



RESEARCH REPORT SNAPSHOT



Risky business: the problems of Indigenous business policy

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Decades of government expenditure have achieved little in fostering Indigenous economic development, and with many government policies continuing to create perverse incentives, Indigenous people remain stuck in passive welfare economies. As a result, the public and private sectors are now promoting Indigenous-owned businesses as a more participatory means of reducing ongoing economic exclusion. However, while the Indigenous business sector is growing, the current government approach means many issues remain.

The federal government aims to promote Indigenous business ownership as an empowering and proactive way of helping alleviate economic disadvantage for Indigenous Australians. This culminated in the establishment of the Commonwealth's Indigenous Procurement Policy (IPP) in 2015, which mandated that a percentage of all new federal contracts must be awarded to majority-controlled and owned Indigenous businesses. However, the IPP has significant and serious flaws (see below), lacks rigorous evaluation of success, and has introduced perverse incentives that undermine its aims.

Flaws of the IPP

By its very nature, the IPP is a protectionist policy, which can have increased operating costs for government departments and impact fair open market tendering for contracts. It has also influenced the nature of the Indigenous business sector, with a surge in businesses starting up in industries where a large number of contracts are awarded. Nearly a

third of Supply Nation listed businesses are in construction and consultancy — areas with a high uptake amount of government spend.

The ability of the IPP to support a wide range of sectors must also be questioned. The policy has been regularly championed as 'supercharging' the Indigenous business sector. However, due to the restricted nature of government procurement, the IPP can benefit only certain Indigenous business. This is clear when data from the first two years are analysed:

- 60% of the value of major contracts (more than \$10,000) were awarded in Construction, with \$75 million going to just 4 companies (2015–16).
- 15% of the value of major contracts (over \$10,000) were awarded in Management and Business Professionals and Administrative Services (2015–16).
- 38% of total contract value was procured by the Department of Defence (2016–17).

The Commonwealth has repeatedly hailed the IPP's success, reporting that over 3% of new domestic procurement contracts were awarded to Indigenous majority owned and controlled businesses by the end of 2016–17.

However, the manner in which targets are measured allows for significant overstatement of the IPP's impact. The 3% target is based on the number of contracts awarded, rather than a monetary value of Commonwealth procurement spend. The government reported that 2.9% of contracts were awarded to Indigenous businesses in 2015–16, yet

when analysed by spend, this figure drops to less than 1%. Hence the figures appear greatly exaggerated. There are two possible reasons for this:

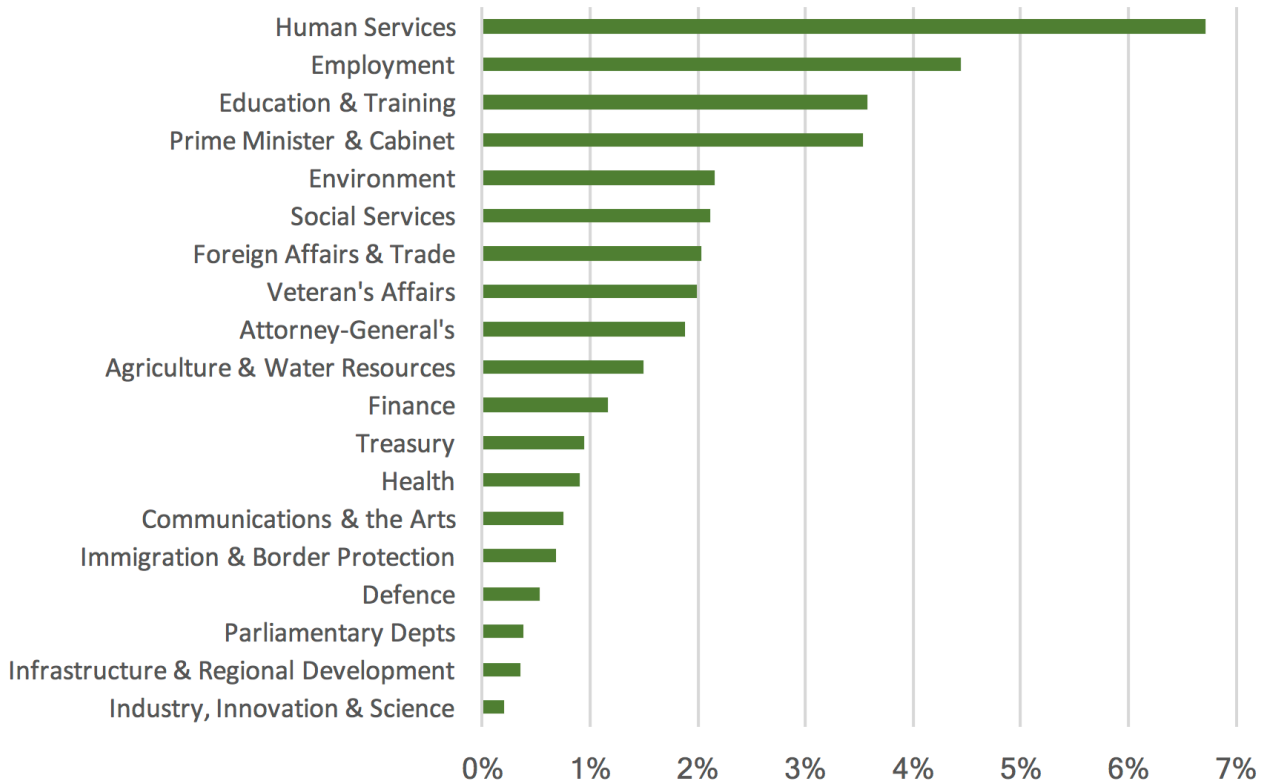
1. Reporting by contract number allows for figures to be inflated by awarding a large number of small value contracts. Nearly 66% of contracts in the first year of the IPP were under \$10,000.
2. The dollar value conversion provision, which allows the monetary value of a contract to be divided by the average Commonwealth contract size of \$91,931 and the multiples counted as separate contracts. This means that one of the largest IPP contracts, Badge Constructions' \$12 million deal with the Department of Defence, could appear in reporting as 130.5 contracts — giving the perception that the impact of the IPP is greater than in reality.

The discrepancies between contract number and spend value measurements are reaffirmed when analysed on a

departmental level. Every portfolio's figures were boosted to some degree when reporting by this measure. Figure 1 shows the increase in the percentage of IPP contracts awarded when measured by contract number rather than value. In the most extreme case, the Department of Human Services' reported that 7.21% of contracts were awarded under the IPP in 2015-16, however, this was worth only 0.5% of spend. Consequentially, reporting by contract number gave their figures a 6.71% boost.

The 2016-17 figures suggest there is increasing use of small contracts to boost figures. While the number of contracts awarded has more than doubled from 1509 in 2015-16 to 3748 in 2016-17, the overall average value of each contract dropped 60% from \$188,326 to \$76,173. The average contract size of most portfolios decreased (See Table 1), and large declines were common across the board. Indeed, the average contract value of 11 out of 19 departments dropped by more than 50%.

Figure 1 – IPP Reporting by Portfolio – % Difference between Contract Numbers and Actual Spend



Source: Austender 2015-16 Procurement Data, Dept. of Prime Minister & Cabinet IPP Data

Source: Austender 2015-16 & 2016-17 Procurement Data, Dept. of Prime Minister & Cabinet IPP Data

Table 1: Average Contract Value Changes 2015–16 to 2016–17

Department	Percentage Increase/Decrease	Av \$ Val Increase/Decrease
Immigration & Border Protection	-87.31%	-\$150,538.79
Education & Training	-84.42%	-\$102,951.22
Parliamentary Departments	-81.71%	-\$54,471.54
Health	-77.95%	-\$115,477.69
Foreign Affairs and Trade	-73.79%	-\$135,934.66
Infrastructure & Regional Development	-73.53%	-\$122,549.02
Treasury	-67.58%	-\$203,898.05
Defence	-64.67%	-\$322,232.65
Agriculture & Water Resources	-64.18%	-\$70,010.45
Veteran's Affairs	-58.70%	-\$30,892.45
Industry, Innovation & Science	-56.20%	-\$255,438.31
Environment	-36.91%	-\$18,456.38
Human Services	-29.91%	-\$11,775.74
Prime Minister & Cabinet	-24.10%	-\$28,235.89
Finance	-11.36%	-\$21,034.24
Attorney-General's	-7.14%	-\$3,139.72
Social Services	-2.50%	-\$2,777.78
Employment	+154.89%	\$23,118.11
Communications & the Arts	+370.10%	\$52,871.15
Overall Total:	-59.55%	-\$112,153.00

Areas of progress

Despite its flaws, the IPP has created a new conversation in Indigenous affairs. Combined with the leadership of major corporate actors, such as the mining sector, changing attitudes are driving a new approach to Indigenous economic development. Some notable examples of this include:

- In 2017, 295 private and public organisations were members of Supply Nation (including 13 of the ASX top 20). This is opposed to 37 members in 2010.
- 72% of BCA members used Indigenous suppliers in 2016, an increase from 30% in 2012.

Many non-Indigenous suppliers are looking to demonstrate their engagement with Indigenous businesses in the tendering process, using it as a way to stand out from competitors and win contracts. This offers a competitive advantage for Indigenous suppliers, who can use this goodwill as leverage in the market.

Increased business numbers but little impact on self-employment

The greater focus on business has helped lead to significant developments in the sector:

- An increase from 8,900 Indigenous businesses (2011) to 12,000 (2016).
- An increase from 276 Supply Nation listed businesses (2014) to 1306 (2017).
- An increase in Commonwealth procurement with Indigenous businesses from \$6 million (2012–13) to \$285.5 million (2016–17).

However, despite the government's push to promote Indigenous business, latest ABS Census data indicate that the number of self-employed Indigenous people increased by less than 1% over 2011–2016.

Recommendations

Promoting Indigenous business is essential to overcoming the socio-economic disadvantages faced by Indigenous Australians. However, the government must be wary of the unintended impacts of protectionist policies and ensure the IPP is structured in a way that is transparent. Our recommendations are:

1. Halt the acceleration of the IPP's 3% procurement target, to eliminate perverse incentives that may see the policy taken advantage of by businesses that are not genuinely Indigenous.
2. Consider using incentives in tenders to encourage positive behaviour (i.e. greater weighting given to businesses that employ or sub-contract to Indigenous people).
3. Increase the availability of IPP data by publishing a full list of contracts awarded under the policy. This will allow for greater clarity around the use of the IPP.
4. Abandon the use of the dollar value conversion to help departments to achieve targets, as it can allow for figures to be significantly exaggerated.
5. Implement tiers in the policy that render companies ineligible for preferential consideration once they have reached a certain capacity.

Author

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