

DOING DEVELOPMENT DIFFERENTLY

ESSAY COMPETITION

Even minor improvements in bad institutions in developing countries make a huge difference to large numbers of poor people. That's why the Atlas Network launched *Doing Development Differently* in October last year. It differs from the foreign aid status quo because it helps local organisations expand the economic rights of the poor. It does this by chipping away at the margins of bad institutions like onerous business regulation, weak property rights, and inefficient legal processes. New research supported by Atlas Network has found that these small steps can lift large numbers of people out of poverty.

Explain how Atlas' *Doing Development Differently* approach could be applied to one or more public policy issues in Australia in a way that benefits the most poor and marginalised members of our society.

Essays to be 1,000 words.

PRIZES

1st - \$1,500

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Due date: May 20, 2018

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Winning essay – 2nd prize

Doing Development Differently: Good Intentions Do Not Always Mean Good, Long-Term Outcomes: A Practical Comparison of the Indigenous Home Ownership Program and Government-Subsidised Housing for Indigenous Australians

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In 1985, the benefit concert Live Aid was able to raise over \$100 million (USD) to fight famine in Ethiopia. Over 33 years later Ethiopia is still one of the poorest countries in the world dealing with starvation, with an estimated 8.5 million people facing severe hunger today.¹ Though little debate has waged over the good intentions of the benefit concert, the issue remains as to whether charitable donations actually help developing countries in the long-term. To illustrate this further, a donor once collected 1 million t-shirts to donate to Africa, this meant local business selling t-shirts were no longer needed. When it came time for more t-shirts, there was no local businesses selling them which meant a need for another donation.² Thus a continuing dependency is created.

What must be first emphasised is that this essay does not seek to delegitimise charities, large sum donations or government grants. Instead, what will be explored is whether these charitable efforts are in fact potentially inhibiting initiative and stunting growth in the long-term. The following will be discussing how the *Indigenous Home Ownership Program* (IHOP) - exhibiting features of the *Doing Development Differently* approach produced by Atlas - is in contrast to the implementation of government subsidised housing for Aboriginal Australians.

Within the Australian context, Aboriginal Australians are amongst the highest demographic of people who do not own their own home.³ In adopting the *Doing Development Differently* approach, issues such as removing deposit minimums, increasing property rights and removing potential risks are possible factors that could help improve and increase home ownership for Aboriginal

¹ Oxfam International – Ethiopia Food Crisis < <https://www.oxfam.org/en/emergencies/ethiopia-food-crisis> >

² John Hawthorne, '5 Reasons Why Donations to the Poor May Bring Bad Results!', *Business Connect*, June 7 2017, <<https://businessconnectworld.com/2017/06/07/donating-to-poor-makes-them-more-poor/>>.

³ Daniel Hughes, 'Home Ownership and Indigenous Australian', *The Drum* (online), 24 March 2016 < <https://open.abc.net.au/explore/123126> >.

Australians. Removing barriers to land ownership by securing property rights has worked in other contexts around the world.⁴

According to statistics garnered in 2016,⁵ Aboriginal and Torres Strait Islanders were three times more likely to be renting from state and territory housing authorities compared to non-Indigenous Australians (32% compared to 10%). The Private Rental Aboriginal Assistance Loan - as commissioned by the Department of Communities and Housing (WA) - provides eligible applicants living in Western Australia with an interest-free loan to the sum of six weeks rent. The purpose of the loan is to address those who are at risk of eviction. The loan is to be paid directly to the landlord, who will then confirm that an eviction will not take place. The tenant will then be responsible for repaying the loan. Though the loan does assist in avoiding eviction, it only provides a short-term solution, in essence it does not offer any possible solution to break the chain or improve someone's living situation in the long-term.

In contrast to the Indigenous Business Australia's (IBA) IHOP, the removal of a minimum deposit amount has aided in allowing Indigenous Australians to gradually transition to the general banking sector. The IBA's structure is to allow applicants to make repayments more easily during the infancy of the home loan, this is done by removing strict regulation and not enforcing financial reprimands if the home-loaner defaults on a payment. Homeownership has been found to have numerous social benefits as it creates a sense of self-worth, financial stability and an increase in social capital.⁶ The IHOP also seeks to safeguard customers from possible financial stress by capping the repayments so they do not exceed 30% customer's gross income.

According to the Indigenous Business Australia Annual Report 2016,⁷ the Indigenous home ownership rate in 2016 was 39.6% compared to 66% of the non-Indigenous population. The IHOP is not structured as a handout program, the aim is for those who are entering into the home buyers' market to be under similar conditions to that of non-Indigenous Australian home buyers with the

⁴ *Resorting Property Rights to Generational Apartheid Victims* <<https://www.atlasnetwork.org/poverty/stories/restoring-property-rights-to-generational-apartheid-victims>>.

⁵ Australian Bureau of Statistics (Cth), *Census of Population and Housing: Reflecting Australia – Stories From the Census, 2016*, Report No 2071 (2017).

⁶ Gary Engelhardt, Michael Eriksen, William Gale & Grefory Mills, 'What are the Social Benefits of Homeownership? Experimental Evidence for Low-Income Households' (2010) 67 *Journal of Urban Economics*, 249, 249-250.

⁷ Indigenous Business Australia (Cth), Annual Report 2016-2017, p 24.

only difference being the lifting of certain conditions that would otherwise prohibit some Indigenous Australians from ever entering into the home buyers' market all together.

According to studies, 40% of all homeowners in Australia who have defaulted on a mortgage repayment take on further debt through credit cards and 38 % take on more debt by borrowing off family and friends.⁸ Mortgage debt can become so dire that up to 10% of defaulters refinance their mortgage more than four times.⁹ No deposit and small deposit home loans already exist, though lenders will still require someone to go guarantor on the loan. Going guarantor is of course a serious financial decision to make and if someone is unable to secure a guarantor for more than 20% (usual requirement) of the purchase price of the property, the loan will likely not be approved. If you are unable to find someone to go guarantor then certain lenders will need Lenders Mortgage Insurance (LMI) this is an upfront payment charged to the borrower to protector the lender, yet another condition that may prevent someone from considering in applying for a home loan. The Indigenous Home Ownership program does not require a customer to take out a LMI or for someone to be a guarantor and thus removing possible obstacles.

Conclusion

Removing certain conditions for acquiring a home could be construed as being patronising or create a sense that certain people are given an unfair advantage or help based on their ethnic background. However, though certain conditions may have been removed, the repayment of the loan is still required and thus there is still a fostering of initiative as no direct financial assistance is given to repay the loan. Furthermore, according to IBA's statistics, 59% of customers in 2016-2017 who were engaged in an IHOP have transitioned to mainstream finance, thus placing them on a level playing field with non-Indigenous Australians. In short, it essentially comes down to the old saying "*give a man a fish, and you'll help him avoid eviction for six weeks, teach a man to fish, and you'll be helping to facilitate home ownership whilst promoting self-worth, stability and initiative.*"

⁸ Mike Berry, Tony Dalton & Anitra Nelson, 'Mortgage Default in Australia: Nature, Causes and Social and Economic Impact' (Australian Housing and Urban Research Institute, 2010), p 38-39.

⁹ Ibid, p 42.