



**NATIONAL
INDIGENOUS
LAND AND
SEA
STRATEGY**

Discussion Paper: Unlocking Investment Capital



Australian Government
Indigenous Land and Sea Corporation



The ILSC GROUP

PEOPLE. COUNTRY. OPPORTUNITY.

This paper was developed through facilitated discussions with Chris Croker, Managing Director and Janice Morris, Fund Executive Director, of Impact Investment Partners. The views expressed are for generating broader discussion and may not represent the position of the ILSC.

There is a lot of capital available for investment in Australia – from large institutions to family offices and high net worth individuals. This is highlighted in Infrastructure Australia’s October 2021 Infrastructure Market Capacity report¹, which states that “investment in major public infrastructure over the next five years across Australia will exceed \$218 billion”. Similarly, \$250 billion² is expected to be invested between 2020 and 2030 in Australian agriculture, as the industry grows towards an annual farmgate revenue of \$100 billion. However, each segment of the investment capital market ‘plays’ in their respective space based on their investment strategies. The investment strategy typically influences parameters such as:

- size of a single investment or portfolio (aggregation of smaller projects of a similar nature);
- investment period (liquidity profile);
- active or passive participation, which translates into the investment instrument such as a loan versus ownership;
- return and risk profile and how the return is generated (capital growth or annual cash distributions);
- a particular strategic imperative such as climate change.

In addition to private capital from the above groups, lower cost investment capital from government is also available including from the Northern Australia Infrastructure Facility, Export Finance Australia, the Clean Energy Finance Corporation and Indigenous Business Australia. With each group operating within its respective mandate and investment criteria.³

1 Capital Needs

Based on our observations, Indigenous groups typically seek capital for five different purposes (**Table 1**). These categories assume a **business case assessment** has been made and the project has reached an **‘investment ready’ stage**.

Table 1 Typical capital requirements of Indigenous groups

Purpose of capital	Investment type	Typical requirements of investment type	Typical players (Indigenous-led intermediaries)
For early-stage businesses to grow or start up	Early-stage capital, venture capital	High risk High return	High net worth individuals / angel investors / family offices (not so much large institutions) (<i>First Australians Capital</i> ⁴)
For better facilities/buildings for service delivery (e.g. health, training, healing centres) or for housing	More property like	Depending on geographic region and who is leasing the property Low – High Risk Low – High Return	All – but different size attracts different groups
For better infrastructure such as energy and water infrastructure; or for all large-scale Private Public Partnership style opportunities Development on land such as renewable projects	Infrastructure	If revenue is government backed or a high-quality counterparty, lower risk, low to medium return	Infrastructure assets can range from very large to smaller scale. Traditionally, only institutions play in this space as investments are larger and difficult to liquidate. Smaller renewable projects have seen investments from family offices. (<i>Impact Investment Partners</i> ⁵)
To purchase relevant equipment/plant/trees etc (e.g. for mining, aquaculture, horticulture, agriculture/agribusiness)	Asset backed (if only asset) Relevant sectors – if assets plus the operations	Not as common for big scale - to be successful, one typically needs a diversified portfolio or invests in the entire value chain. Some small-scale investments. Growing market for carbon projects due to legislated / voluntary mandates.	<i>Indigenous Carbon Foundation</i> <i>Investment arms of the NT- based land councils such as Granite Mines Affected Area Indigenous Corporation GMAAC⁶ or Centrecorp⁷</i>
Tourism-related	Depending on how it is structured – infrastructure, property or operating business	Fairly new – depends on which segment of tourism	

In **Table 1** we have provided a more traditional view of a market-based financial return investment lens. There is also a growing segment of **impact investments**. Rather than pure philanthropy, these philanthropic groups can pivot to making investments that may not necessarily seek for market-based financial returns but could accept lower returns coupled with delivery of social and/or environmental impacts. Indigenous-focused impact investments are starting to gain traction with the total Australian impact investing market forecast to exceed \$32 billion⁸ by 2022. There is opportunity for Indigenous enterprises to align with this emerging investment class.

2 Barriers To Accessing Investment Capital

Indigenous groups with an 'investment ready' business or project have significant opportunities to secure capital across various asset classes. Each investment player has a mix of needs to be matched across risk appetite and want to engage with an investment pipeline of potential opportunities that match their aspirations and their specific needs. Indigenous businesses and projects need to be sufficiently developed and in a strong position to meet the relevant investor's requirements.

There can be two major barriers to Indigenous groups accessing investment capital.

2.1 Business/project is still in development stage, not investment ready

Lack of access to development capital

There are substantive challenges in ensuring Indigenous projects and businesses are 'investment ready' and have completed either a proper business case assessment or appropriate feasibility studies; the extent and nature of these vary depending on the project (which we will refer to as 'development capital' or 'development stage').

In established corporates, this development stage can be funded internally or those with wealth or connections can more easily access funding for this stage. However, Indigenous groups and community-controlled organisations often lack the same generational wealth and history. Typically they rely more on grant funding available for Indigenous groups, such as from the Indigenous Benefit Account Grant funding or smaller amounts of grant funding by corporates and foundations in their annual charity giving.

There is government grant money available for both Indigenous and non-Indigenous groups. However as governments must ensure that taxpayers interests are protected, the applicant is typically required to have completed the development work in order to access the grant. In a highly competitive process better resourced groups can submit more compelling applications which again places Indigenous groups at a disadvantage.

The capability and capacity gap

Frequently ideas are brought to potential investors when they are not 'investment ready'. Often there is no awareness of how to take the idea into an investable project and the specific elements of work required to get it there (e.g. pre-feasibility studies, business cases, revenue forecasting, sensitivity testing). The breadth of the investor market and range of requirements can make it challenging to understand the processes to meet specific investor needs to fully realise the potential of the business or project. Matching an Indigenous business with an investable project to an appropriate potential investor takes time and expert knowledge. This gap must be filled to help develop an Indigenous investment pipeline of projects and opportunities.

2.2 Lack of a proven track record in business operation/project delivery

In the assessment of any investment, a proven track record in delivering and operating the business/project (or in an adjacent field) is critical in attracting investment capital. Where this cannot be fully demonstrated, some investors can look to 'potential capability' if there is an existing relationship, one is in the right circle, or they are known to individuals.

Indigenous people face particular barriers because 'they may not have done it before' having had limited opportunity to participate in economic development on their country due to historic dispossession and disadvantage resulting from colonialism. Furthermore, within investor groups there may also be unconscious bias and cultural gaps which may make it more difficult for them to look to 'potential capability'. In this respect Indigenous business and economic development, capability and capacity are still growing.

Access to positive operating partners and partnerships

Indigenous people need to choose partners with care to ensure they benefit from the partnership and meet their aspirations. While retaining total decision-making control may not be desired – or possible depending on the type of partnership – people, communities, groups and businesses need to be very aware of where they want to sit in the decision-making governance framework and how that is legally captured and supported. Trusted advice and guidance from experts are typically relied on here to inform the establishment of these arrangements.

Some unscrupulous developers, investors and advisors have long targeted Indigenous communities and businesses to secure personal profit at the expense of Aboriginal and Torres Strait Islander people.

3 Potential Resolutions

Provide access to business/project development information

It would be valuable to engage with Indigenous people, communities and businesses to provide information on:

- the process for developing a viable project or business;
- the needs of different types of investors;
- the processes and inputs required to successfully attract investment.

This would enable people to make informed decisions on:

- whether to pursue development;
- how best to take the next steps;
- the commitment that is required;
- the level of external expertise/support needed to take things forward.

The first essential question this information will help people to answer is: how much of an opportunity is this? And then, am I prepared to do what is needed to take it to the next level?

The development stage takes time and money. Our advice to groups is often to focus on starting small to build capability, look to do things yourself but do bring in capacity partners/experts to assist with appropriate partnership arrangements in place, and build up the business or project from there.

Not all communities are at the same level of resource rights and/or business knowledge or experience, and some groups have access to their own capital. Tailored approaches will work best to ensure the right knowledge and skills transfer for the best outcome for community.

Provide access to the right advisors

Indigenous groups must have ongoing access to expert advisory services to inform the development stage of the project. There are many advisory groups with various expertise and calibre; however, those able to demonstrate a positive track record working with Aboriginal and Torres Strait Islander organisations would deliver the most benefit. It is typically in advisors' interests to continue carrying on the work as they get paid consulting fees or are rewarded more if the project goes ahead – a key consideration for Indigenous groups receiving expert advice on their project

Facilitate positive strategic partnerships

Ongoing efforts to inform and educate Indigenous people of the advantages and risks in entering partnerships would be beneficial. This means facilitating discussions and relationships to foster positive partnerships that:

- understand where there needs to be a 'coming together' so the needs of each party can be met;
- support and respect cultural authority and decision making and observe protocol;
- enable appropriate and timely information sharing;
- allow proper time for consideration and decision making;
- allow legal protection of intellectual property and Indigenous content/culture.

4 The ILSC Role

The ILSC is well placed as a trusted partner both from an Indigenous perspective and being a corporate Commonwealth entity. It is viewed as a high-quality counterparty or credible partner to investors. The ILSC assists Indigenous Australians to acquire land and water-related rights; and to manage Indigenous-held land and Indigenous waters through its *Our Country Our Future* program.⁹

We provide some preliminary views on how the ILSC can best assist Indigenous groups in taking great business and project ideas and developing them into viable and sustainable businesses or projects.

4.1 Focus

Target sectors with Indigenous advantage or greatest need

The investment/capital space is broad and there is a myriad of capital needs as summarised in **Table 1**. For the ILSC to best support development of Indigenous business and project opportunities ('economic opportunities'), with finite resources it is logical to focus on those sectors with a strong Indigenous advantage – specifically carbon projects, agriculture, horticulture (bushfoods) and renewables.

For investors there may also be opportunities to invest in more socially-focused projects with zero or low economic benefits e.g. social housing, culturally appropriate youth centres and frequently expanded, upgraded and fit-for-purpose medical facilities (referred to as 'social infrastructure'). Unless governments or relevant groups provide funding support, these projects are unable to pay for themselves, or the counterparty's credit risk is too high and some type of guarantee is required as a fallback if the project is unable to fulfill its payment obligations.

For these social projects, the ILSC can assist by funding directly and facilitating funding with another government agency, philanthropic organisation and/or impact investors. The commitment required from the ILSC, in this instance, may be greater and for a longer period. Activities in these spaces may sit more at the edges of the ILSC's core focus and purpose but has high, direct social impact for Indigenous people.

4.2 Role

Operate in 'the gap'

The ILSC should play in the space where no other players in the market operate. This may be where businesses projects are considered too high risk, too early stage, require a 'leap of faith', or entail capacity and capability building for Indigenous people.

In general, the ILSC should adopt an approach of *Step in – Fill the gap – Plan an exit*.



Indigenous Bush Food products.
Photo Credit: Voyages Indigenous
Tourism Australia Pty Ltd.



Based on the general approach and market participants, **Table 2** presents our analysis of where the gaps are (each of these will need to be reviewed for the selected focus areas):

Table 2 ILSC role in supporting Indigenous business/projects in the development and investment ready stages using the Step in – Fill the gap approach

ILSC role	Development Stage		Investment Ready	
			Higher Risk	Lower Risk
Concept	Development of business case Conduct feasibility studies		Ready for execution 'investment ready'	Operation
Funding	✓ (for development capital)	Unlikely to be other market participants	? (depends: To increase Indigenous ownership Support for social projects)	<ul style="list-style-type: none"> For economic projects, generally the business case needs to support itself with grants to magnify Indigenous participation such as more ownership during operations or to achieve other strategic imperatives. <i>Grants should not be used to prop up a poor economic business case.</i> Social Infrastructure projects may need to be underwritten to support the project or lower counterparty risks.
Active assistance	? (depending on sector)	Typically, getting to investment ready stage requires deep expertise in the sector for an active role. Depending on the sector, the ILSC would need to build a strong in-house team with depth and breadth and be able to remunerate for top talent. For some sectors, other groups might be better placed, though they may need to be funded.	X	<ul style="list-style-type: none"> Once operational, the ILSC should exit Appropriate governance should have been established Business case should have been properly evaluated with appropriate partners to own and operate a sustainable business /project
Facilitating role	✓	A pool of vetted socially aligned sector experts and advisors could be developed and linked with Indigenous people. Note that this can both paid and pro - bono advisors.	✓ (use of intermediaries is more efficient. Partner with Indigenous led intermediaries) ? (less efficient if directly)	<ul style="list-style-type: none"> Supporting access to circles-philanthropic, and/or impact investors Building culturally competent investor sector with an Indigenous investment lens

4.3 Delivery framework

Provide flexible and innovative grant funding

If the ILSC is to provide grant funding – the primary gap for Indigenous investment – it needs to have a flexible and innovative approach to look at the most effective use of its funds for that project and *Step in – Fill the Gap* where necessary. This requires the ILSC to access the appropriate expertise. Very often government funding applications are reviewed by personnel that don't necessarily possess the appropriate depth of business development, sector or investment skills or knowledge. This can have implications as it creates a 'checklist' approach that at times can miss key areas or, at the other end, impose obligations that are not realistic.

While grant funding does not mean 'free' funding, transaction costs for all parties should also be efficient so that they don't outweigh the benefit of securing the funding.

Consider merits of insourcing and outsourcing

For some sectors, breadth and depth is important and there could be areas where groups external to the ILSC can do things in a more efficient way. For example, even the largest super fund which manages \$240 billion does not manage all its investments in-house. It outsources some asset classes looking at things from a cost (fee) and expertise perspective. Another example is the Clean Energy Finance Corporation which reviews opportunities in-house but for smaller size projects provides an allocation to an external manager.

Develop a decision-making framework

Financial and human capital are not free. When the ILSC makes decisions on the use of these resources, it should consider all opportunities that are available and allocate resources to the business/project that could create the highest 'value'. A framework could be established to provide *guidelines* on the measurement of value and the appropriate governance framework for decision-making including considerations of independent persons.

4.4 Leveraging the ILSC's existing base and increasing its capacity

The ILSC's annual budget, though not insignificant may not be sufficient to support larger scale efforts in the development stage or where it is required to *Step in – Fill the Gap* (**Table 2**).

The ILSC should look at the following approaches to increase its capacity to deliver benefits to Indigenous communities.

Develop private and public partnerships

In terms of accessing additional capital required to *Step in – Fill the Gap* and develop the pipeline of Indigenous investments the ILSC could:

- partner with philanthropic institutions and foundations from the private sector who share similar values and multiply the available pool of funding; and,
- work with other government federal/state agencies – partnerships will depend on each agency's operating sector and whether they are a low-return investment-making or grant-making body, e.g. CEFC (energy but investment only), ARENA (energy but grant making body), CSIRO (new ventures, technology focussed).

Once the investment has reached 'investment ready' status, either via the outsourcing model or directly, the ILSC could look at identifying other sources of investment capital and expertise that support the ILSC's investment strategy. A simple example of this, would be to partner with a panel of dedicated agricultural investors that have the processes and agreed approach to invest alongside Indigenous groups.

Outsource due diligence processes

In terms of human capital, as mentioned above, the ILSC could look to some outsourcing model to complement its in-house efforts where the external parties' selection is focused on due diligence, with termination provisions or decision-making powers that are suitable for ILSC.

Provide a platform for Indigenous voices in the investment industry

Building capacity and capability of Indigenous organisations and people in the investment space is also important so that investments can be viewed more from an Indigenous specific lens and not just be treated as 'standard' run-of-the-mill investments opportunities. The ILSC could play a role here providing a platform for Indigenous voices and views to inform sectors of the investment industry.

5 Related Discussion Papers

Trade & Export and Renewables Industry Discussion papers are available www.ilsc.gov.au.





Talaroo hot springs on Ewamian country, Qld

Endnotes

1. www.infrastructureaustralia.gov.au/infrastructure-market-capacity
2. www2.deloitte.com/au/en/pages/consumer-industrial-products/articles/investment-australian-agriculture-bridging-gap-between-status-quo-ambition.html
3. www.cefc.com.au/; <https://naif.gov.au/> www.exportfinance.gov.au/ <https://iba.gov.au/>
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9. www.ilsc.gov.au/partner-with-us/our-country-our-future/



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