Banking on Indigenous communities: Issues, options, and Australian and international best practice

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Foreword

This working paper was originally prepared as a contribution to the Reconciliation Australia Banking Workshop in Sydney in May 2002. CAEPR worked closely with Reconciliation Australia on the planning for this workshop, which focused on the delivery of banking and financial services to Indigenous communities The proceedings of the workshop will be published later this year on CD Rom by Reconciliation Australia. In the meantime, the circulation of this workshop contribution as a CAEPR Working Paper aims to make it readily available to a potentially wider and different audience.

The remaining three papers contributed to the Banking Workshop by CAEPR staff and Centre Associate are also to be published in the Working Paper series on this website. They are:

- 'Generating finance for Indigenous development: Economic realities and innovative options', by Jon Altman (CAEPR Working Paper No. 15).
- 'The spatial context of Indigenous service delivery', by John Taylor (CAEPR Working Paper No. 16).
- 'The potential use of tax incentives for Indigenous businesses on Indigenous land', by Owen Stanley (CAEPR Working Paper No. 17).

In September 2002, CAEPR prepared a submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into the Level of Banking and Financial Services in Rural, Regional and Remote Areas of Australia. This submission will be available at the Parliamentary Joint Committee's website <http://www.aph.gov.au/Senate/committee/corporations_ctte/index.htm>. The Inquiry's terms of reference focus on options for making additional banking services available to rural and regional communities; options for expansion of banking facilities through non-traditional channels; the level of service currently available to rural and regional residents; and international experiences and policies designed to enhance and improve the quality of rural banking services.

The publication of CAEPR's inputs to the Banking and Financial Services Workshop address important issues of public policy. Access to consumer and business banking services remains a fundamental precursor to enhanced economic futures for Indigenous communities in today's world. These papers outline some of the fundamental, but diverse, actions that are needed to address the current banking and financial service delivery shortfalls currently experienced by many Indigenous communities and people.

Professor Jon Altman
Director, CAEPR
October 2002

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Abbreviations and acronyms

ABA	Australian Bankers' Association
ACCC	Australian Competition &Consumer Comission
AGPS	Australian Government Publishing Service
ANU	The Australian National University
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ATM	automated teller machine
ATSIC	Aboriginal and Torres Strait Islander Commission
CAEPR	Centre for Aboriginal Economic Policy Research
CBA	Canadian Bankers Association
CDFI	Community Development Financial Institutions (Fund)
DFACS	Department of Family and Community Services
DSS	Department of Social Security
DTRS	Department of Transport and Regional Services
EFT	electronic funds transfer
EC	Enterprise Communities
EZ	Empowerment Zones
EZ/EC	Empowerment Zone and Enterprise Community (Program)
FNDI	First Nations Development Institute
FSI	Financial System Inquiry
GST	Goods and Services Tax
HRSCEFPA	House of Representatives Standing Committee on Economics, Finance and Public Administration
HUD	US Department of Housing and Urban Development
IBA	Indigenous Business Australia
IEP	Indigenous Enterprise Partnership
IHBG	Indian Housing Block Grant (Program)
NFF	National Farmers' Federation
PIN	personal identification number
PSA	Prices Surveillance Authority
RBA	Research Bank of Australia
RTC	Rural Transaction Centres
TAFE	Technical and Further Education (College)
TCU	Traditional Credit Union
US	Unites States

Executive summary

The ability of people to manage and budget their incomes, arrange to pay third parties, purchase food, goods and services, and maintain a level of financial and economic independence and planning, all rely on maintaining informed access to appropriate banking and financial services.

The rhetoric of economic independence is commonly employed as a laudable objective for Indigenous peoples. However, there is little evidence of systematic attention being applied to ensuring Indigenous Australians can even enjoy equitable levels of access to those essential banking and financial services that are taken for granted by other Australians (Reconciliation Australia Strategic Plan 2001–2003).

Aims of the workshop

This background paper has been developed to inform and stimulate discussion on some of the issues that will be discussed at the workshop on 'Improving banking and financial services for Indigenous Australians'. It is not prescriptive, nor does it attempt to cover all the issues involved.

A key aim of the workshop is not merely to describe current challenges but to identify and debate possible options for the future. The options contained in this paper identify potential ways of improving Indigenous people's access to banking and financial services by building on positive initiatives and experiences. To this end, workshop conveners are conscious of the need to identify realistic and practical ways forward, as well as recognise that there are no instant or magic solutions to what are often complex problems. Reconciliation Australia believes the workshop provides an important first step in bringing key players together to share and learn from each others' experiences, and in turn generate a better understanding of how to overcome existing barriers to Indigenous economic development. Thus the options identified in this paper focus on developing mutually beneficial cooperation between Indigenous communities, the financial services sector and governments.

Part 1 of this paper discusses the importance of access to banking and financial services as a means of facilitating economic development, reducing welfare dependence and promoting asset accumulation. It explores some of the historical factors that have inhibited informed Indigenous access to, and use of, banking and financial services and the resultant reliance on informal financial service providers. It also identifies the need for more systematic research of both Indigenous access to, and use of, banking and financial services, and potential commercial opportunities resulting from the impact of Indigenous community and corporate cash flows on regional economies. Finally, part 1 of the paper also examines the relationship between informed access to banking and financial services and the wider policy issue of reducing welfare dependence.

Part 2 of this paper identifies current and future trends in the provision of financial services in regional and remote Australia and the implications of these trends for Indigenous communities. In particular, these trends are reviewed against the backdrop of the current and projected demographic outlook for the Indigenous population, especially in remote Australia.

Part 3 of this paper examines current Australian initiatives in relation to Indigenous banking and financial services. Specifically, it summarises the activities of Westpac, the Traditional Credit Union, First Nations Australian Credit Union, and the Tangentyere Council —all of whom will present detailed case studies at the workshop.

Part 4 of this paper details key Australian and United States (US) government initiatives designed to provide banking and financial services to populations in rural and remote areas.

Part 5 of this paper examines some of the wider issues relating to Indigenous access to capital, drawing on US and Canadian experience. These issues include the provision of home loans, taxation issues and the potential for effective leveraging of existing assets, such as land, government, grant funding and royalty-type payments, to facilitate improved economic development.

Part 6 of this paper summarises the potential options for the way forward identified throughout the paper.

Part 1: The importance of access to banking services as a pathway to Indigenous economic development

Part 1 of this paper discusses the importance of access to banking and financial services as a means of encouraging sustainable economic development, reducing welfare dependence and promoting asset accumulation. It explores some of the historical factors that have determined Indigenous access to, and use of, banking and financial services. Also identified, are some potential Australian and international initiatives designed to promote savings by people on low incomes.

Why is access to banking and financial services so important?

The future of Indigenous Australians is being influenced by the same array of forces that are impacting on the wider Australian community. Increasing globalisation, economic and labour market complexity, rapid changes in technology and the inevitability of continuing economic change are impacting on people's day-to-day lives. When conducting their inquiry into fees and charges imposed on retail accounts by banks and other financial institutions, the Prices Surveillance Authority (PSA) argued that:

> Access to a financial transactions account is necessary to conduct the personal business of everyday life in a modern economy. All citizens require this access regardless of income, employment status or personal circumstance (PSA 1995: xxxvi).

Probably the most detailed public inquiry to date on the issue of financial deregulation in Australia and its impact on the delivery of banking services was that conducted by the House of Representatives Standing Committee on Economics, Finance and Public Administration (HRSCEFPA). The committee's report titled *Regional Banking Services*: *Money Too Far Away* (1999) endorsed the National Farmers' Federation (NFF) submission that:

> Access to financial services is an essential requirement for participation in modern society. All consumers need mechanisms for storing and saving money and for receiving and making payments to third parties. In this sense, basic banking services have much in common with central utilities such as electricity, gas and water (NFF 1997: 533).

The inquiry did not have a specific term of reference to investigate the impact of post-deregulation changes on Indigenous communities. Nevertheless, it recognised that issues relating to the provision of banking and financial services were particularly relevant to remote Indigenous communities.

The low-income status of many Indigenous households also limits their access to banking and financial services. In their final report to the Australian parliament, the Council for Aboriginal Reconciliation argued that Indigenous Australians are both relatively and absolutely socioeconomically disadvantaged when compared to other Australians (Council for Aboriginal Reconciliation 2000). In practical terms, this means that most low-income Indigenous households are without financial savings and therefore often pay comparatively more than other households for financial services. These charges include, for example, cheque-cashing fees, bank account keeping fees and 'bookdown' interest charged by stores (Westbury 1999, 2000).

Many Indigenous families have difficulty generating savings. Families that do not maintain financial savings often have poor or non-existent credit ratings or debt-to-income ratios that exclude them from mainstream forms of credit. Such households have no financial margin for safety; even temporary disruptions in family earnings or unforeseen expenditures can create serious hardship (Smith 2000).

Individuals without access to banking services are therefore at an economic disadvantage. Without the ability to save, individuals are denied a range of economic opportunities and, in particular, the opportunity to breakout of the 'poverty trap' (Stegman 1999). Studying the unbanked in the United States (US), Stegman notes that:

> Banking status has profound implications for long-term family self-sufficiency. In 1998, for example, the median value of all assets held by unbanked families was just $US2,300 compared with the $US136,000 for all banked families (Stegman 2001b: 23).

Elsewhere, Stegman et al. analyse a survey of consumer finances to show the importance of being 'banked' in accessing other financial services. Their results show that, 'lower income families [with bank accounts]...are six times as likely as their unbanked peers to have credit cards and are more than twice as likely to have a home mortgage' (Stegman et al. 2001: 8).

To date there has been no systematic analysis of the demand for, and supply of, banking and financial services to Indigenous Australians, or the impact of deregulation and new technology on Indigenous Australians. Research by Westbury (1999) and McDonnell and Westbury (2001) describes the lack of informed access to services that is reflected in continued Indigenous reliance on welfare payments from Centrelink being paid by cheque across Northern Australia. This research also points to the fact that even in Alice Springs, where all the mainstream banks are represented, large numbers of passbooks and electronic key cards are held under the counter by the banks in safe custody. Such practices continue because of various factors that militate against Indigenous customers successfully transferring to electronic banking.

In his detailed analysis of the spatial distribution of Australia's Indigenous population prepared for the workshop, Taylor canvasses the issues of locational disadvantage as reflected in the long journey to banking services that many Indigenous customers have to make. He also canvasses the important comparative demographic and socioeconomic differentials between the Indigenous and wider community in Australia and their relative implications for access to banking and financial services. Taylor's analysis then highlights some of the historical and current underlying issues that have impacted on Indigenous people's comparative poor economic status and lack of access to equitable levels of service delivery. Moreover, just as Westbury and McDonnell's research points to the need for more systematic analyses of Indigenous access to banking and financial services, Altman and Taylor's workshop papers both highlight a similar need for a comprehensive study of the flows of cash through Indigenous communities and within the Indigenous corporate sector to more clearly identify potential commercial opportunities.

Indigenous reliance on informal banking

Within many Indigenous communities the historical lack of access to banking services, combined with cheque-based welfare payments, means that individuals are often forced to rely on informal finance providers. For example, Indigenous people in many communities are dependent on cheque-cashing outlets that charge high fees. In such circumstances the income of Indigenous people becomes a captive market for informal service providers, such as hotels, stores, hawkers and taxi drivers (Taylor & Westbury 2000: 48). 'Bookup' (or 'bookdown') services are another aspect of informal cheque-cashing facilities. Community stores often operate 'bookup' arrangements, whereby they cash cheques on the basis that the proceeds are then used to buy store goods. Since a large proportion of the welfare-recipient Indigenous population in the Northern Territory still receives cheque–based welfare payments, these people are also vulnerable to 'bookup' arrangements. The Commonwealth of Australia Ombudsman noted that:

> There are instances of storekeepers in remote areas in town being the address point for Department of Social Security (DSS, now Centrelink) cheques. In some instances this has created a 'capture' situation in that Aboriginal customers are extended a line of credit and storekeepers insisted on signing over DSS cheques to meet accumulated debts. This had led to exploitative pricing of goods by some storekeepers and customers being prevented from purchasing elsewhere...It appears that social problems are not simply a factor of insufficient or

> poorly distributed income but also the fact that a significant proportion of income is 'ripped off' (1997: 11–12).

Evidence indicates that even where mainstream banking services are available in towns such as Alice Springs and Katherine, bookup practices are still widespread (Commonwealth of Australia Ombudsman 1997). Since bookup practices may occur even where other financial services are available, it is clear that they will be exacerbated where there is a lack of access to banking services, as cheque recipients are forced either to cash their complete entitlements or to enter into bookup arrangements with traders (Taylor & Westbury 2000: 48). In addition, according to relatively recent data, over 15,000 welfare recipients resident in North Australia still receive their payments by cheque, 90 per cent of whom are Indigenous (Westbury 1999). The problems and significant increased costs involved in making cheque-based welfare payments have acted as incentives for Centrelink to move to electronic-based welfare payments. However, it is arguable that such a move will only prove effective in improving Indigenous people's well-being if a comprehensive education program accompanies it (the implications of moving from a cheque-based to an electronic-based payment system are discussed in greater detail below).

At a community level, where large numbers of people within a community do not have access to formal banking services, this can create a savings deficit, which in turn means that individuals have little incentive or opportunity to acquire assets. For example, many Indigenous communities are plagued by what is termed a 'feast and famine' cycle caused by low personal incomes, patterns of immediate consumption and expenditure, combined with a lack of access to accumulated savings.

Savings and welfare initiatives

Governments in Australia and elsewhere have begun to recognise that the ability of low-income groups to save and create an asset base has a number of positive benefits to society. In Australia, the importance of generating a savings regime as a means of escaping the poverty trap was identified in the recent McClure Report on welfare reform commissioned by the Commonwealth government. The report proposed the establishment of a 'participation support account' designed to aid the development of a savings regime for welfare recipients (McClure 2001: 29). The account would operate so that people could accumulate a sum of money by being paid a supplement (of approximately $20.00 per fortnight) in addition to their usual welfare payment. This supplement could then be used to compensate individuals for some of the costs associated with labour market participation. For example, savings generated could be used to fund education and training, part-time work, or to invest in a small business or job searching which takes place outside a person's local labour market (McClure 2001: 29). The Australian government is scheduled to respond (as an ongoing part of its earlier budgetary response 2001–02) to the McClure recommendations in the forthcoming 2002–03 budget.

The fact that people on comparative low incomes can save when they have access to a bank account is reflected in the experience of the Traditional Credit Union (TCU). The TCU provides small-scale loans to its members under qualifying criteria that include maintenance of a minimum balance over a set period. The TCU experience confirms that not only are low-income earners successfully servicing their loan repayments, over 70 per cent are ahead of schedule in their repayments.

Centrepay

One initiative that encourages Indigenous welfare recipients in budgeting and generating savings is Centrepay. Centrepay is a voluntary deduction service available to all welfare recipients (except family allowance recipients). It operates to deduct a proportion of a person's welfare payment towards payment for services received (Centrelink 2001). In all Centrepay transfers the receiving entity pays the $1.00 transaction fee for the transfer and there is no cost to the welfare recipient. Payment for Centrepay services is viewed as beneficial to a company in that it guarantees a steady income stream and saves the time and administrative costs involved in chasing bill payments.

Within Indigenous communities a number of community councils have, along with welfare recipients, worked to utilise Centrepay's services for payments such as rent. The Centrepay payment scheme is utilised, for example, by the Aboriginal Hostels Association. As of 23 March 2001, over 2,900 organisations and 21,327 customers were involved in Centrepay. Of these, 7,000 customers were making payments to the providers of Indigenous community housing (pers. comm. Geoff Edwards, Centrepay March 2001).

While initially Centrepay was oriented towards payments for utilities such as electricity, gas or water, more recently it has expanded to include payments for housing, ambulance, homecare, court fines, education expenses, funeral expenses and short-term accommodation services. In addition, Centrepay includes a number of interesting initiatives that relate directly to Indigenous people. One currently under trial in Queensland is a partnership between the Aboriginal Community Benefits Fund and Centrelink to allow Indigenous welfare recipients to save for their own, or their relatives', funerals. Another trial currently under way is located at Queensland and Kimberly Colleges of Technical and Further Education (TAFE) and is designed to allow students to pay their education expenses. A third trial operates in conjunction with the Queensland Justice Department and the State Penalties Entitlement Register. Its aim is to allow Indigenous people a means of paying fines so as to stay out of jail (pers. comm. Geoff Edwards, Centrepay, February 2001).

Trial of weekly payments

Another initiative designed to assist with savings and budgeting in Indigenous communities has been a trial of weekly welfare payments. The trial is funded by Centrelink, the Department of Family and Community Services (DFACS) and the Aboriginal and Torres Strait Islander Commission (ATSIC) and is conducted at the Tangentyere Council. It is designed to break the feast and famine cycle that accompanies welfare payments by paying welfare weekly, rather than fortnightly (as currently occurs), based on an individual transferring from cheque to electronic payments.

Bookup and community stores

As a result of problems with the bookup system and the operation of some community stores, the Australian Securities and Investments Commission (ASIC) commissioned a report on bookup, which examined the nature and extent of the practice, including problems and benefits (see Renouf 2002). The report also canvassed reform options, ranging from improving the way bookup is conducted, addressing underlying problems such as financial literacy, and banning the practice of taking cards and pin numbers as security (Renouf 2002). These reforms were discussed at a workshop on 'Indigenous Consumer Issues' in Alice Springs on 22–23 April, hosted by ASIC, ATSIC, the Australian Competition and Consumer Commission (ACCC), and Reconciliation Australia. Attended by representatives from Indigenous communities, other regulators and financial institutions, the workshop debated the reform options put forward in the bookup report in order to determine the appropriate responses ASIC and other organisations should be taking.

In recognition of, amongst other things, some of the problems associated with bookup, the ACCC has developed a store charter that sets out guidance on appropriate conduct for storeowners operating in Indigenous communities. Notwithstanding this initiative, the regulatory authorities readily acknowledge that the fundamental underlying problems of bookup are lack of financial literacy and informed access to appropriate banking and financial services.

Overseas initiatives

The proposed government-initiated savings regime described in the McClure Report is not dissimilar to the way that Individual Development Accounts operate in the US. Individual Development Accounts are savings accounts dedicated for the working poor that can be used for purchasing a first home, acquiring an education or job training, or starting a small business. Participation in an Individual Development Account program is dependent on an individual completing financial literacy training. When individuals deposit a portion of their earnings, private or public partners match that money, dollar for dollar – or even more generously in some cases. For example, in Arkansas the Family Savings Initiative created an Individual Development Account program which matched the savings of poor individuals at a rate of 3:1, up to the amount of US$2,000 per individual and US$4,000 per household (Stegman 1999: 132). Stegman argues that Individual Development Accounts are proving that, 'with appropriate support and incentives, poor people can save' (2001b: 33). Evidence for this proposition was confirmed by a national survey of 11 Individual Development Account programs in 2000 (Stegman 2001b: 34). In spite of these results, a further initiative under which the US government would provide tax credits to financial institutions and private sector institutions who matched the savings made by Individual Development Account participants (termed the *Working Families Act 2000*) was rejected by Congress (Stegman 2001b: 34).

Options for the way forward—improving Indigenous access to banking services

- More comprehensive research could be undertaken to ascertain both current levels and types of Indigenous access to, and use of, banking and financial services in Australia, and the potential commercial opportunities arising from the impact of Indigenous community and corporate cash flows on regional economies.
- Government policies aimed at reducing welfare dependence should recognise the critical relationship between these policies, and the importance of individuals maintaining informed access to a bank account.
- The potential for an Individual Development Account type program to be pursued in an Australian Indigenous context should be examined.
- The trial of weekly payments be extended to other Indigenous communities, in return for individual Centrelink cheque recipients transferring to electronic payments.

Part 2: Current trends in the delivery of banking and financial services

Part 2 of this paper discusses the current trends in the delivery of banking and financial services in rural and remote regions, with particular reference to Indigenous communities. It also examines the implications of moving from cheque-based to electronic welfare payments for Indigenous people in remote communities, drawing on the comparative experience of the US.

Current trends in the delivery of banking and financial services

In the context of a rapidly changing Australian financial sector, evidence is emerging that the delivery and availability of banking and financial services in rural and remote Australia are undergoing a significant transformation. The HRSCEFPA report made the following comments on the current supply of banking and financial services within Australia:

> The Australian financial system is undergoing a period of substantial change, the impact of which is transforming the delivery of banking and like services. The changes include an increase in the number of players and types of organisations involved in the delivery of financial services. They also include a significant increase in the number of alternative channels available for the delivery of services…most of…[which] are electronically based (HRSCEFPA 1999: 7).

The introduction of these services has been accompanied by ‘a process of the rationalisation of the traditional bank branch network’, a process for which the ‘impact has been particularly serious in regional and remote communities’ as a result of a ‘loss of banking or like services’ (HRSCEFPA 1999: 7). The removal of banking services from remote and rural communities has particular implications for the relatively large, and increasing, Indigenous population of these communities.

Decline in financial services nationally is measured, somewhat crudely, by a decline in bank branch numbers. Statistics obtained from the Reserve Bank of Australia (RBA) for the HRSCEFPA report show that of the almost 7,000 branches in operation in 1990, just over 5,000 remained in operation in 2000—a 28 per cent decline (see Table 1, Appendix A). Research by Argent and Rolley (1998) indicates that between 1981 and 1998, within New South Wales, branches declined by 22.9 per cent in rural regions and 30 per cent in remote regions. The decline in branch agencies has been even more acute. Of the 7,712 agencies in operation in 1990, only 5,043, or 65 per cent, were still in operation in 2000 (see Table 1).

An evaluation of the decline in metropolitan and non-metropolitan bank branches by state shows that in all states and territories (except for the Northern Territory) the number of bank branches declined in the period 1993 to 2000 (see Table 2, Appendix A). In addition, in New South Wales, Victoria and Western Australia, the decline was equal to, or greater, in non-metropolitan than in metropolitan areas. The decline in the provision of non-metropolitan bank branches between 1993 and 2000 ranged from a 7 per cent decline in Queensland and South Australia to an 80 per cent decline in Tasmania.

Tables 3 and 4 (Appendix A) chart the decline in the provision of services by the major banks. The number of bank branches and agencies of the ANZ, Commonwealth, National Australia and Westpac banks fell by 982 bank branches and 1,968 agencies in the decade from 1990. Of the major banks, the bank with the greatest decrease in number of branches was Westpac, with a 46 per cent decrease between 1990 and 2000. It is notable that in the same period the Commonwealth Bank actually increased the number of its branches by 15 per cent. The major bank with the greatest reduction in the number of agencies was the ANZ, with an 88 per cent reduction between 1990 and 2000. The decrease in the number of agencies owned by each bank between 1990 and 2000 surpassed the decrease in branches.

Changes to the delivery of financial and banking services to remote and rural regions and their associated impact on Indigenous people resident in those areas have yet to be systematically researched and analysed. However, it can be argued that because Indigenous people make up a disproportionate share of the population in regional and remote areas and have historically low levels of access to services, the changes in the banking industry have had a disproportionately adverse impact on Indigenous communities. Moreover, given continuing technological and other changes to the banking sector, there is a risk that Indigenous people will become even more marginalised from accessing banking and financial services.

Implications of the increasing Indigenous population of rural and remote Australia

Nationally, Indigenous people make up approximately 9 per cent of people in rural towns with populations of less than 1,000. The majority of branch closures have occurred in towns of less than 1,000 or 600. Thus it would appear that Indigenous communities have been particularly affected by these closures. If this trend is considered in the context of the historically low levels of Indigenous access to banking and financial services, it is possible that the large Indigenous population represented in rural and remote communities has little or no access to financial services. The lack of access of some Indigenous people to financial services is evident in work by Taylor that indicates that approximately 16 per cent of Australia’s Indigenous population, or 56,300 people, live more than 80 kilometres from a bank, and often at even greater distances (Taylor 2002). Further, almost half, or 25,360, of these people are located in the Northern Territory. The fact that problems with access to banking services are most acute in the Northern Territory may help explain the impetus behind the development of the Indigenous-owned TCU.

Indigenous people represent an increasing share of the population of rural and remote Australia, a trend which appears set to continue. Taylor writes that:

> Projections to 2016 of the Indigenous population in various regions across much of remote Australia indicate a rapidly growing Indigenous population…across the arid zone, the Indigenous population is projected to rise from 37,000 in 2001 to 45,000 in 2016 representing an increase in the regional share of the total population from 20% to 24% (Taylor 2002: 6).

Thus it appears that problems that beset communities without access to banking services impact disproportionately on Indigenous people. Without proactive intervention in terms of banking and financial service provision, this trend appears likely to continue.

The House of Representatives committee concluded that the impact of rural bank closures on businesses and individuals within rural and remote areas includes (HRSCEFPA 1999: 28; see also McDonnell and Westbury 2001):

- an increased demand for cheque-cashing services';
- the loss of cash sales (due to consumers shopping in towns which have better facilities);
- the accumulation of excess cash (due to a loss of deposit facilities);
- an increase in unpaid debts, made necessary by the need to extend credit to customers;
- increased security concerns due to a lack of adequate security facilities and unsuitable vehicles for transferring money (such as private cars); and
- difficulties in obtaining small change.

Individuals in rural and remote communities face a number of problems caused by bank closures, including (HRSCEFPA 1999: 27; see also McDonnell and Westbury 2001):

- inconvenience, because they have to travel further to do their banking (thereby also adding extra fuel and time costs to the cost of banking);
- reduced savings due to the disruption of regular savings patterns and the increased costs associated with banking;
- security implications caused by the need to withdraw much larger sums of money when banking;
- loss of investment income;
- difficulties in cashing cheques; and
- lack of access to financial advice.

Electronic service provision

Closures of rural and remote financial and banking branches are partly offset by the establishment of alternative financial services such as those delivered by giroPOST, credit unions and community banks, and by the increased availability of self-service methods of banking such as EFTPOS, and telephone and internet banking. Concerns about the ability of credit unions and community banks to replace traditional bank services have prompted some analysts to argue for electronic service provision in rural and remote regions (Walker, Corby & Murphy 1997). One electronic-based service is giroPOST. There has been a steady increase in giroPOST services Australia-wide, from 2,557 agencies in 1996 to 2,814 in 2000. However, the increasing number of giroPOST services has also raised questions about the extent to which the services provided by agencies can substitute for those provided by bank branches (Walker, Corby & Murphy 1997). For example, giroPOST does not offer a full range of financial services and even this limited service provision may not be viable within remote communities.

Problems caused by the decline in bank branches in rural and remote communities can be partially offset by the provision of automated teller machines (ATMs) and EFTPOS facilities. The number of ATMs and EFTPOS machines has increased dramatically in Australia over the last decade. The Wallis Inquiry reported that in September 1996 use of ATM and EFTPOS made up 23 per cent and 19 per cent respectively of all financial transactions (Financial System Inquiry (FSI) 1997). Despite these figures, evidence suggests that these services are not as widely distributed or utilised in regional and remote areas as they are in metropolitan areas (Australian Bankers' Association (ABA) 1999: 1006; Regional Financial Services Taskforce 1997: 12).

Throughout the HRSCEFPA inquiry into access to banking and financial services mention was made of the importance of the provision of face-to-face banking and financial services to people in rural and remote communities. In particular, the NFF (1997: 6–7) stipulated that the cyclical (as well as seasonal and uncertain) nature of agriculture means that people in rural and remote communities require a long-term relationship with their financial institution that, in turn, requires the fostering of personal relationships with bank staff. Thus the NFF argues that 'rural people are not keen to use electronic banking facilities because they are perceived to have an adverse effect on people's relationships with their banks and place local branches at risk of closure' (1997: 6). These issues also have a resonance for Indigenous people who, because of comparably low levels of financial and technological literacy, have an even greater reliance on face-to-face services (see Smith 2000).

The transition to electronic welfare payments: The US and Australian experience

The experience of the US government in moving from cheque to electronic payments for welfare recipients contrasts with the approach adopted in Australia. Given this transition is still not complete for many Indigenous welfare recipients in North Australia, the US experience may provide a number of useful lessons to help in this transition. In particular, the strategy in the US sought a deliberate transition design so as to benefit, rather than cause detriment, to low-income earners. Central to this strategy has been the provision of an extensive education and waiver program.

The basis for the move to electronic-based welfare payments in the US was the requirement of Congress that, as of 1 January 1999, all welfare payments were to be made by electronic funds transfer (EFT) rather than by cheque. The impetus for this transition was, as in Australia some years earlier, the considerable cost savings from moving from cheque to electronic payments. The terms adopted for the transition, under relevant legislation, meant that US Treasury had to ensure that all previously unbanked welfare recipients had access to low-cost electronic transfer accounts. In response to this requirement and to ensure that welfare recipients were not caused hardship, the US Treasury (1998) introduced four key provisions relating to the implementation process:

1. The transition from a paper-based system to an electronic transfer system should be accomplished with the interests of recipients ranking of paramount importance.
2. Private sector competition for the business of handling federal payments should be maximised, to ensure that recipients not only have a broad range of payment services and service providers from which to choose, but also that they receive their payments at a reasonable cost, with substantial consumer protection, and with the greatest possible convenience, efficiency, and security.
3. All recipients, and especially those having special needs, such as the elderly, individuals with physical, mental, educational or language barriers, and those living in remote or rural communities, should not be disadvantaged or caused hardship by the transition to electronic payments.
4. The EFT '99 program should, to the maximum extent possible, seek to bring into the mainstream of the financial system those millions of federal payment recipients who currently do not have bank accounts.

To ensure that these provisions were met, the US Treasury introduced a generous waiver exemption designed to operate for individuals who certified that the EFT would impose a hardship because of a physical disability or geographic barrier or, in the case of an individual who did not have a bank account, that EFT would impose a financial hardship

(US Treasury 1998: 3). In introducing this waiver, the Treasury acknowledged the tension between trying to generate the maximum amount of cost savings to government while at the same time not disadvantaging welfare recipients. The US Treasury (1998: 3) argued that in the long term this tension would be resolved on the basis that, 'even with a liberal waiver policy the transition to EFT will come about quite effectively in the fullness of time, as more and more citizens become familiar and comfortable with the new electronic payments technology and recognize the benefits of EFT'.

Another step taken by the Treasury to ensure that the transition from cheque to EFT payments caused as little hardship as possible was a nationwide public education campaign (US Treasury 1998). Components of the campaign were messages to current cheque recipients about the requirements, benefits and procedure for signing up for EFTs, and an education campaign for those recipients who had not had a bank account previously about how to obtain and maintain a bank account. Further, the campaign was conducted in language that was culturally appropriate and easy to understand, and delivered using a network of grassroots consumer and community groups (US Treasury, 1998). Such a campaign recognises the acute need for financial literacy programs. Effective implementation of the transition to EFT payments by the US Treasury required that welfare recipients without bank accounts were given electronic transfer accounts. Reports conducted for Treasury showed that in 1999 there were over 10 million US federal payment recipients who did not have accounts at financial institutions (Dove Associates 1999). The overwhelming reason detailed by this population for not having an account with a financial institution was the high cost of banking (US Treasury 1998: 3).

To provide accounts for recipients without bank accounts the US Treasury has put in place electronic transfer accounts that:

- accept electronic deposits of federal salaries, wages, benefits and retirement payments;
- charge a maximum fee of $3.00 per month;
- require no minimum balance, except as required by federal or state law;
- allow a minimum of four cash withdrawals per month with no additional charges, through any combination of ATMs or over-the-counter transactions;
- provide the same consumer protection as all other financial institutions accounts;
- allow for EFTPOS transactions;
- provide monthly statements; and
- provide other features such as interest and automatic bill payments.

In Australia the transition from cheque to electronic banking through the mid-1990s was managed using a blanket policy. The only significant identified group of welfare cheque recipients who gained exemption from this policy were Indigenous people resident in remote areas of North Australia, because they had no access to electronic banking services. During this transition there were no set strategies employed by the Commonwealth government to allocate significant resources for community-based education, nor did they provide low-fee bank accounts as incentives to encourage the those without accounts to open accounts. However, subsequent to these changes in Australia, the ABA has obtained industry consensus, in the form of agreement from banks to institute a basic bank account for low-income customers (such as health care card holders and pensioners). Features of the basic bank account include (ABA 2001: 2):

- no account-keeping fees;
- six free non-deposit transactions a month, including up to three free over-the-counter withdrawals a month;
- no minimum monthly balance required;
- no minimum account balance required to open an account; and
- unlimited free deposits.

These features therefore form a set of minium standards that banks have agreed to provide to certain low-income groups, with some banks providing services in excess of these.

If similar incentives to those adopted in the US are not adopted in Australia, the transition from cheque to electronic-based banking may not produce the desired outcomes in terms of reducing welfare dependence and improving existing low levels of financial literacy. This is confirmed by the Australian experience to date, as represented by the continued provision of cheque payments to many Indigenous people in remote areas, as well as the experience gained from the Tangentyere Bank Pilot Project and the TCU, and existing analysis of low take-up rates of mainstream services even in remote towns where services are available. This lack of policy can be contrasted with the savings gained from such a transition. For example, estimates indicate that the TCU has saved the Commonwealth government millions of dollars in enabling its remote community members to transfer to electronic payments. However, the credit union has received little offsetting assistance to underwrite the provision of financial literacy training and reduce the comparatively high transaction charges.

Options for the way forward—electronic banking in Indigenous communities

- In remote Indigenous communities and areas with comparably low levels of financial literacy and high dependence on welfare, electronic banking may need to be viewed as complementing, rather than substituting face-to-face banking services in the medium term.
- The experience of the US in moving to electronic-based welfare payments suggests that for Indigenous people still relying on cheques the transition to electronic payments should be accompanied by an extensive cross-cultural financial literacy program, and access to low-fee basic bank accounts. In addition, it should also be accompanied by a waiver policy that recognises insurmountable problems faced by some groups in society in transferring to electronic payments (see Tilmouth 2002).

Part 3: Current Australian and overseas initiatives in the delivery of banking services and financial literacy training to Indigenous communities

Part 3 of this paper examines current Australian initiatives in relation to Indigenous banking and financial services. It describes the operations of Westpac, the Tangentyere Council in Alice Springs, the TCU in the Northern Territory, and First Nations Australian Credit Union in Victoria, all of whom will present case studies at the workshop. The way in which each of these financial institutions engages in some degree of financial literacy training for Indigenous people is also discussed, and compared with financial literacy programs in Canada and the US.

Westpac

Westpac's Indigenous program involves a range of initiatives to address the educational, financial and employment disadvantage faced by Indigenous Australians, as well as to better address their specific banking and financial needs. Activities are coordinated across the organisation through a Steering Committee on Indigenous Issues, with ongoing reporting and monitoring by the Board of the Social Responsibility Committee (see Westpac 2002).

Westpac is working with the Indigenous Enterprise Partnership (IEP) in program delivery to the Indigenous communities in Cape York. Westpac states that the aim of this partnership is to build the capacity of the Indigenous population to participate in the real economy, thereby reducing passive welfare dependency, substance abuse and other related problems.

Westpac's main involvement is through a three-year secondee program built around supporting two initiatives: the Family Income Management Scheme and Micro Business

Facilitation. In November 2001, an initial pilot was conducted involving 13 Westpac volunteers going to the Cape for four weeks to work with the Indigenous communities to develop these initiatives as part of a broader plan to build financial independence. Westpac is providing a project manager and a total of 100 seconded staff over the next two years as part of its contribution to the project.

The Tangentyere bank agency

Another key Westpac initiative designed to improve Indigenous access to banking and financial services is its involvement with the Tangentyere Bank Pilot Project. For the last 18 years Tangentyere Council has had a Westpac agency on its premises. The agency serves the approximately 2,000 Indigenous people resident in Town Camps around Alice Springs. The bank offers over-the-counter, face-to-face services. Historically, the bank agency provided a number of services that mainstream banks did not. People who cashed their cheques at the bank were also able to pay their rent and electricity bills. In addition, the Tangentyere 'e bank' agency operates a food voucher system whereby people can exchange cash for food vouchers. These vouchers are valued between $40 and $100 and can be used at a supermarket which operates as a joint venture of Tangentyere Council.

The bank account offered by Tangentyere consists of a number of features:

- no account-keeping fees;
- no minimum monthly balance requirement; and
- six free transactions a month, including three free over-the-counter transactions.

Another service offered by Tangentyere is a flat fee of $5.00 per month for over-the-counter service provision. Often these over-the-counter transactions can take up to half an hour as people organise bill-paying and food vouchers in addition to their normal banking transactions. In this way Tangentyere bank agency is geared towards offering essential banking and related services rather than running a commercially viable bank. One impediment to the effective operation of the Tangentyere bank agency, and thus also the banking project, may be the lack of online access to Westpac.

Financial literacy training at Tangentyere

Flowing from recommendations contained in a report on 'Improving Indigenous access to the delivery of banking and other financial services in Central Australia' (Westbury 1999) initiated by ATSIC and Centrelink regional offices in Alice Springs, a pilot project was established by the Tangentyere Council to assist selected clients to transfer from cheque to electronic payments. Sponsored by DFACS, Centrelink, ATSIC and Westpac, the Tangentyere banking project provides important lessons in relation to both financial literacy programs and the transition from cheque-based to electronic banking.

The financial literacy training conducted by Tangentyere consists of a training program run by the banking agency's Aboriginal liaison officers. The material used in training has been specially designed to meet the needs of illiterate people and consists of large comic book style panels, which are accompanied by an oral presentation. People are taught how the ATM machine and keycard operate, and are assisted to fill in forms by the Aboriginal liaison officers. They are also warned not to give their personal identification number (PIN) to anyone else or to leave their keycards and PIN with storeholders or taxi drivers.

Aboriginal liaison officers also provide an essential service in terms of 'proof of identity' for clients. A lack of the necessary identification can sometimes create problems for Indigenous people in accessing banking services. The Tangentyere bank agency deals with these problems by employing bank staff from the same Town Camps where most bank clients reside. While it could be assumed that this could also create problems in terms of demand sharing requests being placed on staff by their kin relations, the bank has a number of strategies for dealing with these humbugging problems.

As at April 2002, the bank agency had approximately 712 clients, of whom 548 had signed on to electronic banking (that is, they receive their welfare payment electronically rather than by cheque). Further, approximately 60 per cent of these electronic banking clients also use keycards. Initial results from the Tangentyere project seem to indicate that people do not have significant problems with losing cards or forgetting PINs, which may indicate that the training conducted by the project has been successful. As yet, a more detailed evaluation of the project has not been conducted. However, the project has also identified that there are a number of Indigenous welfare recipients who, regardless of the financial literacy training provided, will never be likely to make the transition to electronic payments. In particular, the elderly and people with problems with their eyesight and other disabilities seem to have insurmountable barriers to accessing electronic technology. Therefore it should be recognised that cheque-based welfare payments need to be maintained for some Indigenous people.

Funding for the Tangentyere project comes from a number of sources. The ATM operated by the project was provided free of charge by Westpac, which also waived the usual transaction fees charged to ATM providers (this combined amount is estimated at approximately $40,000). Other funding for the project comes from DFACS, which has allocated approximately $110,000, and Centrelink, which has provided $10,000 and the salary of a short-term consultant. Finally, ATSIC has provided some money towards an evaluation of the project. This funding was provided on a one-off basis and is thus due to end in May 2002. Without ongoing funding, it is difficult to see how the project will continue to operate.

The Traditional Credit Union

Impetus for the establishment of the TCU in 1994 came from a recognition of a lack of banking services in Arnhem Land in the Northern Territory. In particular, problems were caused by the fact that residents had to cash cheques on a fortnightly basis, making budgeting difficult and resulting in the 'feast and famine' cycle that still plagues many Indigenous communities.

At present the TCU has branches in eight remote Indigenous communities (Milingimbi, Wadeye, Maningrida, Galiwin'ku, Gapuwiyak, Gunbalunya, Barunga and Ramingining) and a head office located in Darwin. The TCU currently has 40 staff, 31 of whom are Aboriginal, including all but one staff member in remote communities. The community branches are operated by two to three staff members, with the senior staff member being designated as 'branch supervisor' and responsible for the overall operation of the branch with the assistance of head office.

Most members are located in these communities, with current membership at 6,500. The TCU provides banking services, manages periodical payments and loans, and provides financial counselling to its members (Westbury 1999: 24–5). In addition to usual banking services, such as provision of savings and cheque accounts, term deposits and transfers, the TCU also offers clan accounts, under which members of a particular clan can save for a cultural activity such as a funeral or ceremony, Christmas Club accounts and accounts aimed at aiding budgeting (Westbury 1999: 25).

Consumer loans of up to $10,000 are available to members. The majority of TCU loans are accessed by women who invest in whitegoods, such as refrigerators and washing machines (Westbury 1999: 25). However, loans are also used to purchase cars and furniture. In order to be eligible for a loan, a member (or joint members) is required to deposit 10 per cent of the value of the loan in a TCU account. In addition, the TCU requires that this deposit be accumulated progressively over a three-month period in order to establish a savings history. The success of these loans belies the myth that Indigenous people generally, and particularly those in remote communities, are incapable of saving money or accumulating assets. The TCU is committed to generating a savings culture amongst the Indigenous population it serves. It views this as essential to aiding Indigenous people to break out of the 'poverty trap' of welfare dependence.

Recently the TCU has begun to offer small business loans to members. The rate of interest on these loans, and on the consumer loans described above is 14.95 per cent variable. Loans are normally repayable over a five-year period. The high repayment rate of TCU loans, combined with a commercial interest rate and the recognition of the need to cover transaction costs, have combined to make the TCU a profitable financial institution.

The TCU stresses the importance of the provision of face-to-face banking services in order to meet its members' needs. Local Indigenous people staff branches and so members are able to make transactions in the local language. In relation to this point, the TCU reports 'most transactions are conducted in the local language (it has been estimated our members speak up to 100 languages and dialects)' (Bradshaw & Damaso 2002). However, the high transaction costs incurred by the TCU in the provision of face-to-face banking services in remote areas have resulted in high service charges. For example, the TCU charges a fee of $10 to make a deposit of over $200.

Finally, the TCU has been instrumental in aiding the transition of Indigenous people in the Top End of the Northern Territory from cheque to electronic-based welfare payments. This transition has, it is estimated, saved the government hundreds of thousands of dollars a year (Westbury 2000). In addition, Westbury (1999: 25) argues that electronic payment of welfare benefits, combined with access to culturally informed face-to-face service provision, enables Indigenous people to 'streamline' their expenditure patterns by allowing members a greater capacity to plan financially, thereby overcoming the traditional 'feast and famine' cycle that plagues Indigenous communities.

It may be community-based financial institutions such as the TCU, not the major banks, that are likely to remain the only significant financial services provider in remote Indigenous communities The TCU plays a critical role in delivering on-the-ground essential services and vital financial skills to remote communities. However, it has a limited capital base. Thus there may be scope for larger financial institutions to on-lend to the TCU to enable it to expand its services. This type of on-lending model is already used extensively in the US (see CDFI Fund below).

Financial literacy training at TCU

The TCU has a permanent training officer who spends most of her time in communities training staff. A procedure manual has been developed to aid in this training. The success of this training is evident in the fact that most TCU staff have qualified in a fully accredited Certificate Two in Financial Services, undertaken with support from government, and some are undertaking Certificate Three (Bradshaw & Damaso 2002). This training is also viewed as benefiting the local communities and even though some staff members have left TCU employment since completing the course, their acquired skills are not lost to the community.

The TCU Board and management view financial literacy as a means of empowerment and opening the way for better use of existing financial resources (Bradshaw & Damaso 2002). The TCU is currently attempting to put funding together for a major financial literacy program. It believes the key is devising a program that works for individual communities and targets key groups within the community (for example, women's groups, elders and clan leaders, school students and councils). The main methods of delivery of financial literacy would be education segments in local language broadcast over the local radio; workshops targeted at key local groups, delivered in language by local people, assisted by facilitators where relevant; development of posters in local language; and school-based courses.

The program would concentrate on the following issues (Bradshaw & Damaso 2002):

- the money story, which would include details about the wider Australian economy, trade taxation, the local community economy and the source and basis of money at the local level;

- the TCU story, which would include issues such as ownership of TCU, board structure and laws that regulate the staff and board;
- accounts and use of accounts, which would emphasise use of accounts and rules that apply, including those relating to EFTPOS cards; and
- budgeting skills.

Whether this project is undertaken will depend on the funding support the TCU is able to obtain.

The First Nations Australian Credit Union

First Nations Australian Credit Union was established in 1999 with support from the Australian National Credit Union (both technically and financially), together with seed funding from ATSIC. First Nations is currently a division of the Australian National Credit Union. When certain thresholds, including members, assets, profitability, reserves and legislative requirements, have been achieved, the intention is that First Nations will separate from the Australian National Credit Union. First Nations has total assets of $13.9 million, $13.6 million in deposits and $5.8 million in loans and overdrafts. The organisation has 2,900 members living in areas including Broome, Torres Strait, Port Augusta, Alice Springs, Fitzroy Crossing, Lockhart River, Cairns, Perth and Victoria.

First Nations operates in all states and territories and offers a full range of financial products and services, including savings and transaction accounts, ATM cards, cheques, personal and mortgage loans, budget accounts, insurance and financial planning. Indigenous-specific products include a unique loans policy, Clan Account, Budget Account and *My Moola* Indigenous guide to budgeting.

Rather than pursuing a typical branching structure, First Nations utilises the giroPOST networks as well as ATMs, EFTPOS, BPAY, cheques, telephone and internet banking. First Nations also has a 1300 telephone number that people can call to speak to an Indigenous staff member about financial matters.

Financial literacy training at First Nations

First Nations has found that word of mouth and face-to-face are the strongest and most effective mechanism for communicating messages to Indigenous people. In addition, First Nations states that printed material can also be an effective mechanism for communicating information about their organisation. To this end, First Nations, in consultation with *Streetwize*, has developed a comic-style brochure titled *My Moola*, aimed at providing Indigenous people with information about budgeting. The next edition of *My Moola* will address savings-related Indigenous issues.

Financial literacy initiatives in the US and Canada

The ‘Building Native Communities’ Native American financial skills program offers a possible best practice model of a financial literacy program for Indigenous people. Developed by the First Nations Development Institute (FNDI), in conjunction with the Fannie Mae Foundation, the aim of the program is to:

> Enable community members to realize their traditional values by learning financial skills that will help each person make informed financial decisions for themselves, their family, and their community (FNDI 2001: i).

The program is designed to present personal financial skills and draws on cultural examples, such as savings for weddings or ceremonies, and stockpiling goods to trade with other tribes. The program uses these traditional practices as the foundation for building financial literacy. For example:

> Native American people have always managed resources wisely, whether it was catching salmon, harvesting wild rice, or herding sheep. The curriculum is designed to help Native

> communities and their members adapt their traditional skills to the wise management of financial resources (FNDI 2001: i).

The program is conducted over six sessions of two to three hours each. Participants are formed into small groups and are led through a number of exercises and discussion groups with an instructor. Skills taught in the groups include:

- understanding how an economy works and developing savings in order to keep money within Native American communities;
- developing savings goals and a savings plan;
- managing money and budgeting;
- writing cheques and preventing fraud;
- using ATMs, debit cards and reading account balances;
- accessing credit, and understanding the importance of developing a credit history; and
- developing tools for evaluating the best loan deal and the best provider of financial services.

In addition to the Building Native Communities Program, the FNDI also operates a 'Partnership in Native Financial Literacy' committee. Started initially through the US Treasury Department's 'National Partnerships for Financial Education' Program, the committee's purpose is to 'exchange information, forge partnerships, identify and develop strategies for outreach and training, and identify gaps in information about the financial skills needs in Indian Country' (FNDI 2002). The committee also coordinates a range of subcommittees on outreach of financial services, partnerships, predatory lending, and the development of Native financial institutions (FNDI 2002). Committee membership is made up of government, private and Native American organisations and individuals.

The advantage of the committee is that by drawing together key public, private and Native American institutions, it has been able to develop a coordinated approach to financial literacy and to examine wider issues relating to Native American access to banking and financial services issues.

Canadian financial literacy initiatives

One of the largest financial literacy initiatives undertaken in Canada has been the 'Building a better understanding' strategy of the Canadian Bankers' Association (CBA). Launched in April 1998, the strategy is part of a 'major, long-term commitment to help improve Canadians' knowledge about the economy and personal finance' (CBA 2002). As part of the strategy, the CBA offers a range of free publications and free public seminars as well as extensive internet resources (see www.cba.ca). Information provided does not canvass the products of any particular bank agency, but rather describes the advantages and disadvantages of services more generally. The material provided by the CBA also provides people with information on how to access various banking services. Areas covered in the CBA's publications include:

- getting value for your service fees;
- starting a small business;
- safeguarding your money;
- a guide to mortgages;
- planning for retirement;
- preparing your business for the e-commerce age;
- investment; and
- money management.

The CBA states that since 1998 more than 3.4 million of these publications have been ordered by Canadians, and there have been 16 million hits on the CBA website, indicating that there is strong demand for such information (CBA 2002).

In addition to published and internet resources, the CBA also runs a public education seminar program as part of its financial literacy strategy. Staff from various bank agencies run seminars on financial issues for schools and community groups. For example, the CBA has developed a seminar program for grade 11 students titled 'There's something about money'. Since 1999 over 35,000 students have attended these seminars (CBA 2001).

Options for the way forward—identifying best practice, expanding services in remote areas and supporting improved financial literacy

- It may be valuable to have best practice models in the delivery and support of financial services to Indigenous communities by Westpac, Tangentyere, the TCU and First Nations independently evaluated so as to identify best practice principles. This evaluation could then serve as a guide to inform Indigenous communities and other service providers.
- The continuing demand for the expansion of culturally informed services and financial literacy training in remote communities, provided by organisations such as the TCU, could be assisted through the development of ongoing partnerships with major financial institutions utilising on-lending practices similar to those already being successfully used in the US (see CDFI Fund below).
- There may be scope to develop a more sustained and coordinated strategy in the delivery of financial literacy education to Indigenous Australians through a partnership of existing financial institutions with a direct interest, relevant Indigenous organisations, government agencies and the philanthropic sector. This strategy could be informed by existing Australian and international best practice.

Part 4: Current Australian and overseas government initiatives in the delivery of financial services to rural and remote areas

Part 4 of this paper details two key government initiatives designed to provide banking and financial services to populations in rural and remote areas; the Rural Transaction Centres (RTC) Program, which operates in Australia, and the Community Development Financial Institutions (CDFI) Fund, which operates in the US.

Rural Transaction Centres

Recognition of the problems caused by a lack of access to credit within rural and remote communities has led to the establishment, by government, of RTCs. Funded from the partial sale of Telstra, the $70 million RTC Program is designed to provide funds to help small rural communities (with a population of less than 3,000 people) establish centres to provide access to basic banking, postal, Medicare claims, phone, fax and internet services (Department of Transport and Regional Services (DTRS) 2002). The RTC Program is also available if a community can demonstrate that there is a strong case for assistance. Examples of such cases are where there are a high proportion of elderly or disabled people within the population who are unable to travel or use public transport. Under the eligibility criteria, priority is also given to communities where basic services are not currently provided and are unlikely to be provided without government assistance (DTRS 2002).

Recognition of the role that RTCs can play in improving the welfare of individuals in rural and remote areas was also highlighted in the McClure Report into welfare reform (McClure, 2001). McClure notes that 'the RTC Program is a good example of the way disadvantaged communities can be supported in providing services that would otherwise not be available' (2001: 47). Under the program it is envisaged that banking services provided by RTCs will include personal banking, some elements of business banking, ATMs and giroPOST (DTRS, 2002). Two types of funding are available under the RTC Program—project assistance and business planning assistance—both of which are designed to create self-sustaining RTCs. The program will thus fund the capital costs of setting up the RTCs, and initial funding will be made available (during early years of operation) to cover running costs (DTRS 2002).

By March 2002 there were 290 communities that had either been approved for funding or had received funding towards investigating the establishment of RTCs (DTRS 2002). Of these 290 approved or prospective RTCs, 36 are located in Indigenous communities (see table 5, Appendix A). The total government outlay to date on developing RTCs in Indigenous communities is approximately $2.3 million. Seven Indigenous communities have been granted full-scale RTCs. Most approved RTCs are located in the Northern Territory, with one each in Western Australia (at Halls Creek) and in South Australia (at Pennenshaw). Of the RTCs located in Indigenous communities in the Northern Territory, all except one have the TCU as their banking services provider.

Progress in getting RTCs successfully established in remote communities has arguably been slow. Another limitation to the efficacy of RTCs in providing services to remote communities is that regional RTCs are currently not allowed under program guidelines. For many small Indigenous communities, economies of scale dictate that only if they collaborate through joint ventures with other communities will they be able to demonstrate the self-sustainability required by the RTC Program guidelines. Finally, despite the fact that Indigenous people form a high percentage of the population in many areas that are eligible for assistance under the program, there remains no Indigenous representation on the RTC Advisory Board.

The Community Development Financial Institutions Fund

In response to issues relating to access to financial services in rural and remote areas in the US, apart from strengthening the existing provisions of the *Community Reinvestment Act 1977* in 1991, the US government also agreed to establish the CDFI Fund. The CDFI Fund was established in 1994 in response to perceptions that a number of minority and low-income groups faced barriers to accessing financial services.[1] The fund operates as an arm of the US Treasury. The CDFI Fund's vision is:

> an America in which all people have access to capital and financial services. Its mission is to promote access to capital and local economic growth by directly investing in and supporting CDFIs and by expanding financial service organizations' lending, investment and services within undeserved markets (CDFI Fund 2001: 7).

A CDFI is a private, profit or non-profit, financial institution that targets financial services to communities that have traditionally not had access to such services. Targeted communities are defined either by their low-income or other minority status where this has impacted upon people's ability to access financial services. CDFIs include community development banks, credit unions, loan funds, venture capital funds and multi-bank community development corporations. At the end of the 2000 financial year, the fund had certified 415 CDFIs (CDFI Fund 2001).

Once a financial institution has become certified as a CDFI, it is eligible for funds in conjunction with a number of different programs. Each of these programs is designed to enable financial institutions to better serve targeted communities. The main CDFI program consists of three types of funding: core, intermediary and technical (see Table 6, Appendix A). CDFIs awarded funds under core and intermediary funding are required to match the amount of assistance they receive with their own private funds. Core funding provides financial assistance in the form of grants, loans, equity investments, shares or deposits to CDFIs (CDFI Fund 2001: 7).

Intermediary funding is provided to CDFIs that provide financing to, or support the formation of, other CDFIs (CDFI Fund 2001: 7). Intermediary funding thus allows large financial institutions to on-lend to smaller CDFIs. Rather than forcing large financial institutions to open their own agencies in target areas in order to be eligible for funds, they are able to on-lend to other more specialised lenders and still qualify for funding. On-lending is seen as particularly useful in aiding the provision of financial services to areas that are geographically isolated and have only a small population base, such as those where Native American communities are located (CDFI Fund 2001: 15). Finally, technical funding consists of grants designed to help CDFIs meet the technical needs of their target market. For example, it may involve funding to institutions so that they can develop lending products to meet the needs of low-income people (CDFI Fund 2001: 15).

Recognising the central role that traditional financial institutions play in community development, the CDFI Fund also operates a Bank Enterprise Award Program. The program provides financial awards to insured depository institutions that have either increased their investments in CDFIs or increased lending or investment directly to 'distressed' communities (CDFI Fund 2001: 8). Distressed communities are defined by the fund as communities that meet certain criteria of economic distress. The fund particularly singles out Indian reservations within this definition (CDFI Fund 2001: 16). The fund determines awards by comparing the total dollar value of services financial institutions are providing to distressed communities, compared with the value in the previous year (CDFI Fund 2001: 16). Awards range from 5 to 33 per cent of the dollar value of the increased activity, depending on the type of activity and whether the applicant is a certified CDFI. To date it seems to have been a reasonably successful program in that the number of institutions receiving funding under the program has increased from 54 in 1997 to 159 in 2000 (see Table 6, Appendix A). The CDFI Fund estimates that the corresponding increase in lending to target communities has been from US$83 million in 1997, to US$1.1 billion in 2000. Further, there has also been a significant increase in the amount of financial support provided by banks to CDFIs in the same period, from US$65 million in 1997 to US$244 million in 2000 (CDFI Fund 2001: 16). Based on these figures, it appears that the Bank Enterprise Award Program is reasonably successful in encouraging on-lending from banks to CDFIs.

In general, the total amount of money awarded under CDFI Fund programs in 2000 was US$125.1 million (see Table 6, Appendix A). Of this, the majority of money went on core funding of CDFIs. By contrast, it appears that intermediary funding remains underutilised—in 2000 only two financial institutions were funded. This may be, in part, due to the small number of institutions applying for intermediary funding. For example, in 2000, only seven institutions applied for intermediary funding as compared with the 160 for core funding (CDFI Fund 2001: 11).

CDFI lending to Native Americans

As at September 2000, 33 CDFIs provided some level of service to Native American or Native Hawaiian communities. The CDFI Fund made grants of US$27 million to finance these institutions (US Treasury 2001: 12). Here are three examples of the types of institutions funded (US Treasury 2001: 12):

- The Native American Development Corporation is a CDFI that provides Native American business communities in Montana and Wyoming with funds to create jobs, develop economic self-sufficiency and facilitate access to capital. It operates a Capital Loan Fund, for which start-up capital was provided by banks, the federal government, the First Nations Development Institute, and private corporations.
- The Native American Lending Group is a non-profit, multi-tribal CDFI that operates in New Mexico and services 19 pueblo communities.
- Coastal enterprises is a non-profit CDFI that provides services to low-income communities. It has established a partnership with the Penobscot Indian Nation to develop a CDFI to fund housing and business development.

Despite the CDFIs in operation in the US, the Native American Lending Study (discussed in detail below) identifies continuing major problems in terms of Native American's and Native Hawaiian's access to financial services. This also reflects the relatively short life of the CDFI program (eight years), and the need to adopt longer-term strategies to address other underlying barriers that inhibit access and effective use of services. Specifically, the Native American Lending Study notes that when Native American organisations were asked what institutions they gain financial or other development assistance from, CDFIs recorded the lowest amount of assistance, with only 4.4 per cent of organisations responding that they received assistance from CDFIs (US Treasury 2000: 39). This seems to indicate that the current number of CDFIs servicing Native American and Hawaiian peoples are by no means adequate in terms of meeting their overall financial services needs.

One of the more interesting aspects of the CDFI Fund from an Australian perspective appears to be the development of an incentive structure in which large financial institutions are rewarded for on-lending to smaller, more specialised financial institutions. In the US there are a number of successful intermediary finance programs in operation. For example, the Hopi Credit Association is a tribal credit union that provides a bridge between banks and tribal borrowers by obtaining funds from banks and handling all loan selection and servicing matters. They thus provide a point of entry for banks into the tribal community, by a credit union that understands tribal banking needs (US Treasury 2001: 12).

There are a number of reasons why an intermediary model may be advantageous in an Australian context. First, it may be that Indigenous-specific lending institutions, such as the Traditional Credit Union, are better situated to meet some of the barriers faced in lending finances to remote Indigenous communities. This could serve as an alternative model to banks providing financial services directly to remote Indigenous communities, with banks providing on-lending financial support to specialist agencies who can, in turn, lend directly to Indigenous communities.

Options for the way forward—development of the RTC Program

A number of small changes could be considered to the current operations of the RTC Program in order that it can better assist Indigenous communities in remote areas. These include amending its current guidelines to encourage smaller Indigenous communities to band together to form regional service areas where an RTC could be located. The Commonwealth government should also consider appointing a relevant experienced Indigenous person to the RTC Advisory Board.

Options for the way forward—development of a CDFI-type program

There may be scope for a CDFI-type program to be developed to operate in Australia that would facilitate on-lending by major banks to smaller Indigenous-specific lending institutions.

Another model to be looked at is whether an incentive structure for banks should be developed, such as the Bank Enterprise Awards, which provide recognition for banks that develop progressive policies and products for Indigenous communities, organisations and individuals.

Part 5: Indigenous access to capital markets and the more effective use of existing assets

> You know, probably the scariest thing for a tribal member and for the bank, too, if you're sitting across the desk from a banker who really doesn't know what the tribe is about, and on the other side it's a Tribal member who never really has been in a position of borrowing money, they don't know what the financial statement is all about…they know what they want to do, but they've never been in that position before Pat Strong, Chitmacha Tribe (US Treasury 2001).

Part 5 of this paper examines some of the wider issues relating to Indigenous access to capital, including home loans, taxation issues and the potential for effective leveraging of existing assets, including land, to facilitate economic development. It describes research and some key initiatives that have been undertaken in Canada and the US, and considers their potential implications for Australia. The untapped potential of banking on Indigenous communities is then examined in light of these lessons, and in the context of recent agreement of the Ministerial Council for Aboriginal and Torres Strait Islander Affairs. The ministerial council agreement requires that each Commonwealth, state and territory jurisdiction examine their respective sets of Indigenous land legislation in order to facilitate home ownership and economic development.

Barriers to access to capital

In 1998 the CDFI Fund commissioned a Native American Lending Study designed to identify barriers to access to capital and financial services on Native American and Hawaiian lands, and provide options for addressing these barriers. To this end, the CDFI Fund convened 13 regional and two national workshops involving over 700 participants, including tribal leaders, economic development professionals, Native American and Native Hawaiian business people, private investors and bankers, federal and state government officials, and other stakeholders (US Treasury 2001: 3). Findings of the workshop were then compared with those from two other complementary studies: a financial survey of access to financial services on tribal lands, administered to 1,600 tribal and financial organisations; and a survey on access to equity investment on tribal lands.

Currently in the US there are nine tribally owned commercial banks, seven credit unions and 14 loan funds that have been developed to serve Native American communities (US Treasury 2001: 11). In spite of this, the key finding of the workshop and surveys was that there was:

> a lack of access to capital and financial services in Native American and Native Hawaiian communities. In fact…the CDFI Fund's Equity Research Report estimates that the investment gap between Native American and Native Hawaiian economies and the United States overall totals $44 billion[2] (US Treasury 2001: 2).

The Native American Lending Study identifies 17 major barriers to capital access on Indian lands, including problems with legal, economic, financial and physical infrastructure, difficulties in understanding tribal government operations, and financial education and cultural issues (US Treasury 2001: 4). A number of economic barriers were identified by the study:

- Most Indian land is held in trust by the US government, which impedes the use of land as collateral for loans, and particularly housing loans. The study also notes that the inability to access mortgages on Indian land also leads to an out-migration of people, particularly highly skilled people, who are intent on home ownership (US Treasury 2001: 31).
- The lack of personal collateral (such as houses) and credit histories for Native Americans and people living on Indian land presents barriers to assessing the risk of lending to individuals, which in turn means that it is difficult for people to access small business, consumer and other loans (US Treasury 2001: 31).
- Most communities on Indian lands have a negligible economic base, which impedes their ability to generate savings.

In terms of infrastructure barriers, many Native American and Native Hawaiian communities lack sufficient physical and telecommunications infrastructure for financial institutions to be established. Results from the survey also indicate that there are few financial institutions, or bank branches (or even ATMs) located on or near (within 30 miles) Indian lands (US Treasury 2001: 4). The survey notes that:

> unlike non-Native American or non-Native Hawaiian communities Indian lands and Hawaiian home lands are not generally served by a variety of financial institutions…This lack of basic financial services has implications for financial literacy, capacity building, and banker-customer communication. It exacerbates the capital access gap and increases the difficulty of starting new businesses and acquiring home mortgages (US Treasury 2001: 39).

The survey also noted that only 14 per cent of communities on Indian land have a financial institution in their community (US Treasury 2001: 39). Participants in the workshops noted that the absence of financial institutions on Indian land 'impedes the development of bank-community relationships, and drives up borrowing costs' (US Treasury 2001: 5).

Low levels of Native American and Native Hawaiian financial literacy were seen as another barrier to accessing financial services. Workshop participants noted that:

> in many Native American and Native Hawaiian economies, financial transactions have traditionally been conducted using cash. Thus…many Native Americans and Native Hawaiians

> lack experience with and understanding of banking…and loan qualification processes and standards. They may have difficulty obtaining credit, and often lack knowledge and experience in preparing business plans required for bank financing or equity investment (US Treasury 2001: 6).

Many of the barriers identified by the Native American Lending Study have also been identified as impediments to lending to Indigenous communities in Australia (see McDonnell & Westbury 2001; Westbury 1999).

The equity gap

As part of the Native American Lending Study a separate report was also prepared to examine the related area of equity investment. This report recommended certain action to address the equity gap on Native American land, including clarifying the legal code and framework for investments on Native American land, expanding equity funds through sponsoring internal equity investors, establishing re-investment and royalty policies for tribal assets, developing entrepreneurial training for tribal members, developing an economic development strategy, and developing an investment guidebook highlighting the opportunities for investment on Indian country and efforts to limit the bureaucratic 'red tape' associated with investment (CDFI 2001: 9–10). A further initiative to promote equity investment on Indian country was the creation of an intermediary to liaise between the federal government and investors on the one hand, and all tribal regions on the other. This intermediary would aim to create a network of dealers and investors and provide technical assistance to locate or create and manage investments (CDFI 2001: 10).

Like the results of the equity survey, the results of the financial survey conducted by the CDFI indicate an historic under-investment in Indian lands. In particular, results of the survey show that (US Treasury 2001: 2):

- 65 per cent of Native American and Native Hawaiian respondents to the survey found conventional mortgages 'difficult' or 'impossible' to obtain; and
- business loans were rated 'impossible' to obtain by 24 per cent of Native American and Native Hawaiian respondents to the survey, and as 'difficult' to obtain by 37 per cent. Larger business loans, those over $100,000 are even more difficult to obtain, with 67 per cent of respondents rating them as 'difficult' or 'impossible' to obtain.

These responses indicate that there are a number of barriers faced by Native American and Native Hawaiian people in accessing capital and financial services, and that they are similar in their nature and impacts to those being experienced by Indigenous Australians.

Empowerment Zones and Enterprise Communities

Initiated under a Clinton administration in 1994, Empowerment Zones (EZs) and Enterprise Communities (ECs) are designed to assist in the renewal of distressed communities in the US (see the *Community Renewal Tax Relief Act 2000*). Under the programs, the federal government provides tax incentives, grants, loans and technical assistance to businesses that operate in economically depressed communities. EZ and EC programs work to:

> bring communities together through public and private partnerships to attract the investment necessary for sustainable economic and community development. The Initiative recognises that local communities, working together, can best identify and develop local solutions to the problems they face (US Department of Housing and Urban Development (US HUD) 2002).

The programs are designed to provide incentives for private investment in communities that have experienced severe economic decline (US HUD 2002). For example, existing EZs and ECs have used their federal seed money to create partnerships that have leveraged more than $12 billion in public and private investment (US HUD 2002). These partnerships have, in turn, generated jobs; provided business assistance and services; trained and educated youth and families; improved access to childcare, healthcare and transportation; and increased residents' safety and involvement in their neighbourhoods (US HUD 2002).

Between 1994 and 1998, ECs and EZs created or saved almost 10,000 jobs, trained 14,000 workers, and built or began building 102 water or waste treatment systems (EC/EZ 2002).

Communities that are chosen to receive EC or EZ status are those that have demonstrated the ability to meet a range of criteria, including an ability to create jobs, attract private partnerships, train residents for new job opportunities, promote community development through a long-term economic development strategy, establish community-based partnerships, and develop a plan for responding to community needs. ECs and EZs operate in a number of Native American communities. For example, the Oglala Sioux tribe has EZ status, and Metlakatla Indian tribe and Tri-County Indian Nations (consisting of tribes in Coal, Pontotoc and Johnston counties) both have EC status. The total funding allocated for the development of an EZ on Oglala Sioux land is US$37 million (Oglala Sioux 2002). In line with the Oglala Sioux's EZ plan at October 2001, US$29 million of this had been used to leverage business loans to create opportunities within the community, with a further US$10 million allocated to the housing initiatives, $US6 million to a sewerage treatment facility, and US$3 million to vocational training (Oglala Sioux 2001).

The Bank of Montreal and the Royal Bank of Canada

The Bank of Montreal and Royal Bank of Canada both have specific portfolios designed to target Aboriginal banking. Since 1992 the Bank of Montreal has opened 12 branches and four agencies in Aboriginal Reserves across Canada (Bank of Montreal 2002). In 1992 the value of the bank's commercial loan business with Aboriginal communities amounted to $10 million. As at October 2001 the same commercial loan business has grown to $1 billion, with the bank holding a further $1 billion in trust for First Nations communities (Bank of Montreal 2002).

The Bank of Montreal has an extensive Aboriginal employment policy. Branches located on Aboriginal reserves are staffed predominantly by Aboriginal people, most of whom are members of the local community and offer banking services in the traditional language (Bank of Montreal 2002). These branches are overseen by a head office, which consists of four managers (all of whom are Aboriginal). In 1999, 1.9 per cent of total bank employees (or 425 staff) were Aboriginal (Bank of Montreal 1999: 3). In addition, 40 per cent of these staff occupied supervisory and management positions. A further 95 Aboriginal staff were employed in Aboriginal branches providing face-to-face financial services in First Nations languages (Bank of Montreal 1999).

Specific services offered by the Bank of Montreal to First Nations communities include (Bank of Montreal 2002):

- visits to elders' homes for account openings;
- banking services provided to First Nations organisations, including automatic payroll deductions, revolving lines of credit and long-term infrastructure financing;
- regular meetings held between branch personnel and community representatives to ensure culturally sensitive provision of services;
- financial literacy training, with budgeting planning and banking services seminars conducted by the bank within Aboriginal communities. At these seminars particular attention is given to generating understanding amongst the elders and youth about the operation of banking procedures and services;
- active participation of branch management in community events, and workplace recognition and observance of special occasions such as goose break, weddings, funerals and National Aboriginal Day; and
- the provision of on-reserve housing loans without a ministerial guarantee or the involvement of Canada Mortgage and Housing Corporation.

Similarly, in addition to its mainstream services, the Royal Bank of Canada offers a number of services specific to First Nations customers. Central to these services is a partnership between the Royal Bank and the National Association of Friendship Services, which represents Native Friendship Services across Canada, providing a range of services to the urban First Nations population. This partnership includes a national banking package, a personal banking package offered to all board and staff members of Friendship Centres, provision of employment and training opportunities, and bank sponsorship of a number of Friendship Service activities (Royal Bank of Canada 2002).

A number of banks in Canada and the US operate investment funds which specifically deal with Aboriginal clients and, in particular, trusts made up of money awarded as compensation for the acquisition of land. For example, the Bank of Montreal has established First Phoenix, a financial advisory firm that provides investment advice exclusively to Aboriginal clients (Bank of Montreal 2002). First Phoenix's portfolio is based on culturally sensitive investment opportunities. At present the clients of First Phoenix include First Nations, Inuit and Metis communities and their respective organisations (including settlement trusts and pension funds), tribal councils, Aboriginal Capital Corporations, and health, housing and economic development authorities (Bank of Montreal 2002).

Recognition of the consumer power afforded to Aboriginal groups based on compensation payments can be seen in the trust options made available by banks to such groups. For example, the Royal Bank of Canada has a trust section established specifically to service the Aboriginal community. In providing this trust service, the Royal Bank is acutely aware of needing to educate Aboriginal communities on trust management and offer a range of seminars on 'understanding the details of your settlement or trust, understanding investment or taxation issues, how trusts work and the roles and responsibilities of trustees' (Royal Bank of Canada 2002).

On-reserve loans and problems with the use of land as collateral

In Australia the major Indigenous-specific home loan program is administered by ATSIC, and does not currently operate on Aboriginal land or reserves. Most housing needs for Indigenous people resident on reserve land are met by direct government grants to Indigenous organisations or through housing provision by state and territory housing authorities. Given the growth in the Indigenous population, current government allocations are not in a position to meet current and projected demand, let alone address long-term infrastructure shortfalls in these communities. Nor can ATSIC's own program meet the current demand for off-reserve lending.

Problems with on-reserve lending have prompted the Commonwealth, state and territory Indigenous Affairs ministers to begin exploring ways in which impediments to home ownership and economic development might be addressed. Similarly, Altman (2002) points out the importance of government help to address the market failure caused by, amongst other factors, 'a lack of clarity in property rights in land and resources, both within the Indigenous domain and interculturally'. Government must form alliances with peak Indigenous and banking bodies to address this lack of clarity. Such an approach would be consistent with that adopted in Canada over 15 years ago when the Canadian government, First Nations and the banking industry (under the auspices of the Canadian Bankers Association) joined forces to examine and seek to overcome barriers to private investment on Aboriginal reserves. This directly led to the development of a guide for financial institutions that addressed on-reserve lending in Canada and was the precursor to the significant competition for Indigenous business that now exists within the financial services sector.

The problems associated with home loan lending on reserves in Australia are similar to those experienced in Canada and the US. Canadian Aboriginals and Native Americans often have difficulty accessing mortgage lending. The Native American Lending Study reports that of all types of loans, conventional mortgages are the most difficult type of loan to finance on Indian land, with approximately 85 per cent of Native Americans reporting that it was difficult to finance mortgages (US Treasury 2000: 39).

In Canada, land is held on trust for Native Canadian people. Under the *Indian Act* (sections 4 and 18(1)), the Minister for Indian Affairs and Northern Development has wide, discretionary powers of control over First Nations lands, assets and money. All Canadian First Nations land was held on trust, creating a situation where historically, developments, including housing or infrastructure loans, did not take place without ministerial guarantees. However, more recently banks such as the Bank of Montreal have been prepared to waive the usual requirement of a ministerial guarantee before offering loans for projects on First Nations land (Bank of Montreal 1999: 3). Examples of infrastructure projects on such land that have been invested in by the Bank of Montreal are (Bank of Montreal 1999: 3):

- $15.5 million project, over 20 years, for the construction of a hydro-electric generating station;
- $3.4 million project, over 15 years, for the construction of a gymnasium; and
- $1.8 million project, over 20 years, to finance sewerage, water and housing infrastructure.

In addition to major infrastructure projects, Canadian banks are also prepared to offer on-reserve housing loans. The Bank of Montreal and Royal Bank both offer on-reserve home loan lending to their First Nations customers. These loan programs also operate outside the usual collateral requirement of a ministerial guarantee. Under the Bank of Montreal's on-reserve housing loan program, families from First Nations that have agreements with the bank are able to borrow funds for the construction, renovation and purchase of owner-occupied housing (Bank of Montreal 2002). At present, 14 First Nations communities have signed on-reserve lending agreements with the bank (Bank of Montreal 2002). In 1999 it was reported that the default repayment rates for its First Nations customers were below those for its wider community customers (Bank of Montreal 1999).

In the US, land tenure on most reservations is identified as tribal trust, individual allotment in trust or fee-simple (which is privately owned land that may be mortgaged) (US Treasury 2001: 30).[3] Under law, trust land (tribal or allotted) is held in trust by the federal government for the benefit and use by the tribe and cannot be conveyed by the tribe as a lease or mortgage without approval of the Secretary of the Interior.[4] The effect of these restrictions is that title of ownership of property on Native American reservations can be held only by either a Native American or the US government. This means that if a Native American borrower defaults on a mortgage loan, ownership of the house could pass only to another Native American or the US government (National Indian Policy Centre 1994: 2). The fact that banks cannot ultimately gain title to Native American land has been a major obstacle to the development of a mortgage market on reservations. The Native American Lending Study reports that in 1999 there were only 471 mortgages on Native American land (US Treasury 2001: 31). This has flow-on effects more generally in that 'low-levels of home ownership deny Native Americans and Native Hawaiians the most common form of collateral to obtain loans for purchases or small business start-ups' (US Treasury 2001: 31).

The Indian Housing Block Grant Program

A US government initiative designed to address the need for housing on Native American reserves is the Indian Housing Block Grant (IHBG) Program. In accordance with the stipulations of the *Native American Housing Assistance and Self-Determination Act 1996*, the program is designed to 'provide grants, loan guarantees, and technical assistance to Indian tribes and Alaskan Native villages for the development and operation of low-income housing in Indian areas' (US HUD 2002). Managed by HUD, the program takes the form of a grant to tribes to provide affordable housing on reservation or Indian areas (US HUD 2002). Examples of services that tribes can provide using the grant are (US HUD 2002):

- *Housing development*—recognition is given for tribal activities that support the acquisition, construction or redevelopment of affordable housing. Such activities may include property acquisition, site improvement, development of utilities and utility services, demolition, financing, administration and planning, and other related activities.

- *Housing support services*—including counselling for rental or home-owners, establishment and support of resident management organisations, energy auditing, and other related services assisting owners, residents and contractors.
- *Housing management services*—including preparation of work specifications, loan processing, inspections, tenant selection, management of tenant-based rental assistance, and management of affordable housing projects.
- *Crime prevention and safety*—including development of safety, security and law enforcement measures, and activities appropriate to protect housing residents from crime.
- *Model activities/creative approaches to solving problems*—HUD may specifically approve model housing programs. Model programs may be developed by establishing partnerships, leveraging other public and private funds, and implementing ideas that supplement limited federal grant funds with other sources of capital.
- *Training and technical assistance*—involves funding for the technical inspection of Indian housing units and training and technical assistance to assist in the management of Indian housing. It may also include programs designed to assist tenants. These activities may also include resident surveys, and other forms of data collection and analysis.

Loan guarantees

Another aspect of the IHBG Program is the provision, by the US government, of a Title VI loan guarantee. A guarantee is a pledge by the government to private lenders, such as banks, to repay up to 95 per cent of the unpaid principal balance and accrued interest on a loan (US HUD 2002). Guarantees are available to tribes who are eligible for IHBG. Lenders must also meet HUD eligibility standards. The advantage of the Title VI program is that it enables tribes, as borrowers, to leverage IHBG funds as security for repayment of the guarantee obligation. Guaranteed loans have thus been used by tribes to fund a number of housing-related activities (see Table 7, Appendix A).

US government guarantees are also available for loans to individual Native American borrowers. Created under section 184 of the *Housing Community Development Act 1992,* guarantees are available to private lenders who offer mortgage loans to low-income Native Americans living on Indian Country (US HUD 2002). Section 184 loans are available to low-income Native Americans regardless of whether they live on fee simple land in an Indian area, tribal trust land or individually allotted land on a reservation. However, there are different loan procedures depending on the type of land a borrower is situated on. For a home loan on tribal trust land, the eligible individual borrower leases the property from the tribe on a lease approved by the Bureau of Indian Affairs and by HUD. It is the house itself that is mortgaged so that, in the event of a foreclosure, ownership of the land remains in trust for the tribe. By contrast, for a home loan on individual or 'allotted' trust land, both HUD and the Bureau of Indian Affairs must approve the loan applicant. In the event of a foreclosure, the lender or HUD cannot sell the property to anyone other than an eligible tribal member, the tribe or the housing authority serving the tribe. Thus in each case the status of the trust land is protected (US HUD 2002).

The number of mortgage loans that had been made to individual Native American borrowers in accordance with section 184 guarantees, as at April 30 2001, was 826 loans (see Table 8, Appendix A). The total value of these mortgages amounted to over US$80 million.

The untapped potential: Banking on Indigenous communities in Australia

Discussion of the services currently provided to Indigenous people and organisations must be interpreted with reference to the commercial gains that can be made in banking with these groups (see Taylor 2002). A range of opportunities exist for financial institutions wishing to bank with Indigenous organisations. Much of the potential of banking with

Indigenous organisations appears to remain underutilised. This point has been raised by Chapman (2000: 1) who argues that Indigenous organisations have not taken advantage of the increased competition and improved banking services resulting from deregulation. He further argues that there is a need to 'maximise the benefits available to Indigenous organisations and their clients through smarter banking' whilst recognising there is a diversity of needs amongst Indigenous peoples across Australia.

Another issue raised by Chapman is that many Indigenous organisations are inherently conservative in their banking practices. For example, some Indigenous organisations still rely on 'paper-based banking' through the use of cheque books, statements received by mail, and face-to-face contact with bank staff (Chapman 2000: 2). Further, he argues that while there are a number of advantages to this approach, such as the fact that it means Indigenous organisations do not need to invest in technology and training, electronic banking offers Indigenous organisations a number of benefits. In addition, he notes that, 'electronic funds transfers, reliance on the internet and other features of modern commercial life are increasingly a feature even of smaller Indigenous organisations' (Chapman 2000: 2).

Chapman suggests that one way Indigenous organisations can highlight the commercial potential they offer to the financial services industry is through collective banking. He suggests that such collective banking becomes commercially viable when organisations can pool approximately $5 million in income, assets, cash flow and reserves (Chapman 2000: 3). Further, he suggests collective banking should be conducted by Indigenous organisations on an industry, regional or national basis. In relation to regional banking, Chapman asserts that the combined resources of Indigenous organisations within a region will invariably exceed $5–$10 million (2000: 4).

At a national level there are a number of Indigenous organisations that have potentially significant economic clout. Altman estimates that the combined resources of Indigenous Business Australia, the Indigenous Land Council, the New South Wales Statutory Investment Fund and the Aboriginal Benefits Account exceed $1.5 billion dollars (Altman 2002). Chapman (2000: 5) argues that, to be successful, parties engaging in collective banking at a national level would need to establish specific benchmarks and service standards, and provide for regular review and negotiation. However, collective banking at a national level faces a number of problems, most notably, accounting for the diversity in banking needs of several thousand Indigenous organisations. In relation to this point, Altman (2002:13) notes that 'opportunities for productive investment can be foregone because Indigenous institutions are factionalised and unable to operate in concert'.

ATSIC is a reasonably large client for any financial services provider. In 2000–01, ATSIC's budget amounted to $1.2 billion (ATSIC 2002). In addition, the amounts of funds described by Chapman do not take into account the significant payments made to Indigenous organisations by other Commonwealth, state and territory departments and agencies for the delivery of services. Another potential source of financial investment by Indigenous organisations involves use of trust funds to build long-term investments and to leverage private capital. A comparison with Canada and the US indicates that at present trust and royalty funds in Australia are underutilised, particularly in relation to monies secured through royalties, mining agreements and settlements related to native title.

Options for the way forward—combating barriers to access to capital

Given the North American experience to date, there appears to be scope for a more systematic consideration of similar issues in Australia. This could include:

- development of an 'On Indigenous land and reserve lending guide' for financial institutions in Australia, similar to that developed by the Bank of Montreal;
- the potential for pooling and leveraging of existing deposits by Indigenous organisations to provide loan guarantees, equity investments/venture capital and improved access to commercial housing and infrastructure loans;

- exploration of options for the use of land as collateral, taking into account existing provisions under current legislation, especially the use of leases; and
- consideration of the development of information clearing houses at the regional level to help model financing approaches, methods of accessing equity capital, and sources of training and technical assistance.

Part 6: Summary of options for the way forward

Improving Indigenous access to banking services

- More comprehensive research could be undertaken to ascertain both current levels and types of Indigenous access to, and use of, banking and financial services in Australia, and the potential commercial opportunities arising from the impact of Indigenous community and corporate cash flows on regional economies.
- Government policies aimed at reducing welfare dependence should recognise the critical relationship between these policies, and the importance of individuals maintaining informed access to a banking account.
- The potential for an Individual Development Account type program to be pursued in an Australian Indigenous context should be examined.
- The trial of weekly payments be extended to other Indigenous communities, in return for individual Centrelink cheque recipients transferring to electronic payments.

Electronic banking in Indigenous communities

- In remote Indigenous communities and areas with comparably low levels of financial literacy and high dependence on welfare, electronic banking may need to be viewed as complementing, rather than substituting, face-to face banking services in the medium term.
- The experience of the US in moving to electronic-based welfare payments suggests that, for Indigenous people still relying on cheques, the transition to electronic payments should be accompanied by an extensive cross-cultural financial literacy program, and access to low-fee basic bank accounts. In addition, it should also be accompanied by a waiver policy that recognises insurmountable problems faced by some groups in society in transferring to electronic payments.

Identifying best practice, expanding services in remote areas and supporting improved financial literacy

- It may be valuable to have best practice models in the delivery and support of financial services to Indigenous communities by Westpac, Tangentyere, the Traditional Credit Union and First Nations independently evaluated so as to identify best practice principles. This evaluation could then serve as a guide to inform Indigenous communities and other service providers.
- The continuing demand for the expansion of culturally informed services and financial literacy training in remote communities, provided by organisations such as the Traditional Credit Union, could be assisted through the development of ongoing partnerships with major financial institutions utilising on-lending practices similar to those already being successfully used in the US (see CDFI Fund).
- There may be scope to develop a more sustained and coordinated strategy in the delivery of financial literacy education to Indigenous Australians through a partnership of existing financial institutions with a direct interest, relevant Indigenous organisations, government agencies and the philanthropic sector. This strategy could be informed by existing Australian and international best practice.

Refinement of the Rural Transaction Centres Program

- A number of small changes could be considered to the current operations of the RTC Program so that it can better assist Indigenous communities in remote areas. These include amending its current guidelines to encourage smaller Indigenous communities to band together to form regional service areas where an RTC could be located. The Commonwealth government should also consider appointing a relevant experienced Indigenous person to the RTC Advisory Board.

Development of a CDFI-type program

- There may be scope for a CDFI-type program to be developed to operate in Australia that would facilitate on-lending by major banks to smaller Indigenous-specific lending institutions.
- Another model to be looked at is whether an incentive structure for banks should be developed, such as the Bank Enterprise Awards, which provide recognition for banks that develop progressive policies and products for Indigenous communities, organisations and individuals.

Combating barriers to access to capital

- Development of an 'On Indigenous land and reserve lending guide' for financial institutions in Australia, similar to that developed by the Bank of Montreal.
- The potential for pooling and leveraging of existing deposits by Indigenous organisations to provide loan guarantees, equity investments/venture capital and improved access to commercial housing and infrastructure loans.
- Exploration of options for the use of land as collateral, taking into account existing provisions under current legislation, especially the use of leases.
- Consideration of the development of information clearing houses at the regional level to help model financing approaches, methods of accessing equity capital, and sources of training and technical assistance.

Appendix A

Table 1. Number and location of bank branches and agencies, 1990–2000[a]

	Branches metropolitan [b]	Branches elsewhere	Agencies metropolitan	Agencies elsewhere
1990	4028	2893	3506	4206
1991	4049	2868	3126	4174
1992	4032	2888	2736	3846
1993	4118	2946	2563	3725
1994	4075	2672	3136	2590
1995	3990	2665	3302	2595
1996	3879	2629	3599	3351
1997	3499	2662	3652	3367
1998	3190	2425	3232	3135
1999	3047	2311	2036	2686
2000	2838	2165	2091	2952

Notes: a. All figures as at 30 June of the year in question.
b. Metropolitan branches are defined as those in capital cities and surrounding suburbs.

Source: Australian Prudential Regulation Authority (APRA) 2002.

Table 2. Bank branches, metropolitan and elsewhere, by State[a]

	NSW		VIC		QLD		SA		WA	
	1993	2000	1993	2000	1993	2000	1993	2000	1993	2000
Metropolitan	1397	979	1294	759	542	416	338	229	402	303
Elsewhere	1042	731	689	458	576	537	239	197	242	157
Total	2439	1710	1983	1217	1,118	953	577	426	644	460
Per cent change: metropolitan[b]	–30		–41		–23		–32		–24	
Per cent change: elsewhere	–30		–34		–7		–7		–35	
Per cent change: total	–30		–39		–15		–26		–29	

Table 2 contd. Bank branches, metropolitan and elsewhere, by State[a]

	TAS		NT		ACT	
	1993	2000	1993	2000	1993	2000
Metropolitan	60	101	19	23	106	78
Elsewhere	102	21	15	17	1	4
Total	162	122	24	40	107	82
Per cent change: metropolitan[b]	+68		+135		–27	
Per cent change: elsewhere	–80		+113		+400	
Per cent change: total	–25		+66		–23	

Notes: a. All figures as at 30 June of the year in question.
b. Metropolitan branches are defined as those in capital cities and surrounding suburbs.

Source: RBA Bulletins

Table 3. Number of major bank branches in Australia

Branches	ANZ	CBA	NAB	WBC	Total major banks	Total all banks
1990	1092	936	1286	1301	4615	6575
2000	800	1076	1053	704	3633	5003
Net change (number)	–292	+140	–233	–597	–982	–1572
Net change (%)	26	15	18	46	21	24

Notes: a. All figures as at 30 June of the year in question.

Source: RBA Bulletins.

Table 4. Number of major bank agencies in Australiaa

Agencies	ANZ	CBA	NAB	WBC	Total major banks	Total all banks
1990	625	5121	159	318	6223	8072
2000	77	3935	93	150	4255	5043
Net change (number)	–548	–1186	–66	–168	–1968	–3029
Net change (%)	88	23	42	53	32	38

Notes: a. All figures as at 30 June of the year in question.

Source: RBA Bulletins.

Table 5. Location and details of funded Indigenous RTC Programs, March 2002

Location	Payee	RTC: status	Business Planning: status	Business Planning: status	Project assistance ($)	Total per project ($)	Banking services provider
NT Alparra	Urapuntja Council Aboriginal Corporation	Applicant					
Batchelor and Adelaide Rivers	Coomalie Community Government Council	Applicant					
Galiwin'ku	Galiwin'ku Community Inc	Applicant					
Harts Range, Engawala, Bonya	Aritaripilta Community Government Council	Applicant					
Kintore	Walungurru Community Council Aboriginal Corporation		Approved	19,000		19,000	
Maningrida	Maningrida Council Inc	Approved	Approved	10,000	152, 955	162, 955	TCU
Mataranka	Mataranka Community Government Council	Approved	Approved		162,800	194,415	
Melville Island	Milikapiti Community Government Council	Applicant					
Numbulwar	Numbulwar Numburindi Community Government Council	Approved	Approved	15,000	139,800	154,800	TCU
Oenpelli	Kunbarllanjnja Community Government Council	Approved	Approved		142,300	142,300	TCU
Ramingining	Yuyung Nyanung Aboriginal Corporation	Approved	Approved		181,000	181,000	TCU
Timber Creek	Ngaliwurru-Wuli Association	Applicant		5900		5900	
Ti Tree	Anmatjere Community Government Council		Approved	7500		7500	
Tiwi	Nguiu Community Government Council		Approved	9400		9,400	
Wadeye/Port Keats	Kardu Numida Incorporated		Approved			498,106	TCU
Warruwi		Applicant					
Wurankuwu	Wurankuwu Aboriginal Corporation	Applicant					
Yuendumu, Willowra	Yuendumu Community Government Council	Applicant					
QLD Bamuga	Bamuga Island Council		Approved	5900		5900	
Darnley Island	Saylor Clan Torres Strait Islander Corp		Applicant				
Dauan	Dauan Island		Approved	4350		4350	
Gununa, Mornington Island	Mornington Shire Council		Approved	15,000			
Outer islands of the Torres Strait	Island Coordinating Council	Applicant					

Table 5. Location and details of funded Indigenous RTC Programs, March 2002 contd.

Location	Payee	RTC: status	Business Planning: status	Business Planning: status	Project assistance ($)	Total per project ($)	Banking services provider
Yarrabah	Yarrabah Aboriginal Community Council	Applicant					
SA Penneshaw	Pennenshaw Progress Association	Approved	Approved	6500	307, 989	314,489	
Point Pearce	Yorke Peninsula		Applicant	7400		7400	
WA Fitzroy Crossing	Marra Worra Worra Aboriginal Corporation		Approved	15,000		15,000	
Goonmalling	Shire of Goonmalling		Applicant	8900		8900	
Halls Creek	Halls Creek Shire Council	Approved	Approved	15,000	230,000	245,000	
Jurien	Shire of Dandaragan		Approved	9350		9350	
Mulga Queen	Nurra Kurramunoo Aboriginal Corp	Applicant					
Newdegate	Lake Grace		Approved	9346		9346	
Onslow	Ashburton Shire Council		Approved	10,150		10,150	
Roebourne	Roebourne Telecentre	Applicant					
Warburton	Ngaanyatijarra Council Aboriginal Corp		Approved	25,000		25,000	
VIC Lake Tyers	Lake Tyers Aboriginal Trust	Applicant					
Total outlays to date						2,030,261	

Source: RTC Program, 2002.

Table 6. CDFI funding (US dollars in millions)

Program	FY 1997	FY 1998	FY 1999	FY 2000
Core funding Number of awards	50	42	78	75
Amount of awards	$33.3	$44.3	$78.1	$74.2
Intermediary funding Number of awards	0	3	4	2
Amount of awards	$0	$7.1	$8.2	$3.1
Technical funding Number of awards	0	70	89	66
Amount of awards	$0	$3.0	$4.1	$3.1
Bank Enterprise Award Program Number of awards	54	79	103	159
Amount of awards	$16.5	$28.0	$31.7	$44.8
Total awards	$49.8	$82.4	$122.1	$125.1

Source: CDFI Fund Annual Report 2001.

Table 7. Housing infrastructure developed using guaranteed loans

Tribe	Location	Use of funds	Amount of funding
Asa'Carsamiut	White Mountain, Arkansaw	Infrastructure and 8 rental units	$1,696,020
Catawba	York County, South Carolina	120 rental and home-ownership units	$5,300,000
Lac Coutre Oreilles	Hayward, Wisconsin	40 rental units	$900,000
Pueblo of Pojoaque	Santa Fe, New Mexico	Infrastructure for rental housing	$434,900
Salish & Kootenai	Pablo, Montana	Purchase of mobile home park for rental	$1,525,000

Source: US HUD 2002.

Table 8. Number of guaranteed section 184 loans, 30 April 2001

State	Loans	Amount (US$)
Alaska	269	$40,616,736
Arizona	62	$4,829,618
California	3	$323,872
Iowa	4	$196,315
Idaho	20	$1,199,366
Louisiana	3	$257,056
Maine	1	$107,514
Michigan	17	$1,111,320
Minnesota	1	$24,896
Montana	12	$722,149
North Carolina	10	$472,550
North Dakota	10	$560,889
Nebraska	11	$558,333
Nevada	1	$109,278
New Mexico	30	$3,212,576
Oklahoma	182	$11,550,221
Oregon	33	$2,206,051
Rhode Island	3	$411,137
South Carolina	1	$38,350
South Dakota	61	$3,507,422
Washington	24	$2,048,032
Wisconsin	68	$6,413,015
Type of loan		
Fee simple	532	$56,970,774
Tribal trust	283	$22,773,771
Allotted trust	21	$ 1,728,996
Total	826	$80,476,696

Notes

1 The CDFI Fund was established by the *Reigle Community Development and Regulatory Improvement Act 1994*.

2 This estimate is based on an analysis of the equity investment (as a level of gross domestic product) that a particular region can support.

3 The relevant bodies of law are the *Trade and Intercourse Act* (25 USC 177), and the *Allotmen*t Act (1887) [25 USC 331].

4 In Hawaii the situation is similar with Hawaiian Home Lands held in trust for the benefit of the Native Hawaiian people, who may have use of a parcel of trust land only with approval of the State Department of Hawaiian Home Lands.

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