



# QUANTIFYING CAPITAL REQUIREMENTS IN THE INDIGENOUS BUSINESS SECTOR

February 2023

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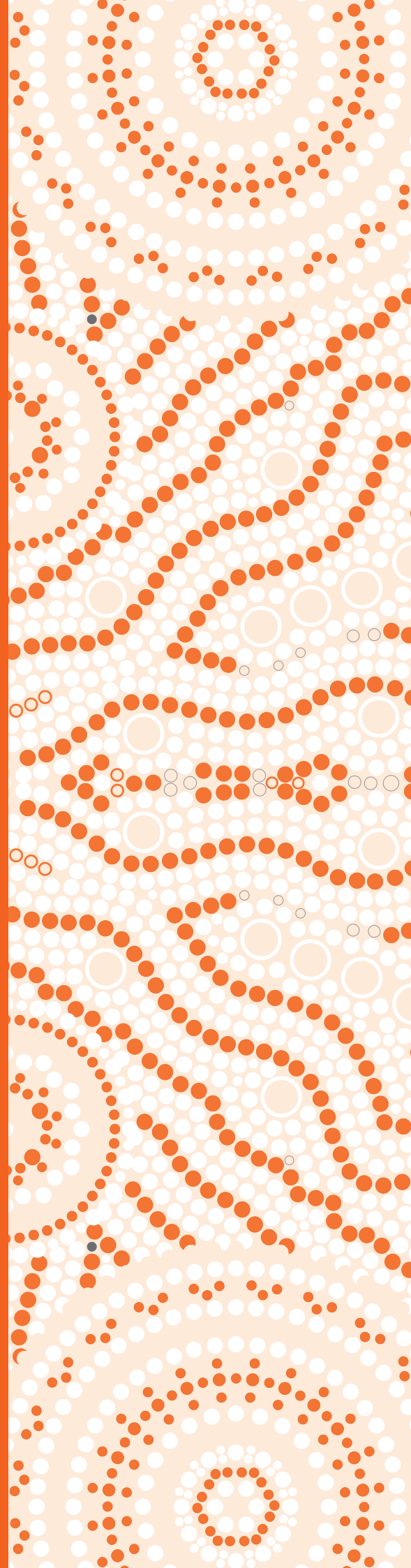
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# PREAMBLE

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Self determination is an ongoing process of choice. For 179 years in Australia, the First Nations' people were not afforded choice in the same manner, and to the same extent that others that called Australia home were afforded.

The systematic denial of choice, combined with the lived experience of First Nations' people, is at the heart of the challenges we face today in the Australian Indigenous business sector as we work to overcome the systematic inequality that has shaped Australia's economy.

Article 3 of the United Nations Declaration on the Rights of Indigenous Peoples states that First Nation peoples have the right to self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development. That has not always been the case in Australia.

But, like their ancestors, many of Australia's First Nation entrepreneurs show resilience, survive, and increasingly thrive drawing on their cultural values. In doing so, they provide for First Nations' people of today, and for future generations, and are reshaping a future full of opportunities and prosperity.



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# Executive Summary

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First Australians Capital (FAC) has approached PricewaterhouseCoopers Indigenous Consulting (PIC) to conduct research into the capital requirements of the Indigenous business sector (the Sector).

The purpose of this research was to model the amount of external financial capital needed by Indigenous businesses and to encourage investment in, and the continued growth of, the Sector. This research is intentionally focused on commercial, for profit or for purpose, businesses. PIC and PricewaterhouseCoopers Australia (PwC) estimate that the Sector has grown by at least 47% in the period between the 2016 and 2021 census, consisting of **between 14,800 and 17,500 businesses** in 2021. The vast majority of these (circa 11,000) are sole traders or microenterprises who are largely undercapitalised. The largest quantum of growth was in NSW and Queensland, although all states and territories had double digit growth in count of businesses, and the majority of Australia's Indigenous businesses are located in NSW, Queensland and Victoria.

During the same period, we estimate that the **economic contribution of the Sector** to the Australian economy has grown by at least 60%, to between **\$8.4 billion and \$12 billion** in 2021. The four main drivers behind the growth in the Sector (in broad order of impact on results) are the increased number of Indigenous business owners, the increased self-identification of First Nations heritage, a change in business type (with more Indigenous entrepreneurs now employing others rather than identifying as sole traders) and a shift in industry mix to more businesses in industries that are productive and have higher economic value add.

Using the limited publicly available data, as well as FAC's own data, we have been able to develop **an order of magnitude estimate of the capital needs of the Sector at around \$800 million per year**. In doing so, PIC and PwC have relied on historical external financing needs and ABS Private New Capital Expenditure and Expected Expenditure data. A third approach, which considered ABS Australian Industry total expenses data, provided a significantly higher (and less unreliable) upper limit of between \$15 billion and \$22 billion. These figures assume that there is no further growth (in size or scale) of the Sector, which based on current trends is unlikely to be the case.

Although there is a range of existing sources of capital that First Nations people and businesses can theoretically access, in practice many First Nations business owners remain capital constrained. While mainstream sources of funding (debt and equity) exist, and increasingly these organisations are making more

of an effort to attract and engage with First Nations businesses through providing Indigenous specialist teams and products, the standard lending or investment prerequisites and credit checks often exclude First Nations entrepreneurs. Indigenous Business Australia plays a role from a government perspective, and there are also a number of private sector organisations who specialise in supporting Indigenous businesses. FAC is the only Indigenous owned, led and controlled entity that provides both capital and support, and is arguably the most successful. Other providers include Many Rivers, Indigenous Capital Limited and Impact Investment Partners. There are also a number of location specific sources of capital, including the Northern Australia Infrastructure Fund and the newly formed NT Aboriginal Investment Corporation.

With a rapidly growing and maturing Sector, the need for capital is increasing and there is a role for both the public and private sectors to play. While some Indigenous entrepreneurs prefer to self-fund their activities, for others this is not a viable option and it has the potential to inhibit further business growth. Anecdotally, the supply of culturally appropriate capital is not meeting the demand (and potential) of the Sector, creating an opportunity for FAC and others who are willing to work alongside Indigenous entrepreneurs.

# About this report

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Small and medium-sized enterprises (SMEs) in Australia regularly report difficulties in accessing financial through traditional lenders on appropriate terms, particularly on an unsecured basis. According to the Productivity Commission, almost 20% of SME owners state that a lack of finance “hampers their business”.<sup>1</sup> We know, instinctively, that this figure is significantly higher for First Nations entrepreneurs given the relatively lower rates of home ownership and intergenerational wealth and the persistence of institutional racism. We also know that the capital requirements of these entrepreneurs and First Nations’ businesses are growing, but there is limited information in relation to the quantum of the need.

First Australians Capital (FAC) has approached PricewaterhouseCoopers Indigenous Consulting (PIC) to conduct research into the external financial capital requirements of the Indigenous business sector (the Sector). The purpose of this research was external financial capital needed by Indigenous businesses and to encourage investment in, and the continued growth of, the Sector. This research intentionally focused on commercial, for profit, businesses. This report sets out findings.

Key objectives of the research were to:

- estimate the size of the Sector based on the existing methodology that PIC and PricewaterhouseCoopers Australia (PwC) developed the 2018 report, The contribution of the Indigenous Business Sector to Australia’s economy<sup>2</sup>, updated with 2021 Census data,
- provide some additional analysis on the Sector, including in relation to industry breakdown and maturity, as well as any gendered trends within the Sector,
- consider FAC data, as well as publicly available data and lived experience, to estimate the capital requirements of the Sector.

We understand that FAC’s intention is to use this information to build a right-sized capital investment pipeline for the Sector, which aligns with FAC’s vision to strengthen the Sector and the Indigenous economy more broadly. The project consistent of three distinct phases:

## Desktop research & data collection

Considering recent publications by IBA, FAC, Supply Nation, University of Melbourne and the various Chambers of Commerce representing the Sector to build an understanding of recent research Review of data from the ABS including Census 2021 data, in addition to other relevant ABS data Interviews with a small number Indigenous entrepreneurs to understand their lived experience

## Analysis & synthesis

Analysis of the data considered, with a focus on:

- the size of the Sector
- any gender trends within the Sector
- an industry analysis across the Sector
- the maturity levels of businesses across the Sector and within industry categories
- the benchmark capital requirements of businesses across industries and maturity level

## Reporting

With this information in hand, PIC prepared this report documenting the project findings and recommendations on the capital requirements of the Indigenous business sector

Although the original intention was to also consider data from other organisations that regularly lend, or otherwise provide financial support to, Indigenous businesses, this data was unavailable at this time due to privacy restrictions or related concerns.

<sup>1</sup> Australian Financial Review, Funding Options Widen for SMEs, 23 November 2022, <https://www.afr.com/companies/financial-services/funding-options-widen-for-smes-20221123-p5c0le>

<sup>2</sup> PwC’s Indigenous Consulting, The contribution of the Indigenous business sector the Australia’s economy <https://www.pwc.com.au/indigenous-consulting/assets/the-contribution-of-the-indigenous-business-sector-apr18.pdf>

# A holistic view of capital

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While the focus on this paper is on quantifying the financial capital needs of the Sector, it would be remiss not to acknowledge the importance of other forms of capital to First Nations' peoples. Black and Hughes (2001) provide definitions of natural capital, produced economic capital and human and social capital (see below), which we extend to also include cultural capital:

**Natural capital** consists of natural resources, ecosystem services, and the aesthetics of nature.



**Produced economic capital** includes all products that are harvested or manufactured, the built environment, physical infrastructure that has been constructed and financial resources such as money. Cultural and intellectual property are also forms of produced economic capital.



**Human and Social capital** is the knowledge, skills and health embodied in individuals. It also refers to the patterns and qualities of relationships in a community.



**Cultural capital** includes First Nations' knowledges, cultural practices, language, art, storytelling and spiritual beliefs. It also encompasses the social and economic benefits that flow from maintaining and transmitting these cultural practices, such as a the ability to access and use natural resources.



The value, and cultural values, that exist in these different types of capital in First Nations' communities, are both enablers and connectors for the Sector. They are just as, if not more, important as financial resources and need to be nurtured and recognised alongside any development of the future capital markets for the Sector.

# Our history of Indigenous economic and business development

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Australia is a country with many economic advantages, including a large natural resource base and a strong democracy. However, for much of Australia's history, First Nation peoples have been excluded from meaningful participation in the economy and have been subject to controlling and economically restrictive policies which have limited First Nation communities' and peoples' growth and economic development. In short, the systematic locking out of First Nation people from the developing Australian economy has had long lasting, generational social, cultural and economic impacts.

Since colonisation and the imposition of white settlement and systems, First Nation peoples have been removed from their lands, denied the right to own property or operate businesses, not earned equal pay, and faced ongoing prejudice, marginalisation and discrimination. The exclusionary effect of Australia policies over years has created barriers to opportunities to achieve self-management and economic self-sufficiency resulting in financial exclusion and significantly limiting First Nation peoples ability to leverage assets, grow wealth and reach economic independence

Historical legacies of colonialism continue to shape the economic prosperity and well-being of First Nation peoples in Australia today. First Nation peoples were denied the opportunity to earn a decent income, build wealth, and transfer it between generations. Australia's First Nation people were, and some may argue are still, the only group consistently associated with financial exclusion, whether in metropolitan, regional or remote areas of Australia creating a significant gap in the equity and wealth divide between First Nation and Non-First Nation people.

Meaningful access to economic activity has only been made possible relatively recently. Since the 1970s, First Nations' peoples have had their rights recognised, which for some has included land and rights to development. In recent decades, there have been significant levels of local innovation and entrepreneurship amongst First Nations' people, with business growth in areas such as construction, tourism, environmental services, arts and culture, as well as other industries.

Over these decades the Australian Government has also made a commitment to working with First Nations people and communities to improve socio-economic outcomes, with regard to business and economic development through many key developments that are drivers in the Indigenous business sector today, such as:

- development and implementation of the 2014 Commonwealth Indigenous Procurement Policy, which has now flown into the establishment of such policies in all Australian states and territories
- establishment of Supply Nation
- investment in Hubs and Chambers of Commerce to create critical mass and provide peer support
- investment and delivery of a myriad of business support and mentoring programs across the country to develop and mature business skills
- corporate and organisational commitments to Indigenous procurement through public-facing Reconciliation Action Plans and similar strategies

These are positive steps on the journey to economic reconciliation, but inconsistencies remain in the application of policy. For example, the investigation powers available to the Office of the Registrar of Indigenous Corporations are considerably broader than those of the Australian Securities and Investment Commission resulting in an additional level of scrutiny that non-Indigenous organisations are not exposed to. More needs to be done to level the playing field and ensure that the Indigenous business sector reaches its potential.

# The Current State of the Sector

The Sector has continued to experience growth in terms of the number of participants over the past five years. In 2016, PIC and PwC Australia estimated that the size of the Sector was estimated at between 8,600 to 11,900 businesses, including microenterprises, enterprises and trusts<sup>3</sup>. In 2018 the Australian Government placed the size of the Sector at somewhere between 12,000 and 16,000 businesses<sup>4</sup>, and more recent research published by Supply Nation estimates that the number of businesses is 11,635.

Applying the same methodology that was used in 2016 to the Australian Census 2021 data (see Appendix A of this report), PIC and PwC Australia have identified that the Sector has achieved 47%+ growth and is now estimated to consist of between 14,800 and 17,500 businesses. The vast majority of these are Self Employed Individuals (which are considered to be microenterprises), as shown in Graph 1, but the fastest growing segment is actually the Enterprises (see Graph 3). This may be an indication of microenterprises growing and maturing with time.

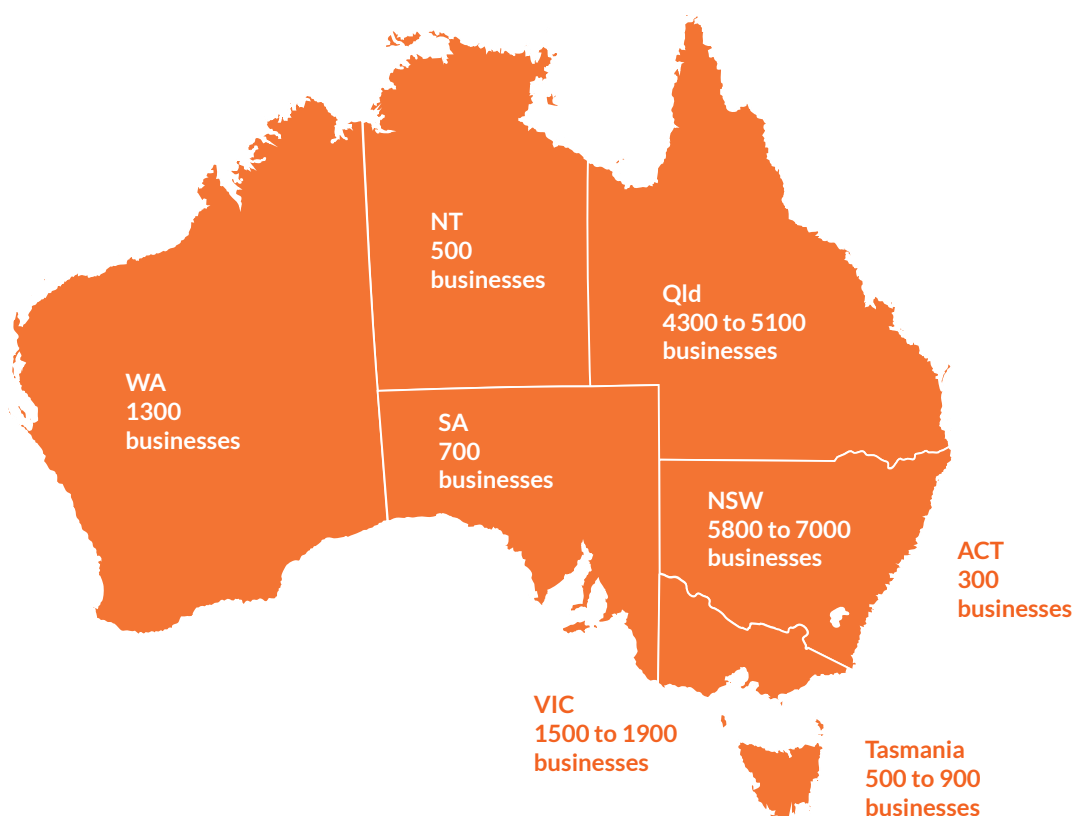
When considering the split by industry, construction remains the largest industry, followed by health care and social assistance. Most of the other industries with significant levels of Indigenous businesses were service industries - across health, administration, professional services, training and arts and recreation.

This is largely unchanged since 2016, other than the significant growth in the number of self-employed individuals citing health care as the industry in which they were operating. Health was also a growth area for enterprises, potentially attributable to the growing National Disability Insurance Scheme and the commercial opportunities it creates.

Within the growth in results shown in Graph 3, the largest quantum of growth was in NSW and Queensland, although all states and territories had double digit growth in count of businesses and contribution to the economy.

The estimated number in each state and territory as shown on Diagram 1, with the most Indigenous businesses being located within New South Wales, Queensland and Victoria.

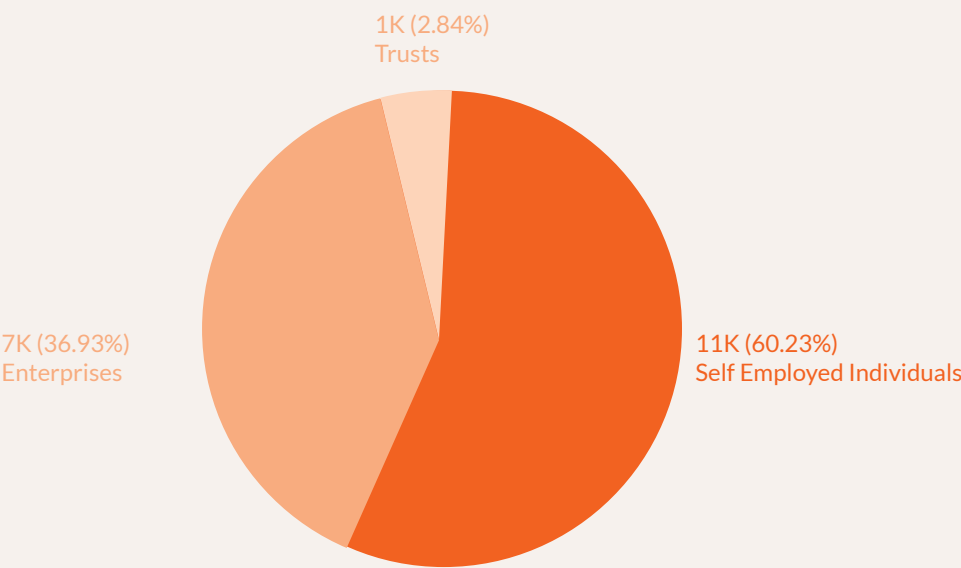
**Diagram 1. Estimated number of Indigenous businesses by state and territory**



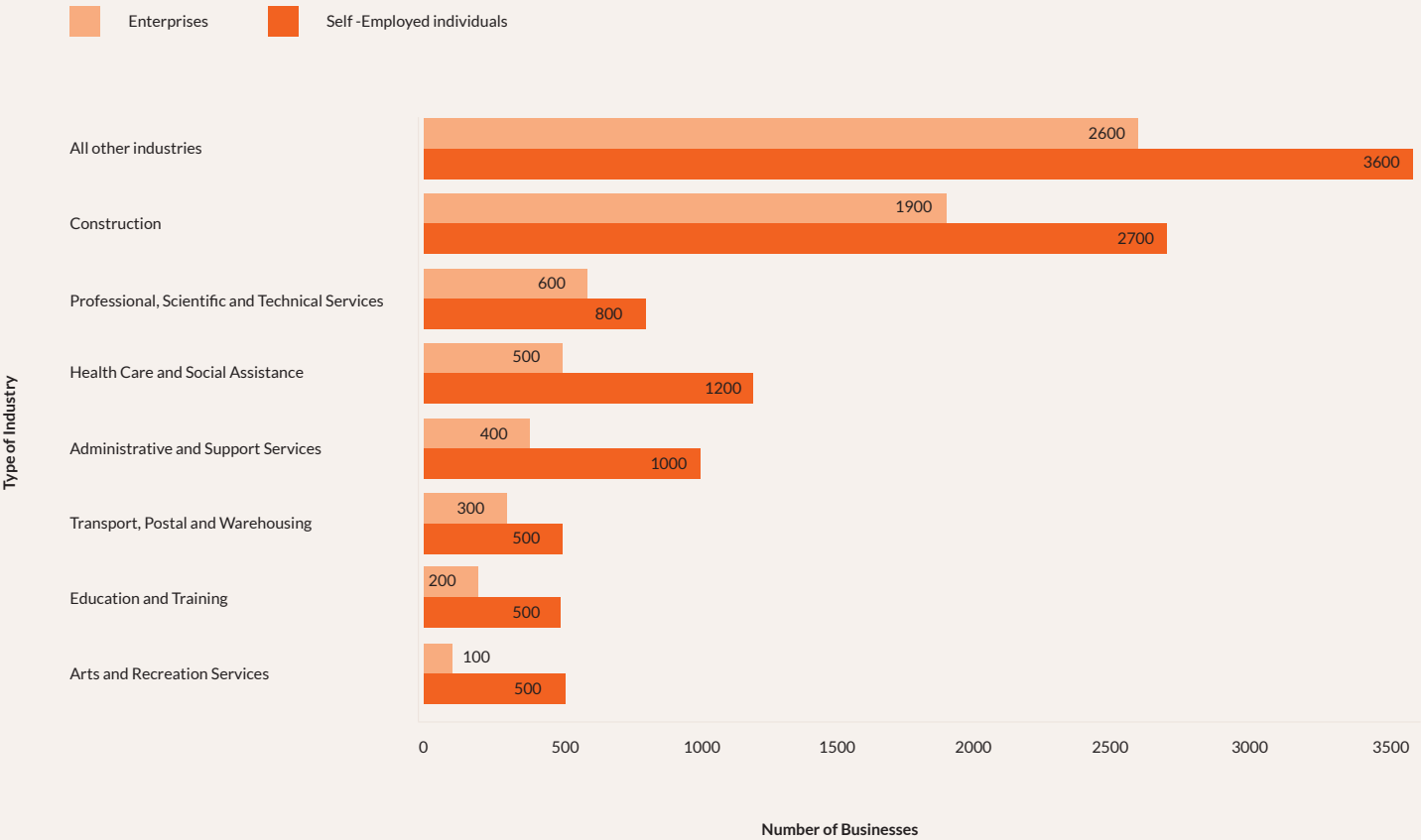
<sup>3&4</sup> PwC's Indigenous Consulting, The contribution of the Indigenous business sector the Australia's economy

<https://www.pwc.com.au/indigenous-consulting/assets/the-contribution-of-the-indigenous-business-sector-apr18.pdf>

Graph 1. Estimated number of Indigenous businesses by type in 2021

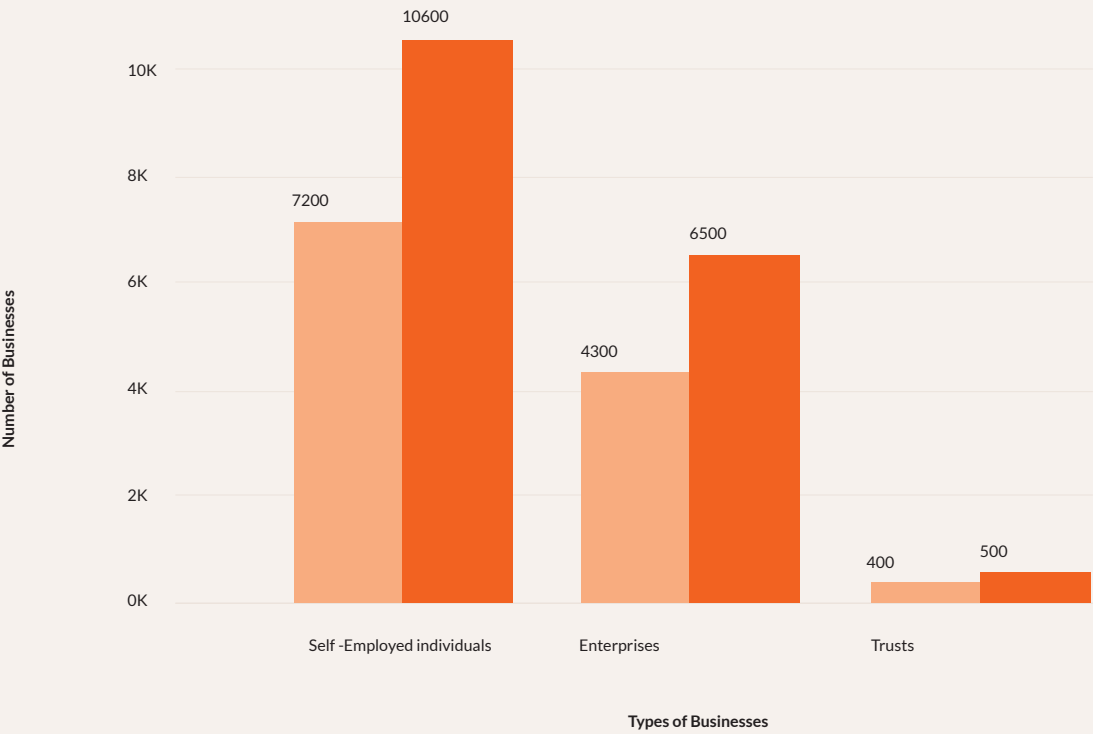


Number of Indigenous Businesses by Industry



Graph 3. Estimated growth by type of business

Indigenous Business Growth - 2016 to 2021



## The Current State of the Sector (cont.)

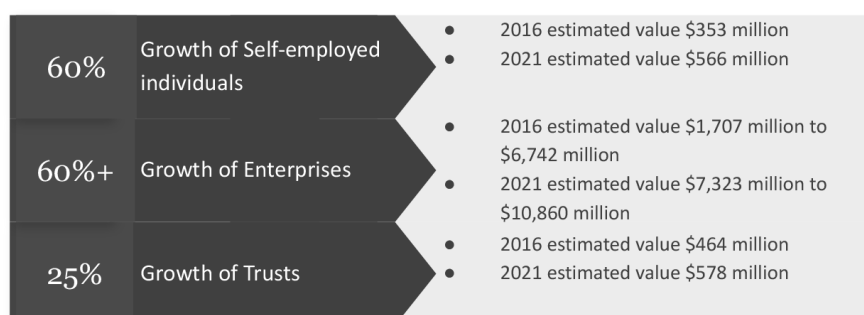
The results presented show **significant growth in the economic contribution of the Sector** from when the same analysis was undertaken on 2016 data. PIC and PwC's previous estimate was that **Indigenous businesses contributed between 0.1% and 0.4% of Australia's GDP** in 2016. In 2021, it is estimated that Indigenous businesses' economic contribution to the Australian economy is equivalent to between 0.4% to 0.6% of total GDP. This is a significant increase, but given that First Nations people make up 3.2% of Australia's population, there is still further work to do to support the continued growth of the Sector.

The four main drivers behind the growth in the Sector (in broad order of impact on results):

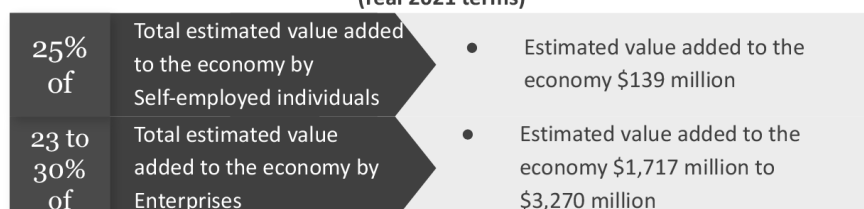
- 1. Increased numbers of First Nation business owners.** Even after the three drivers below are accounted for, the results show clear growth in the number of First Nation people starting and growing their own businesses.
- 2. Increased self-identification of First Nation heritage.** While there is clear growth in the number of First Nation businesses, there is also a clear trend of individuals self-reporting First Nation heritage. This is reflected at the individual level, as more people self-identifying as First Nation and the business level as more businesses join Indigenous business registers.
- 3. Change in business type.** The largest proportional growth came in the category of Indigenous enterprises with employees. Because these businesses are larger by definition, they have a greater contribution to the economy and measures like value added and GDP.
- 4. Industry mix.** In the self-employed individual and enterprises categories, the 2021 results have more businesses in industries that are productive and have higher economic value add than the previous estimate. This shows that there are now more Indigenous businesses in important service sectors such as health care and social assistance.

In undertaking analysis of the Sector, it is evident that there has been **an increase in Indigenous female owned businesses** but that this still lags behind Indigenous male owned businesses. In 2021, **36%** of First Nations people that reported owning their own business were female. Of Indigenous business owners that have employees, only 32% were female. Analysis of Indigenous Business Direct shows that a similar proportion of businesses listed there are female owned - less than 30%. In terms of count of businesses, female owned makes up just over a third of Indigenous businesses. By comparison, approximately 44% of all Australian SMEs in 2022 were owned by women according to MYOB's most recent research report. ([https://www.myob.com/content/dam/public-website/docs/misc/The%20Australian%20SME\\_MYOB.pdf](https://www.myob.com/content/dam/public-website/docs/misc/The%20Australian%20SME_MYOB.pdf)) **Between 5000 and 6100 of all Indigenous businesses are female-owned or led.** Indigenous female self-employed individuals represented 4000 businesses, equivalent to 38% of the Sector, and Indigenous female owned enterprises represented between 1000 to 2100 businesses, 27% to 33%, of the Sector. The **total estimated value added to the economy (real 2021 terms) of Indigenous female owned businesses is \$1.9 billion to \$3.4 billion (24% to 30%).**

### Estimated value added to economy (real 2021 terms)



### Estimated value added to economy of female owned Indigenous businesses (real 2021 terms)



# Capital and the Sector

Capital is used by companies to pay for the ongoing production of goods and services to create value (and ideally profit). In the context of this research, 'capital' is money which can be provided in the form of personal savings, grants, debt (a loan) or equity (money in exchange for a percentage of ownership of an entity or activity). Without access to capital of some description, most businesses would remain undercapitalised, or not be able to continue to trade.

Estimating the number of Indigenous businesses in the Sector is challenging due to a number of data restrictions and limitations. Estimating the level of capital those businesses need is even more difficult. This is because capital needs differ from business to business, and is dependent on the industry, scale and age of the business. It is also challenging to make an annual or point in time estimate as capital needs are often lumpy - some businesses will need a large amount in some years for particular investments or expansions, but will not need external capital in other years - and/or seasonal, dictated by regular trading patterns. Further, small businesses and start-ups often seek external finance for working capital (ie the day-to-day expenses of running a business, such as inventory, supplies, salaries, rent, and other operational costs). Without sufficient working capital, a business may often struggle to pay staff, pay bills / meet obligations, which can lead to financial difficulties and even failure. This is a different profile than for larger businesses where external financing may be sought for a specific investment. These needs are also not generally captured in traditional economics statistics - in which 'capital' generally refers to physical building, plant and equipment (i.e. factors of production) and not the funding for those and operational needs. To help articulate the order of magnitude of capital needs, three estimates have been undertaken:

01

**External financing need** - using the business counts above, we have assumed that an early stage business (which these Indigenous businesses are assumed to be) would need external funding once every five years. We assumed each need would be the average funding approval by FAC per business per industry. This FAC funding data covers funding both for specific investments (such as equipment) as well as working capital (to cover operating expenses such as wages and supplies). This should be seen as the 'best' or 'central' estimate based on actual funding requests.

02

**Capital expenditure** - using the business counts above we looked at whole of industry capital expenditure on building, plant and equipment (as per ABS Private New Capital Expenditure and Expected Expenditure) and assumed Indigenous businesses would represent the same % of that expenditure by industry as the % of value add those businesses represent. This is an alternative estimate that expressed the large investments that a business may need external financing for. However, it is acknowledged that some businesses will be able to finance their own equipment and others will need external financing for operating expenses, such as wages, during expansions.

03

**Total expenses** - using ABS Australian Industry we estimated total expenses per employee for each industry. Applying this to the estimates of businesses and employees of Indigenous business above, we estimated total expenses for all Indigenous businesses. This is an 'upper bound' estimate as it is very likely that all businesses will at least cover some expenses with operating incomes and many businesses will cover all expense without need for external funding.

## Capital and the Sector (cont.)

These estimates are shown in the table below.

Industry	1. External financing need		2. Capital equipment need		3. Total expenses	
	Low	High	Low	High	Low	High
Construction	173	216	107	199	5,650	10,074
Health Care and Social Assistance	119	108	32	23	980	732
Administrative and Support Services	52	62	17	39	560	1,166
Professional, Scientific and Technical Services	66	61	14	12	1,027	886
Education and Training	30	28	4	3	169	147
Transport, Postal and Warehousing	30	37	63	130	913	1,806
Arts and Recreation Services	6	5	6	5	246	218
All other industries*	197	261	524	410	6,128	7,066
<b>Total for all Indigenous businesses</b>	<b>672</b>	<b>778</b>	<b>767</b>	<b>821</b>	<b>15,674</b>	<b>22,094</b>

Table 1: Estimates of capital needs - by industry (\$ million)

The first two of these **estimates lead to an order of magnitude estimate of capital need of around \$800 million per year**. However, as an ‘upper estimate’, the total expenses is obviously significantly larger.

These estimates do not take into account the needs of the Indigenous businesses who are entering, or would like to enter, the new, capital intensive industries associated with the climate and biodiversity industries. Indigenous knowledge has been recognised as a key component (and competitive advantage) for solving the challenges associated with sustainable development. The Kunming-Montreal Global Diversity Framework adopted following COP-15 includes a target of mobilising by 2030 \$200 billion per year from public and private sources for biodiversity-related funding<sup>5</sup>. Access to even a small part of this will be a significant enabler for Indigenous businesses, but targeted investment and capital will be required to ensure that there is meaningful Indigenous cultural and economic participation in this opportunity.

<sup>5</sup> United Nations Environment Programme, COP15 ends landmark biodiversity agreement, 20 December 2022, <https://www.unep.org/news-and-stories/story/cop15-ends-landmark-biodiversity-agreement>

# Current sources of capital and supports for the Sector

Our research project has identified the current supports and sources of capital available to the Sector.

## Chambers of Commerce and Sector-led networks

Located across Australia are Aboriginal owned, governed and operated Chambers of Commerce and Sector-led networks with a focus on supporting Indigenous business to provide support, traverse the maze and achieve economic independence through connection to culturally safe, professional and opportunity-driven services that fosters innovation, engagement, growth and business success. This includes access to:

- appropriate business networks;
- fit-for-purpose support, solutions and advice; and
- new opportunities Indigenous entrepreneurs and businesses to build capacity, capability, confidence and to thrive

This national network consists of a membership of more than 4,500 businesses, consisting of State and Territory chambers and business networks and is becoming an increasingly important conduit between the Sector, government and corporate Australia.

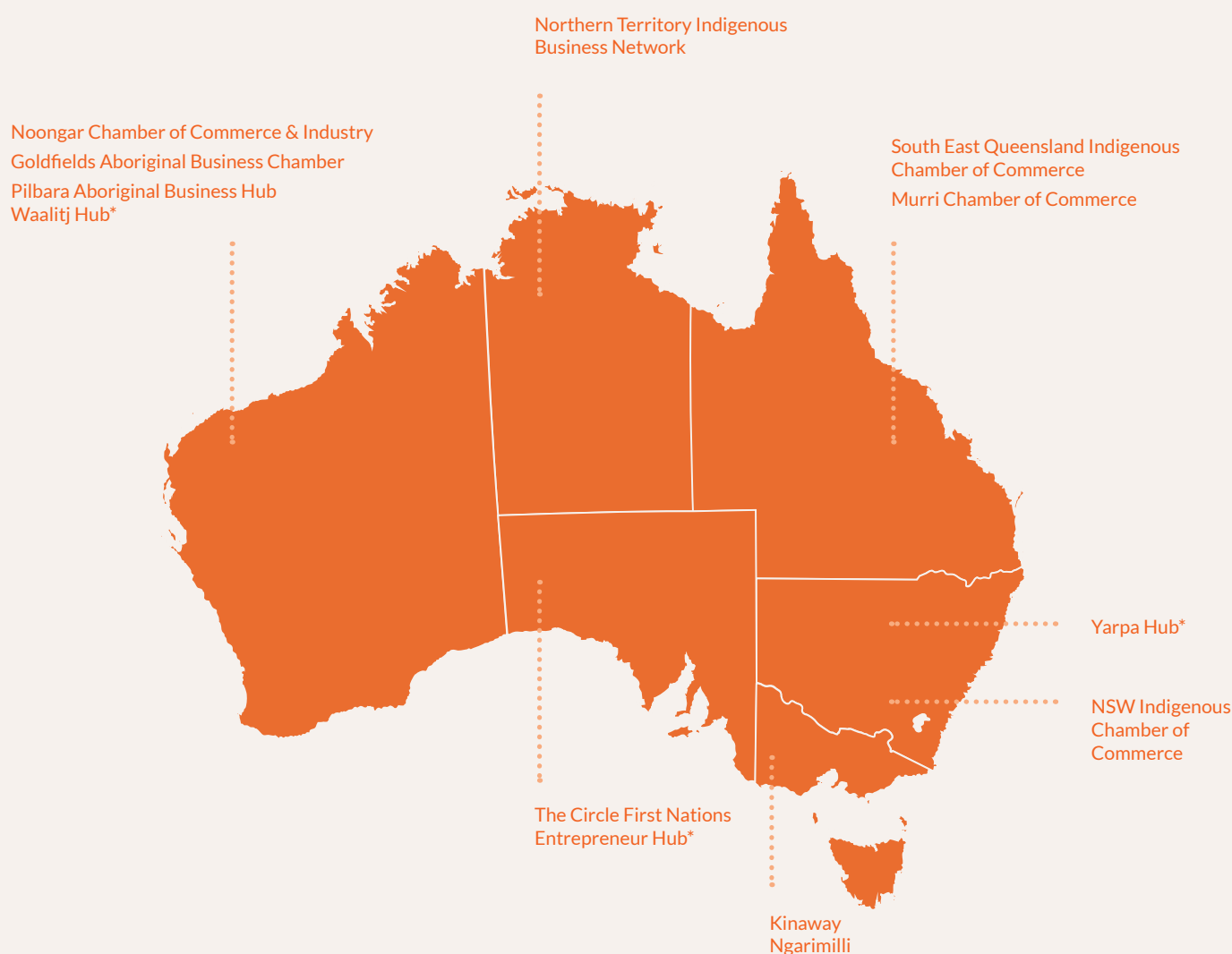


Diagram 2. Location of Indigenous Chambers of Commerce around Australia\*  
- not Aboriginal owned, however provide similar supports and services

# Current sources of capital and supports for the Sector (cont.)

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## Current financial products and services

The focus of this scan centred around the financial products and services currently tailored to the Indigenous business market or, those that are delivered by Indigenous owned businesses and organisations.

There is a fragmented and limited range of appropriate financial products and services available to Indigenous businesses in Australia. Those that do exist range from being Indigenous-specific, tailored to Indigenous consumers or more mainstream products that aren't specifically designed for the Indigenous business sector but are considered suitable. Products and services identified included a range of business loans, microfinance products, neo-banks, traditional financial institutions, lease finance products, venture capital, financial advisory and brokerage services and insurance.

Although there are a range of financial products and services available to Indigenous businesses, a key challenge for the Indigenous businesses interviewed in our case studies is the ability to effectively navigate through this space to get the access and support they need.

Some providers and/or products of note include<sup>6</sup>:

### Microfinance providers

- Many Rivers Finance
- Good Shepherd Microfinance
- Lumi Australia
- Prosopa

### Neo-banks

- Volt Bank
- Ubank
- Up
- Judo

### Traditional financial institutions, programs & products

- ANZ Limited\*
- Commonwealth Bank of Australia\*
- National Australia Bank (NAB)\*
- Westpac Limited\*

### Aboriginal Finance Institutions

- Traditional Credit Union
- Indigenous Business Australia\*\*
- Indigenous Land and Sea Corporation \*\*

\*Indigenous specific focus and/or Indigenous specific teams within mainstream organisations

\*\* Commonwealth Statutory Bodies

<sup>6</sup> Minderoo Foundation, Generation One - Backing Black Business, Greater financial inclusion for Australia's Indigenous business sector <https://www.minderoo.org/generation-one/reports/backing-black-business/>

## Case studies

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PIC also gathered data from Indigenous business owners through interviews. In the interviews, information was sought about their businesses, experiences in obtaining finance necessary to establish their businesses and in their day-to-day operations, as well as future financing requirements.

Indigenous business owners interviewed were solicited through PIC and FAC's collective networks.

PIC conducted three interviews which ran for between 60 and 120 minutes, participants were asked to consider four key questions relating to their experiences on obtaining business finance and what could be improved. Those questions often generated a broader discussion about being in business and policies and programs such as the IPP and procurement targets within RAPs. These conversations were particularly useful in considering what products or initiatives could increase Indigenous businesses' access to finance.

Data from the interviews were analysed from the perspective of identifying existing barriers to accessing capital for Indigenous businesses and what policy or practical measures might help to overcome these barriers in future.

# 01 ASH is building better futures

With a background in employment and industry training, Brad Draper established Aboriginal Sustainable Homes (ASH) three years ago in regional New South Wales, and is experiencing rapid growth.

ASH undertakes (currently) small scale property development, building houses for Aboriginal community housing organisations using an innovative construction method, Structural Insulated Panels. This approach is cost effective (in terms of construction and ongoing maintenance), energy efficient, reduces the time spent onsite and most importantly provides a better quality of life for the home occupants. ASH's business model includes prioritising local First Nations' employment and procurement, and cash flow is critical.

## Starting out

Although Brad sought financial assistance from Indigenous Business Australia and other Commonwealth grant sources in ASH's start-up phase, the business case proposed was not supported. Ultimately, Brad was able to secure a loan of \$100K from an angel investor which in addition to his own savings allowed ASH to get a foot in the door.

## Ongoing funding requirements

Property development and construction are capital intensive industries, typically requiring the developer and builder to carry a significant proportion of the cost of the land and/or works through to the point of sale and/or practical completion. By way of example, a recent property undertaken by ASH required expenditure of \$6.2 million. Although the end product was 'pre-sold', as the developer ASH had to fund most of those costs for the life of the project (incurring interest along the way). ASH has been able to secure project-specific funding for this, largely due to the pre-sale commitments from a government funded entity.

Labour is one of the most important inputs for ASH, and having a project-specific drawdown facility with FAC allows ASH to ensure that its employees are paid in a timely manner regardless of whether the principal has met its payment obligations. Similarly, it means that small local businesses are paid on time, supporting regional economies and families.

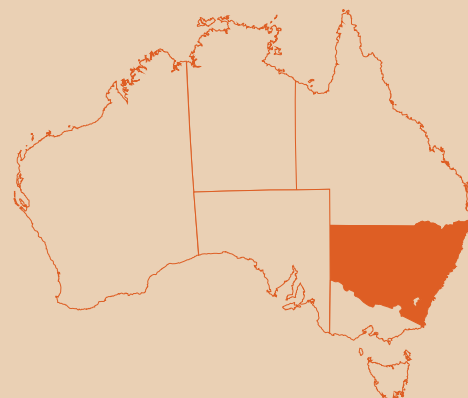
## What the future holds

Brad is optimistic about ASH's future, and is looking to build an equity base by not only delivering profitable jobs but also retaining a percentage of the houses that ASH builds, either to be rented or sold in the future. With opportunities to expand interstate, and strong relationships with reputable purchasers/ end-users for ASH built homes, ASH's capital requirements will continue to expand. Project by project funding is the likely approach, and Brad's clear preference is for debt rather than an equity investment.

The increasing scale of ASH's capital needs (and potential for more than one project at a time) is both exciting and nerve-wrecking for Brad. Ideally ASH will continue to work with Aboriginal institutions, lenders, investors and/or businesses when it comes to securing capital. Brad values honesty and transparency, as well as an alignment in values. He is particularly grateful for the opportunities that FAC funding has allowed ASH to pursue and deliver on.

**"For ASH to continue to grow we need facilities that are tailored, project to project. We want to continue to change perceptions and prove that we can handle the larger projects."**

- Brad Draper  
ASH



## 02 Grub Lab's tech-enabled innovation

With a background in entrepreneurship, Mick Carr established Grub Lab three years ago in regional New South Wales, with a focus on remaining regional, being technology based, scalable and innovative. Although Grub Lab is located in regional New South Wales they have achieved significant growth and success to become a truly nationwide business.

Grub Lab operates in the marketing technology industry provide marketing solutions in over 1200 venues currently across Australia. Grub Lab has a focus on kids entertainment and cost effective marketing solutions at restaurants, pubs, clubs and cafes providing colouring books that come to life using a free app through an AR & VR tech platform. This approach, which includes partnering with exclusive brands including Jurassic Park, Minions, AFL and NRL, makes Grub Lab one of the most unique and innovative businesses in the marketing technology industry. Grub Lab's business model includes technology first investment, in its people and its platform, building its brand, providing local jobs and remaining regional.

### Starting out

Grub Lab launched two weeks prior to COVID-19, which provided a challenging beginning considering that its primary market was hospitality. Facing into the impacts of lockdowns and an effective shut down of the hospitality industry, Grub Lab chose to 'double down' and used this time to concentrate on product development. Although COVID-19 had significant impacts on the hospitality sector, it also provided opportunities for innovation as hospitality venues and operators prepared for the post-lockdown recovery. Grub Lab was ready to capitalize on these opportunities.<sup>17</sup>

### Ongoing Funding requirements

Grub Lab's initial capital was self funded, through personal financing and asset liquidation. Two weeks prior to COVID lockdowns Grub Lab were able to raise \$1.2 million, through a convertible note with private investors which proved critical moving into a period where generating revenue completely dried up. Despite having many meetings with a broad range of potential investors including other professionals, Venture Capitalist and Angel Investors, the biggest challenge Grub Lab faced in raising capital was in building networks and relationships. Expert advice and network building created as much value as securing capital investment, with a highlight being legal services and advice, valued at \$100,000, through FAC support, was integral for Grub Lab to secure licencing and rights to their four major products, Jurassic Park, Minions, AFL and NRL. Building the Grub Lab team, recruiting key personnel and the technology platform required between \$2 million and \$3 million dollars. Capital raising became easier once the Grub Lab team grew, making it easier for Grub Lab to sell its purpose, vision and capability to potential investors.

### What the future holds

Mick has a very clear vision for Grub Lab, to continue to grow its scale with acquisition of its main competitor providing the opportunity for expansion into the US market. The Grub Lab exit strategy has them selling the business at the end of the 2024/2025 financial year for a projected value of \$500 million. The increasing of Grub Lab's scale and capability is both exciting and nerve-wrecking for Mick. Ideally Grub Lab will continue to work with Aboriginal Institutions such as FAC and IBA to assist Grub Lab to meet its exit strategy target by providing capital, on an as-needs basis, or providing support to attract investment from venture capitalists. Mick's values and vision have not waived on his Grub Lab journey - to provide innovative, scalable and offer tech-based solutions.

**"We have a very clear understanding of what potential investors are seeking. All Grub Lab pitch decks reinforce that we are a tech-based, scalable innovative investment opportunity that will provide return."**

- Mick Carr  
Owner & CEO, Grub Lab

Grub Lab location



## 03 We Create Print Deliver's journey of self-determination while educating others

With a background in marketing, advertising and visual communications, Pat Caruso established We Create Print Deliver (We) eight years ago in Adelaide, South Australia.

We provides services such as branding, graphic design, marketing, print/signage, merchandise, web, photography, video and events.

'We' is more than just a business name for owner Pat Caruso, it is a reflection of Pat's mission that we work together, collaboratively and with integrity.

### Starting out

In starting We, Owner and CEO Pat Caruso made a conscious decision to self fund everything, and as a result has never borrowed money. For Pat his decision to exercise self determination and self reliability has been an important one.

### Ongoing Funding Requirements

Going forward, Pat prefers that We remains self-funded and intends to continue to grow and develop We through business generated revenue only.

We's business plan is to remain agile to be able to react to the market, invest in its people through training and leadership development, and invest in custom made software and systems to increase productivity.

### What the future holds

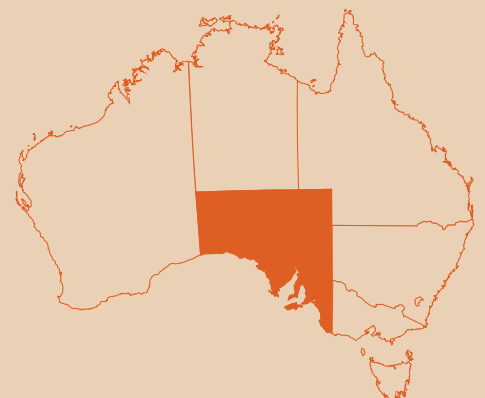
Through his commitment to be a values driven, mission aligned Aboriginal man and business owner, Pat has built a strong presence and reputation in the Aboriginal business sector in Adelaide. And for Pat, this is also a cultural responsibility.

Pat wanted to provide a culturally safe hub for other Aboriginal businesses in Adelaide, so We has also become an incubator hub that supports and helps out others, providing guidance around accounting, marketing, and other elements of running a business, and even providing ad hoc office space for some microenterprises. This approach also builds a community, of Aboriginal businesses creating synergy and embedding Aboriginal identity and values in the process.

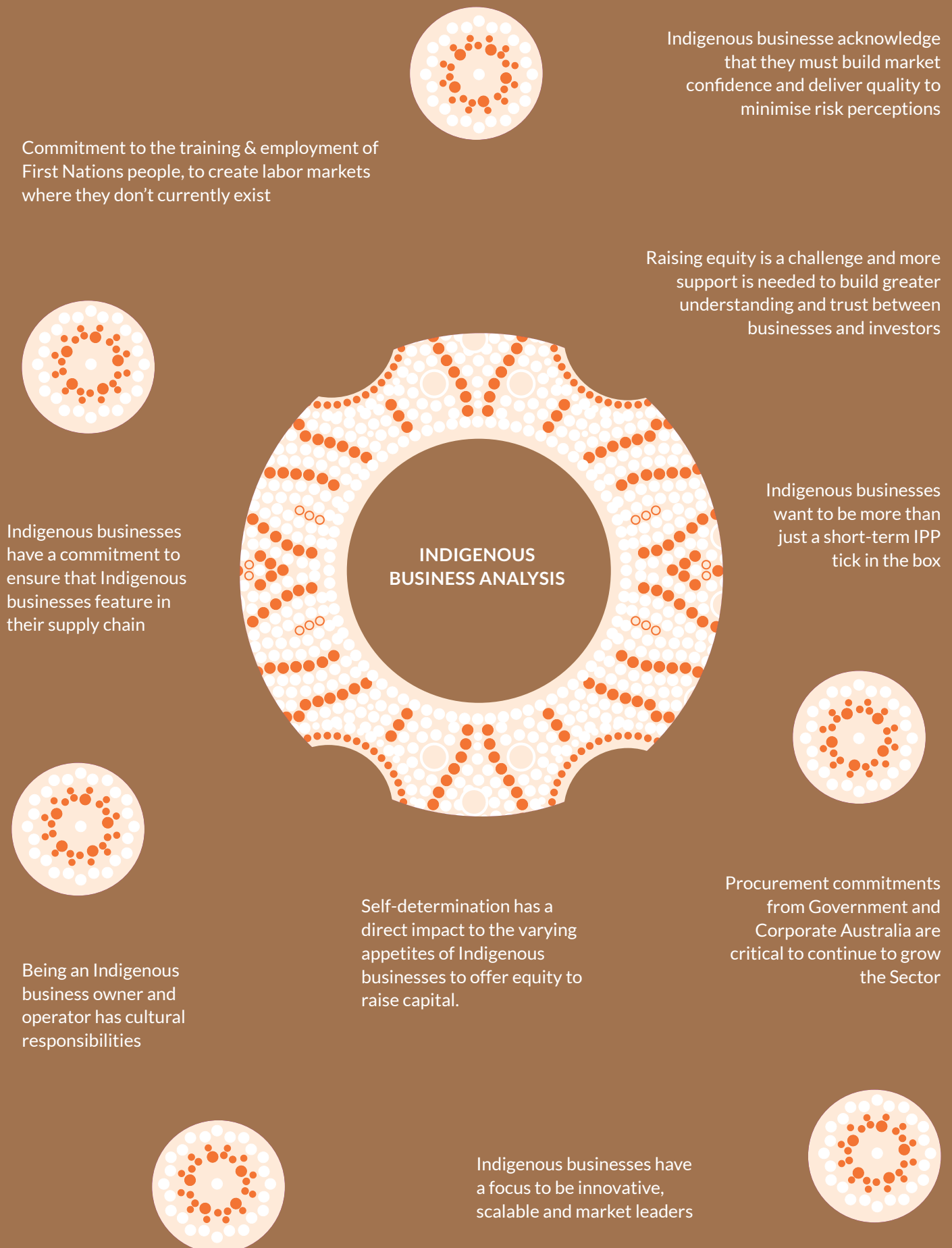
Over the 8 years of operation of We, Pat has had many experiences with organisations and prospective clients having meetings with We just to "tick a box" to meet contract and IPP (Indigenous Procurement Policy) requirements and targets. These interactions have reinforced his commitment to be a resilient and successful Aboriginal business owner, but to also continually educate the market on the need to be genuine in approaching Aboriginal businesses. According to Pat, capital injection is not the only need of Aboriginal businesses. Equally as important, there is the need to build trusted and respected relationships within the Australian business sector, so that Aboriginal businesses are seen as preferred partners, not just IPP solutions.

**"Creating a business, and a space, has allowed me and people that work within the 'We' office to be who they are without fear of judgement, to leave a legacy and be a part of something."**

- Caruso  
Owner & CEO 'We'



# Insights of Indigenous businesses



# Recommendations

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# Recommendations

## - steps to improve the Sector's access to capital

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### **Governments to continue to create an enabling environment**

Governments, at all levels, face the ongoing challenge to establish trust in relationships with Indigenous communities and people across Australia. Trust also plays a significant role in the success of the Sector. Businesses need to be able to produce and reproduce trust with their customers and build proven track records to gain and retain access to capital without having to 'risk everything' or compromise their ability to be self-determining.

Support for the Sector is increasing across both the public and private sectors, influenced by key policies and public commitments that encourage the procurement of goods and services from Indigenous businesses. The Australian Government's Indigenous Procurement Policy, replicated by most state and territory governments, has resulted in significant growth in government spend with the Sector<sup>7</sup>. In addition, many entities – corporate, government, and philanthropic – have public commitments to achieve 'minimum spends' with the Sector through their Reconciliation Action Plans.

With the shift in the direction of Indigenous affairs across Australia, currently focussing on the Voice to Parliament at a national level, and treaty making and truth telling at the state and territory level, there is a risk that the momentum that the Sector is building will be lost. Economic self-determination – for individuals and communities – should continue to be a key priority, and the success of the Sector is an important element of this.

The Australian Government's Indigenous Business Sector Strategy 2018-2028<sup>8</sup> included as a key priority improving access to finance for the Sector. This was to be achieved through products and services offered by Indigenous Business Australia and (government funded) Many Rivers microfinance, the Indigenous Entrepreneurs Capital Scheme (which was small in scale and was not actually delivered) and assuming that mature

Indigenous businesses will be able to access mainstream commercial investors and financiers. While the Sector has grown, it is often in spite of not because of the supports provided directly by government. Supports provided continue to be largely focused on microfinance or 'capacity building', and are not currently meeting the ambitions of the Sector<sup>9</sup>. Progress is being made in Victoria and the Northern Territory, where new structures or funding is being put in place to assist Indigenous businesses to grow and scale.

In contrast, Canada has developed an expansive Indigenous-owned, Indigenous-led finance sector that supports Indigenous business, thus creating opportunities through improved financial inclusion. Examples include Aboriginal Financial Institutions (AFIs) (currently approximately 60 across Canada with loans totalling C\$2.75 billion), a National Aboriginal Capital Corporations Association to support the AFIs, a First Nations Bank of Canada and multiple Indigenous Venture Capital Funds.

<sup>7</sup> Supply Nation, Indigenous Business Growth - Working together to realise potential <https://supplynation.org.au/wp-content/uploads/2018/10/Building-Indigenous-Growth-Report.pdf>

<sup>8</sup> National Indigenous Australians Agency - Indigenous Business Sector Strategy 2018-2028 <https://www.niaa.gov.au/resource-centre/indigenous-affairs/indigenous-business-sector-strategy>

<sup>9</sup> Minderoo Foundation, Generation One - Backing Black Business, Greater financial inclusion for Australia's Indigenous business sector <https://www.minderoo.org/generation-one/reports/backing-black-business/>

# Recommendations

## - steps to improve the Sector's access to capital (cont.)

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### Recommendations

With this reality, and the examples set in other Commonwealth-countries, the Australian governments must:

- continue to stretch and apply their influence to preferential procurement policies to provide opportunities for the Sector
- continue to support and empower existing Aboriginal Financial Institutions, to invest in a commitment to economic reconciliation
- commit to expanding the Indigenous owned, Indigenous-led finance sector
- invest in the Sector in a way that recognises its importance and potential and is consistent with governments' other sector-specific investments such as the Australian Business Growth Fund, the SME Recovery Loan Scheme and the Export Finance and Insurance Corporation)
- fund and support a national conference for Indigenous businesses, in partnership with the Australian finance sector to promote self-determination, build relationships and networks and overcome factors of financial exclusion Indigenous business sector face
- invest in a more rigorous data systems to enable Indigenous identification for greater accountability, and
- commit to undoing everyday the systematic exclusion responsible.

Other steps that Australian governments could consider to stimulate the supply of capital to the Sector include:

- a guarantee collateral scheme for Indigenous businesses in an approach similar to that adopted for the SME Recovery Loan Scheme rolled out in response to COVID-19<sup>10</sup>
- tax incentives for impact investors
- requirements for superannuation funds to set aside a prescribed portion of funds under management for impact investments (which would be eligible for the tax incentives, as per above), and
- stimulating the community development finance institution sector in Australia.

<sup>10</sup> Australian Government, SME Recovery Loan Scheme, <https://treasury.gov.au/coronavirus/sme-recovery-loan-scheme#:~:text=SME%20Recovery%20Loan%20Scheme%20closed,of%20up%20to%2024%20months>

# Recommendations - steps to improve the Sector's access to capital

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## Finance sector to set stretch targets

The Australian Bankers' Association (ABA), through its Indigenous Statement of Commitment, recognises that many Indigenous Australians face significant social, economic and financial disadvantage.

The banking industry believes that it will take a comprehensive approach through coordinated and sustained efforts between government, business and community to help improve the livelihood of Indigenous peoples and communities. It also states that it is committed to improving Indigenous accessibility and continuously working towards promoting financial and social inclusion, and building economic and financial resilience for Indigenous Australians.

It is acknowledged that there are many entrenched institutional biases and barriers to accessing finance (whether debt or equity) that impact Indigenous people and businesses, including grant and loan processes. A fundamental issue is the near-total exclusion of Indigenous businesses and individuals from mainstream commercial and consumer credit rating systems, and some financial institutions confine their Indigenous business to short-term loans that carry high-interest rates due to the perceived 'riskiness' of the transaction. Indigenous peoples have traditionally and unfortunately been perceived as part of the problem rather than the solution.

An inclusive approach is overdue and would provide Indigenous people and businesses with more capital to invest back into Indigenous employment, people and communities.

## Recommendations

All financial institutions that operate in Australia should commit to a journey for economic reconciliation, through committing to an action plan to:

- change racist banking and finance systems through education and reform, by acknowledging the exclusion and committing to creating more inclusive systems
- build cultural competency within Non-Indigenous organisations in the finance sector, and
- fund Indigenous intermediaries like FAC at competitive rates.

Organisations across Australia regularly set First Nations employment targets that reflect (or exceed) 'parity' to the population. Similar medium to long-term targets could be adopted by the larger banks and financial institutions to have 3.5% of all small business lending to be with Indigenous businesses or First Nations borrowers. In the interim, the targets could reflect the proportion of Australia's GDP that is generated by the Sector, and then seek to expand this over time. Provided Indigenous businesses were willing to self-identify with their financial institutions, these targets could be regularly measured and reported on, as part of regular RAP or ESG reporting.

It is clear that whether an Indigenous business is able to access capital is closely tied to how well the financial institutions it is engaging with know the Sector. Indigenous intermediaries like FAC working closely to support their borrowers has helped them build strong relationships and a solid understanding of their needs and financial capacity. Further investment in Indigenous intermediaries by private capital will enable them to grow their businesses, and support more First Nations entrepreneurs and Indigenous businesses to grow.

Indigenous identity in financing is integral to building trust and capacity across the Sector.

## Appendix A - Methodology

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# Methodology

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This methodology relates to the estimation of the size and economic contribution of the Sector. This report estimated the 'value added' to the Australian economy by Indigenous businesses. That is, the contribution to GDP of these businesses. The quantitative assessment recognises not only the profit generated for the owner, but the value of the business as an employer as it includes the value add of all employees (both Indigenous and non-Indigenous employees).

The following steps were undertaken to estimate the 'value added' to the Australian economy by Indigenous businesses:

- The number of Indigenous business was estimated using Census data, Indigenous Business Direct data and Indigenous trust specific reports across:
  - three categories (i.e. Indigenous self-employed individuals, Indigenous owned enterprises and Indigenous trusts)
  - eighteen industries (as defined at the division level in Australian and New Zealand Statistical Classification (ANZSIC)).
- The number of employees for each of those businesses was then estimated using Australian Bureau of Statistics (ABS) Labour Force data, Indigenous Business Direct data, Office of the Registrar of Indigenous Corporations (ORIC) data and Indigenous trust specific reports.
- The 'value add' (measured in terms of compensation of employees and gross operating surplus) of each of those employees was then estimated using ABS National Accounts data. Given data constraints, the analysis in this report is high level. Nevertheless, it is valuable in addressing the current gap in the literature. The limitations of the analysis contained within this report include:
  - Estimating the number of Indigenous businesses is imperfect as there are many disparate data sets, none of which capture the whole sector but each of which has overlap with another
  - Census data forms a core part of the estimate which is limiting as it is recognised to historically under represent Indigenous Australians - however, as explored above, self-identification does appear to be improving
  - Nation-wide (or industry-wide) economic data (from ABS National Accounts or Labour Force data sets) had to be relied upon in absence of Indigenous-specific data
  - We have aimed to address some of these limitations by presenting our estimate in a range where there is the most uncertainty, which is the number of Indigenous owned enterprises.
  - The conservative scenario uses the number of enterprises on a single register of businesses with 50 per cent Indigenous ownership. This scenario is likely to understate the economic
  - contribution of the sector but measures the component that we can most confidently attribute to majority owned Indigenous business.
  - The high scenario uses data on all Indigenous owner-managers, assuming they own a single business (with no business partners), noting this may represent less than 50 per cent

Indigenous ownership or may double count businesses with multiple Indigenous owners. This scenario should be seen as an upper bound to what component of the economy may reasonably be attributed to Indigenous business activity.

In light of these limitations, this analysis should be viewed as the first step in measuring the economic contribution of Indigenous businesses and should be replicated as more complete and reliable data emerges, to measure the progress of the sector.

The estimated economic contribution of the three components of Indigenous businesses (self-employed individuals, enterprises and trusts) uses a 'value added' approach through measuring the income generated by firms and employees. Adding the income components provides us with the total factor income generated by Indigenous businesses. Examining the income components of Indigenous businesses is an accepted method particularly because there is robust industry specific macroeconomic data provided by the ABS.

The specific approach undertaken in estimating the economic contribution of each of the subsets of Indigenous business is detailed in the sections below.

## Self-employed individuals

Estimating the economic contribution of Indigenous self-employed uses a base of owner-managers from the 2021 Census data set. To examine just self-employed individuals, only owner-managers who identified in the Census as having no employees were included here.

The number of self-employed individuals was then used in our estimate of economic value added. For this type of business, the compensation of employees' (COE) component is not relevant, as there are no employees. Therefore, the

methodology, includes only gross operating surplus (GOS) as the value added generated by a self-employed individual. The economic value added by self-employed Indigenous individuals in by each of the eighteen ANZSIC industries. These eighteen industries were then added together to provide an estimate of the total economic contribution of all Indigenous self-employed individuals.

The key data sets used to estimate the economic contribution of Indigenous self-employed individuals are outlined as follows:

- ABS Census – this provides the base for the number of Indigenous individuals reported as owning their own business, but with no employees
- ABS State Accounts – this provides macroeconomic data on gross operating surplus by industry
- ABS Detailed Labour Force – this provides employment by industry, so the State Accounts data can be examined on a per employee basis.

### **Enterprises**

The estimate of the economic contribution of Indigenous enterprises examines the value added of these businesses to the economy. This category of Indigenous business is where there is the most uncertainty and has the least complete data set. For this reason at to reflect this uncertainty, the value added of Indigenous enterprises has been examined under two scenarios:

- Conservative scenario – this includes only businesses which are independently confirmed to be 50 per cent Indigenous owned, in a single data set. The most comprehensive data set of this nature is that which is contained in the Indigenous Business Direct. The Indigenous Business Direct is a known subset of all Indigenous businesses and so this single data source of enterprises (and associated base of employees) is relied upon for analysis of a conservative scenario.
- High scenario – this takes the full base of Indigenous owner-managers with employees from the Census and assumes they all own or manage a single business. This is likely to overstate the number of Indigenous enterprises as it disregards that most businesses may have multiple owners. As there is no consideration of multiple owners, it also does not include any consideration that these Indigenous owner-managers may have a stake in a business that is less than 50 per cent Indigenous owned. Therefore, this is presented as a potential upper bound scenario. This count of business is adapted to count employees for the high scenario using average number of employees from the fuller data set used in the conservative scenario.

The value added of Indigenous enterprises in each of the eighteen ANZSIC industries was estimated for each scenario using ABS and Indigenous Business Direct data. These eighteen industries were then added together to estimate the total economic contribution of all Indigenous enterprises.

The key data sets used to estimate the economic contribution of Indigenous enterprises are outlined as follows:

- ABS State Accounts – this provides macroeconomic data on each of compensation of employees and gross operating surplus
- ABS Detailed Labour Force – this provides employment by industry, so the State Accounts data can be examined on a per employee basis
- ABS Census – this provides the base for the number of Indigenous owner-managers of Indigenous enterprises for the high scenario
- Indigenous Business Direct data – this provides the number of employees and type of Indigenous businesses that employs these individuals and are nationally registered with Supply Nation on the publically available Indigenous Business Register for the conservative scenario. As the industries within this data do not directly align to the ABS data used, assumptions as to ANZSIC

industry each business falls into had to be made. The average number of employees per business from this data was also used for the high scenario.

### **Trusts**

The estimate of the economic contribution of Indigenous trusts has been conducted in a similar way to that present above for Indigenous enterprises. This approach required an understanding of the instruments that created these trusts which would then enable research into reporting mechanisms to understand the employment base for all Indigenous trusts.

The number of employees was constructed from a variety of sources and were reliant on the jurisdiction in question. The data used for this analysis are as follows:

- Federal – For current federal Registered Native Title Body Corporates (RNTBCs), the number of employees was taken from 2021 (or most recent) general reports submitted to ORIC for each entity. Where no general report was available, the average employment of those that are published was used.
- For state and territories, local annual reports were used or if no data was available the average employment from the ORIC reports above was used

These sources of employment were then added together and used as the based for the value added calculation. This methodology is the same as that employed to Indigenous enterprises, however, we have estimated the economic contribution of Indigenous trust using economy wide averages due to the lack of available specific industry information for trusts.

The key data sets that went in to the calculation outlined in Figure 9 (additional to the specific employment data sets discussed above) are:

- ABS State Accounts – this provides macroeconomic data on each of compensation of employees and gross operating surplus
- ABS Detailed Labour Force – this provides employment by industry, so the State Accounts data can be examined on a per employee basis.



