



Discussion Paper

November 2005

## **AN INDIGENOUS BUSINESS INVESTMENT FUND**

### **Purpose of the discussion paper**

This discussion paper has been prepared by the Australian Government Departments of Industry, Tourism and Resources and Employment and Workplace Relations to provide information associated with the possible establishment and operation of an Indigenous business investment fund (the fund). Written comments or submissions on the issues raised are invited from interested parties and they will be considered in finalising the design of the fund. The Government will also undertake consultations with interested parties.

### **What is the Fund?**

The Australian Government is considering the establishment of a fund to encourage investment by the private sector to assist in the development of Indigenous businesses by addressing capital and management constraints, leading to an increase in sustainable Indigenous businesses and increased employment and wealth for Indigenous Australia and the Australian economy.

The Australian Government is considering a number of potential models for the Fund, including pre-existing Government delivered investment programs such as the Innovation Investment Fund and Pre-Seed Fund. However the final fund model will need to take account of the characteristics of the Indigenous business market, including potential deal flow, potential size and timeframe of investments and likely size of returns.

The fund will be delivered through a private sector fund manager(s) with the capacity to manage capital investments. Investment decisions will be made, by the fund manager(s) in accordance with eligibility criteria and operational rules agreed with Government. The fund will support skills transfer for Indigenous business in a commercial and due diligence environment and bring rigour into planning for business growth.

## **Vision and Objectives**

The proposed vision of the fund is:

- To develop sustainable Indigenous businesses, build management and entrepreneurial skills in Indigenous businesses and support Indigenous employment, training and business development opportunities.

Objectives of the fund include:

- To encourage the development of sustainable Australian Indigenous businesses by addressing capital constraints and building management and entrepreneurial skills;
- To support Indigenous employment, training and business development;
- To develop sustainable Indigenous businesses that increase employment and wealth for Indigenous Australia and the Australian economy; and
- To develop fund managers with expertise in investing in Australian Indigenous businesses.

### *Issues for Comment*

1. Do you have any comments on the appropriateness of the fund objectives given the Government's proposed vision for the fund?

## **Issues for Consideration in Designing the Fund**

Comments on the fund's design are sought from all interested parties for the purpose of developing a potential model that would allow the fund to best achieve the vision and the listed objectives.

### *How will the fund operate?*

It is proposed that one or more private sector fund managers will be granted a licensed to manage the fund. Applicants for the licence(s) will be invited to participate in a competitive assessment process and that this will include a vigorous due diligence process.

The Australian Government will provide a proportion of capital for the fund with the remainder to be raised from the private sector by the successful fund manager(s). This process aims to encourage competitive bids from applicants, particularly in respect of the amount of privately sourced capital they will be able to provide to leverage Australian Government capital, the structure of the fund and the level of management fees that they propose charging.

### *Issues for comment*

2. The fund should operate under structures and procedures compatible with those in the investment capital industry generally.

- 2.1. What size should the fund be in order to attract private investment, be able to make sufficient investments, spread risk and maximise returns?
- 2.2. What should the ratio of Commonwealth to private funds be?
- 2.3. What management fee structure would offer the best incentives:
  - To attract fund manager(s);
  - To encourage fund manager to invest in deals;
  - To encourage fund manager to actively manage investments; and
  - To encourage fund manager to achieve commercial exits of investments?

- 2.4. Would a single fund manager or multiple fund managers prove the most effective?
- 2.5. What incentives could be used to attract private investors?
- 2.6. For how long should the fund operate?
- 2.7. What is the best structure of the fund allowing for:
  - the use of a range of financial investment instruments (equity and debt) to match Indigenous business needs and reduce investment risk;
  - a strong governance, probity and due diligence framework for investment decisions;
  - attracting private investors;
  - incentives to ensure viable and timely investments are made, and business and management skills are transferred to Indigenous businesses;
  - closure mechanisms, should appropriate levels of investment not be made; and
  - achieving a spread of investment risk across a portfolio of projects and businesses.

***What companies and activities will be supported?***

3. The fund is being developed in part to assist in building management and entrepreneurial skills in Australian Indigenous businesses leading to an increase in sustainable Indigenous businesses, and to support Indigenous employment, training and business development opportunities. The fund will be designed to be as flexible as possible and aims to support Australian Indigenous businesses at any stage of development and in most industry sectors. Businesses supported under the fund should be engaged in ongoing and continuous business operations.

*Issues for comment*

- 3.1. What would define an eligible Australian Indigenous business? Would it be one or more of the following:
  - business 100% Indigenous owned;
  - a set percentage level of joint Indigenous/non-Indigenous ownership; and/or
  - a business whereby the majority of its employees are Indigenous.
- 3.2. Are there any particular industry sectors that should not be supported under this fund? What is the rationale for excluding such sectors?
- 3.3. Should the fund support projects throughout Australia or should it have a regional focus?
- 3.4. Is there a basis for having a cap on the amount of a single investment, for example:
  - should there be cap in relation to specific industry sectors; or
  - should the maximum investment amount be set per investment, based on a percentage of the fund or a prescribed dollar amount?

**Other Issues**

The Australian Government welcomes comments on any other issues that should be considered in the design of the Indigenous Capital Investment Fund.

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