a greater amount, but this could establish an 'equity floor' and introduce a clear rule that could be applied and boundaries for the negotiations.

Questions

How should Tribal Wealth Funds be governed and managed for future generations?

What role do Tribal Wealth Funds have in stimulating Indigenous economic opportunities?

In what ways can Tribal Wealth Funds be structured and managed to ensure we do not exacerbate conflict?

How can Tribal Wealth Funds be used to build capabilities and assets for Indigenous people?

Can Indigenous people in Australia potentially combine their resources, e.g. on a regional basis, for greater economic and political leverage?

6. CONCLUSION:

i20: A LEGACY OF G20 AUSTRALIA

Indigenous people stand at the threshold of opportunity. We can take greater control of development and the benefits that flow from this including jobs, businesses, and wealth creation.

We have asserted that a paradigm shift is needed to crash through some development traps. We seek to initiate a discussion about how we can realise our right to development through a Tribal Wealth agenda, and we have proposed some initial ideas that can bring about the structural transformation required.

The legacy of the indigenous 20 in Australia should, however, not be measured in such broad ideas, but in real action.

It is critical that governments fully acknowledge the Indigenous people's right to development; governments have a clear obligation to enable Indigenous people to drive our own development outcomes—this is at the heart of our Tribal Wealth agenda.

Such an approach will not only benefit Indigenous people but also benefit Australian businesses, governments and the broader society. The benefit for business is clear; Indigenous Australia holds significant potential for investments that can be unlocked, especially in land use and resource extraction. Furthermore, well-managed Tribal Wealth Funds can provide a powerful stimulus for Australian economic growth.

Governments stand to benefit from income flowing from mining royalties and taxes if economic opportunities on Indigenous land are unlocked. Additionally, enabling Indigenous employment will decrease the welfare burden and increase tax revenues as taxable incomes of Indigenous people increase.

Most importantly, we can empower and enable Indigenous people to become key actors in our own development, to create enterprise, employment, economic and cultural determination. The social and economic dividends will be profound, but they will only be achieved if we take a leading role through a Tribal Wealth agenda to realise our right to development. This is vital if we are to have the capabilities to choose a life that we have reason to value.

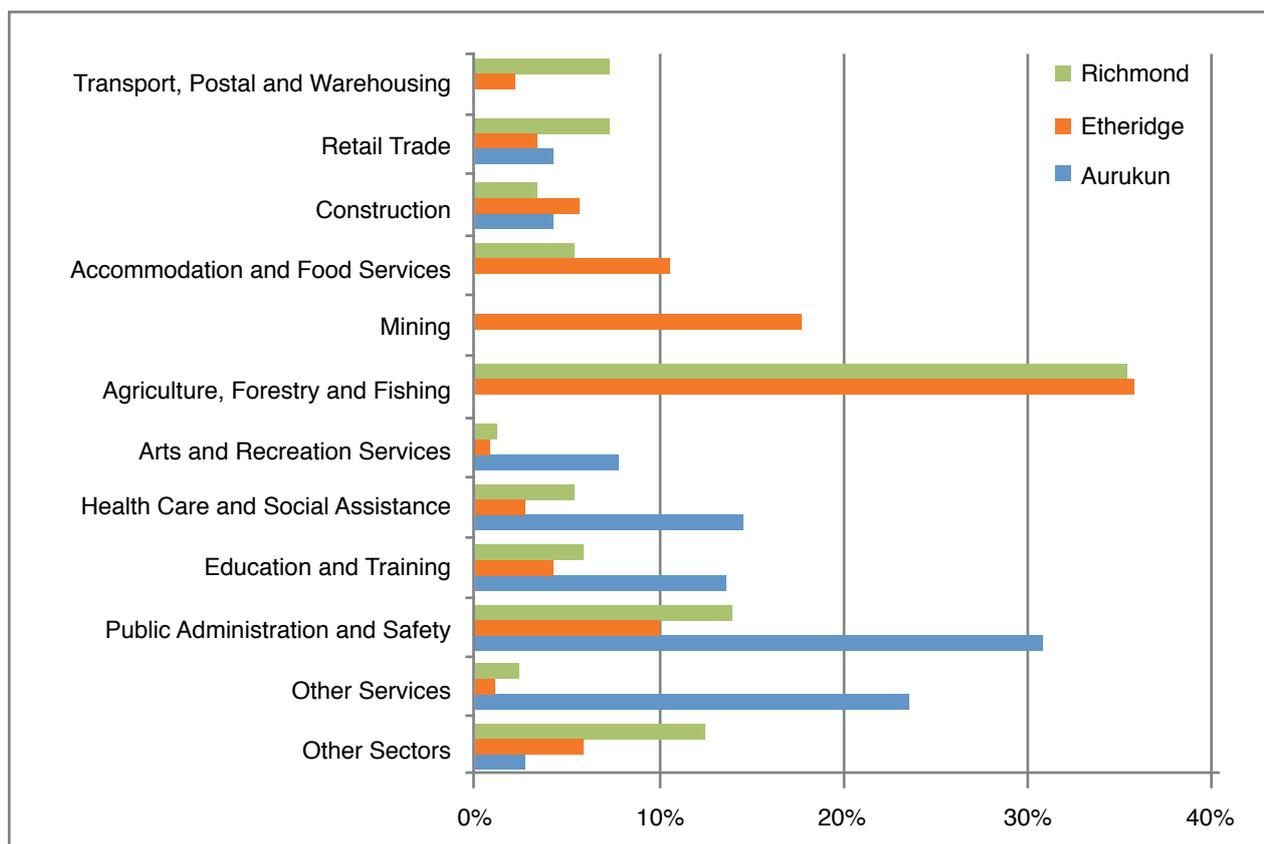


Appendix A

In Cape York's Indigenous communities, there is less diversification and private sector enterprise than would ordinarily be associated with a mainstream small town economy, including in other remote areas and elsewhere in North Queensland.

Figure A shows the economic base in Aurukun compared with two mainstream shires that have a similar amount of local jobs. As can be seen, the mainstream towns of Richmond and Etheridge have stronger 'real economy' industries such as in accommodation, transport, construction and agriculture and are less dominated by the public sector service industries.

Figure A: Local industry comparison (in % of jobs) between the 'Indigenous community' economy of Aurukun and the mainstream shires of Richmond and Etheridge



Source: ABS 2011

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i20 AUSTRALIAN INDIGENOUS BUSINESS SUMMIT CAIRNS

Thank you for supporting the i20

You are amongst an amazing cast of individuals—Indigenous, business and political leaders—who are choosing engagement in Indigenous empowerment as a means of reconciliation.

We believe that you and those around you are needed to accelerate Indigenous development, and realise economic opportunities. We hope that you will continue the conversation and help to elevate Indigenous peoples' right to development as a critical ingredient for economic, social and cultural success.

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