ANALYSIS PAPER
SNAPSHOT

Indigenous Research Program

Back to Basics: A new model for business creation in remote Indigenous communities

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This paper explores Indigenous economic participation in remote Australia through business and entrepreneurship, with a new model for business creation based on first principles.

Remote communities need business and jobs

- Indigenous people are disproportionately represented in remote areas and underrepresented in urban areas compared to non-Indigenous Australians. Around three-quarters of non-Indigenous Australians live in Major Cities, compared to just over one-third of Indigenous Australians. Nearly 20 per cent of Indigenous Australians live in Remote and Very Remote areas, compared to less than 2 per cent of non-Indigenous Australians. A further 20% of Indigenous Australians live in Outer Regional areas.
- Indigenous people in remote areas are the poorest and have the least economic participation. There is another gap developing — the gap in economic and social indicators between Indigenous people who live in the cities and those who live everywhere else.
- Indigenous business owners are underrepresented in Remote areas; with only 5 per cent of Indigenous business owners based in Very Remote and Remote areas and only 14% per cent in Outer Regional areas.

Case study: Kimberley regions

Figures for March 2021 show around 3,000 people in the Kununurra, Halls Creek and Derby-West Kimberley regions on JobSeeker or Youth Allowance (other) (i.e. the Youth Allowance paid to people who are not studying or in apprenticeships). A disproportionate number of these recipients are Indigenous.

At the 2016 census:

- over 60 per cent of Indigenous people in the region were not engaged at all in employment, education or training (in some parts over 70 per cent);
- the unemployment rate among Indigenous people ranged from around 25 to 35 per cent; and
- the labour force participation rate ranged from around 35 to 45 per cent.

Government response: IPP + IBS

- In the 2019 to 2020 financial year, the IPP saw 7,749 Commonwealth contracts awarded to Indigenous businesses; valued at $857 million as at 9 October 2020. Of these, 1087 (or 14 per cent) were contracts delivered in remote areas valued as at 30 June 2020 at $83.6 million (or 9 per cent).
- Indigenous Business Sector Strategy (IBS Strategy) to support Indigenous entrepreneurs and increase Indigenous economic participation through business. The IBS Strategy included two funding pools to support Indigenous-owned businesses — the Indigenous Entrepreneurs Fund (IEF) which commenced in 2016 and the Indigenous Entrepreneurs Capital Scheme (IECS) which was to be established. The final IBS Strategy was launched in 2018.
- The IEF ceased in 2019 having delivered less than half its investment pool to only 111 Indigenous businesses. There was a small pilot to start the IECS but it is no longer mentioned on the National Indigenous Australians Agency (NIAA) website.
- The NIAA has demonstrated little focus or enthusiasm for Indigenous-owned private sector business and is predominantly focussed on delivery of government-funded programs through not-for-profit, community-controlled organisations.

Impediments to business in remote communities

- Access to finance is the greatest impediment for Indigenous people setting up a new business or expanding an existing one in remote Australia. For example:
  - Individuals with no business track record or assets and don't meet commercial lending criteria.

    Difficult for applicants to locate details of potential funding or resources .
  - Application processes generally lengthy and complex and assume numeracy, literacy and business knowledge.
  - Requiring the same level of detail and information for small funding applications as for large funding applications
  - Lengthy application processing time with uncertain decision timeframes.

    Approval criteria based on 'picking winners'.
- Debt funding requires regular repayments when early cash flow may be uneven and a new business may be running at a loss.
- Needing to leave community to acquire the training and certifications required to operate a business.
- Low levels of financial literacy and lack of experience in administration and compliance.

Joint venture approaches should be reconsidered

Joint ventures between Indigenous and non-Indigenous business owners have been a core part of Indigenous business creation initiatives; including the IPP, which provides access to 'Registered Suppliers' that may be 50% Indigenous-owned.

Encouraging partnerships between Indigenous and non-Indigenous businesses was seen as a way for Indigenous people with less business experience or capital, or who operate smaller businesses, to participate in greater business opportunities by partnering with a more experienced or larger business partner who can provide support, opportunities, and skills transfer.

However, there are legitimate concerns about 'black cladding' — where businesses meet the technical requirements for Indigenous ownership and directors , but the non-Indigenous business partner exerts control and gains more of the benefits through contracts. Also great scope for abuse by unscrupulous operators.

Other than family businesses (e.g. husband and wife), we believe:

- The entire approach to joint ventures should be reconsidered;
- There should be a full financial and operational audit and review of joint ventures (whether 50% or 51%) being awarded contracts under the IPP; and
- This should lead to assessment and review of the real level of Indigenous economic participation resulting from joint ventures.

A new model for business creation in remote communities

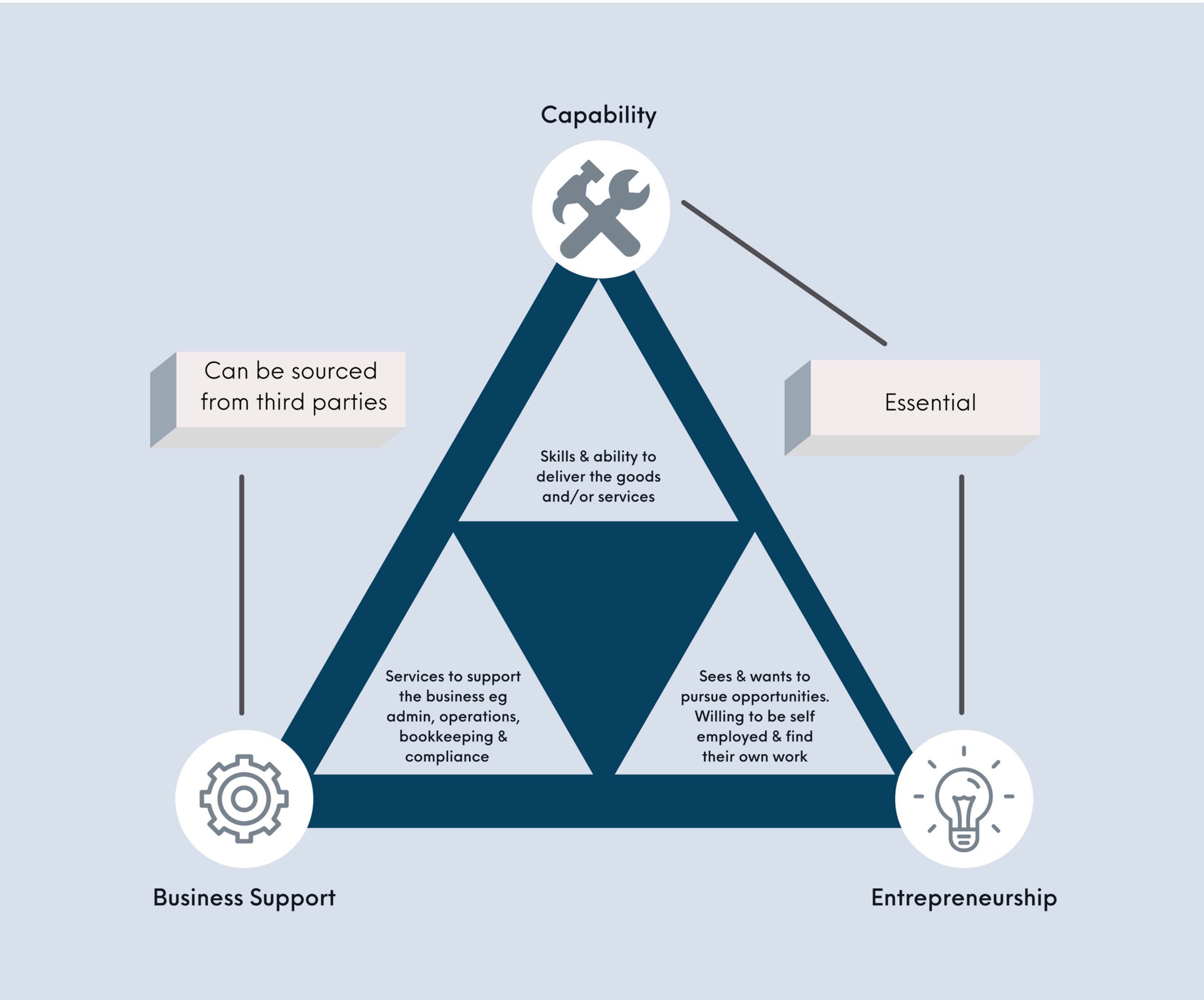
Supply and demand exist in Indigenous communities but the natural supply and demand cycle is stifled by structures imposed on remote Indigenous communities and the resulting mindsets. Business creation programs won't succeed unless they align with the age-old economic principle of supply and demand.

Gauging communities' readiness for business creation

The model outlined in the paper applies criteria to categorise the readiness of any remote community for creation and development of business.

“Business Ready Communities”	“Low Readiness Communities”
high level of awareness of and enthusiasm for business	low or non-existent level of awareness and enthusiasm for business
key building blocks for business creation (most importantly Business Support) are accessible or could be readily accessed	key building blocks for business creation are either not available or available but not accessed or effective
strong local Indigenous leadership	high welfare dependency
clear and communicated vision for their communities and regions	few to no existing private enterprises
Examples include Kununurra, Palm Island, Katherine and north-east Arnhem land	low to zero employment
	many of the facilities are run by community-controlled Indigenous organisations
	majority of activities operated or funded by government
	often located within closed off Indigenous traditional lands where private land ownership is not allowed

The Three Foundations for business creation in the model



1. **Capability** is the ability or capacity to provide goods or services someone else is willing to pay for.
2. **Entrepreneurship** is the ability to see opportunities for income generation and the will and motivation to pursue them.
3. **Business Support** to ensure the business operates legally, the business owner and management stays on top of paperwork, and the company remains financially viable.

Funding for business creation

Potential funding providers

- governments as part of an Indigenous economic development program;
- community-controlled organisations with asset portfolios (eg PBCs and land councils);
- private sector organisations wanting to assist Indigenous economic development; or
- any person or entity with capital.

Type of funding

Traditional debt funding is not a good model for Indigenous business creation in remote Australia (other than things like debt financing secured by specific equipment). More realistic funding structures are those that have similar characteristics to equity and grants.

Funding Approval decisions

Approval criteria should not include confidence that the new business will be a success. The model outlines a simplified approval criteria based on:

1. **Supply**: confirming the Three Foundations are present; and
2. **Demand**: demand for the goods or services to be provided by that business in the particular remote community, with criteria for 'deemed demand', where:
   - the goods or services are currently not available in the community; or
   - the goods or services are supplied in the community but the only current suppliers are located outside the community (e.g. more than two hours by road); or
   - the business has a commitment from a prime contractor, customer or client to enter into a contract which will generate revenue.

Business Support is essential

Third party Business Support services should be a condition of any funding with the Business Support provider paid, initially out of the funding and then by the business itself as a fee for service.

For-profit businesses

A condition of funding should be that the funded entity is a for-profit business. A person can only build a livelihood out of a for-profit business.

The role of government

Business creation in remote Indigenous communities is not dependent on governments. But governments, as the major operators in these communities, can put greater focus on business creation and can do so without new programs or funding — by repositioning the plethora of existing ones such as government employees living in the community and government-funded services. .

Existing resources can be repositioned to deliver Indigenous enterprise and small business development through their own functions.

About the Authors

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