
Submission to the Department of Prime Minister and Cabinet – Consultation Paper: Indigenous Business Sector Strategy

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This submission has been prepared by The Centre for Independent Studies (CIS) for the Department of Prime Minister and Cabinet.

The Coalition Government's proposed 'Indigenous Business Sector Strategy' to supercharge the Indigenous business sector closely aligns with the CIS's research program: [The Prosperity Project](#).

The Prosperity Project focuses on the practical measures that will enable Indigenous communities to improve their economic outcomes and bring about meaningful and sustainable change. As part of this research, we are looking at how a more enabling environment for Indigenous enterprise could be created, and which models of support and corporate partnerships work most effectively in which context.

We believe supporting Indigenous businesses contributes to Indigenous empowerment. Unlike program delivery, which tends to be a more passive form of support, supporting Indigenous businesses is an active form of assistance. A multiplier effect occurs when people own a business that goes beyond the financial benefits to the local economy.

Our key recommendations are:

- **Be honest about the challenges and unintended consequences of the IPP** — have appropriate mechanisms in place to ensure the integrity of the policy (ie tighter regulatory control regarding the legitimacy of partnerships).
- **Do not reinvent the wheel** — ensure that business support mechanisms involve grassroots initiatives such as the Indigenous Chambers of Commerce and build on, rather than replace pre-existing support systems.
- **Collaborate** — use the corporate and academic sector to enhance the effectiveness of hubs and the digital 'Launchpad' and provide users with definitive, quantifiable and accredited training outcomes through tools such as online courses.
- **Think broadly** — recognise that growing a vibrant Indigenous business sector will require supporting all types of businesses not just those eligible for government contracts.

1. Building Supply and Networks:

Increasing demand for Indigenous business from both the government and corporate sectors has highlighted a gap in supply, and care must be taken to ensure this gap is bridged in a manner that builds capability rather than weakening the integrity of the sector (i.e. black-cladding). At the same time, building a vital Indigenous business sector will require developing an environment that supports all types of Indigenous business, not just those that meet government and corporate procurement requirements.

A Transitioning Economy

Australia's transition to a more knowledge-based economy presents both risks and opportunities for Indigenous business. Although the Indigenous business sector is increasingly being described as 'dynamic and ambitious', and offering 'some of the best and most innovative products on the market',¹ it must be acknowledged that in many regards there is still a long way to go.²

Historically, Indigenous people have suffered from a lack of opportunity due to limited access to decent education facilities and services, particularly in regional and remote areas. This has restricted their ability to start their own business and to take advantage of new business opportunities.

An examination of exhibitors at the Supply Connect 2017 Indigenous Business Trade Show and the Supply Nation database revealed a significant number of businesses in industries with limited long term sustainability. For example, more than 8% of Supply Nation's listed businesses are based in Office Supplies and Print,³ sectors in substantial decline in the digital age.

Current government rhetoric on the dynamic and transformative nature of the Indigenous business sector ignores the fact that the sector needs to continue to evolve and move away from certain industries with limited longevity. This can be achieved by encouraging Indigenous business people to target markets that have the most potential and that best utilise their skills and resources.

Summits, Forums and Networking

The proposed establishment of an annual Indigenous Business Summit is a positive initiative that should enable greater input from Indigenous people into the development of policies and strategies. The proposal to link the Summit with Supply Nation Connect is also a worthwhile suggestion.

However, events such as Supply Nation Connect need to be made far more accessible to average Indigenous small and medium enterprises (SMEs). Many Indigenous businesses we consulted during the 2017 Supply Nation Connect conference made it clear the conference significantly stretched them financially.⁴ The cost of participating in the Knowledge Forum, exhibiting at the Trade Show and attending the Gala Awards Dinner was more than \$2000.⁵ Costs for an Indigenous SME travelling interstate for the event would reach several thousand dollars. Many business owners we spoke to were unable to afford to attend the entire event and understandably chose a booth at the Trade Show as their first priority.⁶

Increasing the participation rate of Indigenous business in events such as Supply Connect (through sponsorship or scholarship opportunities) will have innumerable benefits for the sector in terms of networking, business knowledge and enhanced capabilities. Indigenous businesses have also mentioned that they would value more opportunities to connect with procurement officers than just once a year at Supply Connect and the government should consider establishing more regular networking opportunities to facilitate this.⁷

The proposal for the Commonwealth to expand and grow existing and new partnerships with non-government organisations, such as the chambers of commerce (Indigenous and non-Indigenous) is worthwhile. Indeed, the Commonwealth is missing a major opportunity by not currently engaging more directly with the Indigenous Chamber of Commerce (see next section).

2. Business Support & Knowledge Sharing:

Educational inequalities have created skill gaps and limited the capacity for many Indigenous people to engage in business. CIS research on Indigenous education found successive governments have failed to adequately enforce hard targets for educational parity.⁸ Many prospective Indigenous business owners also lack awareness about the procurement process, with some business owners stating they were unsure what contracts they may be eligible for and what work was expected under a contract.⁹

A wide range of federal, state and territory government policies and programs offer support to Indigenous businesses. However, the range and number of these different programs has been criticised as being 'confusing and daunting to emerging Indigenous entrepreneurs'.¹⁰ The suggestion to develop educational hubs and launch pads will be pivotal in addressing this skill gap and reducing the confusion about where to go for support. These services should collaborate with the resources of the corporate and academic sectors which will enable them to provide quantifiable and accredited training outcomes through courses such as Melbourne Business School's MURRA Indigenous Business Masterclass.¹¹

Business and Project Hubs

The concept of Business and Project Hubs is a good one and in many respects can build on pre-existing structures, for example local Indigenous Chambers of Commerce and corporate programs such as Westpac's Davidson Institute¹² and Rio Tinto's Amrun Project.¹³

The IBSS proposes hubs will be located in Sydney, Brisbane, Darwin and Perth.¹⁴ However, limiting these hubs to major cities will reinforce the disadvantages experienced by regional and remote communities. While digital platforms could play a role in addressing this, it must not be assumed they will comprehensively meet the needs of those unable to attend physical centres. Levels of technical literacy and digital infrastructure are lower in remote areas and more direct methods of engagement need to be available.¹⁵

The IBSS provides an opportunity to more closely examine the role local Indigenous Chambers of Commerce could play in helping to develop a vibrant Indigenous business sector. Each chamber of commerce has developed organically based on where there was a need and where Indigenous people wanted to build businesses. As a result, the chambers are a true grassroots initiative with strong ties to local Indigenous communities. The chambers are addressing many of the key target areas the IBSS proposes.¹⁶ Integration with the chambers would enable hubs to be developed with the input of Indigenous business leaders. It would also minimise the costs associated with developing entirely new facilities. Nearly 4000 Indigenous businesses are represented by the First Australian Chamber of Commerce and Industry (FACCI) and it makes sense that the development of the hubs be integrated into this infrastructure. The recommendation to involve FACCI in the delivery of business support to emerging Indigenous business was also made in a recent report by the Australian Graduate School of Management who argued that FACCI had both the trust of the Indigenous community and the national footprint needed to be successful.¹⁷

Digital platforms and launch pads

The proposed digital 'launch pad' will enhance the knowledge development process by providing complimentary tools and resources to Indigenous businesses. Although physical hubs are important the internet is generally a resource most people turn to first. In this regard, the launch pad should

help existing and prospective Indigenous businesses navigate the business eco-system and provide them with the information they need to take the next step.

Good examples of online services exist in the corporate sphere. The Davidson Institute is a digital platform that offers a wide variety of free online resources and webinars devoted to the various elements of business development. Live webinars offer the opportunity for interactive learning with expert presenters and online resources complement each session. An 'Innovation Toolkit' is also being created to allow businesses to self-manage the innovative process.¹⁸ A specific education program focussed on financial governance in Indigenous organisations is also being developed.

Joint Ventures and Business Partnerships

Joint ventures are currently being promoted as a means of enhancing the capacity of Indigenous businesses.¹⁹ The exposure and experience acquired in such partnerships is invaluable to the growth of a business and in enabling many Indigenous businesses to access the opportunities flowing from the IPP.²⁰ However, following our consultation with Indigenous businesses at Supply Nation Connect 2017, we would like to recommend focusing on educating lower tier suppliers on several key areas of joint ventures:

- Understanding when and how to enter a joint venture partnership;
- Understanding what contracts they have the capacity to apply for on their own merits;
- Developing the confidence to be a strong partner and actively engage in business decisions; and
- Understanding when and how to move away from partnerships and to transition into an independent upper tier supplier.

Education around these issues should be integrated into business and project hubs and the online launch pad. Self-diagnostic tools could be used to allow Indigenous businesses to assess their situation in relation to joining and leaving joint ventures and to strategize their development in order to take these factors into account over the longer term. The new Supply Nation Jumpstart app could serve as an avenue for business owners to discuss these issues with industry experts. However, the current format, whereby business owners post a request for help may have to be reconsidered. Some Indigenous businesses owners may feel reluctant to publicly admit they need assistance and it may be better if volunteers list their skills so business owners can approach them directly.

An emphasis must also be placed on ensuring that joint venture partnerships remain genuine and beneficial to Indigenous participants. A flaw of the Commonwealth's IPP has been the creation of an avenue for the process to be exploited by businesses seeking lucrative contracts. 'Black-cladding' is hard to quantify, however, many Indigenous business people contend that it is an issue that must be addressed. An exhibitor at the Supply Nation Connect Tradeshow worried that 'half the businesses in here aren't genuine'.²¹ Sara Hudson, in a forthcoming article for our Policy Magazine suggests a key issue is appropriate regulation.²² Currently, partnership arrangements between Indigenous and non-Indigenous business are not properly regulated or scrutinised, and there are no penalties if, for example, a particular target—such as a certain number of Indigenous employees—is not achieved. In the absence of proper accountability and cross-checking of government contracts, a number of companies are approaching Indigenous procurement and employment targets as a tick-box exercise. Hudson recommends that a more comprehensive certification process, such as that used by FACCI, be used to resolve such issues.²³

3. Collateral wealth and improved access to finance:

The trouble Indigenous businesses face in accessing finance are well publicised. A lack of trust from banks and the absence of an intergenerational wealth base make it difficult for many Indigenous entrepreneurs to possess the collateral and credit history required to take out a significant loan.²⁴ The re-focussing of the IBA and the Indigenous Entrepreneurs Capital Scheme is a clear attempt to alleviate such issues. However, the IBA's already chequered history raises significant questions about whether it has the capacity to manage this task. IBA has consistently failed to meet targets in its Business Development and Assistance Program. Indeed, in 2015-16 it fell substantially short of achieving key outcomes, approving only 49 loans.²⁵ Whether the new reforms solve IBA's bureaucratic inefficiencies remains to be seen.

Long term asset development strategies

Many Indigenous people cannot use their land as collateral when applying for a loan, due to the restrictions that exist on Indigenous communally owned land.²⁶ In many circumstances wealth is tied up in communal organisations that often lack 'transparency and encourage corruption with a few 'big men' appropriating the bulk of benefits'.²⁷ Even when individual title does exist, there is often no secondary market in rural and remote areas, which restricts banks from providing finance.²⁸

The proposed Indigenous Entrepreneurs Capital Scheme seeks to alleviate the difficulties Indigenous business people face in accessing funds for business development. However, several factors could undermine the success of the scheme. A report by Social Ventures Australia Consulting determined 66% of corporations to be 'small'.²⁹ On average these corporations possess total assets of \$50,000 and an operating income of under \$100,000.³⁰

The nature of the sector therefore poses several risks to the Scheme. Without appropriate safeguards, the Scheme could simply prop up the sector in an unsustainable manner, rather than promoting the self-empowerment Indigenous business development is intended to bring. Alternatively, the Scheme could be vulnerable to the same flaws that have undermined the IPP. If a large number of businesses are deemed too risky to invest in, the Scheme could be restricted to supporting pre-existing businesses with a track record of success able to already access finance from mainstream banks.

The proposal to expand remote microfinance programmes has some merit, however micro-finance loans tend to be very low value and would primarily only stimulate very small-scale business operations.

Matched savings scheme

The proposed matched savings scheme represents one of the best methods of encouraging business development. Businesses that are able to save not only produce a capital base, they also demonstrate the ability to strategize and manage funds in a manner essential to the success of an enterprise. Such an approach leads to self-empowerment and gives entrepreneurs the confidence they can succeed.

Moving away from the IBA – Mainstream Alternatives

The IBA's shortcomings severely restrict its capacity to substantially finance the Indigenous business sector. Its limited footprint and governmental inefficiencies necessitate the need to look at alternative options. On this basis, the CIS recommends that further effort be made to encourage the participation of Australia's major banks in the financing process. These institutions possess the appropriate capital, a national reach and growing goodwill towards the sector. Some are already formulating programs to lend to Indigenous SMEs.

Invoice finance represents one means of integrating Indigenous business into the mainstream financing system. Such a system addresses many of the issues Indigenous business people face when applying for loans by eliminating the need for external collateral. It enables businesses to more easily manage their cash flows and thus operate effectively on a daily basis. For banks, the security provided by existing invoices eliminates many traditional fears around lending. Most major banks already offer invoice financing and some are in the process of developing Indigenous specific programs.³¹

Staged lending is another means banks could utilise to securely lend to Indigenous business. This method reduces the need for businesses to possess large quantities of collateral and enables the lender to assess the customer based on performance objectives throughout the duration of the loans. Staged lending is mutually beneficial to both businesses and banks by providing the former with hard incentives for business growth and development and lowering the risks of a default for the latter³².

Loan guarantors represent a third method of integrating Indigenous business financing into the mainstream market. This scheme allows for the participation of other industries such as the mining sector and would capitalise on the existing goodwill that has been established in the form of corporate Reconciliation Action Plans. Guarantee mechanisms have been a common tool used in developing economies and are certainly applicable in the Indigenous context.³³ There are a variety of different strategies available to reduce the risk involved in a guarantee scheme, these include only guaranteeing a portion of the loan, having certain eligibility requirements and placing restrictions on the number of loans that can be guaranteed, and charging a fee for guaranteeing the loan. The fee could be offset by the lower interest rates available for government guaranteed loans. Income generated from the fees could be used to cover the costs of administering the loan system and some of the costs from any defaults.³⁴

4. Measuring the Success of the Indigenous Business Sector Strategy:

We agree that currently data on the Indigenous business sector is limited and agree with the proposal to improve data collection processes. In particular, we note that currently the Austender system does not collect information on whether businesses that have been successful in winning contracts are Indigenous, urban, regional or remote.

Acknowledging the limitations of the Indigenous Procurement Policy

In its first year the IPP has been heralded as 'supercharging' Indigenous business.³⁵ While the IPP has been successful, it must be acknowledged that it has its limitations. Notably, Commonwealth contracts will only ever be available to a restricted number of industries/businesses. In the first year of the IPP, 60% of government spend over \$10,000 was in the building and construction sector.³⁶

Meanwhile, 57% of IPP contracts were awarded by the Department of Defence. These statistics demonstrate the restricted impact of the policy and reinforce the need to implement alternative strategies to the IPP to support the development of the Indigenous business sector.

Doubling Indigenous business by 2027

Although this target appears to be quite ambitious, given the relative infancy of the Indigenous business sector, it is important to aim high.³⁷ At the same time, inflated assumptions of the capacity of the sector could be made based on indicators such as the early success of the IPP. It is important to acknowledge much of this success is based on other drivers. The success of some of the largest IPP contract holders in 2015/16 was based on solid joint ventures with industry leaders; 19.5% (\$40 million) of the IPP contract spend went to two companies, Intract Australia and Barpa Limited. Both were part of joint ventures with major industry leaders. Intract were partnered with Cockram, a multi-national construction company with a turnover of half a billion dollars in 2014/15.³⁸ Barpa were partnered with McMahon Services, whose turnover was over \$200 million in 2015.³⁹ Indeed, a multitude of IPP contracts were awarded to strong joint ventures with major firms and well established Indigenous businesses. Thus, while Indigenous businesses have succeeded under the IPP, many have done so under the auspices of strong pre-existing structures provided by joint ventures and previous commercial success. Consequentially, targets need to be reassessed to reflect the developing nature of Indigenous business and the fact that the IPP's preliminary success may not be an accurate reflection of the expansion capacity of the sector as a whole.

The Centre for Independent Studies (CIS)

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