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Realising the potential of the Indigenous Procurement Policy (IPP)



**PwC's Indigenous
Consulting**

Realising the potential of the IPP

On 1 July 2015, the Australian Government introduced the Indigenous Procurement Policy (IPP). The primary purpose of the IPP is to leverage the Australian Government’s annual multi-billion procurement spend to drive demand for Indigenous goods and services and stimulate the Indigenous business sector. The IPP has been declared as a “game changer” for Indigenous economic development.¹ Almost five years since its introduction, can this claim be justified?

The Indigenous business sector

The development of a robust and sustainable ‘Indigenous economy’ is essential for facilitating sustainable and independent communities. In line with the principle of self-determination, more Indigenous people than ever are seeking to achieve economic independence by contributing to the economy through the establishment of Indigenous businesses.

Although there is not a universal definition², the IPP defines an Indigenous business as one that is at least 50 per cent owned by an Indigenous person or people.³ Economic modelling undertaken by PwC’s Indigenous Consulting (PIC) and PwC revealed that, based on this definition, there are up to 11,900 Indigenous businesses across Australia which together contributed between \$2.2 and \$6.6 billion to Australia’s economy in 2016 (see Figure 1). These businesses include self-employed individuals, enterprises and trusts.⁴

Figure 1: The economic contribution of Indigenous businesses (real 2016 terms)⁵



¹ Department of the Prime Minister and Cabinet (2019), *Closing the Gap: Prime Minister’s Report 2018*, p. 89. At: <https://www.pmc.gov.au/sites/default/files/publications/ctg-report-2018.pdf>.

² There is significant debate in the literature as to the definition that should be adopted. The ‘trend’ in recent years has been to define Indigenous businesses as those with at least 50 per cent Indigenous ownership. However, many argue that an Indigenous business should be majority owned (i.e. 51 per cent or more) by Indigenous people, if not 100 per cent Indigenous owned. The majority definition is not adopted by all bodies. Opinion differs on what constitutes an Indigenous business, with some expanding the definition to include businesses with less than 50 per cent Indigenous ownership. For example, the Pilbara Aboriginal Contractors Association recognises Indigenous businesses in the Pilbara region as those with 25 per cent ownership and a mandate to pursue employment for local communities. The percentage of ownership is also only one dimension. There are issues to consider in terms of the level of Indigenous control, management and staffing.

³ Department of the Prime Minister and Cabinet (2018), Definition of an Indigenous business, 26 November 2018. Available: <https://www.pmc.gov.au/resource-centre/indigenous-affairs/definition-indigenous-business>

⁴ PwC’s Indigenous Consulting & PwC Australia, (2018). *The contribution of the Indigenous business sector to Australia’s economy* (April 2018). Available: <https://www.pwc.com.au/indigenous-consulting/assets/the-contribution-of-the-indigenous-business-sector-apr18.pdf>

⁵ PwC analysis using ABS 2016 Census, ABS (April 2017) Detailed Labour Force, cat no 6291.0.55.001 and cat no 6291.0.55.003.

Indigenous businesses have a competitive advantage over non-Indigenous businesses in a number of current and emerging industries. For Indigenous businesses, the intrinsic knowledge contained within their unique cultures can be leveraged to contribute to commercial success. Key business activities in which Indigenous businesses possess a competitive advantage include the emerging domestic and export markets for bush foods and bush medicines agriculture, land and water management⁶, tourism and cultural products (i.e. arts and recreation).

For Indigenous people across the country, the motivations for going into business are different from non-Indigenous entrepreneurs due to linkages to a self-determination agenda. As illustrated in Table 1, Indigenous entrepreneurs place a greater focus on the community and family benefits associated with starting a business, and tend to have more altruistic motivations.

Table 1: Comparison of the non-Indigenous and Indigenous specific motivations (by rank) for starting a business⁷

Reason	Non-Indigenous entrepreneurs	Indigenous entrepreneurs
To improve my income	1	4
To become my own boss	2	
To improve my lifestyle	3	3
To become wealthy	4	
To create employment for myself or my family members	5	2
To contribute to my community by increasing employment opportunities		2
To contribute to my community by providing a needed service		1

In addition to being more likely than non-Indigenous businesses to employ Indigenous workers⁸, the success of Indigenous businesses can have a ‘multiplier effect’ that in itself fosters further economic development and wealth creation. Specifically, it can lead to a greater culture of employment and social contribution within Indigenous communities, and support further innovation and opportunity by inspiring the next generation of Indigenous business owners.

An analysis conducted by Supply Nation on the social value created by a sample of Indigenous businesses found that many Indigenous business owners “use their business as vehicle to drive change for their family and wider community” and “build resilience and pride in their communities”.⁹ The social return on investment (SROI) assessment in that report identified that for every dollar of revenue Indigenous businesses create \$4.41 of economic and social value.¹⁰

⁶ Indigenous people have ownership or control over between 20 and 40 per cent of the Australian land mass, most of which is regional or remote.

⁷ M F Rola-Rubzen, (2011), ‘The Anatomy of the Australian Entrepreneur: Understanding micro, small and medium business entrepreneurs in Australia’, Ninti One Limited, 2011, p 36. At: http://www.nintione.com.au/resource/NintiOneReport_AnatomyoftheAustralianEntrepreneur.pdf (accessed 22 May 2017).

⁸ R Burton and E Tomkinson (2017) found that Indigenous businesses employ more than 30 times the proportion of Indigenous people than other businesses.

⁹ R Burton and E Tomkinson, *The Sleeping Giant – A Social Return on Investment Report on Supply Nation Certified Suppliers*, Supply Nation p 5 and p 8. At: http://www.supplynation.org.au/media/1195/the_sleeping_giant_web.pdf (accessed 31 July 2017).

¹⁰ Ibid.

Overview of the IPP and its success to date

Over the past decade we have witnessed a commitment from the Australian Government to support Indigenous economic development through the growth of the Indigenous business sector. Perhaps the flagship of the Australian Government's policy approach has been the IPP. The IPP has three main parts:

1. A target number of contracts (for each portfolio) that need to be awarded to Indigenous businesses

The Australian Government awards a specified proportion of its domestic contracts (3 per cent) to Indigenous enterprises each financial year.

2. A mandatory set-aside for remote contracts and contracts valued between \$80,000 - \$200,000

The mandatory set-aside gives Indigenous small and medium-sized enterprises (SME) greater access to the most relevant Commonwealth contracting opportunities. It provides Indigenous businesses with an opportunity to demonstrate value for money first, before the procuring officer makes a general approach to the market.

3. Minimum Indigenous participation requirements in contracts valued at or above \$7.5m in certain industries

For contracts valued at or above \$7.5m in certain industry categories, Australian Government departments are required to include minimum requirements for employing Indigenous Australians and using Indigenous businesses in the contractor's supply chain. Minimum Indigenous participation requirements apply for contracts awarded in the following industries:

- a) Building, construction and maintenance services.
- b) Transportation, storage and mail services.
- c) Education and training services.
- d) Industrial cleaning services.
- e) Farming and fishing and forestry and wildlife contracting services.
- f) Editorial and design and graphic and fine art services.
- g) Travel and food and lodging and entertainment services.
- h) Politics and civic affairs services.

The development of the IPP is in accordance with initiatives to stimulate minority-owned businesses in Canada, South Africa and the United States.

In an address to the *Australia and New Zealand School of Government's (ANZSOG) Reimagining Public Administration* conference in February 2019, Professor Marcia Langton AM asserted that "the Indigenous Procurement Policy has shown the way in the last five years".¹¹ Since its introduction, the IPP has resulted in a significant increase in the number and value of Australian Government contracts awarded to Indigenous businesses (see Table 2).

¹¹ Langton, M. (2019). *Self-governing not governed: empowering Indigenous people and communities*, 20 February 2019, Australian & New Zealand School of Government Conference 2019: Reimagining Public Administration: First Peoples, governance and new paradigms, Melbourne. At: <https://www.anzsog.edu.au/resource-library/news-media/marcia-langton-greater-power-indigenous-anzsog-conference>

Table 2: The outcomes associated with the IPP since its introduction*

IPP outcomes	2015-16	2016-17	2017-18
Number of contracts awarded	1,509	3,748	5,235
Total value of contracts (\$m)	\$284.2	\$285.4	\$802.2
Number of Indigenous businesses	493	726	735

*Compiled from data published by the Department of the Prime Minister and Cabinet

In 2017-18, all Australian Government departments exceeded their 3.0 per cent IPP target. Specifically, \$802.2 million worth of contracts were awarded to 735 Indigenous businesses in 2017-18 across all states and territories and industry sectors. The outcomes associated with the IPP in 2017-18 compare favourably to 2012-13, when only \$6.2 million worth of contracts was issued by the Australian Government to the Indigenous business sector.

Since its introduction, the IPP has driven demand for Indigenous businesses. According to the Department of the Prime Minister and Cabinet's (PM&C) latest estimates (i.e. February 2019), since 2015 the IPP has resulted in 1,473 Indigenous businesses delivering 11,933 contracts worth over \$1.83 billion. PM&C also reports that the number of contracts delivered in remote areas has increased following the introduction of the IPP.¹²

Despite the successes of the IPP to date, it has been subjected to two significant criticisms. Firstly, in order to secure large and long-term contracts from the Australian Government, a common approach adopted by Indigenous businesses is to enter into joint ventures with other organisations. In short, joint ventures have the advantage of:

- enabling Indigenous businesses to bid competitively for contracts that they may not have secured on their own
- building longer term and commercially viable partnerships between Indigenous businesses and other organisations.¹³

However, some joint ventures have been scrutinised for the practice of 'black cladding'.¹⁴ That is, large corporations enter into disingenuous partnership with Indigenous businesses and over-represent the involvement and control Indigenous businesses have in order to appear more attractive in tender selection processes.

Secondly, a common critique of the IPP is that the measurement of IPP targets by contract number rather than contract value inflates the success of the policy. For instance, while a particular Australian Government department may achieve its annual contract target, low level of annual expenditure could mean there is minimal impact or effect for Indigenous businesses. An analysis conducted by the Centre for Independent Studies (2017) concluded that "every portfolio's figures were boosted to some degree when reporting by contract number rather than value."¹⁵

In order to enhance the IPP, PM&C has recently addressed these criticisms. Starting on 1 January 2019, it strengthened the regulatory mechanisms for joint ventures seeking to access contracts awarded under the IPP. PM&C now requires Indigenous joint ventures to:

¹² Department of the Prime Minister and Cabinet, (2019), *Indigenous Procurement Policy*. At: <https://www.pmc.gov.au/indigenous-affairs/economic-development/indigenous-procurement-policy-ipp>

¹³ Supply Nation (2015), *Supplier Diversity How- Issue 8, "Joint Venture Partnerships,"* http://www.supplynation.org.au/media/1122/supplier_diversity_how_issue_eight_2.pdf (accessed: 22 May 2017).

¹⁴ Hutchinson, S. & Aikman, A. (2017), Warren Mundine seeks inquiry into 'black-cladding' to win contracts', *The Australian*, 25 February 2017. At: <https://www.theaustralian.com.au/national-affairs/indigenous/warren-mundine-seeks-inquiry-into-blackcladding-to-win-contracts/news-story/odfd6636d2b11665ad35469365ee82b8>.

¹⁵ Jacobs, C. (2017). Risk business: the problems of Indigenous business policy, *Research Report 35*, p.15. At: <https://www.cis.org.au/app/uploads/2017/12/rr35.pdf?>

- be registered with Supply Nation
- be at least 50 per cent Indigenous owned
- demonstrate equal Indigenous representation and involvement in the management of the joint venture.

As part of this registration process, all joint ventures must have a strategy to build the skills and capability of the Indigenous business partner and have an Indigenous workforce strategy.¹⁶

Additionally, in February 2019, PM&C announced¹⁷ a target based on the value of contracts awarded will be introduced from 1 July 2019 to ensure Indigenous businesses win higher value contracts at a level closer to those of non-Indigenous businesses. The target, which will be set at 1.0 per cent in 2019-20, will increase by 0.25 per cent each year until it reaches 3.0 per cent in 2027.¹⁸

Emulating the IPP: The procurement policies adopted by states and territories

In response to the successes of the IPP, state and territory governments have increasingly recognised they have an enabling and facilitating role to play in the context of creating the conditions for Indigenous businesses to thrive and to be sustainable. In fact, all states and territories – with the exception of Tasmania - have sought to support Indigenous economic development by either committing to or adopting their own procurement policies and are carrying out considerable and wide-ranging work to support Indigenous employment, education and training. A snapshot of the Indigenous-specific procurement policies adopted by each state and territory is provided in Table 3. As these policies are relatively new, their impact on Indigenous economic development is yet to be determined.

¹⁶ Department of the Prime Minister and Cabinet, (2018), *Changes to Indigenous joint venture registration*, 8 October 2018. At: <https://www.pmc.gov.au/resource-centre/indigenous-affairs/changes-indigenous-joint-venture-registration>.

¹⁷ PM&C also indicated that, from 1 July 2020, Indigenous participation targets will be mandatory in high value contracts across more specified industries. Further details on this change will be released in the “coming months”.

¹⁸ Department of the Prime Minister and Cabinet, (2019). *Changes to the Indigenous Procurement Policy*, 13 February 2019. At: <https://www.pmc.gov.au/resource-centre/indigenous-affairs/changes-indigenous-procurement-policy>

Table 3: Summary of the procurement policies adopted by Australian states and territories (as of February 2019)

Jurisdiction	Policy	Summary
ACT	<i>Aboriginal and Torres Strait Islander Procurement Policy (2019)</i>	<ul style="list-style-type: none"> In May, 2019, the ACT Government launched the Aboriginal and Torres Strait Islander Procurement Policy (ATSIPP) to support the objectives of the ACT Aboriginal and Torres Strait Islander Agreement 2019-2028. The Agreement includes the focus area of employment and economic participation for Aboriginal and Torres Strait Islander peoples in the Canberra Region, with the identification of two target areas: <ul style="list-style-type: none"> opportunities that Aboriginal and Torres Strait Islander small to medium enterprises (SMEs) have the capacity and capability to deliver individually; and opportunities for Aboriginal and Torres Strait Islander enterprises as sub-contractors on large projects. <p>Targets by financial year include:</p> <ul style="list-style-type: none"> 2019-20 1.0% of the financial year's addressable spend. 2020-21 1.5% of the financial year's addressable spend. 2021-22 2.0% of the financial year's addressable spend.
NSW	<i>Aboriginal Procurement Policy (2018)</i>	<ul style="list-style-type: none"> A whole-of-government procurement policy that establishes the following targets to be achieved by 2021: <ul style="list-style-type: none"> In conjunction with the NSW Government's existing Aboriginal Participation in Construction (APIC) policy, support an estimated 3,000 full time equivalent employment opportunities for Aboriginal people through NSW Government procurement activities Award at least a 3 per cent target of the total number of domestic contracts for goods and services issued by NSW Government agencies, The APP sets requirements against major procurement activities valued over \$10 million (excl. GST) and provides ability for agencies to directly engage Aboriginal owned businesses for values up to \$250,000 (excl. GST).
NT	<i>Aboriginal contracting Framework (in consultation expected final April 2019)</i>	<ul style="list-style-type: none"> The Northern Territory Government is developing an Aboriginal Contracting Framework that will support Aboriginal employment and business opportunities through government contracting, including procurement and grants. The policy is in development and is anticipated to be finalised in 2019.
SA	<i>Industry Participation Policy (2017)</i>	<ul style="list-style-type: none"> In 2014, the Aboriginal Business Procurement Policy was developed to cut red tape and provide a boost for South Australian Aboriginal owned businesses.

Jurisdiction	Policy	Summary
		<ul style="list-style-type: none"> In August 2017, the Aboriginal Business Procurement Policy was merged with the Industry Participation Policy, consolidating opportunities for Aboriginal business procurement across all procurement levels under a single comprehensive framework. Under the Industry Participation Policy: <ul style="list-style-type: none"> Agencies can procure directly from businesses listed on South Australia’s online Aboriginal business register, Aboriginal Business Connect, up to the value of \$220,000 For tenders greater than \$220,000, the Industry Participation weighting of tenders can be lifted so Aboriginal businesses, and businesses with high Aboriginal employment or subcontracting, are more likely to win tender contracts.
Tas	Nil.	
Qld	<i>Queensland Indigenous Procurement Policy (2017)</i>	<ul style="list-style-type: none"> A whole-of-government framework to increase procurement with Indigenous businesses to be 3 per cent of the value of government procurement contracts by 2022. Provides set asides for certain Queensland Government contracts to be awarded to Indigenous businesses where one of the following apply: <ul style="list-style-type: none"> The goods or services being purchased will be delivered to Aboriginal people or Torres Strait Islander people in discrete locations, or in other locations that have a high Aboriginal population and/or Torres Strait Islander population; or The goods or services being purchased target the specific needs of Aboriginal and Torres Strait Islander Queenslanders (or a cohort of Aboriginal people or Torres Strait Islander people).
Vic	<i>Tharamba Bugheen Victorian Aboriginal Business Strategy (2017)</i>	<ul style="list-style-type: none"> Target of 1 per cent of Victorian Government procurement for Victorian Indigenous businesses, to apply from 2019-2020, with a view to building towards a more ambitious target in the future. The target will be based on the number of Indigenous businesses that the Victorian Government contracts with.
WA	<i>Aboriginal Procurement Policy (2018)</i>	<ul style="list-style-type: none"> Sets targets for the number of WA Government contracts awarded to registered Indigenous businesses and seeks to develop entrepreneurship and business opportunities for the Indigenous community. Agencies are required to award 3 per cent of the number of government contracts to registered Aboriginal businesses by end of June 2021. The targets apply to all contracts for goods, services, community services and works. The incremental targets are: <ul style="list-style-type: none"> 2018-19: 1 per cent of the number of awarded contracts 2019-20: 2 per cent of the number of awarded contracts 2020-21: 3 per cent of the number of awarded contracts.



The impact of the IPP to date has undoubtedly been positive, and the commitment by states and territories to follow suit bodes well for growth of the Indigenous business sector. Although the adoption of strengthened regulatory measures to mitigate black cladding and the move towards a procurement target based on the value of contracts are welcome, further policy development is required if the Indigenous business sector is to realise the potential of procurement policies.

“Indigenous business development is an important pillar but it requires bit more policy development”

Professor Marcia Langton AM, ANZSOG Conference 2019¹⁹

Enhancing the impact of the IPP on Indigenous economic development requires:

- **systems change** – purchasers need to take responsibility for adhering to these procurement policies and integrating Indigenous businesses into the procurement cycle. This will require the modernisation of procurement systems - that is, the simplification of procurement practices by reducing the administrative burden on purchasers – and improving the visibility of the Indigenous business sector across Australia.
- **business supports** – there is a need for the provision of structured supports tailored for Indigenous businesses to build capacity so more can deliver larger value and longer-term contracts. The commitment in the Australian Government’s Indigenous Business Sector Strategy to establish National Indigenous Business Hubs and Project Hubs (for infrastructure investments) is a great start. However, state and territory governments also have role to play in leveraging local Indigenous community networks (e.g. community controlled organisations, Indigenous chambers of commerce, etc.) to improve the accessibility of supports for Indigenous businesses at all stages of the business lifecycle.
- **leadership from the private sector** – given budget constraints, governments have a limited procurement footprint. However, they can do much more to drive market behaviour and incentivise the private sector to purchase goods and services from Indigenous businesses. Although some governments have adopted formal measures (e.g. the NSW Government’s Aboriginal Participation in Construction Policy), there is scope to scale impacts if more consistent policy approaches were adopted across the country. The private sector should be supported and encouraged to take a leadership role in stimulating the Indigenous business sector, not just in terms of the size of spend but as a socially responsible leader influencing jobs and enabling communities to flourish.

¹⁹ Langton, M. (2019). *Self-governing not governed: empowering Indigenous people and communities*, 20 February 2019, Australian & New Zealand School of Government Conference 2019: Reimagining Public Administration: First Peoples, governance and new paradigms, Melbourne. At: <https://www.anzsog.edu.au/resource-library/news-media/marcia-langton-greater-power-indigenous-anzsog-conference>

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