



# **Risky business: the problems of Indigenous business policy**

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**Charles Jacobs**

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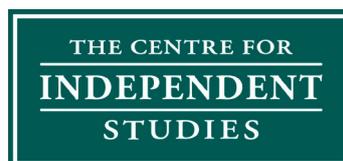
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# **Risky business: the problems of Indigenous business policy**

Charles Jacobs



**Research Report 35**

## **ACKNOWLEDGEMENTS**

This research report has been assisted by comments and suggestions from two anonymous external reviewers; my colleagues Sara Hudson, Simon Cowan and Gary Banks; policy intern Oliver Tridgell — who collated a comprehensive dataset of over 1300 Supply Nation listed businesses; and 58 key figures in the Indigenous business sector from across Australia who participated in unstructured interviews. Thank you to Karla Pincott, who edited the report, and Ryan Acosta who designed and laid out the report.

All remaining errors are my own.

The Indigenous artwork used in creation of the report is an adaptation of an original piece created for the CIS by Djambawa Marawili and members of his community at Yilpara (Baniyala), an Aboriginal homeland community in North East Arnhem Land.

### **Supported by**



Susan McKinnon  
Foundation

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## Executive Summary

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

The federal government's Indigenous Procurement Policy (IPP) initially dictated that 3% of all federal procurement contracts must be awarded to Indigenous businesses by 2020, but that target date was brought forward to the end of the 2016–17 financial year.

However, the policy's target measurement system greatly exaggerates its success. Each department can achieve their IPP targets via figures based on contract number, rather than actual spend. A large number of minor contracts could be reported, however, they may have small financial value — creating the false perception of a wider footprint. The impact of this can be seen in the figures for 2015–16 — the first year of the IPP — during which 2.9% of contracts went to Indigenous suppliers but this represented only 0.94% of actual spend.

Several key steps could be taken to improve the IPP, and avoid some of its unintended consequences. The Commonwealth must revoke the acceleration of the 3% procurement target in order to avoid placing undue pressure on the sector, and to avoid potential 'black cladding' (falsely identifying as an Indigenous business in order to win contracts).

Incentives should be built into tenders to encourage positive behaviour (for example, greater weighting given to businesses that employ or sub-contract to Indigenous people).

A full list of contracts awarded under the IPP should be published in the interest of transparency. An increase in the availability of data will allow for greater clarity around the use of the policy.

The dollar value conversion method should be abandoned as it allows figures to be significantly exaggerated.

Finally, tiers must be integrated into the policy, with companies becoming ineligible for preferential consideration once they have reached a certain capacity.

The ability of the IPP to support a wide range of sectors must also be questioned. The policy has been regularly touted as 'supercharging' the Indigenous business sector. However, due to the restricted nature

of government procurement, the IPP benefits only particular Indigenous business. The IPP could also create a situation of dependency, where suppliers are overly reliant on government contracts and find it difficult to survive in the open market.

Yet while the government's procurement requirements can only ever have a narrow impact on the Indigenous business sector as a whole, due to the IPP there is a growing commercial interest from the private sector to partner with Indigenous businesses.<sup>1</sup> Such relationships are mutually beneficial, with joint-venture partnerships offering the opportunity for small Indigenous businesses to enter the market and develop their skills, while the non-Indigenous partner gains access to new markets.

Culture is both an enabler and barrier to Indigenous business. Aboriginal entrepreneurs are utilising their culture to leverage business opportunities in areas such as tourism and carbon offsetting. At the same time, cultural expectations can impede business development. If Indigenous people want to fully embrace the

opportunities afforded by the government's focus on business, they need to find a way to balance their culture commitments with the responsibilities inherent in running a business.

Finally, the government's approach to financing Indigenous businesses must be reviewed. The IPP supports Indigenous business enterprises that are already established and relatively large and successful. The biggest gap in the area of entrepreneurship policies is for small and emerging businesses. However, the government's New Enterprise Incentive Scheme (NEIS) has a very poor record of providing assistance.

At the same time, the high rate of reliance on government grants among Indigenous business is not sustainable. Indigenous businesses must be supported to operate independently in the open market if the sector is to flourish and prosper. The increasing goodwill of major banks could offer an opportunity to provide loans that progressively integrate businesses into mainstream finance arrangements.



## Introduction

Historically, Indigenous Australians' participation in the mainstream economy has been restricted. Government policies and societal attitudes towards Aboriginal people "largely excluded [them] from the market economy."<sup>2</sup> Their involvement was often limited to the provision of labour in the pastoral industry.<sup>3</sup> From the late nineteenth century until the early 1970s, Aboriginal and Torres Strait Islander people's wages were managed by Australian governments under the auspices of 'protection'.<sup>4</sup> The amount of money owed to Indigenous people because of these policies is estimated to be as high as \$70 million in New South Wales alone.<sup>5</sup>

Despite changes to government policies to recognise Indigenous people's rights, their economic participation remains comparatively low. Welfare is locking many Indigenous people into an 'artificial economy' and has created "paralysing dependencies" in many communities and suburbs.<sup>6</sup> Relatively high welfare payments have created little incentive for people to seek employment.<sup>7</sup> Schemes such as the former Community Development Employment Projects (CDEP) also reinforced "the notion that Indigenous Australians are not capable of holding mainstream employment."<sup>8</sup> Consequently, Indigenous labour force participation sits well below the national average.<sup>9</sup>

A vast amount of government money continues to be dedicated to integrating Indigenous Australians into the economy. In 2014, all jurisdictions spent a combined average of \$1,460 per head on Aboriginal and Torres Strait Islander labour and employment programs — nearly 3.5 times the amount spent on non-Indigenous people (\$443).<sup>10</sup>

In the past decade, the public and private sectors have looked for alternative measures to bring more Indigenous Australians into the mainstream economy. The role of business in overcoming Indigenous disadvantage has gained significant support as a form of wealth creation, independence and opportunity.<sup>11</sup> Business is an essential element of Indigenous economic development. Participation in business can be an empowering and proactive means of addressing the ongoing disadvantage that Aboriginal and Torres Strait Islander people face. It can also help eradicate the perverse incentives of welfare and lead to better outcomes: research suggests Indigenous businesses are far more likely to employ Indigenous people and could therefore have an important impact.<sup>12</sup>

In 2008, the Standing Committee on Aboriginal and Torres Strait Islander Affairs published the 'Open for Business: Developing Indigenous enterprises in Australia'

report, which argued that business was of overwhelming importance for the future of Indigenous people.<sup>13</sup> Following the inquiry, the Australian Indigenous Minority Supplier Council (now Supply Nation) was founded in 2009 with the vision to establish “a prosperous, vibrant and sustainable Indigenous enterprise sector.”<sup>14</sup> The body works with government and corporate members to create and identify opportunities for the growth of Indigenous businesses.

In 2011, the Commonwealth Procurement Rules Indigenous Exemption or Indigenous Business Exemption (IBE) was introduced to encourage the use of Aboriginal suppliers in federal procurement. Under the IBE, federal departments were given the option to purchase goods and services from Indigenous companies without undergoing usual tender processes.<sup>15</sup> This was intended to promote the development of the Indigenous business sector. However, due to a lack of firm guidelines, the exemption was rarely used. Consequently, in 2015 the Commonwealth introduced the IPP, which set hard targets for government procurement from Aboriginal and Torres Strait Islander enterprises and has been described as a watershed moment for Indigenous economic policy in Australia.<sup>16</sup> The concept of promoting socio-economic development through government procurement is not new. In the United States, ‘set asides’ for minority

groups have existed since the late 1960s. Meanwhile, in Canada policies such as the Procurement Strategy for Aboriginal Business (PSAB) has been used to build the capacity of Indigenous businesses.

Chapter 1 analyses the growing focus on Indigenous business from both the government and corporate sectors, and their arguments for promoting it. Chapter 2 investigates the challenges that currently limit Aboriginal participation in business, and looks at issues such as low levels of education, limited access to finance, cultural barriers and remote disadvantage. Chapter 3 examines the current strategies for promoting Indigenous enterprise and explores government policies, corporate commitments, supporting bodies, and the nature of open market competitiveness and sustainability. Chapter 4 provides some suggestions on how to address the issues that have arisen with recent government policies and suggests other strategies to help the Indigenous business sector grow.

It must be noted there are many inherent contradictions in the Indigenous business ecosystem. Many areas discussed in this report — such as the nature of kin ties — are not mutually exclusive and can be categorised as both challenges and opportunities.



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## Chapter 1 – Moving towards Indigenous business

### A snapshot of Indigenous business

Before making any policy recommendations in relation to Indigenous business, it is important to be aware of the nature of the Indigenous business eco-system and the factors that have contributed to its recent growth.

Table 1 provides a basic snapshot of key areas in the sector prior to, and after, the announcement of the

IPP in 2015. The number of Aboriginal businesses has increased by at least 35% since 2011 and by over 1000% since 2001.<sup>17</sup> Commonwealth procurement of goods and services from Indigenous enterprises has also increased by 8200%. Interestingly, annual procurement from Business Council of Australia (BCA) members has decreased by 82% since 2013. The BCA suggest this could be due to changes in the resources sector.<sup>18</sup>

**Table 1: Snapshot of the Indigenous business ecosystem**

|  | Pre-IPP   | Post IPP Announcement (2015)                                |
|--|---|---|
| <b>Self Employed</b>                       | 6% Indigenous, 17% non-Indigenous (2006) <sup>19</sup>  | 6.6% Indigenous, 15-17% non-Indigenous (2016) <sup>20</sup> |
| <b>Number of businesses</b>                | 1845 (2001) <sup>21</sup><br>8,900 (2011) <sup>22</sup> | 12,000-16,000 (2016) <sup>23</sup>                          |
| <b>Supply Nation listed suppliers</b>      | 276 (2014) <sup>24</sup>                                | 1306 (2017) <sup>25</sup>                                   |
| <b>Commonwealth Government procurement</b> | \$6 million (2012-13) <sup>26</sup>                     | \$500 million (2017) <sup>27</sup>                          |
| <b>BCA Member procurement</b>              | \$2 billion (2013) <sup>28</sup>                        | \$356 million (2016) <sup>29</sup>                          |

## Box 1: Types of Indigenous businesses

Ultimately, there is no one definition of an 'Indigenous business'.<sup>30</sup> Under the IPP, it refers to businesses that are 50% owned and controlled by Indigenous people. Supply Nation gives official certification to businesses with 51% Indigenous ownership, whereas the Australian Bureau of Statistics defines a business with at least one Indigenous owner as Indigenous.<sup>31</sup> This definition is problematic, as it rules out the large number of partnerships between an Indigenous and non-Indigenous spouse.<sup>32</sup>

The Forrest Review proposed definitions based on lower levels of ownership or the percentage of Indigenous employees.<sup>33</sup>

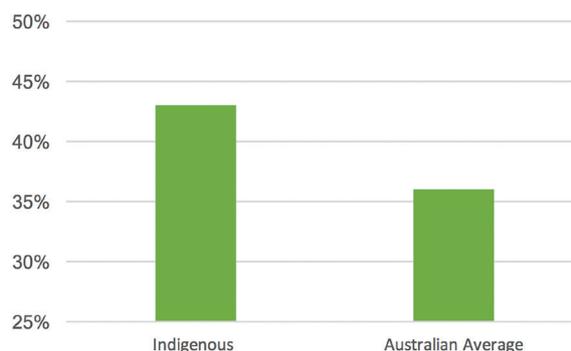
Many different models can be, and are being, employed to promote Indigenous economic development. Examples of potential Indigenous enterprises include:

- **Indigenous corporations:** Incorporated under the Office of the Registrar of Indigenous Corporations (ORIC); typically have boards elected by Indigenous community members; distribute profit back to members and the corporation; often provide social services to communities.<sup>34</sup>
- **Indigenous business co-operatives:** Communally owned organisations that aim to create 'income and opportunity' for 'the advancement of the Aboriginal community'; major focus on social return from investments.<sup>35</sup>
- **Not-for-profit business enterprises:** Organisations established to fill service gaps for Indigenous communities; typically located in remote areas.<sup>36</sup>
- **Private micro, small, and medium businesses:** Private enterprises that operate for-profit like any other business have a wide variety of definitions, including sole traders, 50% Indigenous ownership (for example between Indigenous and non-Indigenous spouses), 25% Indigenous ownership, and employment of a particular percentage of Indigenous people.<sup>37</sup>

Several key measures indicate that despite the growth in the Indigenous business sector in recent years, the number of Aboriginal businesses still lags behind the rest of the country. Indigenous people are seven times less likely to own a business compared to non-Indigenous Australians.<sup>38</sup> They are also three times less likely to be self-employed.<sup>39</sup> Indigenous businesses are also typically less established than their non-Indigenous counterparts. Of the 3048 Aboriginal Corporations tallied in a report by Social Ventures Consulting Australia, nearly half were less than five years old.\* This is significantly higher than the Australian total of 35% (See Figure 1).<sup>40</sup> The relatively young age of the Indigenous business sector could be due to the historically limited nature of Aboriginal involvement in the economy or the growing focus on Indigenous business in recent years.

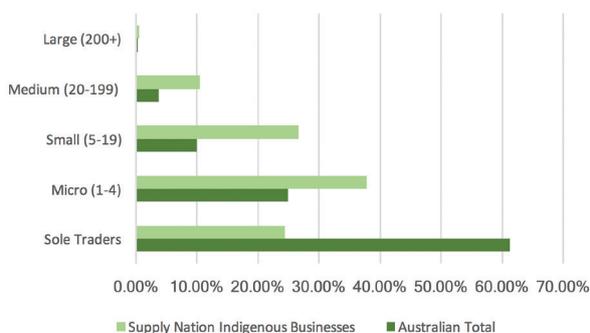
Nearly 90% of Indigenous businesses are characterised as small (less than 20 employees). Compared to the Australian average, there is a clear disparity in the proportion of Indigenous sole traders (See Figure 2). Being a sole trader requires a degree of risk, personal investment and access to finance.<sup>41</sup> Aboriginal businesses also generate significantly less revenue than their non-Indigenous counterparts. In 2015 Supply Nation businesses had an average revenue of \$1.65 million.<sup>42</sup> In contrast, the 2016 Australian average was \$2.26 million.<sup>43</sup> This is significant, as businesses with a revenue of more than \$2 million are distinctly more likely to survive.<sup>44</sup> As such, the data suggests that limited access to capital has an impact on the number of Indigenous people participating in business and the size of their business (Chapter 2 explores this issue in more detail).

**Figure 1: Percentage of Small and Medium Sized Enterprises/Corporations aged 5 years and under**



Source: SVA Consulting

**Figure 2: Australian & Indigenous Businesses by Number of Employees**



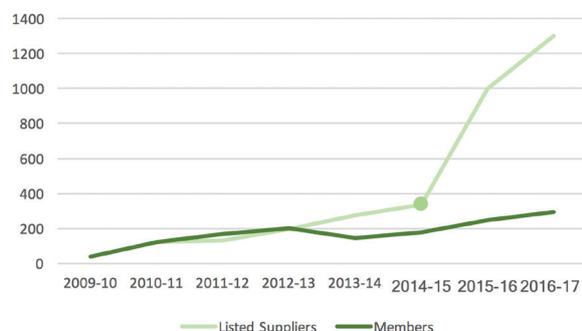
Source: Supply Nation Indigenous Business Direct & ABS Data<sup>45</sup>

\* Note, SVCA's analysis refers to Indigenous corporations and estimates there are another estimated 3000 organisations/companies registered under other legislation

## The growth of Supply Nation and the Indigenous Chambers of Commerce

Supply Nation was developed and funded to certify and promote Indigenous business. Since its establishment in 2009, the number of businesses certified by the organisation has grown significantly (See Figure 3).

**Figure 3: Supply Nation Listed Suppliers and Members**



**Source:** Supply Nation Annual Reports & Media Releases

The biggest increase occurred following the announcement of the IPP in March 2015 (Green dot on Figure 3). Since then, the Indigenous Business Direct database has quadrupled in size to over 1300 (See Figure 3). The reason for this rise could be the result of more Indigenous people establishing businesses and also an increase in businesses identifying as Indigenous to access the benefits conferred by the IPP.

Suppliers are aligned with Supply Nation in one of two categories<sup>46</sup>:

1. **Registered Suppliers:** Business/supplier must be at least 50% Indigenous owned (Relaxed from 51% to enable more businesses to participate under the IPP)
2. **Certified Suppliers:** Business/supplier must be at least 51% Indigenous owned, managed and operated (preferred by Supply Nation).

There are also 290 private businesses and public organisations who are members of Supply Nation.<sup>47</sup> Members pay an annual fee and agree to promote “the development of sustainable, innovative, responsive and flexible supply chains.”<sup>48</sup> Some of the biggest companies in Australia are members, including 13 of the ASX Top 20. Combined, these firms have a \$656.3 billion market capitalisation and represent 53% of the entire ASX 200.<sup>49</sup>

Supply Nation derives a significant proportion of its income from public funding. In 2014, the organisation received 58% (\$2,157,401) of its income from government grants, with \$823,344 coming from membership fees. Supply Nation’s overall profit for the year was \$777,210.

The First Australians Chamber of Commerce and Industry (FACCI) also provides support to Indigenous businesses. Established in 2015, FACCI is the peak body for state and territory Chambers of Commerce, and now represents approximately 3300 Aboriginal and Torres Strait Islander businesses. Although some

of the chambers receive government funding (FACCI acquired \$204,270 from the Indigenous Advancement Strategy in 2016), the bulk of their income comes from partnerships and membership fees.<sup>50</sup> FACCI also has its own certification process for Indigenous businesses. Partnerships with FACCI are listed in many Reconciliation Action Plans (RAPs) and are symbolic of the increasing focus on Indigenous business by various corporates.

## Why Indigenous business?

### A cost effective means of alleviating disadvantage

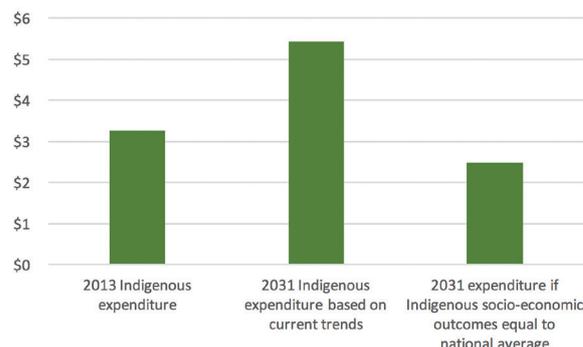
Deloitte estimates that if Indigenous people shared the same economic outcomes as the remainder of the population, there could be considerable savings in all major areas of government spending and a significant increase in revenues.<sup>51</sup> The report compares 2014 statistics with a ‘what if’ hypothetical. It calculates the overall dollar value benefit if Indigenous Australians experienced similar outcomes to other Australians by 2031. Although the methodology is limited and does not take into account a wide range of demographic factors, the figures provide a snapshot of the potential economic benefits of greater Indigenous participation in the economy.

The most prominent impact of Indigenous business on the government balance sheet would be achieved through an increase in tax income. Indigenous business ownership could contribute up to a predicted \$7.2 billion in extra revenues.<sup>52</sup> Tax revenues would not merely be derived from business owners but also from Indigenous employees. Aboriginal and Torres Strait Islander businesses are more likely to employ an Indigenous person and therefore this increase in overall employment outcomes could also boost the tax base.<sup>53</sup>

Deloitte modelling suggests there could be a \$2.94 billion saving (60% reduction) in government social security expenditure if Indigenous Australians achieved welfare parity with the rest of Australia by 2031.<sup>54</sup>

There is significant discourse surrounding Indigenous welfare dependency in Australia. Many Aboriginal and Torres Strait Islander people wish “to reduce [their] dependency upon welfare and are prepared to work towards attaining economic independence from government.”<sup>55</sup> Utilising strategies such as small business development could help enable this transition.<sup>56</sup>

**Figure 4: Indigenous Social Security Spending (\$B)**



**Source:** Deloitte Modelling on Indigenous Economic Development

According to Deloitte, the overall benefit to the Australian economy through increased Indigenous employment and business could be as much as \$24.3 billion (1.15%) by 2031, with reductions in government expenditure potentially contributing to an \$11.9 billion net improvement across the budgets of all Australian governments. However, it is unlikely the gap will be fully closed in such a short time frame, and these figures should be treated with caution.

### **Opening doors with entrepreneurship**

Entrepreneurialism is a fluid term and some of its many definitions include: establishing one's own business, developing new products and practices within an established business, and showing a distinctly innovative and creative business mindset.<sup>57</sup> Scott Shane argues for a more distinct definition, contending that entrepreneurship involves the establishment of a new structure to make a profit, rather than the leveraging of current frameworks to create new opportunities.<sup>58</sup> Professor Howard Stevenson concurs, suggesting that "entrepreneurship is the pursuit of opportunity beyond [existing] resources."<sup>59</sup> This report favours the latter definition and refers to entrepreneurialism as the establishment of new enterprises.

People engage in entrepreneurship for a variety of reasons. The Global Entrepreneurship Monitor outlines three key motivators:<sup>60</sup>

- Necessity motive – Limited or no other options for employment.
- Independence motive – A desire for more independence in employment
- Increase wealth motive – A desire to increase overall wealth.

In the Indigenous context, entrepreneurialism typically arises out of need. A Curtin University survey found that necessity based motivations were key to Indigenous entrepreneurship. Nearly 86% of Indigenous entrepreneurs believed starting business to create employment for themselves or their family was 'Important' or 'Very Important'.<sup>61</sup>

Entrepreneurship can be beneficial in several ways. Firstly, it can create employment opportunities for groups or individuals who have limited access to employment and markets.<sup>62</sup> Indigenous people have historically been excluded from the economy (see Introduction). The ramifications of this are still present today, and hence entrepreneurship offers the opportunity for Indigenous Australians to access economic opportunities through business ownership rather than employment. Secondly, entrepreneurship can stimulate innovation, which in turn creates a greater level of competition and can fill market gaps.<sup>63</sup> The Indigenous business sector has already begun to demonstrate significant entrepreneurial spirit through initiatives such as carbon offsetting and tourism experiences.

While there are increasing opportunities for Indigenous people wanting to be business owners, Indigenous people still face significant barriers to becoming entrepreneurs. Low levels of both education and understanding of the business landscape are two major obstacles. Education is a key driver of entrepreneurship and is directly linked to the exploitation of entrepreneurial opportunities.<sup>64</sup> Limited access to capital and low levels of savings also represent major barriers. Globally, entrepreneurs need \$17,000 USD to start a business.<sup>65</sup> The dynamics of both these issues are discussed in Chapter 2.

### **Empowerment**

The rationale for promoting Indigenous business extends far beyond the direct financial benefits.<sup>66</sup> Through business, Aboriginal and Torres Strait Islander people can experience substantial levels of self-agency and empowerment. Economic development is a form of empowerment that brings a sense of purpose, self-worth and "leads to societal acceptance in terms of equality and equity."<sup>67</sup>

Economic development presents one of the most potent means of fulfilling real self-determination and empowerment. There is significant will from within the Indigenous community to utilise business as a means to take control of their own socio-economic development.

### **Box 2: Re-invigorating the first economy**

It is essential to acknowledge the existence of Australia's burgeoning pre-settlement economy and the role this can play in encouraging the growth of contemporary Indigenous business.

There is strong evidence of flourishing Indigenous economic activity prior to 1788. Bruce Pascoe's re-evaluation of the hunter-gatherer narrative finds considerable indication of commercial structures in Indigenous society. Pascoe identifies clear examples of economic processes, such as controlled means of production, storage facilities for surplus produce, and trading of goods between groups.<sup>68</sup>

Noel Butlin also describes features consistent with an economy, and argues that Indigenous societies maintained complex supply chains, implemented strategic divisions of labour to enhance productivity, and employed skilled workers in specific areas such as boat building and hunting.<sup>69</sup> Evidence also exists of trade links between Australia's northern coast and the Macassan people of Indonesia.<sup>70</sup>



## Chapter 2 – The Challenges facing Indigenous Business

The increase in the number of Indigenous businesses in recent years is evidence of a growing Indigenous business sector. However, numerous challenges must still be resolved if more Indigenous Small and Medium Enterprises (SMEs) are to become successful. This chapter discusses three key challenges faced by Indigenous businesses and outlines further opportunities that could be created by effectively understanding and resolving them. In addition to the challenges below, there are significant issues facing remote Indigenous communities that go far beyond their personal ability to participate in business. These issues include: lack of both market economy and infrastructure, household income, poor educational outcome and welfare dependency. This report is a discussion of the wider Indigenous business ecosystem and only outlines the main issues affecting business ownership. A later CIS report will provide an in-depth analysis of economic development on Indigenous land.

### 1. Business acumen, education and networks

The small business sector is a challenging environment for any SME, faced with a lack of business acumen,<sup>71</sup> difficulty in engaging with the business sector,<sup>72</sup> confusion over capacity and procurement processes,<sup>73</sup> and even lack of knowledge of standard business processes and administrative skills.<sup>74</sup>

The challenges of small business ownership are exacerbated when combined with the wide range of socio economic issues experienced by Aboriginal people. Overall, Indigenous educational outcomes lag behind the remainder of the country. In 2016, Indigenous Australians were meeting minimum NAPLAN requirements in only one of eight areas (Year 9 numeracy).<sup>75</sup> The ACT was the only jurisdiction to have met all targets for the year.<sup>76</sup> These disparities are prevalent in all geographic areas. Indeed, over half of the national gap in Year 5 reading achievement is non-remote Indigenous students.<sup>77</sup> This deficit is significant given the importance education has as a determinant for business success.<sup>78</sup>

The educational discrepancies are even more pronounced in remote Indigenous communities. In 2014 only 28% of Indigenous students in very remote areas met or exceeded national minimum standards for year 9.<sup>79</sup> In numeracy, only 41% met Year 9 standards. School completion rates are also low, with only 11% of remote and very remote Indigenous Australians completing Year 12.<sup>80</sup> This combined with the other elements of remote disadvantage, (see Chapter 2.4) is a significant factor behind the absence of business enterprises in remote regions.

Limited social capital and networking opportunities also inhibit the growth of Indigenous SMEs. Xheneti and Bartlett argue that networks are essential for entrepreneurs and small business owners who may lack

access to more mainstream contracting opportunities due to limited capacity.<sup>81</sup> Networks provide access to opportunities and allow entrepreneurs to build the knowledge, experience and market appeal.<sup>82</sup> Indigenous business owners are often the first person in their family to have run a business and as a result do not always have the knowledge, experience or support networks to run a successful business.<sup>83</sup>

## 2. Access to finance

To establish and run an SME a business person typically needs access to a reasonable level of finance. In developed economies the typical entrepreneur needs an average of \$17,000 USD to build an SME from the ground up.<sup>84</sup> Funds are accessed from a variety of sources, from personal wealth, assistance from family or friends, and funding from banks and investors.<sup>85</sup> In Australia over 95% of entrepreneurs use their own money to fund a business start-up.<sup>86</sup>

Aboriginal and Torres Strait Islander people have less personal funds to start or grow an SME than their non-Indigenous counterparts. The average total gross personal income of an Indigenous man is 55% of his non-Indigenous counterpart.<sup>87</sup> Meanwhile, Indigenous women earn 70% of the income of the average Australian female. A survey of 460 businesses found 73% of non-Indigenous businesses drew on personal savings as a source of finance, whereas only 57% of Indigenous businesses were able to draw on their own funds.<sup>88</sup>

Indigenous small businesses and entrepreneurs also have significantly more trouble accessing finance from mainstream banks. Due to factors such as limited collateral (see below) and higher interest rates on business financing, Indigenous SMEs are either being denied or not applying for commercial loans. Research by Morrison et al identified only 22 out of 324 Indigenous entrepreneurs surveyed who had successfully received a commercial bank loan or mortgage.<sup>89</sup> Conversely, 80% of SME loan applications in Australia overall are approved, with the majority of these coming through major banks.<sup>90</sup>

Due to this combination of factors, 16.2% of Indigenous companies sourced capital from government grants; as opposed to only 1.5% of non-Indigenous companies. Finally, 38% of Indigenous enterprises took out a loan with a government body, compared to 0.6% non-Indigenous enterprises. Such dependence on government by Indigenous entrepreneurs suggests the system is geared towards propping up Indigenous businesses, but not necessarily helping them to become viable and sustainable enterprises in their own right. Further issues with government funding will be discussed in Chapter 3.

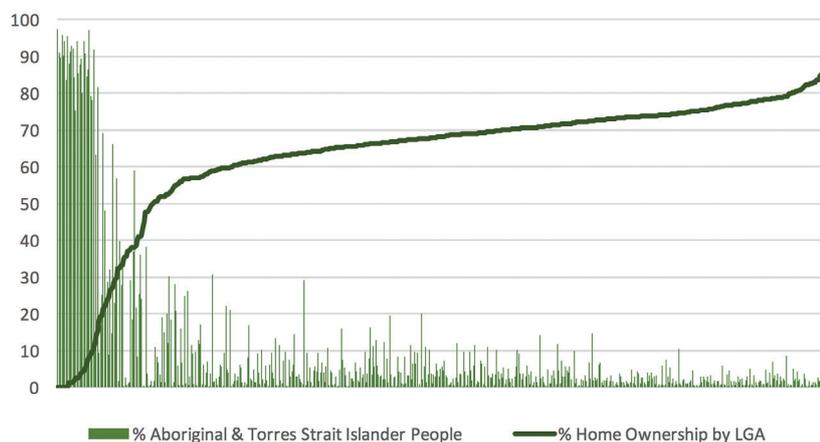
### Limited Collateral

Collateral is essential for banks financing SMEs.<sup>91</sup> The supply of collateral by a borrower can be construed as a signal of its creditworthiness or the validity of its prospects and reduces the risk to the lender.<sup>92</sup> In Australia, a lack of collateral due to issues such as rising property prices is inhibiting the growth of small business.<sup>93</sup> Research commissioned by the Reserve Bank of Australia found that housing collateral was essential in small business lending.<sup>94</sup>

However, 2011 Indigenous home ownership was 36%, half the Australian average.<sup>95</sup> A distinct trend exists whereby home ownership rates decrease dramatically in areas with a higher Indigenous population (See Figure 5). In the eight Local Government Areas with 0% home ownership, the average Indigenous population is 92%. Conversely, in the top eight LGAs for home ownership, the average Indigenous population is 1.3%). Most LGAs with a high Indigenous population are in remote Australia.

When broken down further, the disparity is still present across all geographic areas. Just 39% of Indigenous households (other than in remote areas) own or are purchasing their home.<sup>96</sup> This is compared to 70% for non-Indigenous households. In remote areas, 18% of Indigenous households are owned or being purchased, compared to 57% of non-Indigenous households. When combined with other factors, such as a lack of savings, it becomes clear that the traditional means of financing an enterprise are often challenging for Aboriginal and Torres Strait Islander people.

**Figure 5: Home Ownership and Indigeneity by Local Government Area - 2011**



Source: ABS Housing and Population Data

### 3. Understandings of wealth and external prejudices

#### ***The challenges of cultural and social obligations***

Notions of wealth in Indigenous society can clash with the financial requirements of running a small business.<sup>97</sup> In many Indigenous communities and families, wealth and resources are typically understood as being communally owned, with certain social pressures and obligations placing financial stress on Indigenous entrepreneurs to share their earnings. Indeed, “an important difference between Indigenous Australians and non-Indigenous Australians is that it is difficult for Indigenous Australians to think of themselves as individuals separate from their community.”<sup>98</sup> Peterson ascertains that there are four key elements of Indigenous society that impact on the sustainability of small business ventures:<sup>99</sup>

1. An ethic of generosity reflected in demand sharing.
2. A universal system of kin relations that requires a flow of goods or services.
3. The constitution of personhood through relatedness, and valuing egalitarian relations and personal autonomy.
4. An emphasis on politeness and indirectness, making outright refusal difficult.

Manifestations of the pressures to share money can make it challenging to sustain the cash flow required to establish and run an SME,<sup>100</sup> as can suspicion and jealousy about those who possess wealth.<sup>101</sup>

Certain cultural practices can also make it challenging to run a business. For example, some Indigenous people may be required to be away for several months a year in order to participate in cultural events.<sup>102</sup> Such commitments can clash with the expectations of non-Indigenous consumers and commercial partners. Finding a balance between these pressures and the expectations of business is essential for Aboriginal and Torres Strait Islander SMEs.

#### ***Stigma and bias***

It is difficult to measure the specific impact stigma and biases have on the Indigenous business sector. Most accounts are anecdotal, and the perception of prejudice and bias against Indigenous businesses could possibly be due to other factors, such as the inherent competitiveness of the business environment. Nevertheless, the Australian Reconciliation Barometer provides a picture of general attitudes towards Aboriginal people across the country, with data suggesting that racist attitudes are still prevalent.<sup>103</sup> From a commercial perspective, a report by Charles Sturt University and the University of Technology Sydney found that stereotypes around the ability of Indigenous people to do business were present and had a perceived effect on their ability to be successful.<sup>104</sup>

Stereotypes about the capacity and ability of Indigenous business can often cause a lack of trust in Aboriginal suppliers.<sup>105</sup> Indigenous businesses may face cultural biases and a “roadblock of low expectations” when tendering for contracts.<sup>106</sup> Contracts might only be awarded for Indigenous specific projects:<sup>107</sup> for example, to facilitate cultural awareness training, fit out office space with Indigenous art and décor, or to help design a Reconciliation Action Plan (RAP).

In many situations, contractors find it difficult to associate ‘Indigenous business’ with enterprises not related to culture.<sup>108</sup> This is an attitude that is perpetuated by both Indigenous suppliers and mainstream contractors. Due to their historically limited involvement in the economy, many Indigenous people may struggle to see opportunities in the mainstream market and limit themselves to the Indigenous sector.<sup>109</sup> Similarly, contractors may have limited awareness of Indigenous businesses operating in industries outside of culture and tourism. This could be the result of a number of factors, including the fact that certification of businesses as ‘Indigenous’ is only a recent development. Contractors may have been engaging with non-cultural Indigenous businesses for years, without needing to clearly differentiate such companies as specifically Aboriginal or Torres Strait Islander. Hence, understandings about the various types of Indigenous businesses may have been shaped prior to certification when most overtly Indigenous enterprises were culturally based.

There is a strong push from both the public and private sectors to overcome these stigmas.<sup>110</sup> The Commonwealth’s IPP has placed the focus on the value of Indigenous business.<sup>111</sup> Meanwhile some of the biggest companies in Australia are now promoting engagement with Indigenous business. Nearly three quarters of Business Council of Australia members are using Aboriginal suppliers, with 90% having at least some type of relationship with Indigenous people and businesses.<sup>112</sup> Ultimately, however, the best way to eliminate bias and the ‘soft bigotry of low expectations’ will be through the achievement of commercial success by Indigenous businesses.<sup>113</sup>

#### **Summary of challenges**

There are many factors that act as barriers to Aboriginal people participating in enterprise. Although many of these barriers are also shared by non-Indigenous people and could be considered more class based than race based, Indigenous people in general face greater impediments to establishing a business than non-Indigenous people. This is primarily because of their historical exclusion from the economy and their poor educational outcomes due to lower expectations of their ability, as well as cultural understandings of wealth and external prejudice.

Particular barriers to business shared by both Indigenous and non-Indigenous people include:

**1. A lack of education, business pathways, skills and networks**

- **Education** – Poor literacy and numeracy outcomes are a barrier for all people wishing to start a business, however on average, Indigenous people have lower educational outcomes than non-Indigenous Australians.
- **Business skills and acumen** – Having a limited knowledge of business concepts and processes is a problem not only experienced by Indigenous people but due to limited participation in the economy historically and the fact that many Indigenous people are the first ones in their family to own a business, this issue is more prevalent amongst the Indigenous population.

**2. Access to finance**

- **Low levels of equity** – affect all SMES, however small levels of personal savings and a reliance on government assistance to fund business ventures is a particular feature of many Indigenous businesses.

- **Home ownership** – those without access to home-based equity have less opportunity for business ownership, however the lower levels of homeownership among the Indigenous population mean they are less able to use their homes as collateral than non-Indigenous Australians.

Barriers unique to Indigenous Australians include:

**3. Understandings of wealth and external prejudices**

- **Social issues** – Communal understandings of wealth and jealousy of success create a difficult environment for Indigenous people operating a business.
- **Stigma and bias** – Prejudices about Indigenous people's ability to do business can prevent people from engaging with Indigenous businesses and/or only awarding them contracts for Indigenous specific work.

The challenges discussed in this chapter are a non-exhaustive summary of the major impediments to Indigenous businesses.

## Chapter 3 – What are the current strategies and are they succeeding?

### 1. Government Policy

The creation and implementation of the IPP has helped to increase the focus on Indigenous business.<sup>114</sup> Commencing on July 1 2015, the IPP was viewed as 'a game changer' for Indigenous economic development, setting progressive targets for Government contracts to be awarded to Indigenous owned businesses.<sup>115</sup> Contracts are subject to usual tendering processes and are awarded on the premise that a business provide value for money services. Targets apply individually to each department and were originally set to increase progressively from 0.5% in 2015–16 to 3% in 2020.<sup>116</sup> However, in February 2017 it was announced that, due to the overwhelming 'success' of the policy in its first year, targets would be revised to 3% by the end of 2016–17.<sup>117</sup>

The Minister for Indigenous Affairs, Nigel Scullion, has championed the 'untapped' potential of Indigenous business.<sup>118</sup> Declaring: 'if you want to do business with the Commonwealth you have to do business with Indigenous Australians.'<sup>119</sup> In May 2017 the Indigenous Business Sector Strategy (IBSS) was released for consultation.<sup>120</sup> The strategy is a 10- year approach that will focus on promoting Indigenous business as part of a \$115 million Indigenous Entrepreneurs Package. The consultation paper had notable omissions. Most significantly, there was little mention of utilising culture as a competitive edge for Indigenous entrepreneurs. The final strategy will be released in November 2017.

While reportedly successful, the introduction of the IPP has clouded the Indigenous-business eco-system and it is now impossible to disentangle its effects and identify those businesses that were operating successfully in the open market before the IPP, from new businesses that have been established to take advantage of the IPP.

States and territories have also begun implementing their own procurement policies in conjunction with the Commonwealth. Every jurisdiction except Tasmania possesses some form of legislation to date. Table 2 provides a brief summary of current procurement policies across the top two tiers of Australian government. Each policy is in a varying stage of development. Most state and territory programs are in their early stages, with these jurisdictions generally moving to adopt policies more reflective of the Commonwealth's IPP.

#### **Effectiveness of the Indigenous Procurement Policy**

Since the introduction of the IPP, government procurement from Indigenous businesses has increased from \$6.2 million in 2012–13 to \$284.2 million during the IPP's first year and \$285.5 million in its second.<sup>121</sup> In September 2017, combined figures for the first two years of the policy were published:<sup>122</sup>

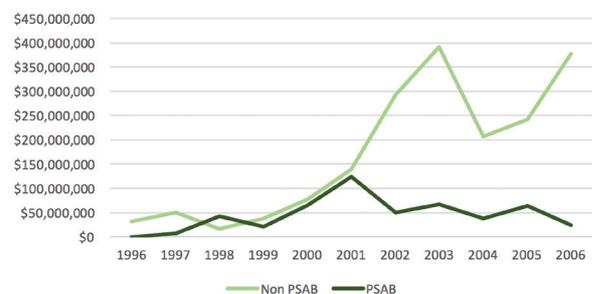
- 4880 contracts were awarded, amounting to 3% of the total number of government procurement contracts.

- \$594 million worth of contracts were awarded to 956 Indigenous businesses.
- An average contract value of \$121,800.
- 1233 contracts valued over \$1 million.

A key strength of the IPP is that it does not involve increasing government expenditure. Contracts would need to be awarded regardless of the existence of the IPP. Under the policy, there are no specific 'IPP contracts'. All contracts are open to Indigenous businesses, with an overall target to be achieved by each government department over the financial year. Indigenous suppliers must be assessed on 'value for money' basis, with procurement officers given guidelines to ensure best practice occurs.<sup>123</sup> However, whether this actually occurs is difficult to determine. Some of the factors that may lead to a violation of 'value for money' principles are discussed throughout this chapter.

It is too early to truly assess whether the policy has led to the establishment of a sustainable and competitive Indigenous business sector. However, Canada's 1996 Procurement Strategy for Aboriginal Business (PSAB) offers a point of comparison. The strategy features similar purchasing targets, 'set asides' and a capacity building focus. Since the PSAB has been in operation for more than 20 years, data offers an interesting insight into the long-term effect of a minority procurement strategy.

**Figure 6: Canadian Federal Contracts awarded to Aboriginal Businesses 1996-2006**



Source: Mah 2014, p76

Figure 6 is a comparison of the value of federal government contracts awarded to Canadian Aboriginal businesses both under the PSAB and in normal tendering circumstances.<sup>124</sup> Two interpretations can be made of this data. First, there is a distinct split between the two figures after 2001. The declining use of the PSAB and the rise of Aboriginal businesses being awarded contracts outside the strategy suggests the policy has achieved its goal. The PSAB was used increasingly throughout its first five years, with the value of contracts increasing up to 2001. After 2001, it appears that a greater number of Aboriginal businesses had developed the capability to win contracts without the assistance of the policy, and hence its use declined. By this measure, the PSAB could be considered a success and perhaps gives a potential roadmap for the evolution of the IPP.

While IPP targets have been successfully achieved, the policy has had some incidental impacts on the dynamics of the Indigenous business sector. Public procurement strategies represent a form of protectionism that can have some perverse outcomes.<sup>125</sup> Piga and Tatri argue that pursuing social objectives can compromise the concepts of non-discrimination, value for money and transparency.<sup>126</sup> The operations costs and bureaucratic

complexities of managing preferential procurement could also be deemed to be a 'sub optimal allocation of resources'.<sup>127</sup> In the case of the IPP, the regulation of the Indigenous business sector through Supply Nation, and the time spent by department procurement officers specifically identifying Aboriginal suppliers, represents a significant increase in expenditure.

**Table 2: Commonwealth, State and Territory Indigenous Procurement Policies**

| Policy/Program (Date Commenced)   | Jurisdiction | Key Commitments to Indigenous business   |
|---|--------------|--|
| <b>Indigenous Procurement Policy (2015)</b>                                     | Commonwealth | <ul style="list-style-type: none"> <li>• 3% of Commonwealth contracts to Indigenous business by 2016-17 (revised from 2020)</li> <li>• Mandatory set asides for contracts valued between \$80,000-\$200,000</li> <li>• Set asides for remote contracts</li> </ul>  |
| <b>Indigenous Business Sector Strategy Consultation Paper (2017)</b>            | Commonwealth | <ul style="list-style-type: none"> <li>• Access to finance — Indigenous Entrepreneurs Capital Scheme</li> <li>• Physical and online business hubs to provide skills, training and advice</li> <li>• Growth of business networks via Supply Nation and Indigenous chambers of commerce</li> </ul>                               |
| <b>Indigenous Business Australia (2005)</b>                                     | Commonwealth | <ul style="list-style-type: none"> <li>• Home loans to increase base of collateral for bank loans</li> <li>• Business support and loans to grow Indigenous business</li> <li>• Investment programs developing economic independence and intergenerational wealth</li> </ul>  |
| <b>NSW Government Policy on Aboriginal Participation in Construction (2015)</b> | NSW          | <ul style="list-style-type: none"> <li>• Increasing the number of Aboriginal owned businesses</li> <li>• Percentage targets of project spend</li> <li>• Indigenous participation plans for all contractors</li> </ul>  |
| <b>Growing NSW's first economy (2015)</b>                                       | NSW          | <ul style="list-style-type: none"> <li>• Targets for Indigenous participation on all contracts over \$1 million</li> <li>• Strengthened procurement targets beyond construction</li> <li>• Minimum of 5% of Indigenous businesses in NSW to be supported by small business and advisory services</li> </ul>                    |
| <b>QLD Indigenous Procurement Policy (2017)</b>                                 | QLD          | <ul style="list-style-type: none"> <li>• Growing Indigenous small business and entrepreneurship</li> <li>• Set asides for certain Government contracts to be awarded to Indigenous businesses</li> <li>• 3% of addressable spend by 2022</li> </ul>  |
| <b>Aboriginal Business Procurement Policy (2014)</b>                            | SA           | <ul style="list-style-type: none"> <li>• Procurement targets for purchases up to \$220,000</li> <li>• The establishment of preferred Aboriginal business and enterprise tender lists by State Government agencies</li> </ul>   |
| <b>Aboriginal Business Connect (2016)</b>                                       | SA           | <ul style="list-style-type: none"> <li>• Online partnership with Supply Nation encouraging increased procurement by the private sector</li> </ul>  |
| <b>Tharamba Bugheen Victorian Aboriginal Business Strategy (2017)</b>           | VIC          | <ul style="list-style-type: none"> <li>• 1% government procurement target from 2019-20</li> <li>• Online database of Victorian Aboriginal businesses</li> <li>• Build skills and capacity through business support mechanisms and strengthening entrepreneurial culture and business experience</li> </ul>                     |
| <b>Indigenous Business Development Program (2017)</b>                           | NT           | <ul style="list-style-type: none"> <li>• Grants to start or expand a business</li> <li>• Between \$1000-\$30,000</li> <li>• One on one support from a small business champion</li> </ul>   |
| <b>Aboriginal Business Initiative (2016)</b>                                    | WA           | <ul style="list-style-type: none"> <li>• Direct procurement from Indigenous businesses for contracts under \$50,000</li> <li>• Procurement from Indigenous business for contracts between \$50,000-\$250,000 with exemptions from competitive requirements</li> <li>• Tender requests for contracts above \$250,000</li> </ul> |

The IPP may have also comprehensively changed the dynamics of the Indigenous business sector. The prevailing focus on government procurement could be influencing behaviour, with the lure of Commonwealth contracts likely to affect business decisions. For example, 17% of Supply Nation businesses are in the construction industry, perhaps reflecting the vast number of contracts awarded in this industry during the first year of the IPP (See Figure 9). On a wider scale, government procurement needs are unlikely to cater for such a large number of small businesses and tendering can be very expensive for SMEs with limited capital.<sup>128</sup>

**Problems with measurement of IPP data**

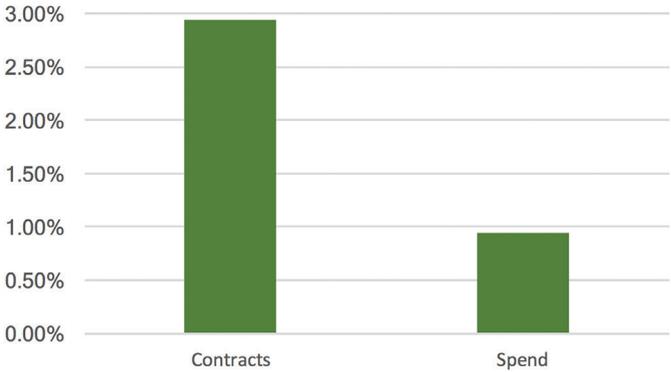
An analysis of contract data reveals that the success of the IPP is being overstated. The most misleading figure is the 2.9% of contracts awarded to Indigenous suppliers. The policy states that “the Commonwealth will award three per cent of its domestic contracts to Indigenous enterprises.”<sup>129</sup> Each portfolio has its own targets within this framework. The target is based on the average number of contracts entered into over the preceding three financial years.

The measurement of IPP targets by contract number, rather than monetary value, can significantly inflate the success of the policy. It provides an avenue for departments to easily tick off targets and creates inconsistency in the measurement of overall figures by enabling figures to be boosted by a large number of small contracts. A large number of the 1509 IPP contracts in 2015–16 were less than \$10,000. While a portfolio may achieve their contract target, the smaller level of expenditure could mean there is limited effect for Indigenous businesses.

A comparison of expenditure and contract numbers reveal the extent to which measurement by contract numbers exaggerate the success of the IPP. Figure 7 demonstrates that although significant success was achieved on a contract based measurement, actual spend was significantly lower.

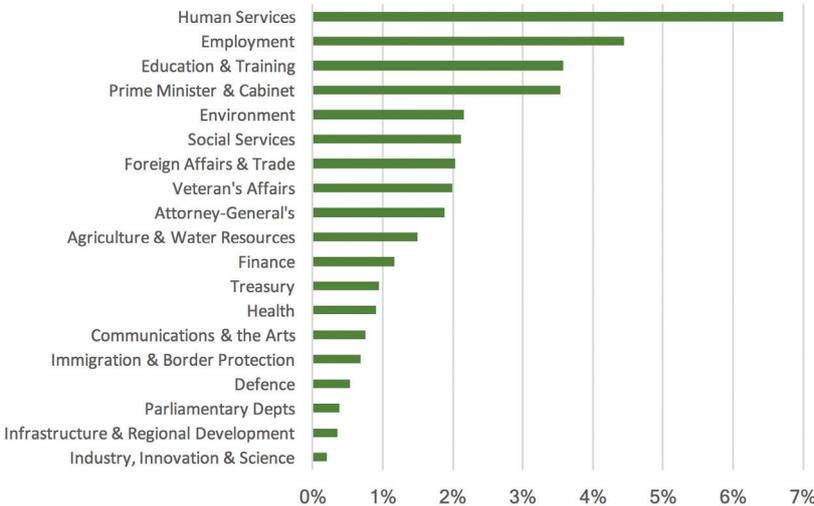
When the figures are broken down by portfolio, the picture becomes even clearer (See Figure 8). Every portfolio’s figures were boosted to some degree when reporting by contract number rather than value. The Department of Human Services reported that 7.21% of contracts were awarded under the IPP in 2015–16, however, this was worth only 0.5% of spend. Consequently, reporting by contract number gave their figures a 6.71% boost.

**Figure 7: Domestic Procurement Contracts vs Spend 2015–16**



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

**Figure 8: IPP Reporting by Portfolio 2015–16 — Difference between Contract Number and Spend**



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

**Table 3: Average Contract Value Changes 2015–16 to 2016–17**

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

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

The 2016–17 figures suggest that small contracts continue to boost figures. While the number of contracts awarded has increased from 1509 in 2015–16 to 3748 in 2016–17, the overall average value of each contract dropped 60% from \$188,326 to \$76,173.<sup>130</sup> The average contract size of most portfolios decreased (See Table 3), with the Department of Education and Training dropping 84% from \$121,951 to \$19,000. This is despite the number of contracts awarded more than doubling from 41 to 100. Large declines were common across the board, with the average contract value of 11 out of 19 departments dropping by more than 50%. Only two portfolios — Employment, and Communications and the Arts — increased their average.

These inconsistencies in IPP reporting make it hard to measure the real impact of the policy. It is clear that large numbers of small contracts overstate the actual percentage of procurement opportunities given to Indigenous business.

A provision allowing for portfolios to convert their contract targets into a representative dollar value in order to meet their target could also create problems (See Box 3).

If heavily used, the method could allow for a substantial inflation of the number of contracts signed with Indigenous businesses, and create an impression that the policy is having a wider impact than is actually the case. This would be especially significant for portfolios

with larger contracts, such as the Department of the Environment and Department of Defence — whose largest contracts in 2015–2016 were \$822 million and \$1.7 billion respectively.<sup>132</sup> If the entire new domestic procurement spend of the Department of Defence (\$9.55 billion) was analysed through the dollar conversion method it would suggest that 103,882 contracts were signed in that financial year, a 642% increase on the actual figure of 14,005. The federal government must be careful with the use of this clause, as allowing portfolios to achieve targets through the conversion could create an image of success, but limit the overall efficacy of the policy.

### ***The footprint of the IPP***

The ability of the IPP to support a wide range of sectors must be questioned. The policy has been regularly championed as 'supercharging' the Indigenous business sector.<sup>133</sup> However, due to the restricted nature of government procurement, the IPP can benefit only certain Indigenous business. The policy could also create a situation of dependency, where suppliers are overly reliant on government contracts and find it difficult to survive in the open market.

In 2015-16, 60% of major IPP contract spend (contracts over \$10,000) were awarded to Indigenous businesses in the construction industry.<sup>134</sup> The requirement of large amounts of capital and rigorous certification means

### Box 3: Dollar Value Targets

The dollar value target allows portfolios to convert actual procurement spend into a numerical representation of contracts.<sup>131</sup>

This value is based on the average of all Commonwealth contracts under \$1 million over the past three financial years. The figure was set at \$91,931 for the IPP's first year in 2015–16. Under the system, a portfolio may divide the actual expenditure of a large contract by the average figure, recording each multiple as an individual contract. For example:

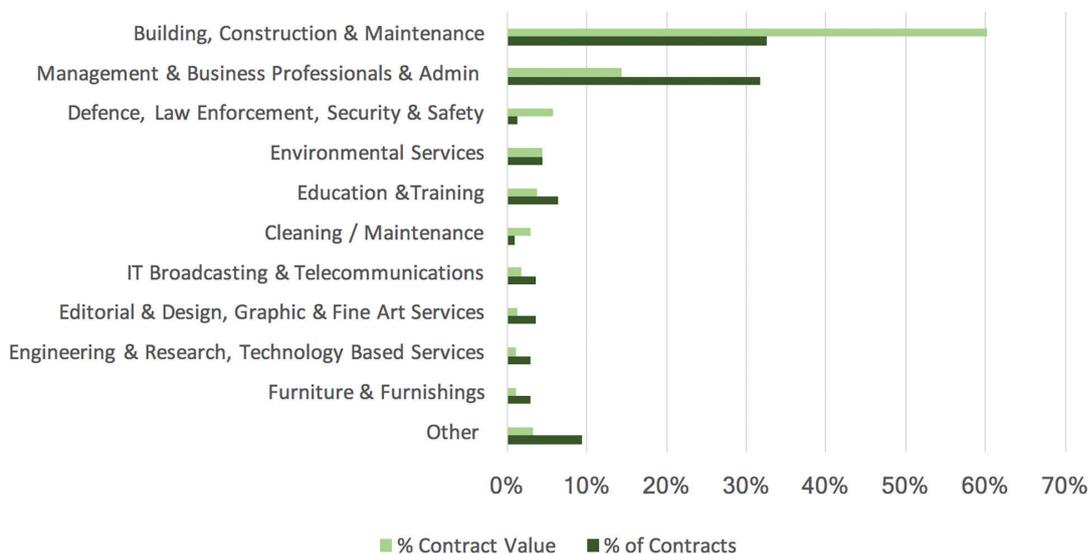
In January 2016 the Department of Defence signed a contract with a joint venture between Badge Constructions and National Aboriginal Construction Partners. The contract was worth \$11,996,900. Hypothetically, if the dollar value provision is applied to this single contract via the equation it would represent 130.5 contracts under the IPP.

Portfolios may use the dollar value conversion to meet the entirety of their IPP target, or a combination of actual contracts and dollar value conversions. For example, the Department of Defence had a 2015–16 target of 70 contracts. It could theoretically enter into 50 actual contracts and sign one contract to the value of \$1,838,620 (20 x \$91,931), and use the dollar value system to convert this into 20 contracts.

opportunities for entrepreneurialism in construction are limited. This is reinforced by the structural issues already faced by Indigenous people (See Chapter 2). As a result, contracts are often awarded to already established companies and offer little opportunity for entrepreneurship. Contract values are typically large and thus the benefits are shared through a limited number of businesses. Of the \$119 million in major construction contracts awarded under the IPP in 2015–16, 63% went to four suppliers.<sup>135</sup> These four were also the largest contract holders across the entire IPP spend. Procurement officers are understandably risk-averse; therefore it is not a surprise that IPP contracts have had a limited spread. However, on this evidence, the IPP is not going to stimulate entrepreneurship and micro-businesses.

Risk-aversion by procurement officers could combine with the IPP to impede open market competition between Indigenous and non-Indigenous firms. Preferred suppliers and the picking of 'winners' could be perceived as government intervention in a particular industry. "Risk aversion leads procurement officers to privilege established suppliers in procurement decisions."<sup>136</sup> In the case of the IPP, the requirement to achieve targets may see risk-averse officers favour the same few trusted and established Indigenous suppliers. This has already been seen in the first year of the policy, as evidenced in the distribution of Department of Defence construction contracts.<sup>137</sup> As a result, there may be scenarios where competitors — both Indigenous and non-Indigenous — are effectively locked out of tendering for certain contracts because using the same suppliers is an easy way to tick off procurement targets.

**Figure 9: 2015–16 Commonwealth IPP Contracts by Industry**



Source: Austender Data, Contracts over \$10,000

## **Accelerating targets**

When the IPP was launched in 2015, targets were set to increase progressively, from 0.5% of Commonwealth contracts in 2015–16 to 3% in 2019–20.<sup>138</sup> In February 2017 it was announced that the target would be accelerated to the end of the 2016–17 financial year due to the reported success of the policy.<sup>139</sup> Issues with the accuracy of this reporting have been discussed above.

The acceleration of targets is also problematic. The Indigenous business sector is relatively immature, with only some suppliers capable of participating independently in Commonwealth procurement.<sup>140</sup> Targets were originally set to progressively increase in order to ensure Aboriginal and Torres Strait Islander businesses could develop their capacity. IPP contracts are required to be awarded on a 'value for money' basis. However, forcing procurement officials to achieve these goals in such a short period of time could undermine this. Departments struggling to meet procurement targets may be compelled to procure from suppliers who do not necessarily provide 'value for money' services. Other issues concerning the 'value for money' are discussed in this chapter.

The rush to procure from Indigenous businesses may also create a glut in supply. As more contracts are awarded, the number of Indigenous suppliers seeking lucrative contracts in areas such as construction and consultancy is growing. There are 218 Indigenous construction and 157 consultancy/professional services businesses listed on the Supply Nation — nearly 30% of the database.<sup>141</sup> Major Australian and international firms have a heavy presence in both these industries. Therefore, the IPP could create a relationship of dependency, and it may be difficult for a large number of Indigenous SMEs to compete in the open market.

## **The IPP and remote areas**

The IPP's impact in remote areas is also questionable. A mandatory set aside ensures that for all remote contracts, Indigenous businesses are given "the chance to demonstrate value for money first, before the procuring officer makes a general approach to the market."<sup>142</sup> The impact of the IPPs first year in remote areas is difficult to judge. There has been a lack of clarity in the reporting of remote contracts. The Austender website does not list the location of Commonwealth contract works, a flaw acknowledged by the Department of Prime Minister and Cabinet.<sup>143</sup> Annual data on remote contracts was not available until a full review of the IPP's first year was published in October 2017. It revealed that a total of 196 remote contracts were reported in 2015–16, representing 13% of all IPP contracts.<sup>144</sup> The exact value of these was not listed, with the data for remote and mandatory set asides (Compulsory 'set asides' for contracts valued \$80,000-200,000) reported together to a total of \$43.4 million.<sup>145</sup>

Without a dollar value, it is hard to assess the full impact of the IPP in remote areas, as the figure of 196 may have been boosted by smaller contracts. Ultimately, government procurement can have only a small impact on remote economic development. A lack of businesses

with the relevant capacity and the limited need for Commonwealth procurement in isolated areas mean it will be difficult to achieve remote targets. With a small number of Indigenous suppliers available, forcing remote targets could also lead to a violation of 'value for money' requirements.

## **Perverse incentives of the IPP**

An unintended consequence of the IPP is the occurrence of what has been described as 'black cladding'<sup>146</sup> — when a business presents itself as Indigenous in order to win government contracts under the IPP.<sup>147</sup> This can involve finding loopholes in systems of certification, such as the IPPs 50% ownership quota. Examples of 'black cladding' include:<sup>148</sup>

1. Company A misrepresents itself as Indigenous by increasing Indigenous control to get past percentage requirements, however the Indigenous owners are given little active responsibility for decision making and processes. Company A may also have few or no Indigenous employees.
2. Company A forms a joint-venture partnership with Indigenous Business B and is awarded a government contract under the IPP because the Indigenous business partner is purportedly completing a required percentage of work. However, Company A undertakes all the actual work done on the contract and pays a nominal fee to Indigenous Business B for allowing the use of their Indigenous status to help Company A acquire the contract.

There is no data on the prevalence of 'black cladding'. However, the acceleration of IPP targets and the pressure on procurement officers to achieve these may have contributed to the growth of some perverse incentives.

## **Impact of the IPP on Supply Nation and the Chambers of Commerce**

Supply Nation's role has changed significantly since the body was chosen to facilitate the certification and categorisation of Indigenous businesses under the IPP. Originally, the organisation primarily aimed to act as a networker, creating relationships between Indigenous businesses and contractors.<sup>149</sup> With the advent of the IPP, Supply Nation now must place a greater emphasis on certification and maintenance of its online database.<sup>150</sup>

Verification is by a Certificate of Aboriginality from a recognised institution, or a statutory declaration.\* The First Australians Chamber of Commerce and Industry represents over double the number of businesses listed on Supply Nation and has a more rigorous registration process that follows the three-step identification process required to prove Aboriginality.<sup>151</sup> However, as the government championed body, Supply Nation is at the forefront of the certification process. Indigenous suppliers are increasingly registering with the organisation, as official certification is necessary to tender for public and private contracts under Indigenous procurement arrangements.<sup>152</sup>

One of the most noticeable impacts to Supply Nation since the commencement of the IPP is the changes to the Indigenous Business Direct database. As discussed above, the federal government pressed Supply Nation to increase the number of Indigenous businesses on the database and the numbers registered have grown exponentially as a result.<sup>153</sup> However, there are a number of functionality issues with the database, which can be frustrating. The primary reason for this is the site's use of United Nations Standard Products and Services Codes (UNSPSC). The codes are a multi-tier (2 digits per tier) classificatory system providing procurement officers with an ability to reduce costs and enhance efficiency by creating a detailed understanding of specific procurement needs.<sup>154</sup> Suppliers can then be contracted on this basis of the highly specific services required. For an example of code structure, see Table 4.

The use of the codes on the database has been problematic. The codes can be vague to suppliers who are uncertain of how to list themselves — as UNSPSC codes are not widely used.<sup>155</sup> Hence, there is potential for confusion around the purpose of the codes. For example, a supplier may wish to tender for contracts with the Department of Defence. Due to a misunderstanding of the codes they may list themselves under military categories, rather than as window cleaners who happen to wish to obtain work for the Department of Defence. Consequently, when searching the database contractors may have to sort through an extensive list of suppliers with varying relevance. As a result, they may find the user experience frustrating.

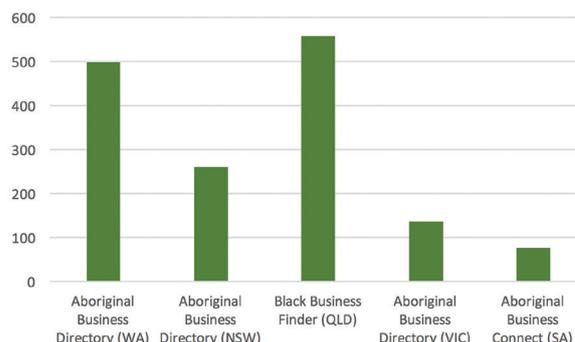
### State and territory programs

A survey of state and territory strategies reveals that commitments to Indigenous business vary significantly (See Table 2 for a tabulated summary of policies). Every region except Tasmania has a strategy to develop the Indigenous business sector over the coming years. Most constituencies are also encouraging the engagement of the public and private sectors by supporting the development of Indigenous business directories, with thousands of suppliers listed across the various platforms (See Figure 10).

With a varying level of commitment evident across Australia, it is likely that greater clarity and efficiency

could come from a more consistent national approach and one universal directory (the role Supply Nation was established to perform). Several Council of Australian Governments (COAG) meetings have convened to discuss the issue. A proposal was tabled to set nationally applicable hard objectives. All states and territories "agreed to consider establishing state-specific whole-of-government Indigenous procurement policies... and Indigenous business targets and reporting mechanisms."<sup>156</sup>

**Figure 10: State and Territory Indigenous Business Directories**



**Source:** State and territory directory Websites. Numbers are not publicly listed for the NT Indigenous Business Network

### Issues with government funding

A significant level of government funding is seemingly available to Indigenous businesses and entrepreneurs. However, this has failed to effectively fill the void left by limited access to mainstream financing options. Until May 2017, Indigenous Business Australia (IBA) was the primary government body responsible for providing loans and grants to Aboriginal enterprises. In recent years, IBA has been maligned for its inefficiencies in dispersing loans.<sup>157</sup> Over the past five years, the organisation has held an average total portfolio of 307 loans and in 2015–16 IBA issued only 36 new loans.<sup>158</sup> Although the rationale for the establishment of IBA was to provide finance to Indigenous people unable to

**Table 4: Example of the UNSPSC code 4 stage breakdown**

| Tier      | Code     | Description                                      |
|-----------|----------|--|
| Segment   | 73000000 | Industrial Production and Manufacturing Services |
| Family    | 73100000 | Plastic and chemical industries                  |
| Class     | 73101500 | Petrochemical and plastic production             |
| Commodity | 73101501 | Petroleum refining services                      |
| Commodity | 73101502 | Natural gas production services                  |
| Commodity | 73101503 | Oils or greases production services              |

**Source:** UNSPSC Code set

access mainstream finance, the organisation has been criticised for holding applicants to even higher standards than mainstream financial institutions and giving loans to people who would be able to access mainstream loans anyway.<sup>159</sup> Being able to access capital quickly is essential for harnessing business opportunities and IBA's inefficiency in this area has been detrimental to the growth of the Indigenous business sector and Indigenous business owner's ability to capitalise on the IPP.<sup>160</sup>

Prior to the 2017 Budget, it was announced that IBA would be restructured, with a significant amount of its funding to be redirected to the Department of Prime Minister and Cabinet to administer under the Indigenous Business Sector Strategy (IBSS).<sup>161</sup> The strategy has undergone consultation and is scheduled to be announced in December 2017. It outlines several key goals, including doubling the Indigenous business sector by 2027, increasing access to private financing options, and building physical and online learning hubs. Further discussion of the IBSS can be found in the CIS submission made during the consultation period.<sup>162</sup>

The \$115 million Indigenous Entrepreneurs package was announced in May 2016 in order to help start-ups access capital.<sup>163</sup> Within the package is the Indigenous Entrepreneurs Fund, which dedicates \$90 million in grants over three years to develop the infrastructure of new and growing businesses.<sup>164</sup> However, the scheme has shown a lack of activity, with only \$5 million of a possible \$30 million distributed in the first year.<sup>165</sup>

### **Duplication and gaps in business support services**

Much of the Indigenous business ecosystem is characterised by the issues of duplication and wastage that plague other areas of Aboriginal and Torres Strait Islander policy. There are a large number of competing public and private service providers offering similar services. In the Kimberley town of Kununurra, half a dozen operators give support to developing Indigenous businesses, with many programs overlapping significantly. This can represent a waste of resources, and may be confusing to Aboriginal people seeking support.<sup>166</sup>

## **Corporate programs**

### **Corporate Social Responsibility or tangible outcomes?**

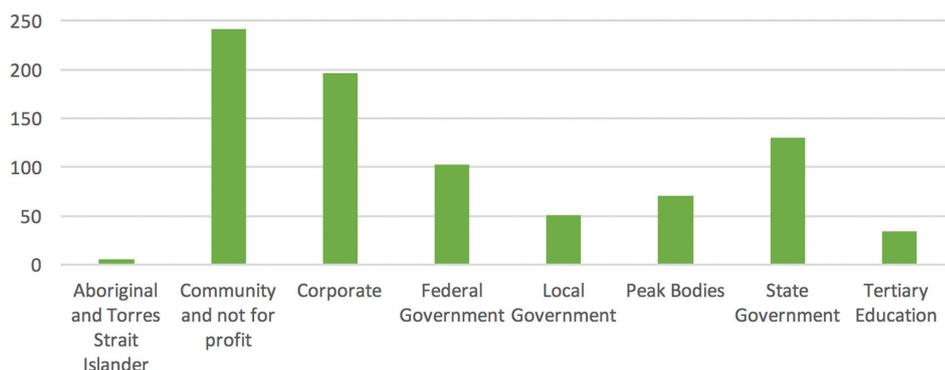
For Indigenous businesses to be truly successful they must be able to compete in the open market.<sup>167</sup> Consequently, Aboriginal suppliers must be able to add value to their business partners. The growing government and corporate focus on procurement has laid a platform that has helped develop a strong market drive towards engaging with Indigenous businesses.

Corporate commitments to Indigenous business have existed for decades, particularly in the mining sector.<sup>168</sup> In July 2006, Reconciliation Australia developed Reconciliation Action Plans (RAPs) as a framework to formally demonstrate and facilitate the commitment by the corporate and not-for-profit sectors to address Indigenous disadvantage. In 2014, nearly 600 organisations had a RAP. This number has since grown to 800 (See Figure 11). It is important to acknowledge that RAPs represent only one form of interaction between Indigenous and non-Indigenous businesses. They are not the primary means of engagement, and in many circumstances the two parties are interacting on the free market.

RAPs set a platform for engagement between corporate Australia and Indigenous people and communities. Commitments to developing Indigenous business are cited in most RAPs. Indeed, in a random snapshot analysis of 100 RAPs all companies stated some form of pledge to grow the sector. The most common commitments included:

- Reviewing and reducing barriers to Indigenous procurement
- Commitments to increasing Indigenous procurement
- Developing commercial relationships
- Enhancing supplier diversity
- Developing a business case for Indigenous procurement

**Figure 11: Organisations with a RAP**



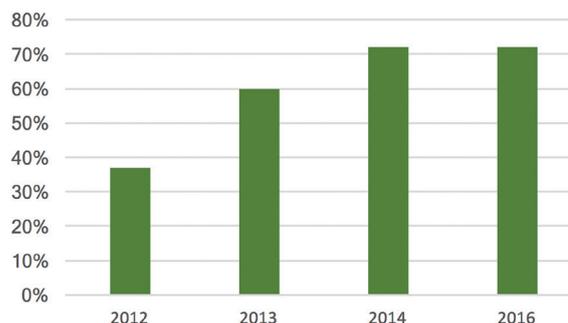
**Source:** RAPs collated from Reconciliation Australia<sup>169</sup>

- Developing a database of relevant suppliers and creating awareness of it within the procurement framework
- Publicly promoting business opportunities to Indigenous businesses
- Investigating or continuing Supply Nation membership

A wide variety of industries have RAPs. However, the comprehensiveness of RAPs varies significantly, with only 24 listing 'hard' procurement targets. Although not all corporates will have the capacity to engage Indigenous business at the same level as ASX Top 20 companies, the approach adopted by some of the major financial institutions, such as Westpac and the Commonwealth Bank, provide examples of RAPs that provide tangible benefits rather than just statements of good intention (see Box 4).

The engagement that was first facilitated by corporate social responsibility and RAPs is now turning into concrete outcomes. The Business Council of Australia reports that 72% of their members are using Indigenous suppliers; a figure that has increased significantly in the last five years (See Figure 12). A combined \$356 million was spent on procurement from Indigenous businesses by the 39 BCA members who reported their expenditure.<sup>172</sup> Meanwhile, the mining industry has increased procurement with Indigenous suppliers significantly.<sup>173</sup>

**Figure 12: BCA members using Indigenous suppliers**



**Source:** BCA Indigenous Engagement Survey (2012, 2013, 2014, 2016)

### ***The mining sector – a history of engagement***

The mining industry played a pivotal role in supporting Indigenous business long before the advent of the IPP and RAPs. This is likely to be because mining companies have a unique commercial interest and an inextricable relationship with Aboriginal and Torres Strait Islander people through Native Title.

Australia's largest mining companies were among

#### **Box 4: The Westpac Group and Commonwealth Bank RAPs**

Commitments to business in corporate RAPs range from a few scattered dot points to fully fledged plans. The Commonwealth Bank and Westpac Group RAPs target multiple facets of Indigenous business to boost the sector from all angles.

Importantly, a strong focus is placed on enhanced capacity as a key determinant for business success. Both banks focus on capacity-building strategies which address the core elements of business development and look at more than just procurement as a means of promoting Indigenous business. The capacity building plan can be broken down into three core elements:

1. Human capital, training and development
2. Long term wealth creation and growth
3. Grassroots business and entrepreneurialism.

Each element targets the significant challenges Indigenous communities face when entering the marketplace. Training through the Davidson Institute and employee secondment enables the growth of business acumen to ensure effective governance and the prevention of failure. Meanwhile, the Commonwealth Bank's support of the annual Supply Connect conference helps to facilitate important network building between suppliers and contractors.

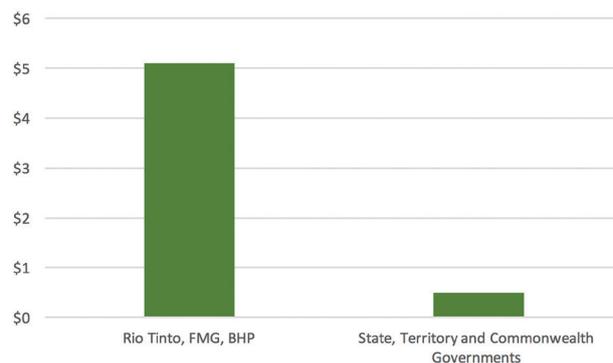
Wealth creation strategies seek to establish intergenerational bases of collateral, such as home ownership and investment portfolios. Meanwhile, grants, business partnerships and micro loans via the Many Rivers program encourage entrepreneurialism, with hundreds of businesses supported since Westpac's first RAP. Westpac has also set a \$3 million procurement target to be achieved by 2017 and is continuing to engage with suppliers to encourage partnerships and joint ventures with Indigenous business.<sup>170</sup> The Commonwealth Bank has also been active in this area, working with Indigenous Business Australia to develop accessible banking options for Aboriginal and Torres Strait Islander people.<sup>171</sup>

the first to adopt RAPs over a decade ago. They have understood that “by providing sustainable opportunities in education, employment and business for Aboriginal and Torres Strait Islander peoples, the benefits flow both ways.”<sup>174</sup>

The mining sector’s work to develop Indigenous businesses has far outstripped the impact of government procurement programs (See Figure 13). In the past 10 years the industry has spent billions procuring services from Indigenous suppliers. Rio Tinto has been one of the largest contributors, with its procurement spend reaching \$3 billion in the past five years.<sup>175</sup> Meanwhile, Fortescue Metals Group and BHP have awarded contracts worth a total of \$1.8 billion and \$350 million respectively.<sup>176</sup>

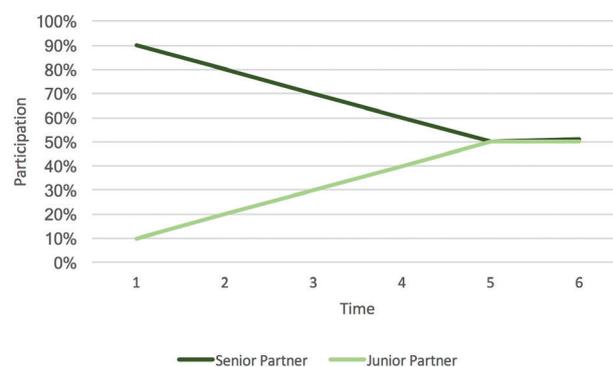
Capacity-building lies at the heart of the approach. Indigenous businesses are integrated into supply chains on a progressive basis, developing skills and experience by undertaking achievable contracts. Companies such as Fortescue and Rio Tinto have applied an increasing, target-based capacity building model to integrate Aboriginal and Torres Strait Islander enterprises into the company’s supply chain. Joint-venture partnerships (discussed further in Chapter 4) are used to incorporate smaller ventures that would otherwise lack the capability to tender for an entire contract. The partnerships are structured to ensure there are quantifiable objectives for the senior supplier to develop the skills of the Indigenous partner and incremental participation targets that aim for the two partners to participate more equally over the duration of a contract (See Figure 14).

**Figure 13: Procurement from Indigenous Businesses 2007–2017 (\$ Billions)**



Source: Annual Reports, IPP Data

**Figure 14: Incremental Capacity Building**



Source: Heath Nelson

### Box 5: Stories of capacity-building success

The growth of Martu Idja Banyjima (MIB), and Barpa Constructions through joint ventures encapsulates the benefits of progressive capacity building. In 2012, MIB formed a joint venture with Morris Corporation to provide catering and facilities services at Fortescue Metals Group’s Solomon mine.<sup>177</sup> After building a foundation, they then expanded their operations and established MIB Traffic, winning contracts for traffic management on another site.

In 2013, after establishing a base of capital, MIB looked to venture into the construction signage. Originally they considered establishing their own signage business. However, it was deemed that this would be unviable due to the nature of the market and the contract already held by signage company Corsign. MIB then decided to buy out 25% of Corsign as a means of entering the market. By targeting the existing contract holder, they made a rational and strategic business decision.

Barpa Constructions is the product of a 2014 joint venture between the Federation of Victorian Traditional Owners Corporations and Cockram Construction. The company is fully Indigenous owned and 100% of its employees are Aboriginal and Torres Strait Islander Australians.

Barpa has effectively leveraged the relationship with Cockram to break into the market, utilising the senior partner’s resources to assist with the expensive tendering process and meet the certification requirements of the construction industry.<sup>178</sup> Cockram has also assisted with construction guarantee bonds, something ‘most Indigenous companies could not manage’ outside of a joint venture.<sup>179</sup> They were awarded their first Commonwealth contract in July 2015 and have since been awarded nearly \$47 million in works.<sup>180</sup> The company has now grown to take on further work outside of government procurement, notably winning a contract with John Holland to undertake work on the Mernda Rail Info and Jobs Hub project in Epping, Victoria.<sup>181</sup>

## Summary

In summary, the establishment of the IPP has instigated considerable change in the Indigenous business landscape. While many structural disadvantages still remain, the IPP has 'changed the conversation' and is creating opportunities for Aboriginal enterprise to get a foot in the door.<sup>182</sup> The growing focus on Indigenous business is extending into the private sphere and 'big corporations are pushing a cultural change.'<sup>183</sup> Some of the impacts of this include:

- In 2017, 295 private and public organisations were members of Supply Nation (including 13 of the ASX top 20). This is opposed to 37 members in 2010.
- 72% of BCA members used Indigenous suppliers in 2016, an increase from 30% in 2012.
- Nearly 800 organisations have a RAP in 2017, as opposed to 280 in 2011.

The enhanced focus on Indigenous business has had a profound impact on the market. Many non-Indigenous suppliers are looking to demonstrate their engagement with Indigenous businesses in the tendering process, using it as a way to stand out from competitors and win contracts.<sup>184</sup> Non-Indigenous suppliers are now approaching major firms and offering to partner with Aboriginal companies in contracts.<sup>185</sup> This is in contrast to the past, in which some non-Indigenous businesses had to be contractually obliged to engage with Indigenous businesses. Aboriginal and Torres Strait Islander people must harness the competitive advantage these forces confer.

At the same time, it must be asked whether ongoing government intervention will have the best outcome.<sup>186</sup> Many Indigenous businesses are capably competing in the open market.<sup>187</sup> Only 1300 out of more than 12,000 Aboriginal and Torres Strait Islander companies are listed on the Supply Nation database, suggesting that many are succeeding outside of government policies.

As long as policies such as the IPP are in operation there will be 'winners' and 'losers'. The preferential selection of some Indigenous businesses will undoubtedly impact on non-Indigenous suppliers tendering for Commonwealth contracts. Although they are not totally excluded from tendering, these firms are at an automatic disadvantage if competing with an Indigenous business that has similar capabilities. In some circumstances, Indigenous suppliers may develop a monopoly over contracts and could outgrow the purpose of the policy. This has been the case with the minority procurement policies that have been in place since the 1960s in the United States. In some cases, native corporations have grown into multimillion dollar entities and become some of the largest federal contractors.<sup>188</sup> Despite no longer needing the assistance of preferential procurement, these corporations continue to receive contracts under the legislation because they represent an easy way to meet minority quotas.<sup>189</sup> While the IPP is in its infancy, early signs suggest similar issues could occur in the future if this issue is not addressed.

## Chapter 4 – Evaluating different approaches

This chapter provides a guideline for other strategies that could be applied to help address any ongoing issues. It refers to solutions in reference to the overarching issues identified in Chapter 2.

### 1. A lack of education, business pathways, skills and networks

Indigenous people's inexperience in business and lack of business acumen and networks is a major barrier to building the Indigenous business sector; and resolving this disparity will be a long term process. Improving secondary school outcomes is the most pressing problem, but is outside the scope of this report. The discussion below will focus more on solutions that can assist current Indigenous business owners and entrepreneurs.

#### **Learning centres**

The Indigenous Business Sector Strategy consultation paper proposed the establishment of 'project hubs' to provide business support and connect Indigenous companies with opportunities.<sup>190</sup> These hubs are to be learning centres where Indigenous Australians can access business advice and develop skills, such as learning how to maintain a balance sheet. The IBSS is unclear on how these hubs will be established, and whether the government will be funding the construction of new facilities. However, if hubs are going to be developed, it would be cost effective to utilise the abundance of infrastructure that already exists across Australia rather than investing in new facilities.

A large number of non-government organisations are already providing similar services to those proposed in the strategy. In Brisbane, Barayamal provides education and training, desk space, mentoring and an accelerator for Indigenous entrepreneurs.<sup>191</sup> The Wunan Foundation's Kimberley Business Support program helps Indigenous enterprises in the East Kimberley to manage administrative tasks, including bookkeeping, accounting, IT and applying for insurance.<sup>192</sup> In Broome, Morrugul assist Aboriginal businesses to write business plans, identify opportunities and prepare applications for financing.<sup>193</sup>

Meanwhile, the various Indigenous chambers of commerce possess a national footprint, and are currently undertaking much of the work proposed by the IBSS. For example, the First Australians Chamber of Commerce and Industry and its regional associates offer business support in six key areas: policy advice, advocacy, regulation, leadership, capacity building, and establishing partnerships with the public and private sectors.<sup>194</sup> Corporate initiatives, such as Westpac's Davidson Institute and ANZ's MoneyBusiness program could also be leveraged to reduce the need for greater government funding.

#### **Strong joint venture partnerships**

A successful joint venture can give Indigenous businesses more access to contracts and new markets and allow them to extend their businesses' capacity and reach. For the non-Indigenous partner, forming a joint venture can help them achieve corporate social responsibility objectives by providing an avenue for Indigenous engagement that has tangible outcomes. In some circumstances, it can also be financially beneficial by giving the company access to new markets and a point of distinction when tendering for contracts with firms that favour commitments to Aboriginal enterprise. For example, some mining companies now give significant weighting during the tendering process to tier one contractors that are offering to form joint ventures with local Indigenous businesses.<sup>195</sup>

In many cases, a supplier may not have the capability to meet the full requirements of a contract. This can lock them out of opportunities and limit their ability to grow. By partnering with a larger supplier, Indigenous businesses can access these contracts and build the experience and capacity necessary for growth. Ideally, the senior partner in a joint venture will commit to developing the skills and expertise of the minor partner and, in some cases, allow for them to increase their ownership of the partnership over time as their capabilities grow. In the United States, this has long been a feature of minority business. In some cases, senior partners relinquish all ownership once the junior supplier is capable of undertaking an acquisition.<sup>196</sup>

However, joint venture partnerships do not always result in the best outcomes for both partners. The limited capacity of an Indigenous supplier may see the senior partner absorb most of the costs of the project. In cases where this affects profitability, a joint venture may represent an act of corporate social responsibility. If an Indigenous partner is in a later stage of growth, the ongoing development of their capacity in a joint venture could see them emerge as a competitor to the senior partner.

Other factors that can reduce the benefits of joint ventures are the resources that need to be committed to a partnership — such as time, money, material and employees — which can be significant.<sup>197</sup> For example, the hours spent at board meetings might not reflect the percentage share of the partner and thus result in a net cost for the partner. Moreover, the loss of franchise for both parties can curb overall business growth by limiting flexibility and control over strategic direction.<sup>198</sup>

A company looking to form a joint venture can take a number of key steps to ensure the partnership is beneficial to the Indigenous supplier:<sup>199</sup>

1. Establishing a strong constitution that outlines each partner's rights and obligations.
2. Mutual decision-making and maintaining the sanctity of voting rights.

3. Contractually allowing Indigenous partners to bring a trusted advisor to board meetings.
4. Integrating a fair percentage of Indigenous control of the venture.
5. Sharing risks and benefits equally.
6. Protection of intellectual property.
7. Unwavering commitment to an agreement.

### ***Building capacity: progressive growth***

Private companies looking to increase their engagement with Indigenous businesses can adopt a progressive growth approach built on an incentives based percentage model that will create an avenue for businesses to build capacity. The strength of such a model is found in its applicability to both joint ventures and sole contract holders. It has been described as the 'growing the pie' approach.<sup>200</sup> The concept is based on the theory of mutual growth for both the supplier and contractor. A supplier is given a share of a work, for example 10%. Focus is then placed on them successfully fulfilling the requirements of the agreement with the understanding that this will help the overall growth of the contractor. The supplier continues to undertake the same percentage based work over a given period of time. However, as the contractor grows, the monetary value of the contract increases. This method ensures two things:

1. The supplier is able to increase its involvement without having to take on new, larger scope contracts.
2. Performance outcomes stimulate the ongoing performance of the supplier and give them implicit motivation to progressively increase their own capacity.

If success continues, the contractor could consider increasing the supplier's share of the pie. It must be noted that this method heavily relies on the willingness of the senior partner to commit to the growth of the Indigenous business. This may come at a financial cost and could also create a future competitor.

### ***Maintaining and growing the sector***

The success of Indigenous business will be heavily predicated on the economic drivers that shape the Australian economy. If Indigenous enterprise is to be successful in the mainstream economy, entrepreneurs must target industries forecast to experience sustainable growth in the coming decades. Australia's economy is transitioning. Services account for 70% of total output, 75% and 17% of exports.<sup>201</sup> In the Northern Territory, where Indigenous Australians make up 25% of the population, 65% of workers are in service based employment. Manufacturing is the only industry to experience a decline in the last decade, suggesting that it is a sector with limited opportunity. Table 5 lists all businesses on the Supply Nation database by industry. The high prevalence of Indigenous companies in service-based industries suggests people are already

strategically entering this sector due to its importance to the Australian economy.

While the success factors are often similar for all businesses, in many cases Aboriginal companies are being pigeonholed into undertaking Indigenous-specific work when they have the capability to perform a wider range of services.<sup>202</sup> For example, an Indigenous consultant may be used to help write an organisation's RAP, but not used for other work they are capable of undertaking. As a result, there needs to be more awareness of the range of different services Indigenous enterprises can provide.

Indigenous businesses need to also focus on building business-to-consumer (B2C) enterprises. At present most of the focus is on integrating Indigenous businesses into supply chains and utilising corporate and government procurement processes. An over reliance on business-to-business (B2B) contracts could create a dynamic of dependency. B2C enterprises will reduce this dependency and also enable a greater number of Indigenous Australians to consider entrepreneurial activity. The B2B ecosystem is quite restrictive, with suppliers typically required to possess greater capacity and capability. B2C enterprises allow start-ups and smaller companies to interact with the market and progressively build their capacity.

## **2. Access to finance**

### ***A new approach to collateral***

The difficulty Aboriginal businesses face in accessing private funding is a result of the lending criteria of financial institutions. Indigenous people's exclusion from mainstream finance is not a failure of the banks, but rather a reflection of the nature of free market capital and the fact that many Indigenous people do not have the credit history or collateral necessary to satisfy banks' lending criteria. A more innovative approach is needed to address this issue. However, relying on taxpayer dollars can create ongoing dependency.<sup>203</sup> Despite this, increases in government funding continue to dominate the discourse, with several announcements of additional funding initiatives. The IBSS consultation paper proposes an Indigenous Entrepreneurs Capital Scheme that includes grants/loan packages, concessional loans, patient capital, performance bonds and cash flow lending.<sup>204</sup> Meanwhile, Queensland recently announced its Accelerate Indigenous Small Business Grants Program.<sup>205</sup> The IBA also continues to play a role, however its inefficiency has been widely reported.<sup>206</sup>

To integrate Indigenous businesses into the mainstream economy, it is essential to move away from government funding. If government does decide to provide financial support to address the barriers to finance experienced by Indigenous people, this should be in the form of loans rather than grants. Loans place more responsibility on the recipient, and help avoid the reliance on 'free money' that develops in the funded sphere.<sup>207</sup> Conditional loans should therefore be offered on an open market basis,

**Table 5: Supply Nation Businesses by Sector/Industry**

| Industry/Sector   | Number of businesses |
|---|----------------------|
| Building, Construction and Maintenance                                | 218                  |
| Management and Business Professionals and Administrative Services     | 157                  |
| Education and Training  | 142                  |
| Travel and Food and Lodging and Entertainment Services                | 100                  |
| Editorial and Design and Graphic and Fine Art Services                | 67                   |
| Cleaning / Maintenance  | 53                   |
| Power Generation and Distribution Machinery and Accessories           | 52                   |
| Resource Sector Services and Maintenance                              | 47                   |
| Domestic Appliances and Supplies and Consumer Electronic Products     | 46                   |
| Printing and Photographic and Audio and Visual Equipment and Supplies | 40                   |
| Information Technology Broadcasting and Telecommunications            | 40                   |
| Apparel, Luggage and Personal Care Products                           | 39                   |
| Electronic Components and Electrical Systems                          | 35                   |
| Transportation and Storage and Mail Services                          | 33                   |
| Recruitment and Contracting   | 28                   |
| Defence, Law Enforcement, Security and Safety                         | 28                   |
| Environmental Services  | 27                   |
| Healthcare Services   | 27                   |
| Politics and Civic Affairs Services                                   | 23                   |
| Farming and Fishing and Forestry and Wildlife                         | 20                   |
| Engineering and Research and Technology Based Services                | 16                   |
| Office Equipment and Accessories and Supplies                         | 14                   |
| Financial and Insurance Services                                      | 11                   |
| Sports and Recreational Equipment and Supplies and Accessories        | 11                   |
| Legal Services  | 9                    |
| Public Utilities and Public Sector Related Services                   | 7                    |
| Published Products  | 5                    |
| Real estate and Auction Services                                      | 5                    |
| Furniture and Furnishings   | 2                    |
| Real estate Services  | 1                    |
| <b>Total</b>  | <b>1303</b>          |

where private financial institutions could tailor products and compete for Indigenous recipients who qualify under their standards.

It would be up to banks to decide what level of collateral loans recipients would require. Lower and more accessible requirements would give banks a competitive advantage in this market. Several banks are already offering some packages in this area. National Australia Bank's interest-free \$7000 loans allow Indigenous people to get a foothold in mainstream capital and 'learn by doing'.<sup>208</sup> The Commonwealth Bank offers a three year low-interest, unsecured loan of \$2000–\$50,000.<sup>209</sup> Meanwhile, loans from Westpac-supported Many Rivers Microfinance are also available.

The use of leased assets as collateral offers another option for Indigenous businesses, and could significantly reduce the risk to capital providers. This approach could see a senior partner act as the guarantor for a loan, with the leased equipment acting as security. In September 2017, ANZ Bank and Fortescue Metals Group announced

an agreement to implement such a strategy with FMGs Indigenous contractors in the Pilbara, Western Australia.<sup>210</sup> The deal will see Fortescue guarantee \$50 million to enable their Aboriginal suppliers to lease equipment and income generating assets.<sup>211</sup> Such a strategy does, however, rely on the good will of the loan backer and their willingness to take on the associated risks. It is unlikely that smaller contractors will be able to offer this option to Indigenous suppliers, thus such an approach will be more workable with larger companies.

### 3. Cultural understandings of wealth and external prejudices

#### *The opportunities of culture*

If harnessed correctly, culture can act as a key driver of the Indigenous business sector rather than a barrier. As the government pointed out following an inquiry into Indigenous business: 'Culture should be seen as an opportunity for businesses, and it should be seen as a

point of strength and not as a constraint.<sup>212</sup> . Communal elements of Indigenous culture can see business play a fundamental role in community development.<sup>213</sup> The desire of Indigenous business people to give back to the community reflects inherent notions of sharing and exchange based on close cultural ties. As a result, the benefits of a successful enterprise can often be felt at a wider level.<sup>214</sup> This manifests itself in a number of ways, both measurable and immeasurable. The Social Return on Investment model has been touted as one means of quantifying the benefits of cultural business and does suggest a significant return on investment, though the methodology used in this example is flawed.<sup>215</sup> The rate of employment of Aboriginal and Torres Strait Islander people by Indigenous businesses has also been cited as a key advantage of promoting Indigenous business.<sup>216</sup>

### ***Cultural Business and Tourism***

Indigenous cultural knowledge can be used to create new avenues of innovation. The White Paper on Developing Northern Australia suggests that Indigenous culture could bring new technology, medicines and industries to enhance the region's drive for development.<sup>217</sup> Speaking at the Supply Connect Knowledge Forum 2017, Bernard Salt contended that the tourism market from Asia presents innumerable opportunities for Indigenous business.<sup>218</sup> The tourism industry is yet to fully embrace the potential of Indigenous culture. A record 8.26 million International visitors arrived in Australia in 2016, with the tourism sector experiencing substantial growth.<sup>219</sup> Research has shown that there is demand for genuine Indigenous cultural experiences, however, the area is currently underdeveloped.<sup>220</sup>

Cultural business also has significant benefits outside of profit margins. By engaging in culture through business, participants are able to develop a range of skills that address a wide variety of socio-economic issues. Cultural business brings confidence, pride and a renewed understanding of identity and purpose.<sup>221</sup> It can rejuvenate traditional practices while simultaneously developing viable commercial enterprises.<sup>222</sup> An example of this in practice is the Northern Kimberly Fire Abatement Project.<sup>223</sup> The project has seen four native-title groups establish fire management businesses which conduct traditional early dry season burns in order to mitigate the carbon releases created by wildfires. These are then sold as carbon offsets to companies such as QANTAS who are looking to reduce their footprint.<sup>224</sup>

### ***Overcoming stigma***

Government policies and corporate engagement are helping to reduce some of the unconscious bias towards Indigenous businesses. To improve this process Indigenous and non-Indigenous suppliers must work together. Many non-Indigenous companies are afraid to delve into these issues because of their sensitivity.<sup>225</sup> Building relationships between both parties is therefore essential.<sup>226</sup> More importantly, the best way for Indigenous businesses to overcome negative stereotypes is to deliver. Aboriginal suppliers 'need to sell that (they're) just as good as anyone else.'<sup>227</sup> By combining a quality product or service and efficient delivery, Indigenous enterprises can demonstrate that 'business is simply about business.'<sup>228</sup> This is already occurring across Australia, and the growth in Aboriginal and Torres Strait Islander businesses is demonstration of the value they are adding to commercial partners.

## Conclusion

There is definite potential for Indigenous owned business to act as a major stimulant for economic development. Although the IPP is still in its infancy, it has had a dramatic impact on the nature of the Indigenous business sector. At the same time, while the policy has achieved its targets, it is important to emphasize that government procurement can only have a limited footprint. The IPP must not be seen as the primary tool for promoting Indigenous business and its ongoing application could have a distinctly negative impact on open market competition. International examples from the United States and Canada have shown that such policies must be balanced, otherwise they will become counterproductive and unnecessary overtime. Alternative strategies must be used to develop Indigenous businesses who are unable to benefit from procurement policies, particularly micro enterprises, entrepreneurs, and non-Indigenous joint-venture partners.

Although it originated in corporate social responsibility, there is a growing commercial interest in the private sector to engage with Aboriginal and Torres Strait Islander enterprises. The commitment of the Commonwealth through the IPP has set an example for the corporate sector and major actors, such as mining companies and banks, are leading the promotion of Indigenous enterprise.

The market pressure from governments and ASX Top 20 firms is compelling businesses to work with Indigenous suppliers in order to get ahead. Such partnerships confer a competitive advantage to both parties. Non-Indigenous businesses are able to stand out during tender processes by demonstrating their engagement with the sector. Meanwhile, Indigenous businesses are beginning to get a foot into the market, and developing their capacity to provide services and goods. They are also utilising culture to target market gaps, such as tourism and carbon offsetting. This represents a good opportunity for remote Indigenous Australians to engage in the mainstream economy where opportunities are limited.

While the Indigenous business sector is growing, certain challenges must still be overcome. Many Aboriginal and Torres Strait Islander Australians still lack adequate levels of education and the skills required to run a business. There also is a major reliance on government grants and loans, and Indigenous people continue to have difficulty accessing finance from mainstream banks due to limited access to collateral and limited credit history. Indigenous home ownership is low, with only 39% of urban Indigenous Australians possessing property, compared to 70% of non-Indigenous people. Cultural stigmas can have an impact on business success. Communal understandings of wealth make it difficult to manage cash flow and can be a disincentive to entrepreneurialism. Meanwhile, stereotypes about the ability of Indigenous Australians to conduct business are still present in some elements of society. These can be overcome via relationship building between Indigenous and non-Indigenous businesses, and will ultimately be addressed if more suppliers succeed in the open market. To improve the IPP the government should:

1. Revoke the acceleration of the IPP's 3% procurement target to eliminate perverse incentives that may see some companies take advantage of the policy.
2. Consider using incentives in tenders to encourage positive behaviour (i.e. greater weighting given to businesses that employ or sub-contract to Indigenous people).
3. Increase the availability of IPP data by publishing a full list of contracts awarded under the policy. This will allow for greater clarity around the use of the IPP.
4. Abandon the use of dollar value conversion to help departments to achieve targets as it could allow for figures to be significantly exaggerated.
5. Implement tiers in the policy that see companies become ineligible for preferential consideration once they have reached a certain capacity.

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\* A draft version of this report omitted the mention of a Certificate of Aboriginality on p18.



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THE CENTRE FOR  
**INDEPENDENT**  
STUDIES

Research Report 35 (RR35) • ISSN: 2204-8979 (Printed) 2204-9215 (Online) • ISBN: 978-1-925744-01-9

Published November 2017 by The Centre for Independent Studies Limited. Views expressed are those of the authors and do not necessarily reflect the views of the Centre's staff, advisors, directors or officers.

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