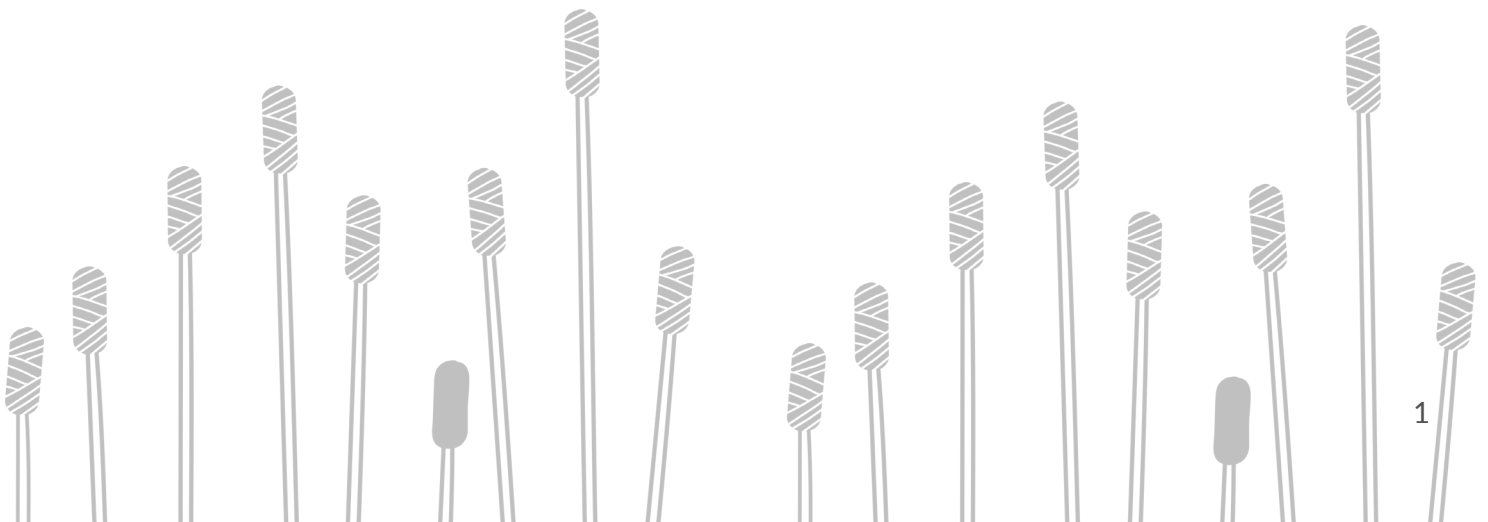


Brave action for a more just, impact-led economy

First Australians Capital is positioned to support the next horizon for Indigenous economic self determination



A just, impact-led approach

First Australians Capital recognises a significant opportunity to build the Indigenous business sector and – by extension – the Australian economy, while enabling whole communities to thrive.

Indigenous businesses create outsized benefits for families, communities and the economy. Empowering Aboriginal and Torres Strait Islander people to build and grow sustainable enterprises will not only boost economic and financial independence, but create jobs, support families and sustain culture.

If COVID-19 unwinds the labour market gains in closing the gaps between Indigenous and non-Indigenous Australians, this may presage the need for a more radical approach to Indigenous economic policy that takes into account persistent issues such as long-term social exclusion and discrimination.

– Supply Nation Policy Brief No 1 October 2020
Yonatan Dinku, Boyd Hunter and Francis Markham

Even before the pandemic, alongside limited social capital, Indigenous peoples also faced bigger challenges in accessing finance. This financial gap, coupled with a mis-alignment of investment resources and systemic racism, has resulted in a system which presents significant barriers to First Australians entrepreneurs and business owners. The pandemic has served to amplify these pressures.

By prioritising recovery efforts working with Indigenous business owners and communities with lived experience, we have the opportunity to expedite both local and national recovery whilst also fostering regenerative approaches which improve sustainable livelihoods.

This paper outlines four actions required to enable a catalytic change:

1. Supply of appropriately structured funding
2. Support for capacity building
3. Centering and valuing of Indigenous perspectives in measuring impact
4. Build long-term power for creating transformative change

This approach will empower and grow Indigenous Australians engagement in the economy, enable generational change and build a just, impact led approach to drive a new economy led by First Australians.

What are the challenges?

First Australians have little capital 'on-call'

Historical practices have left Indigenous communities with low rates of intergenerational wealth transfer, effectively limiting participation of Indigenous people in the mainstream economy.

48.8% of Indigenous people in Australia live in financial stress, across urban, regional and remote areas¹ and 75% struggle to access financial services².

It is now widely understood that mainstream finance and business advisory services do not reach the Indigenous business sector and a specific response is needed³.

Access to capital is routinely identified as a major inhibitor for Indigenous business. Alongside the lower rates of intergenerational wealth transfer, Indigenous people have less access to lending from family and friends, and lack the security required to leverage for mainstream funding.

To date, solutions to resolve this gap have largely been driven, and even financed, by government. However, this has not addressed the major gap: accessing start-up and working capital in the early and growth stages of business.

Indigenous businesses do not fit mainstream risk profiles

There is a further challenge in matching the risk profile of lending institutions to business opportunities. While small business loans do exist, emerging Indigenous businesses can find it difficult to meet commercial lending criteria for loans, which involves providing an adequate trading history, robust financial projections, and a strong business case and execution plan.

Indigenous businesses are predominantly small to medium sized. In the procurement space, winning a large multi-year contract can be costly, as Indigenous contractors are unable to obtain mainstream finance (given revenue forecasts of contracts may be above a bank's lending criteria) and may instead resort to 'pay-day' lenders, often with over-inflated or even predatory interest rates.

1. <https://www.rfigroup.com/australian-banking-and-finance/news/achieving-financial-independence-indigenous-australians>

2. https://firstnationsfoundation.org.au/uploads/6/3/1/1/6311851/full_report_2019.pdf

3. Supporting Indigenous Business Research Report December 2018 <https://www.industry.gov.au/sites/default/files/2020-12/supporting-indigenous-business-research-report-phase-1.pdf>

Impact investment misalignment

Impact investment is on the rise, but little reaching Indigenous businesses

Systemic racial bias is apparent in the investment industry, where people of colour receive significantly less investment capital and face bias in the underwriting and allocation process, despite performing as well as (or even better than) their white peers. In many cases, asset owners promote equitable access to opportunities through their missions and programmatic objectives, and yet the capital gap persists.

– Advancing Racial Equity in the Investment Industry, Mission Investors Exchange

According to the Responsible Investment Association of Australasia Benchmarking Survey, 2020, the total value of impact investment products as at 31 December 2019 that are widely offered to Australian investors has risen 249% to \$19.9 billion (including \$8 billion in foreign domiciled products), from \$5.7 billion as at 31 December 2017.

However the current models of impact investment in Australia has resulted in much of this capital being untapped. The current investment approaches are a huge structural inhibitor to Indigenous economic participation.

Mindset excludes Indigenous businesses

Indigenous ventures seeking Impact Investors face a number of barriers – many of which are driven by preconceptions about the types of businesses that are suitable for investment. Investors look for scale and are interested in finding the “hottest ticket”. Other attitudes which present barriers to investment in Indigenous businesses include:

- Not prepared to invest in building relationships and build the pipeline
- Traditional blindness when looking for deals – fund managers seek deals that reflect their own lived experience
- Lack understanding of the pipeline of Indigenous businesses
- A lack of understanding, or interest in, how Indigenous people live from financial institutions; this belief is particularly strong in regional and remote communities
- Short term horizons
- Indigenous businesses face racial stigma and a perception that they are less capable⁴

Exaggerated perception of risk

A further misalignment is the risk appetite of investors and the levels of risk they perceive with Indigenous businesses. Collins et al 2017 reports that:

“Anxiety about Indigenous business enterprise failure, particularly within co-operative or community-owned businesses has been a barrier to investment... It may also be shaped by a stereotypical perception by mainstream society of Aboriginal people having an inability to succeed. However, small enterprise failure is part of the generic nature of small business per se, rather than a result of particular Aboriginal entrepreneurial inadequacies”.

4. Supporting Indigenous Business Research Report December 2018 <https://www.industry.gov.au/sites/default/files/2020-12/supporting-indigenous-business-research-report-phase-1.pdf>

[In] this new era we are going to need innovation and courage, courage to actually address the biases in our system and move beyond the rhetoric of diversity and equity and to actually internalise that in our daily practices and in our investment priorities.

– Darren Walker, Ford Foundation

Unconscious bias and racial discrimination

As Australia enters a COVID-19 induced recession, another possible factor driving differences in labour market outcomes of Indigenous and other Australians is discrimination. Recent research has emphasised significant widespread unconscious bias against Indigenous Australians.

– Siddharth Shirodkar 2020

Indigenous entrepreneurs have consistently experienced barriers in access to capital, holding them back from reaching their full potential. These barriers are the result of unconscious biases and systemic inequities that have created challenges that many face in raising capital.

The paper by Siddharth Shirodkar “Bias against Indigenous Australians: Implicit Association Test results for Australia” suggests that individuals in almost any social setting tend on average to hold a bias against Indigenous Australians – with a third of Australians holding what might be considered a strong implicit bias⁵.

Further, a 2016 report on racism as an inhibitor to the organisational legitimacy of Indigenous tourism businesses in Australia states “Although Indigenous business development is a cornerstone of Australia’s Indigenous policy, Indigenous Australians operating small businesses report experiencing racial discrimination on a regular basis from customers, suppliers, government institutions and financial institutions”⁶.

The paucity of investment capital in Indigenous-led funds has also highlighted structural and systemic racial barriers. In December 2019 the total value of impact investment capital in Australia had risen 249% to \$19.9 billion. However, the current models of impact investment have resulted in much of this capital being untapped and investment approaches are a huge structural inhibitor to Indigenous economic participation.


Meanwhile in the US, according to new research by Stanford scholars, despite the impressive track record of a black-led venture capital firm, it encounters more bias from professional investors. Investment team practices and bias also maintain system inequality. When the investment team does deploy investment capital to fund managers, they almost always allocate it in a way that mirrors biases and inequities embedded in the mainstream investment process.

5. ANU (2019) Journal of Australian Indigenous Issues Vol 22 Nos 3-4, Siddharth Shirodkar, Bias against Indigenous Australians: Implicit Association Test results for Australia

6. Lisa Ruhanen and Michelle Whitford (2018) Racism as an inhibitor to the organisational legitimacy of Indigenous tourism businesses in Australia, Current Issues in Tourism, 21:15, 1728-1742, DOI: 10.1080/13683500.2016.1225698

The opportunity

Building a strong and vibrant Indigenous business sector is a vital part of Australia's economic future, contributing to growth, employment and self-employment, business knowledge, personal and company wealth, and increased competition and diversity in our domestic and export markets.



– The Australian Government “Indigenous Business Sector Strategy, 2018–2028” (2017)

Indigenous businesses create employment, growth in the economy, self-employment, personal wealth, and empowering Indigenous communities to generate and grow their economic prosperity.

Indigenous businesses have a multiplier effect, where the impacts of a successful business go beyond financial benefits to the local economy and where successful business owners are often role models and catalysts for change within the community.

Boost Indigenous SME success

In line with the principle of self-determination, more Indigenous people than ever are seeking to achieve economic independence by contributing to the economy through the establishment of Indigenous businesses.



– PwC Indigenous Consulting Report 2018, The contribution of the Indigenous business sector to Australia's economy

Prior to the pandemic, there were an estimated 12,000 to 16,000 Indigenous-owned businesses operating in Australia. It is a sector experiencing strong growth, where the number of reported Indigenous owner managers has more than tripled between 1991 and 2016; growing at 12.5% annually. With the right enabling environment, the Indigenous business sector is forecast to grow nationally by over 8,000 new businesses over the next ten years⁷.

However, the full potential of Indigenous businesses is not being realised. Our Indigenous Business Growth Report noted that material opportunities exist to grow both the number of Indigenous businesses and the scale of these businesses, across all regions and sectors. Price Waterhouse Cooper's Indigenous Consulting (PIC) produced a report noting that given the strengths of the Indigenous business sector and the growth in Indigenous population, economic contribution from the sector has the potential for significant expansion.

Data released by PwC estimate of the economic contribution of the three Indigenous business categories (self-employed individuals, enterprises and trusts). Together, these Indigenous businesses added between \$2.2 billion and \$6.6 billion to the Australian economy in 2016. This represents 0.1 per cent to 0.4 per cent of the nation's gross domestic product (GDP).

Invest in Indigenous-led environmental market opportunities

Enabling the right environment for investment – with Indigenous business establishment and growth linked to the natural and cultural assets associated with Indigenous land holdings – presents unimaginable opportunities.

– First Australians Capital

The Indigenous estate comprises approximately 40% of Australia's landmass, with an estimated 80% of Northern Australian under Aboriginal and Torres Strait Islander title. From a market perspective, this provides enormous potential for environmental land and location-based economic development – including opportunities in land and resource management, agriculture, foods, renewable energy, pest reduction and water. At present, however, little of this land is providing economic benefits for local Indigenous communities.

Indigenous people are uniquely placed to advise on investments in the environment. Research shows that conservation and environmental outcomes are enhanced in areas under Indigenous protection. Indigenous people understand better than anyone how to protect the natural environments that are central to nature-based solutions.

However, Indigenous participation is often limited to environmental conservation and offsets. Indigenous participation must incorporate the full extent of environmental market opportunities.

Indigenous participation in eco tourism, agriculture (native foods and grains), water conservation and aquaculture are examples of environmental markets in which Indigenous peoples can make a significant contribution.

A 2019 report from IP Australia identifies that Indigenous knowledge has exceptional market value to Australians businesses and the economy. For example, Indigenous agribusiness, including the demand for Australian native foods, is by far exceeding supply. Global demand is on the rise and includes increased interest from China in accessing high quality food products.

Four actions for catalytic change

Much of what appears to be reform in our time is in fact defence of status. When we see through the myths that foster this misperception, the path to genuine change will come into view.

– Anand Giriharadas, Winners Take All

First Australians Capital's approach marries funding with support to help build sustainable businesses. Our experience demonstrates why Catalytic-Patient Capital married with Capacity Building support is critical for enterprise success.

Funding: Catalytic-Patient Capital (CPC)

What type of capital?

Catalytic capital plays a critical role in filling financing gaps for impact enterprises that conventional capital cannot. Catalytic capital accepts disproportionate risk and/or concessionary return to generate positive impact and enable third-party investment that otherwise would not be possible⁸.

Without catalytic capital to seed new impact enterprises, develop market infrastructure and support the entry of new investors through blended finance, the flow of needed capital to some sectors and geographies may take much longer, or not happen at all⁹.

Case study:

Aboriginal Sustainable Homes (ASH) has a mission to provide appropriate housing for vulnerable populations – but they leverage housing projects to invest in employment and training opportunities for local communities. ASH ensures that more Indigenous people are employed, gain skills and are engaged in community projects through their unique and innovative approach – whilst also supporting vulnerable populations with appropriate housing.

First Australians Capital have assisted ASH with a blended finance facility that has enabled the organisation to progress through ISO accreditation – a key compliance requirement in many procurement processes. This allows ASH to demonstrate their capability, capacity and credibility to State and Government funders – meaning their market will be larger and their business model more sustainable over time.

First Australians Capital is supporting ASH's long-term growth and has agreed a patient model – returns will be generated over time but the focus is on the organisation's ongoing social and economic impact in the region.

Patient capital is better matched to early-stage enterprises. Patient capital defined by Yunus Centre (Griffith University) encompasses four key areas in transformational impact investment:

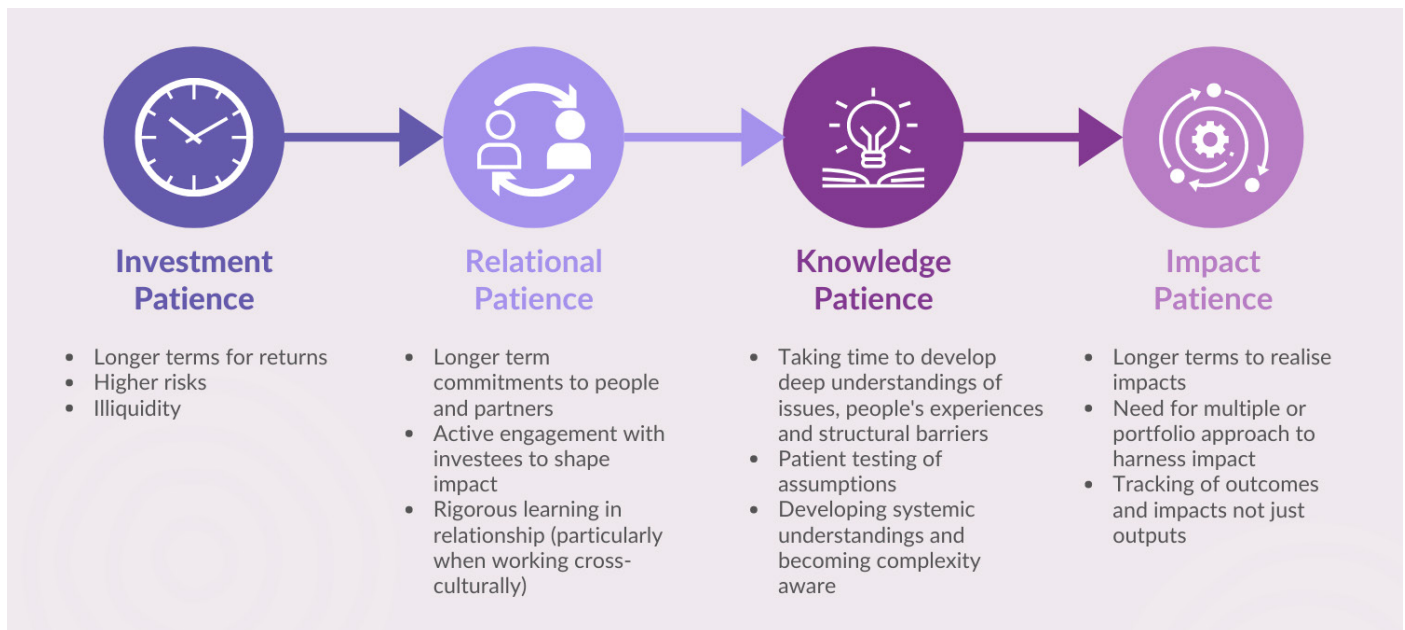
- Impact Patience – long term to realise impacts
- Relationship Patience – long term involvement with people and partners, rigorous learning in relationship particularly in a cross-cultural partnership
- Knowledge Patience – take time to develop deep understanding of issues, people's experiences and structural barriers
- Investment Patience – long terms for return, high risk and liquidity

Long term evergreen and patient capital is a common tool in investment markets particularly venture capital.

8. Catalytic Capital Unlocking more investment and impact, March 2019, Tideline

9. Bouri, A.; Mudaliar, A.; Schiff, H.; Bass, R.; Dithrich, H. (2018). Roadmap for the Future of Impact Investing: Reshaping Financial Markets.

Four arenas of patience in transformational impact investment



– Yunus Centre, Griffiths University

Supporting: capacity building

Financial capital is critical to supporting the growth and building the resilience of any business – but financial resources are not the only resource in short supply within some Indigenous businesses.

Aboriginal and Torres Strait Islander peoples also have low 'social capital' – defined as access to networks that could provide informal loans or financial support – due to generally lower levels of economic resources within Indigenous communities.

According to the First Nations Foundation report on Financial resilience: "A substantial proportion of Indigenous respondents appeared to have very low or low financial social capital. This is likely to be due to low levels of economic resources (you cannot share what you do not have) and poor access to services.

"The 'financial social capital' score is based on three items: level of connection with other people, likelihood of getting financial support from social connections and access to community and government services."

The Indigenous Social Enterprise (ISE) Fund pilot in 2017 investigated the Indigenous social enterprise pipeline, and found that capital needs to be married with capability support to facilitate potential social impact combined with commercial viability. The pilot demonstrated the importance of pre-investment support to the ISEs.

The 2020 State of Indigenous Business Report by Supply Nation also highlights that "Indigenous businesses in some sectors are unable to win contracts because they lack the capacity and capability that buyers require". The report recommends that governments should "support capacity and capability building in existing Indigenous business sectors, to foster more businesses of sufficient size, experience and capability to be successful in key procurement processes".

Whilst there are many training programs, accelerators and innovation hubs available to support Indigenous business capability development, our experience demonstrates that Indigenous business owners are capable, but have limited capacity (time, capital, expert advisors and business networks).

Developing programs that are tailored not only to the business owner's skills and knowledge needs, but also to the business life-cycle stage allows the business owner to focus on building a sustainable and thriving enterprise.

Case study:

Mungalla Aboriginal Tours is a traditional owner enterprise with the vision of protecting the legacy of cultural heritage and access to Country through tourism. As a working cattle station located at Forrest Beach outside Ingham in North Queensland, Mungalla operates tours for international visitors through partnerships with cruise ships and international universities. The tours provide an experience of the culture and history of Mungalla Station and the Nywaigi Aboriginal People of North Queensland.

The calamitous drop in international visitors due to COVID-19 significantly affected the business driving a reduction in revenue of around 83% over the initial period.

First Australians Capital worked with Mungalla to ensure that the core purpose of their business was maintained, whilst also providing support to build capability to pivot and address new markets. With access to finance to support marketing activities and engage accounting services, the organisation also worked closely with First Australians Capital on a strategy to drive visitor numbers from new audience segments.

FAC's long-term, relationship-oriented approach recognises the long incubation periods required for Indigenous enterprises to build investment readiness.



Centre Indigenous perspectives in impact measurement

All efforts need to work toward supporting their aspirations for a 'good life', one that incorporates the many different points of view of individuals, families, communities and population or language groups as well as economic, social and cultural perspectives.

– Arabena 2019

The momentum building on Environmental, Social and Governance (ESG) standards could certainly be positive for driving improved corporate environment, social and governance standards and performance. However, they do not recognise Indigenous aspirations towards lands and waters, knowledge, or our cultural heritage, principles, or traditions.

Most evaluations of Indigenous impact assessments are done by investment companies without direct Indigenous input, and are instead based on their own interpretations of what they surmise might be important from an Indigenous perspective.

When measuring impact, cultural-strengthening activities should be appreciated and valued in the same way that economic, social and environmental measures are incorporated.

The development of impact frameworks and metrics must center Indigenous values and worldviews, be relational, multidimensional and wholistic.

The 2007 UN Declaration on the Rights of Indigenous Peoples (UNDRIP) articulated the rights of Indigenous peoples to live a cultural life, underpinned by good health and wellbeing, self determination and leadership. Caring for the land and maintaining a cultural life, an identity, individual autonomy and Indigenous sovereignty all have implications for the health and wellbeing of Aboriginal and Torres Strait Islander peoples.

Like any investment that may affect Indigenous lands, waters, territories, people, and/or rights, ESG criteria will only be successful if they are harmonised with Indigenous practices that are locally informed, environmentally sound, socially beneficial, governance inclusive, and aligned with the doctrine of “free, prior, and informed consent” as found in UNDRIP.

– Indigenous Sustainable Investment, Discussing Opportunities with ESG, January 2021

Build long term power

In a context where funders and investors are looking for new ways to advance racial equity and serve communities most impacted by crises like the COVID-19 pandemic, this report charts a path for the entire field of community development to build power in BIPOC and working class communities through the sharing of power within investment processes.

– Transform Finance 2021, Grassroots Community Engaged Investment Report (GCEI)

The Transform Finance report suggests that power building goes beyond wealth building. Power building is about including the voice of communities in the process of investment and bringing existing social justice movements into conversations around capital where they were previously excluded, forging productive connections with institutional stakeholders, building community knowledge around local finance and economic development ecosystems.

Indigenous communities and entrepreneurs face difficulties in navigating the range of business support that is available – as evidenced by a number of reviews commissioned by government agencies and more recently noted in a 2020 OECD Report.

The report stated that the intermediaries delivering support often do not have strong relationships with Indigenous communities or even a consistent presence (especially in remote areas). Whether institutions belong to Commonwealth and State agencies, local government, or not for profit entities; most are not Indigenous-led or owned, which means economic development capabilities are not necessarily developed within communities¹⁰.

Providing effective mechanisms for the voice of Indigenous communities and businesses to be involved in these processes are necessary to build long-term power. The deeper the engagement, the more impactful and transformative the change.

Indigenous-led non-government intermediaries are uniquely suited to bring the voice of Indigenous communities, to build the investment pipeline and bridge the demand with supply. Their lived experience in serving Indigenous communities means they are best equipped to connect investors with Indigenous enterprises.

The competitive advantage for Indigenous-led intermediaries is that they have trusted relationships with communities, they have different networks, different investments and a diverse portfolio. Further, Indigenous intermediaries play an important role in de-risking investments by ensuring there are support networks for the Indigenous businesses.

Strengthening and deepening intermediaries is critical to build the expertise to design solutions, unlock capital (and direct it on appropriate terms) and generate a pipeline of quality opportunities into which capital can flow¹¹.

First Australians Capital is well positioned as an intermediary to undertake such an approach.

10. OECD (2020), Linking Indigenous Communities with Regional Development in Australia, OECD Rural Studies, OECD Publishing, Paris, <https://doi.org/10.1787/ab4d8d52-en>

11. Impact Investing Australia, 2018

First Australians Capital: our point of difference

First Australians Capital is a unique matched investment model that aims to bring together private sector, government and philanthropic investors to invest in high potential Aboriginal and Torres Strait Islander enterprises. Our ambition is to unlock the cultural, creative and economic capital of First Australians to drive a new economy and create sustainable livelihoods for First Australians.

First Australians Capital has a track record in providing critical operational and strategic advice to Indigenous businesses, unlocking access to markets, and capital to grow.

Most importantly, our strategy expands financing options for Indigenous businesses, bridging critical gaps in the market, and securing a long term market opportunity for driving a new Indigenous economy.

Led by Indigenous Australians

First Australians Capital is proudly founded and run by experienced Aboriginal and Torres Strait Islander leaders and advisors. We have deep ties into our communities and understand the challenges and opportunities that exist.

Our mission: to empower self determination

We believe in the cultural, creative and economic capital of Indigenous Australians to achieve self determination and economic justice.

Identifying and filling the gaps

By working with underserved business start-ups, and accessing capital for early-stage businesses, FAC fills a gap in the Indigenous business ecosystem. Through partnerships with mainstream providers, industry players and leading advisory firms, we support Indigenous businesses to access mainstream finance.

Solid track record

We have a track record of success working nationally with over 400 Indigenous businesses since our founding in 2016. We stand alongside Indigenous entrepreneurs to help break through the systemic barriers.

Industry and markets deliver natural competitive advantage

We focus on developing industry and markets in which Indigenous businesses have a natural competitive advantage, such as cultural tourism, agriculture and environmental and sustainable markets. These are areas where Aboriginal and Torres Strait Islander people have been running sustainable enterprises for over 60,000 years.

Indigenous-first Impact-first

First Australians Capital is pioneering the creation of an Impact Enterprise Fund to drive Indigenous economic growth and deliver lasting impact. Our Indigenous-first Impact-first investment mandate delivers better outcomes for individuals, families, communities and businesses.