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**Submission to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs (HORSCATSIA) Inquiry 'Developing Indigenous enterprises—the road to economic independence'**

by

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The Minister for Families, Housing, Community Services and Indigenous Affairs asked the HORSCATSIA to inquire into and report on opportunities for Aboriginal and Torres Strait Islander people to grow small and medium-sized business. This includes Indigenous controlled enterprises and businesses where Indigenous people are joint venture partners. In particular the Committee will focus on:

1. whether current government, industry and community programs offering specific enterprise support programs and services to Indigenous enterprises are effective, particularly in building sustainable relationships with the broader business sector;
2. identifying areas of Indigenous commercial advantage and strength;
3. the feasibility of adapting the US minority business/development council model to the Australian context; and
4. whether incentives should be provided to encourage successful businesses to sub-contract, do business with or mentor new Indigenous enterprises.

The committee focus is to inquire into and report on opportunities for Aboriginal and Torres Strait Islander people to grow small and medium size business (SME's)—including Indigenous controlled enterprises and business in which Indigenous people are joint venture partners.

This submission attempts to examine all the above issues. The following briefly discusses the relevant institutional background before examining some evidence on the self-employment of Indigenous Australians. The lessons from the recent history of US minority business/development council model are then discussed, before the concluding section presents some possible policy options for developing Indigenous enterprises with a particular focus on the incentives facing individuals and businesses.

### **Terms of Reference:**

- 1) whether government, industry & community programs offering specific enterprise support programs and services to Indigenous enterprises are effective, particularly in building sustainable relationships with the broader business sector;**

The institutional and structural framework provided by government can, potentially, assist Indigenous business to flourish. The following discussion focuses on the contemporary policy environment facing Indigenous businesses in the 1990s and the first years of the 21<sup>st</sup> Century, but only refers to the earlier institutional history in passing.

Altman and Nieuwenhuysen (1979) document several programs designed to support Indigenous businesses as early as the 1960's. More recently, programs that aimed to promote Indigenous enterprise have been run by ATSIC and its predecessors since the 1980s. The initial programs, that came under the auspices of the Aboriginal Employment Development Policy (AEDP), met with limited success and their role was reduced in the early 1990s (Office of Evaluation and Audit (OEA) 1991). However, following the recommendations of the Royal Commission into Aboriginal Deaths in Custody, the Community Economic Initiatives Scheme was established for the promotion of Indigenous community enterprises, while the Business Funding Scheme, administered under ATSIC's Enterprise Employment Assistance scheme, subsidises employment and otherwise assisted the establishment of commercially viable Indigenous enterprises.

The Howard Government renewed efforts to facilitate Indigenous business with its ongoing, and oft stated, commitment to 'real outcomes' (Herron 1996). Altman (2002a) surveyed the possibilities for generating finance for Indigenous development and potentially Indigenous business enterprise, including:

- ATSIC—Business development and assistance programme approved loans and grants; home ownership program; Community Development Employment Projects with a substantial component dedicated to non wage component available for capital expenditure. ATSIC also administered the ATSI Land Fund with a net asset base of around \$1bn and the Aboriginals Benefit Account.
- Indigenous Land Corporation (ILC), an independent statutory authority, was established to acquire, manage land for economic, social or cultural benefits of Indigenous people. Their income stream is assured in perpetuity from the land fund that has an asset base of over \$1bn.
- Indigenous Business Australia (IBA), an independent statutory authority, aims to advance the commercial and economic interests of Indigenous Australians by using its capital assets for their benefit.

IBA invests in joint ventures and seeks to divest its share to Indigenous venture participants.

- The Aboriginals Benefit Account (ABA) is a special account under the Commonwealth Financial Management and Accountability Act 1997. The ABA receives statutory royalty income from mining operations on Aboriginal land in the Northern Territory. The ABA makes payments to land councils for their administrative expenses and distribution to incorporated Aboriginal entities in areas affected by mining.
- The NSW Statutory Investment Fund established by the Aboriginal Land Rights Act 1983. Between 1983 and 1998 7.5 per cent of the land tax was provided to aboriginal interests. The earnings are allocated to the Aboriginal land council system but the capital base remains intact.

In addition to this financial asset base, Indigenous business can potentially use their land base. Indigenous Australians own around 20 per cent of Australia's land mass, although this land is very inequitably distributed on a State-by-State basis and has highly variable commercial worth (Pollack 2001). There is a general view that Aboriginal land has limited value as collateral for raising commercial finance, even where this land can be leased, because of its generally communal ownership. But there is no doubt that some groups have been able to use their land ownership to negotiate income generating joint venture agreements.

However, Altman (2002b) argues that there is insufficient public focus on the leverage that such property rights might bestow on Indigenous communities to extract concessions from government and business, especially in the aftermath of the Wik amendments and the ensuing uncertainty engendered by the rather inflammatory debate. Another critical element in the policy framework for Indigenous business, is that business success will, and should be predicated on a separation of commerce and culture (Herron 1998). This view has been challenged both by ATSIC (1998) and others (Pritchard 1998). This debate tends to focus on there being a trade-off between culture and business success; However, this tension may be artificial in that Indigenous culture could be a source of competitive advantage, especially in areas such as cultural and ecological tourism (Altman 2002b). Irrespective of the role of Indigenous culture, the success of Indigenous commercial enterprises, whether run by individuals or communities, will depend on the development of the appropriate management skills and rewards for those working in enterprises.

Indigenous Business Review (IBR 2003) provided a comprehensive review of the relevant literature on Indigenous business and self-employment (for further background, see endnote 2). IBR documented the criticism of the plethora of Government programs that are available

to support Indigenous enterprise. For example, it would appear that there is scope for integration (or at least better coordination) to both improve the dissemination of information on programs. Another relevant suggestion is to reduce the number of contact points that an Indigenous person might have to deal with in trying to establish a business or put together employment and training programs relating to the business.

Within the wider scope of the review, it would appear that Indigenous Business Australia (IBA) is an example of a government programs that is effective. The 2006–07 annual report appears impressive (IBA 2007) supporting their inroad into Indigenous Australian economic development. However we should not forget IBA's history. With the demise of ATSIC; in March 2005 it took over the 'legal' assets of ATSIC, the Home Ownership Programme and the Business Development Programme. These programmes were re-tagged to become IBA Homes and IBA Investments and its staff increased from 15 to approximately 150 (Australian Government 2006: 1–2). The IBA promotes itself as the 'lead agency in the development of Indigenous economic policy making, as well as an effective programme deliverer' (Australian Government 2006). Outside of small and often under-resourced State-based, small business agencies such as the Koori Business Network in Victoria, the IBA is recognised as the peak government agency in small business/entrepreneurial development. In reality, it is the only one outside of a small number of state funded agencies.

In the first twenty months of managing IBA Investments there was little evidence of programme delivery. Indeed there was some public controversy in the early operation of Micro Enterprise Development, a part of IBA, whereby IBA withdrew from its partnership in micro-enterprise development with the disgraced Hillsong Emerge organisation (Hansard 2005). IBA promotes itself as the 'lead agency in the development of Indigenous economic policy making' (Australian Government 2005), but has yet to prove its financial and social diligence. In the financial year 2004–05, staff numbers were reduced by 96 (Parliament of Commonwealth of Australia 2005: 121). For the initial first 12 months of operation, the IBA's then Executive Officer in charge of the Investment fund was in charge of the \$100m Investment Fund, but it is not clear to the authors that any Indigenous enterprise were funded in this period.

IBA has improved lending with 86 new loans in 2006-2007 totalling \$21.6m, however its total active loan portfolio dropped from 391 to 355 loans in the same period. The loan portfolio increased from \$46.1m to \$54.1m and maintained a 2 per cent default on new loans and a 23 per cent reduction in provision for doubtful debts with a 92 per cent survival rate on businesses they funded (IBA 2007: 47-8). When you consider the perceived 'risk factor' in loans to nascent Indigenous entrepreneurs and

enterprises, the IBA performance is probably comparable to, or possibly even better than, mainstream lending institutions who rarely lend to Indigenous small business (Foley 2005). This is surprising and possibly indicates that prudent lending policies only service a small percentage of Indigenous economic development—an elite sector of Indigenous finance. Considering the average loan by IBA in 2007 was over \$251K as a financial lender, they are not targeting micro-finance or the small business market. Indeed it is probable that the majority of small business and nascent Indigenous entrepreneurs are not being serviced by this institution. The IBA media releases of 12 June and 7 July 2008 illustrate the some issues for their major portfolio and skill in joint venture participation—two notable case studies are the sale of the joint venture investment of the Yadgalah Aboriginal Corporation in the Monkey Mia Dolphin Resort, and the joint venture purchase with an *undisclosed* Indigenous partner of the Townsville Holiday Inn. The credibility of efforts to develop Indigenous enterprise depends on transparency of the program for both the Indigenous and the non-Indigenous populations.

IBA are good at what they do, but their programs are not sufficient and the geographic spread and, in our opinion, limitations to their programs will not and cannot assist Indigenous Australian economic development beyond their staffing limitations. The term of reference refers to government, industry and community programs. Again the individual Indigenous entrepreneurial enterprise is not specifically targeted within a government enquiry—the individual enterprise is overlooked.

There are two distinct forms of Indigenous business ventures and government needs to differentiate between individual Indigenous entrepreneurs and ‘community’ enterprises. In Australia we have stand-alone commercial businesses, be they sole traders, partnerships or proprietary limited companies incorporated under the *Australian Commonwealth Authorities and Companies Act 1997*, (ACAA) and ‘community’ based businesses incorporated under the *Aboriginal Councils and Associations Act 1976* or one of the many state associations Acts. They differ according to their process of incorporation, their business philosophies that assign relative priorities to commercial and social interests, and their governance or reporting requirements.

The commercial, stand-alone Indigenous entrepreneur operates in the capitalist or market economy. By contrast, the community venture often has taxation concessions, is usually a not-for-profit organisation, and can be a registered charity (Stanley 2002: 2). A community-based Indigenous business enterprise arguably falls within a ‘grey’ area of business classification. We question whether government policy and funding have best served the interests of either group, especially when

in Australia Indigenous entrepreneurship may be in decline (Hindle 2005: 9; Schaper 1999). In general, Indigenous economic and entrepreneurial development in Australia has been hampered by funding practices and attention to community enterprise; often in rural remote locations at the expense of the 'stand alone' urban entrepreneur. There is a desperate need to recognise and support urban and provincial Indigenous Australian entrepreneurs.<sup>1</sup> The majority of the Indigenous population (76%) live in non-remote areas (ABS 2007). This focus is supported by Hunter (2004), who notes that:

'more attention should be paid to the conditions facing Indigenous businesses in urban areas ...[as] this is where the majority of Indigenous people live' (p. 86).

The majority of existing research on Indigenous enterprise has also focused on rural-remote regions (Foley 2005: 14). Little research has been undertaken within Australia on successful (or unsuccessful) urban Indigenous entrepreneurs or enterprises. The successful individual urban Indigenous entrepreneur is rarely, if ever, mentioned in scholarly or political discourse, and as such does not appear to be included within past governmental considerations and plans for Indigenous economic reform. That is, Indigenous urban entrepreneurs appear invisible in public policy. Government and media reporting tend to portray Indigenous business activity as occurring only in rural or remote regions or within community business ventures. This is incorrect. The bulk of successful Indigenous Australian entrepreneurs are not living in remote areas, and they are not based in community organisations. There are stand-alone commercial Indigenous enterprises in urban environments. If we are to consider effective support programs and services for Indigenous enterprises public policy must also address the situation of urban Indigenous Australian population.<sup>2</sup>

There is a need to review Government, industry and community programs that offer, or purport to offer, specific enterprise support programs and services to Indigenous enterprises. The higher education sector, and other organisations offering leadership or management services to Indigenous Australian, also need be included in the reappraisal of *effective*, sustainable relationships with the broader business sector. A review of successful international organisations that can be used as templates of successful interaction with Indigenous peoples include the Hawaiian Alliance for Community Based Development (HACBED) in Hawaii and the Canadian Council for Aboriginal Business in Canada (CCAB).

IBA is not necessarily the answer; however they are an important spoke in the economic development wheel for Indigenous Australians. Resource and extraction industries have purposely been excluded from this submission. It is possibly best that the Standing Committee address comment direct from these organisations and those affected by

their past and existing programs. Above all we need to break down the silo mentality of Australian service providers and institutions who 'own' programs and the Indigenous participants.

In conclusion, existing programs for Indigenous entrepreneurs are not generally effective across the sphere of economic reform in building sustainable relationships with the broader business sector.

## **2) *identifying areas of Indigenous commercial advantage and strength;***

Recent research has highlighted that Indigenous Australians are indeed active within a myriad of industries and 'they are not all community and in the outback' (Foley 2006). If Indigenous Australian entrepreneurs are allowed opportunity for recognition, access to resources and provided with a conducive work environment, they can achieve business success (Foley 2007a). In this mode of discussion it is difficult not to generalise or categorise Indigenous commercial advantage along stereotypical preconceptions, if we are aware of this we can make an informed judgement. With this standpoint in mind this section outlines some of our *apriori* beliefs about Indigenous commercial advantages and strengths, before supplementing the discussion with some new evidence on Indigenous entrepreneurs in Australia.

In the literature there is a strong expectation that the main areas of potential commercial strength within Indigenous Australia include:

- intellectual property; a diverse and complicated area of discussion that needs formal recognition and protection. It includes, but is not restricted to, sustainable land use management and ecological management for both rural remote and urban areas. Academics and bureaucrats alike often forget that, traditional owners where urban sprawl has engulfed their lands, still maintain an ongoing knowledge about land management (Foley 2007b).
- the arts industry is another area of potential strength; be it visual arts or performing, or many of the allied industries that include film and TV, literature etc. Visual art has suffered from image misappropriation and alleged cultural misuse in recent years indicating a need for industry control and cultural heritage management by keepers of knowledge and not Aboriginal usurpers or bureaucrats (Foley 2007b).

A negative aspect of minority entrepreneurs around the world is duplication of enterprise commonly referred to as copy-cat entrepreneurs. This type of opportunity recognition is common amongst Pacifica entrepreneurs and other minority groups (Foley 2005; Frederick, Kuratko & Hodgetts 2006). In the identification of Indigenous Australian commercial advantage and strength we need to substantiate in our planning are we creating copy-cat Indigenous entrepreneurs who are fulfilling short-term needs or can we create innovative long-term

enterprises that are financially (and culturally) sustainable. It is important to recognise '... innovation sustains profitability ... you innovate or you can die' (Timble 2007: 6).

- The final area of 'current' economic and social commercial advantage and strength is Indigenous involvement within the tourism industry; and related industries. Yet Indigenous people are more than often seen as the exotic actor, the dancer tour guide/performer, rather than the proprietor or the service deliverer.

Trained multi-tasked Indigenous operators can have a distinct advantage within the tourism industry; however preclusion from the domestic and/or international markets is common due to negative perceptions by larger 'group' operators towards the Indigenous enterprise, geographical isolation, the competitive nature of the industry, Indigenous lack of capital, suppliers and resources in general.

Foley (2005) shows that success of Indigenous Australian entrepreneurs is partially determined by:

- education/business knowledge expertise
- access to capital
- exposure to second generational entrepreneurs
- networking capability
- racism as the Indigenous entrepreneur work within the dominant society and is dependent on that society.

These findings are also supported in literature by several well known academics in this field which include: Professors Howard Frederick and Leo Dana from New Zealand, Prof. Bob Anderson Canada and Professors Kevin Hindle and Noel Lindsay of Australia. Having stated this, we still know very little about the phenomenon that is the Indigenous business operator. All too often the media, academia and government in Australia have followed an exotic image of Indigenous business being a 'community' enterprise that is located in remote areas. It is not! (Foley 2005; 2006; 2007a). Statistically over three quarters of the Indigenous population lives in a non-remote area (ABS 2007). Our research indicates that there are possibly more standalone Indigenous entrepreneurs in the urban areas than exist in remote (or rural) areas. In Australia we have limited empirical evidence from which we can address the wider aspects of this term of reference. We therefore need to address wider literature ethnic business, in doing so we will use a mix of some Australian and New Zealand data to highlight particular issues.

Barrett et al (1996) identified several theoretical factors that might be assumed to influence ethnic minority business development. The first set of factors could be described as reflecting the alternative opportunity structure facing potential entrepreneurs of various ethnicities: racist labour market and depressed employment opportunities, discrimination



in business by consumers and other corporations, and the existence of niche markets where ethnic businesses may have a comparative advantage. A second set of factors is ethnic resources: personal motivation, family and communal support. The latter could be classified as encompassing bonding social capital (Woolcock & Narayan 2000). The third and final set of factors that influence the success of ethnic minority businesses are classified as class resources: business family background, educational qualifications and 'artisan skills'. To such factors we would probably add the existence of bridging social capital (ability to build links with other classes) to provide useful contacts.

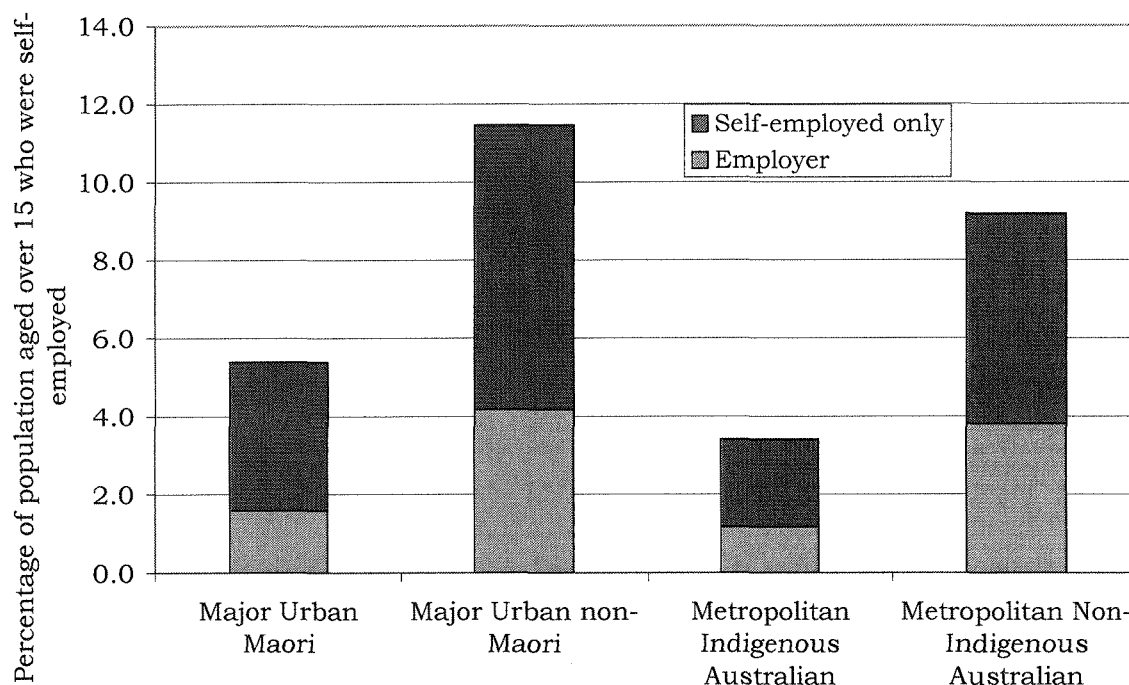
The importance of social capital for Indigenous entrepreneurs revolves around the nature and extent of social networks (Putnam 1993). Social Capital can involve the complex interaction of networks that channels and filters information regarding cultural identity. However, it can also determine the allocation of the meagre resources available to Indigenous entrepreneurs. As social capital shapes behaviour (Fernandez-Kelly & Schaufler 1994), one would expect a positive interaction with cultural values; the stronger the presence of social capital the stronger the level of cultural values. Literature supports that ethnicity is a distinct form of social capital constructed on the cultural endowments, obligations and expectations, information channels and social norms (Coleman 1988; Giorgas 2000; Zhou & Bankston 1994).

Barrett's et al (1996) work, when read in conjunction with Garsombke and Garsombke's (2000) research of Native American entrepreneurs, provides insight into significant variances with non-indigenous entrepreneurs that includes differing aspiration levels an issue raised in Foley's work (2005) which clearly illustrates that the intrinsic motivator for the Indigenous Australian entrepreneur is to provide for their children. Other variances included a lack of formal business education, increased discrimination and reduced levels of communicative ability—These factors perpetuate a reduced level of social capital among the Native American entrepreneurs. Research with Māoris however indicates a reversal to some aspects of both Foley (2005) and Garsombke and Garsombke (2000) findings. For Māori networking and communicative ability is both effortless and natural; this is supported by the New Zealand Global Entrepreneurial Monitor 2005 study (GEM) (Frederick & Chittock 2005) in which 'social-cultural norms such as positive and confident attitude actually assist in meeting social-economic expectations' (Reihana, Sisley & Modlik 2007: 637). Even in the absence of support from traditional social networks, such as in the case of the urban Māori or the entrepreneurial Māori, they create their own networks and development of new forms of social institutions (Barcham 1998) (Walker 1995).

The New Zealand Global Entrepreneurial Monitor 2005 study (GEM) (Frederick & Chittock 2005) has provided government-policy makers and other interested parties one of the most comprehensive studies on any Indigenous group. Based on Foley's own research in 2007-08 as an Endeavour Fellow we can compare and contrast Māori data with Indigenous Australian entrepreneurs.

When we compare self employment and Indigenous employer statistics of both Māori and Indigenous Australians with non-indigenous (accepting that self employment includes what we have previously termed the Indigenous entrepreneur) we obtain an insight into the Indigenous enterprise.

**Fig. 1. Proportion of self-employed in cities with over 100,000 in New Zealand and Australia, 2001**



Source: Table 1 below

Figure 1 is simply a graphic illustration of the geographic data presented in Table 1 (see below)—the importance of this data is that it is broadly comparable between Australia and New Zealand and partially accounts for the vastly different history of settlement and remoteness in the respective countries. New Zealanders are more likely to be engaged in both forms of self employment than Australians. This may reflect the longer history of economic reform in that country (e.g. privatisation), with much of that reform being quite radical compared to other countries (especially, in that area of industrial relations and individual

contracts, see Evans et al. 1996). Australian too moved towards industrial relations reform and has had a marked growth in privatisation, but neither was as evident as observed in New Zealand by 2001 (Quiggin 1996). Hunter (2005b) showed that the shift from public sector employment to private sector employment, a phenomenon that could loosely be categorised as 'privatisation', was more pronounced for New Zealand (compared to Australia) between 1991 and 2001. Furthermore, the increased involvement in private sector at the expense of public sector jobs was more pronounced for the Māori population.

In both countries, Indigenous people are substantially less likely to be in either form of self-employment in the respective countries. However Indigenous Australians are about a third as likely to be self employed compared to other Australians, while Māori are just under half as likely to self-employed compared to non-Māori New Zealanders. Indeed, the GEM data revealed Māori consistently have higher rates of entrepreneurial activity than non-Māori (Frederick & Chittock 2005).

One of the issues that complicate the inter-temporal analysis of self employment is the tendency for the definition of self-employment to change in subtle but important ways in various census collections over time. That is why the above table and figure focus solely on the respective 2001 censuses. Notwithstanding, one of the more well-defined aspect of self-employment analysis is whether an individual could be categorised as an employer.

**Table 1. Proportion of self-employed in adult population for New Zealand and Australia, 2001**

	Employer	Self-employed only	All Self-employed
<b>Māori Ethnic Group</b>			
Major Urban Areas	1.6	3.8	5.4
Other Urban Areas	1.5	2.8	4.3
Non-Urban Areas	2.8	5.2	8.1
<b>Non Māori Ethnic Group</b>			
Major Urban Areas	4.2	7.3	11.5
Other Urban Areas	4.9	6.6	11.5
Non-Urban Areas	10.1	17.1	27.2
<b>Indigenous Australian</b>			
Metropolitan	1.2	2.2	3.4
Provincial	0.9	1.7	2.6
Remote	0.3	0.8	1.1
<b>Non-Indigenous Australian</b>			
Metropolitan	3.8	5.4	9.2
Provincial	4.9	7.4	12.4
Remote	6.4	9.9	16.3

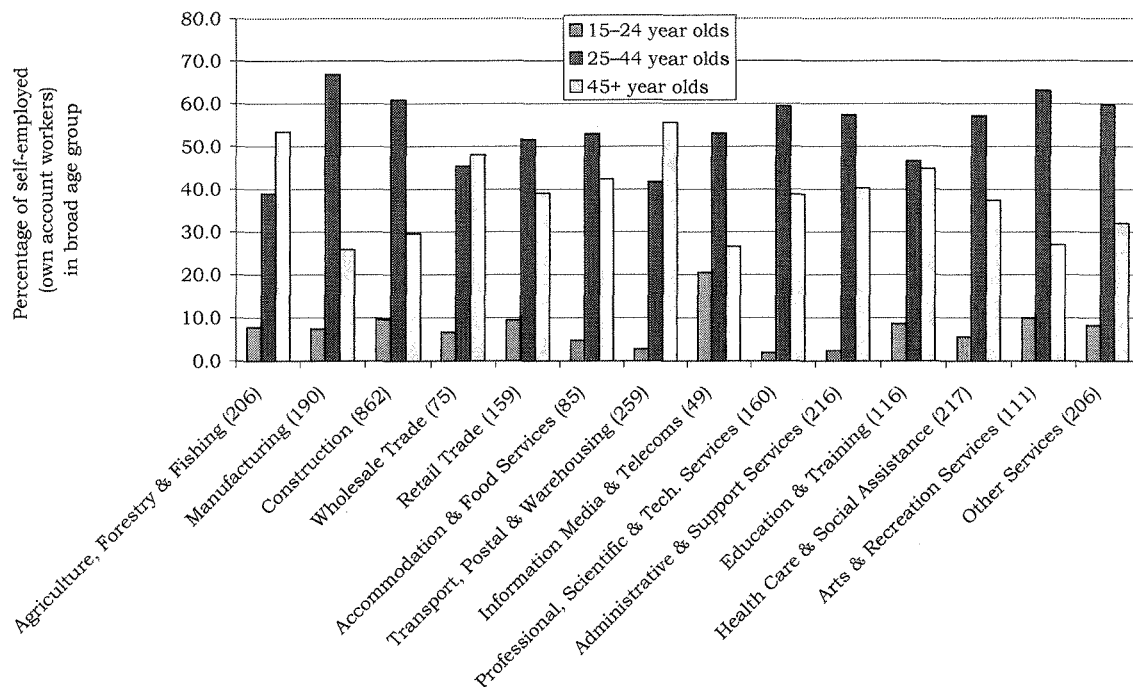
Notes: Hunter (2004) also presents the age standardised estimates for males and females which are slightly different from the above. In general, the indigenous self-employment rates are marginally higher because of the overall younger demographic profile of Indigenous entrepreneurs.

Sources: Australian data are calculated as population weighted averages of the male and female estimates in Hunter (2004) while the New Zealand estimates are based on author's calculations that used the census tables provided by Statistics New Zealand (NZ).

As indicated above, Indigenous people are likely to be drawn to the self employment option is the existence of labour market discrimination. Hunter (2005a) argues that one cannot discount the importance of discrimination being an important explanation of the vastly different employment prospects of Indigenous and other Australians. Furthermore, the scope for discrimination against Indigenous Australians is large in metropolitan, regional and remote areas. Figure 1 and Table 1 indicate that Indigenous self-employment rates are relatively low throughout such areas. Despite the fact much of the public debate focuses on enhancing Indigenous enterprises on the Indigenous estate in remote Australia, it would be a mistake to ignore the apparent lack of Indigenous self employment in metropolitan and regional areas. It should be acknowledged that the rates of non-Indigenous self employment are higher in the less remote areas which reflect the viability of smaller local enterprises where rents are cheap, despite the market for consumables being relatively small in such areas, and the limited number of opportunities for sub-contracted work in particular industries (e.g. in mining sector).

Māori on the other hand; whilst still the subject of widespread discrimination appear to have reversed negative socioeconomic trends (Hunter 2005b; Spoonley 1988). In our opinion Māori networking skills are not only essential business attributes, but they are also an extension of Māori cultural life skills and social capital attributes. One in seven New Zealanders are Māori, some 14 per cent of the total population (Statistics NZ 2002). Most Māori continue to live in northern regions with nearly 90 per cent in the North Island and 60 percent in the Northland, Auckland, Waikato and the Bay of Plenty areas. When we consider that the annual income for Māori adults at the year ended 31 March 2001 was only \$14,800 and only one in twenty Māori adults have an annual income of more than \$50,000 there are considerable poverty issues within the Māori community (Statistics NZ 2002) similar to Australia. From observation and literature review it would be fair to state that the communal interaction of Māori with family members and their wider community are survival mechanisms that have fine tuned the concept of 'networking' so that when Māori enter business, 'business networking' is an extension of their existing skills in the interaction with *whanau* (family) and *hapu* (sub-tribe). Personal interaction within these varying scenarios for the Māori entrepreneur appears effortless and natural; this is supported by the New Zealand Global Entrepreneurial Monitor 2005 study (GEM) (Frederick & Chittock 2005) in which 'social-cultural norms such as positive and confident attitude assist in meeting social-economic expectations' (Reihana, Sisley & Modlik 2007: 637) for Māori entrepreneurs. Even in the absence of support from traditional social networks, such as in the case of the urban Māori or the entrepreneurial Māori, they create their own networks and development of new forms of social institutions (Barcham 1998; Walker 1995). Indigenous Australians however do not have these networks, in contrast they are vulnerable, isolated within a dominate settler society culture, often divorced from any cultural links.

**Fig. 2. Proportion of Indigenous self-employed (own account workers) by industry and age Australia, 2006**



Notes: The industry categories are provided at the 1-digit ASIC level and the number of Indigenous self-employed are indicated in brackets. This figure leaves out industries if less than 30 self-employed nominate it as their industries, including: Mining (12), Electricity, Gas, Water & Waste Services (9), Financial & Insurance Services (29), Rental, Hiring & Real Estate Services (25), and Public Administration & Safety (24).

Figure 2 explores the age distribution of Indigenous self-employed (own account workers) for various industries to highlight such issues. There are only 12 Indigenous self-employed in the mining sector in 2006, which illustrates there is potentially an issue for Indigenous people taking up sub-contract work in the mining sector. Of course one explanation could be that Indigenous people are choosing not to work in that industry, but that is not very plausible because Indigenous employment in the mining sector has grown in recent years (Brereton & Parmenter 2008).

The construction industry is often associated with the mining sector and the largest group of indigenous self-employed is in that sector. Recent discussions of one of the authors (Foley) with the Australian Taxation Office (ATO) revealed that the ATO is alarmed at the number of youth being advised to obtain an ABN to enable them to work in this industry. They are not 'true' self employed, rather this indicates a willingness by some employers not to employ youth, rather pay them as a sub-contractor with taxation and superannuation being the

responsibility of the individual sub-contractor. The interpretation of statistical data needs to take into account such factors.

Given that the discussion of the first term of reference identifies the arts sector as an area of strength for Indigenous entrepreneurs, it is rather surprising that there are only 111 Indigenous self-employed in the Arts and Recreation Services industry (Fig.2). It is possible that this is also a statistical artefact with individuals not considering themselves self-employed because of their pre-existing relationship with a community arts organisation. Other possible explanations for this anomaly may be found, but on the surface there appears to be a *prima facie* case that this area of strength for potential Indigenous enterprise has not been fully developed.

We have attempted to identify areas of Indigenous commercial advantage and strengths outlining some recent data and analysis that will have an impact on your understanding and judgement. We need to understand the Indigenous entrepreneur-enterprise before policy is implemented. It is our belief that not enough research has been undertaken when you compare us with New Zealand and the GEM study on Māori. Australia lacks adequate empirical evidence on its Indigenous business. Furthermore successive governments focus excessively on Indigenous peoples in the remote locations—a situation that needs to be readdressed through public debate.

Indigenous Australians can have a commercial advantage and strength in almost any industry or workplace if given the opportunity and support. Please do not generalise or stereotype—Indigenous people are no longer a face on a stamp or the silhouette on one leg holding a spear.

### **3) the *feasibility* of adapting the US minority business/development council model to the Australian context**

HORSCATSIA is particularly interested in exploring whether the United States (US) model of a minority business/development council model would assist in the development of Indigenous enterprises in Australia. This term of reference raises two important issues, will the consideration of the US minority business/development council model be inclusive, with all minority businesses in Australia considered. If so you run the risk that Indigenous businesses will become even more invisible with the rise of other more competitive dominant ethnic minorities. Or is this proposal exclusive; in that only Indigenous businesses will be considered as a minority in the provision? If so this could lead to inflamed racial tension within Australian settler society.

One of the problems identified in the international literature is how one defines a minority business? If the definition ethnicity relates solely to the extent of Indigeneity, who determines what is, and is not, an Indigenous business? Will policy accept the 'common law' definition of Australian Aboriginality or adopt some other standard? For most

purposes, in the Australian context, an Aboriginal or Torres Strait Islander person is a person:

‘Who is of Aboriginal and Torres Strait Islander descent, Identifies as an Aboriginal or Torres Strait Islander person, and Is accepted as such by the community in which they live’ (ATSIC 1998c: 60).

This three-part definition has been accepted and upheld by the High Court in *The Commonwealth v Tasmania* (1983), and confirmed in *Gibbs v Capewell* (1995). If fully adopted, this definition can create problems for some business operators. Do they have to seek out a certificate of Aboriginality, which has inherent difficulties as some Indigenous groups deny other Indigenous peoples claim to their descent. For example in the NSW and Tasmanian case cited above, it is believed that around one half of the Aboriginal populations had their claims on their identity questioned by other Indigenous descendents associated with particular organisations controlled by a relatively small number of families (i.e. raising the prospect of nepotism). Examples include a case involving Tasmanian Aboriginal Legal Service versus the Big River and North West peoples of Tasmania; or the Sydney-based Metropolitan Aboriginal Land Council versus the traditional owners and potentially Indigenous peoples of the Sydney environs who are not members of their Council (Foley 2007b).

Any scheme that will require authentication of who is Indigenous will need a dispute resolution factor to allow for Aboriginal fractionalisation, nepotism and disputes as to peoples cultural heritage and descent. The determination of minority status that is the determination of Aboriginality obviously needs to be carefully implemented and managed.

The US model has been effective, to a certain extent, however there is a danger as it creates additional layers of bureaucracy, which SME’s in general say is too difficult to manage (at least as it is currently organised). Based on a Hawaiian study (Foley 2005), organisations such as the Southern Californian Business Development Council (SCBDC) (<http://www.scbdc.org/why/> which is a organisation that acts as a broker for the minority business, linking them up to ‘member corporations’ (which are often mainstream businesses who want a government contract/tender but need a minority supplier or partner that gives them a competitive advantage in tendering. The minority business deals initially with the SBA (Small Business Authority) gets the multitude of paperwork, for many is tedious and difficult. The SBA then link them up to the SCBDC (or any of the many other broker-like organisations) the broker links them up with an industry partner (for a fee) then they tender, then the monthly returns? Fees it seems are paid by both the minority partner and the SBA directly or indirectly. The broker does the complicated returns creating a silo of difficulty and bureaucratic management.



It is questionable if this 'industry' provides the nascent or growing Indigenous entrepreneur valuable networking opportunities. In a Hawaiian case study undertaken in 2001, a minority partner in a tender process readily agrees that he was nothing more than a 'token' minority on a lucrative navy contract refurbishing married quarters in Pearl Harbour. From the knowledge he learnt whilst the token supplier he tendered for the next contract and won it, within a few years his business grew from modest turnovers to a declared taxable income of USD \$10.4m in the 2000 financial year. This is the exception to the norm, in fact this operator spends a considerable amount of time acting on behalf of the SBA to assist other Native Hawaiian entrepreneurs who have difficulty in managing the system and the more dominant Anglo-American enterprise who wishes to obtain a minority partner.

The wider literature and international research also reveal insights into this term of reference. Sonfield (2005) provides a useful starting point for discussing recent US policies on minority business development. A 2000 policy change made by the National Minority Supplier Development Council (NMSDC) means that, instead of having at least 51 per cent ownership requirement, a firm can have as little as 30 per cent minority ownership and still be eligible for corporate minority targeted contracts. Although there is a certain logic to having a 51 per cent threshold, problems arose for the minority businesses under the previous definition in that companies found it difficult to grow unless they secured extra investment from additional minority owned businesses. This proposal was more controversial than anticipated by the NMSDC with many minority organisations voicing strong opposition on the grounds that it further eroded the concept of affirmative action (Sonfield 2005: 227). Another concern was that the change might only benefit large minority enterprises with greater capital requirements at the expense of the large numbers of smaller minority business enterprises.

The policy change did not result in an increased number of 'minority' businesses seeking certification from the NMSDC. Sonfield puts this down to weaker economic conditions in important sectors with the consequent drying up of venture capital options. At the same time there was an increase in mergers and acquisitions with some of the larger minority owned companies being absorbed by the larger *Fortune 1000* corporations and losing their minority status. On a more positive note, the fact that larger mainstream companies were taking equity positions in the minority owned businesses have created some effective and profitable partnerships and joint ventures that allowed such organisations to grow as a result of injected equity financing. However the net effect of such changes is that there was not an increased number of enterprises certified as minority businesses as a result of the new definition.

How has the policy environment in the US affected self-employment among American Indians? Blanchflower (2004) indicates that Native American are around 2.2 percentage points less likely to be self-employed than 'White' American after controlling for demographic, educational, and differences in region and industry-specific factors. Given that one would expect labour market discrimination to push Native Americans into self employment (to get away from the lack of mainstream employment options), this underscores the lack of effectiveness of social and institutional supports. However, as Blanchflower argues, being self-employed is tough and appears to require rare talents and hence it is not for everyone. Notwithstanding it is important to ensure that all groups have the option to pursue self-employment if that is what they want.

The relatively small numbers of Native Americans in business have lead to extremely limited research on the factors driving successful indigenous businesses in the US. In the course of writing this submission we came across Garsombke and Garsombke (2000). That paper highlighted four of the five main barriers to the start-up of a business (as identified in their research) varied significantly between Native American and other US entrepreneurs—namely aspiration level, formal business education, discrimination and communication skills. Ironically, limited access to funding or capital did not vary between the Native American and other US entrepreneurs.

This last finding can be contrast to that in Blanchflower (2004: 25) who finds that capital constraints bind especially tightly for all minority self employed in the US. This observation might be explained by the fact that the definition of minority in that study included over half the population. Interestingly, there was no evidence of liquidity constraints for minorities in Australia in that paper (or indeed for the UK, Finland, Canada and Sweden). The importance of these observations is that there may be less need to focus on provision of finance in Australia, and a greater need to focus on the other 'deficits' that drive the relatively low level of self-employment among Indigenous Australians. Again while liquidity constraints may not drive participation in self-employment, on average, it may be a constraint on the growth of Indigenous businesses and cannot be ignored entirely.

The term of reference for this inquiry appear straightforward, however it must consider the ramifications of the definitions of

- what is a minority enterprise, and
- what is an Indigenous Australian enterprise?

The U.S. minority model does not provide a quick fix. Percentage of ownership will be an issue. Work done by Foley (2005) raised the issue of inter-racial marriage and the establishment of equal partnership in

business. If an Indigenous Australian has a non-Indigenous Australian spouse you cannot expect one partner in marriage to have a 51 per cent ownership—marriage normally a 50/50 partnership. The foundation of the original U.S. model is potentially discriminatory towards cross-cultural relationships and partnerships.

The adoption of a US-style model for Australia will stimulate some sectors of the economy, and could be a well needed economic boost for existing urban based Indigenous contractors and tradespeople—consequently, it should be investigated and potentially supported. If developed along the lines of previous mentioned organisations such as the Canadian Council for Aboriginal Business or the Victorian Koori Business Network, which has an extensive data base of Koori enterprises and is actively pursuing an Indigenous business network then the project has potential. In regional areas such as Newcastle, there are established Aboriginal Business Councils and other similar networks. Potential Government programs such as this need to work with these fledgling organisations in the consideration of ‘minority’ (Indigenous) inclusion in the supply and tender process within Australia government supply.

**4) whether incentives should be provided to encourage successful businesses to sub contract, do business with or mentor new Indigenous enterprises.**

Indigenous business can easily be characterised as risky business because of poor and variable access of Indigenous people to capital markets often coincide with undeveloped business skills, locational disadvantage and a sometimes a difficult social context for conducting business. Not only does financial exclusion directly constrain the possibility for raising capital, but limited credit options may direct consumption patterns away from local communities and towards major regional and commercial centres. To the extent that Indigenous businesses are reliant on customers from the Indigenous community, this could be a major problem.

The incentives for Indigenous and non-Indigenous successful business are complex. Existing research concentrates on remote business opportunity. For example, Altman and Dillon (2004) provide an innovative profit-related investment scheme that builds on the work of Chapman and Simes (eventually published as Chapman & Simes 2006) on income contingent loans used to develop disadvantaged regional communities. Altman and Dillon are fundamentally interested in the particular issues facing development in the Indigenous estate which is predominantly concentrated in remote regions. The nature of property rights in this estate means that such issues are communal in nature and investment decisions are inextricably intertwined with community development.

There are several largely unexploited options for communities and individuals to leverage capital, especially in the context of joint ventures and native title negotiations. Furthermore, Altman and Johnson (2000) argue that the trade-off between business efficacy and culture is not necessarily problematic and can in some circumstances be an advantage. The high levels of 'bonding' social capital in remote Indigenous communities may facilitate business transactions among community members (see Hunter 2000 for a critical analysis of such issues).

This submission has deliberately emphasised the need to also consider urban Indigenous businesses where the issue of community development is not necessarily a direct focus. The income contingent and profit-related loans scheme advocated by Chapman and Simes (2006) have a wider applicability and can be outside remote areas. Such schemes assist in providing finance to fund profitable business ventures that can pay back loans when the Indigenous business starts making money. If the business venture does not make money, then there is no obligation to pay back the loan—hence minimising risk from the perspective of the individual entrepreneur. However, the success of any such scheme depends upon the scheme's ability to minimise the possibility attracting excessively high risk ventures (what economists call 'adverse selection') or encouraging behaviour that entails unnecessary risks (sometimes called by its technical name 'moral hazard'). In order to avoid such problems it is important that participating businesses bear some of the risk from the project (commensurate with their capacities). That is, if a project fails, then the business bears some costs arising from the finance. The main point is that a profit-related loan scheme for urban indigenous entrepreneurs is less complex than analogous ventures on the Indigenous estate because the urban scheme would be less likely than those providing loans to non-urban areas to involve multiple stakeholders from parties throughout the community. That is, urban based schemes are more likely to be manageable if they involve loans provided to particular individuals or involve a limited number of stakeholders with well-defined interests. It has often been argued by Bruce Chapman, the ANU Professor who developed the fundamental concept of income-contingent loans, that the implementation and management of these scheme are cost-effective because the tax system automatically collects much of the data required and hence the ATO can monitor and implement loans with minimal costs to the taxpayer and the government.

Hunter (2004) confirms Daly's (1995) main findings that, in comparison with other self-employed Australians, self-employed Indigenous Australians had spent less time at school and were less likely to have a formal qualification. They were mainly employed in trade occupations and in the lower-skilled occupations of plant and machinery operators

and labourers. Self-employed Indigenous Australians were under-represented among managers and administrators and professionals compared with other self-employed Australians. Raising educational attainment is likely to increase the number of Indigenous Australians in these groups—although this is a long term process requiring not only human capital but physical capital inputs. The profit-related schemes of Chapman and Simes (2006) and Altman and Dillon (2004) partially address the lack of access to the capital markets, but one cannot lose sight of the fact that education (human capital) often provides a transfer of general (if not specific) skills that can be useful for conducting and managing business. While there may be some interaction between the poor educational attainment and capital market imperfections, it would be a mistake to address one issue without addressing the other issue. In particular some direct support for individual Indigenous entrepreneurs may be required to redress the more important skill deficits. Training programs specially designed for Indigenous business with mentorships provided by successful Indigenous entrepreneurs should be considered.

One of the main findings of Hunter (2004) that the occupational and industry structure of Indigenous self-employment is particularly different from other Australian businesses, particularly in remote areas. While there is some convergence apparent in the recent years, this convergence is largely as a result of the apparent growth of Indigenous self-employment in declining primary industries. If the recent growth in Indigenous employment in Agriculture, Forestry and Fishing is concentrated in small scale ventures, it is questionable how viable such operations will be in the long term when faced with competition from large, sometimes multinational, agribusinesses.

In view of the high level of ongoing social exclusion of the Indigenous people in the Australian community and the evidence of labour market discrimination against Indigenous workers (Hunter 2005a), there should be no illusion as to the enormity of the task at hand. Promoting Indigenous business may seem like a relatively direct means to removing the 'welfare shackles', but the structural impediments arising education and access to capital may also require long run commitment going beyond the life of the current parliament.

Obviously the US model provides an incentive for non-indigenous businesses to sub-contract work to or incorporate fledgling Indigenous enterprises—this could in a sense be argued that it reduces the government's responsibility? It can also be argued that the USA model has a darker side with the creation of unproductive, fictional and minority businesses that are nothing more than token businesses—Based on his Hawaiian study, Foley (2005) has argued that the US policy has lead to 'shadow' businesses. Once the minority status of the business is confirmed, the actual involvement of the ethnic minority in

the commerce is minimal. The non-Indigenous or mainstream tenderer needs a minority partner to avail themselves of the scheme and hence they procure or create a minority partner, but in fact the mainstream tenderer carry out all the functions of what is purely a shadow business. Other organisations make money off the minority partner by doing their returns etc. Wide debate and careful consideration needs to be undertaken before adopting a US-style system.

Much of the discussion of incentives focuses on the relationships arising from the finance of business enterprises. However, informal mentorships and non-financial support could also be useful. Informal associations between Indigenous and non-Indigenous businesses should be 'non-competitive' to ensure that there is no conflict of interest in the party providing mentorship and support. The government could facilitate such arrangements arising through tax break, but the 'trick' would be to ensure that the support given was substantial, and was not perceived to be just another method for avoiding or evading tax liability.

## Notes

1. The Australian Bureau of Statistics (ABS) in the 2001 Census Dictionary qualifies 'urban' to be a population cluster of more than 1,000 people. <<http://www.abs.gov.au/Ausstats/abs@nsf>>, accessed 15 June 2005. For the purposes of the research undertaken in Foley (2005), interviews were undertaken with Indigenous entrepreneurs in capital cities, their suburban fringe or cities that had a population of 50,000 people or more. Hunter (2004) adopted the Roger Jones system of geographic classification of areas that is arguably more consistent with conventional notions of labour markets (Jones 2003). The reader should note that whilst provincial has been adopted as a qualifying classification for this paper it is used in the context of Indigenous urban business activity within provincial cities that contain populations exceeding 50,000 people. Therefore, when 'urban' is used, it will also include provincial cities of 50,000 people or more, and the term provincial will be deleted from the discussion for simplicity.
2. To provide some background as to previous poor governmental mismanagement the 1985 the Miller Report (1985) identified important deficiencies in the administration of enterprise programs, yet two decades later in 2003 the federally funded Indigenous Business Review (IBR) identified continuing deficiencies in the management and administration of Indigenous business loan programs (IBR 2003). The former Aboriginal and Torres Strait Islander Commission (ATSIC) implementation of business loan programs within the framework of overall economic development for communities was not successful, resulting in ad-hoc and often unsuccessful business creation (IBR 2003: 28-9). ATSIC was the dominating Indigenous business financier for over a decade; until they were disbanded by the Howard Government and the business loan function taken over by Indigenous Business Australia (IBA) in March 2005 (Australian Government 2006: 1). ATSIC had continual difficulty in achieving their goals in business development lending. Yet the 1991 Royal Commission into Aboriginal Deaths in Custody criticised ATSIC's stringent commercial eligibility requirements: this resulted in the establishment of the Indigenous Business Incentive Programme (Commonwealth of Australia 1991). In contrast to the Royal Commission findings, the 2003 IBR report noted unsatisfactory due diligence by ATSIC staff in the monitoring of these loans (IBR 2003: 28-9).

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Bureaucratic misjudgements have played a part in the failure of some Indigenous community-based businesses. This is of concern because these failures inevitably reinforce negative stereotypes of Indigenous Australians—including the popular belief that Aboriginal people cannot manage their own financial affairs (Foley 2006). A well documented example that highlights poor management by bureaucrats is of a community-based organisation is the Warai pastoral enterprise on the Finnis River in the Northern Territory (Fuller & Parker 2002: 100, 120 & 121). The Warai pastoral enterprise received considerable funding from several government departments and agencies without adequate consultation and coordination between the government and community stakeholders. No research or planning was undertaken to ensure the existence of the necessary financial management tools to run a business. It appears an extensive range of infrastructure was constructed for the community venture with little being done to ensure its ongoing success through the provision of adequate financial management skills, working capital or marketing plans that set out target profit margins. This Aboriginal enterprise floundered and did not achieve its potential due to poor planning and lack of synchronisation of basic commercial business practice by the same governance structures created by government to act in the best interests of Aboriginal people.

The IBR report re-enforced the stereotype that Indigenous enterprise is a 'community enterprise'. They failed to recognise the stand alone Indigenous entrepreneur (Foley 2006). Miller Report of 1985 continually refers to community development when it is discussing the development of the urban individual (Commonwealth of Australia 1985: 383–6). The individual Indigenous Australian business person needs to be recognised so that this vital area of Aboriginal commerce can be nurtured to allow the subsequent encouragement of new Indigenous enterprises (Foley 2006: 5). This is where current and previous government funded programs have failed Indigenous Australia and where sustainable relationships can be enhanced if we recognise the urban based Indigenous Australian entrepreneur.

There is a dearth of information on the urban Indigenous entrepreneur. The National Aboriginal and Torres Strait Islander Social Survey 2002 (NATSISS) has no qualitative or quantitative data regarding Indigenous self-employment. Some explanation of these statistics is provided however the sample size is too small for any substantial analysis. The lack of detailed data on Indigenous self-employment raises the important question: how can government policy be informed if the basic building blocks of empirical data are not available?

The problem of responsible reportage is further illustrated by the IBR's observation that there is no one central agency responsible for the collection and collation of data on Indigenous economic development (IBR 2003: 23). The IBR finding could be expanded to include the monitoring of Indigenous business programmes.

Former Prime Minister Howard was correct in his 2004 election statement when he claimed 'Indigenous Australians [should] get better value ... money' (Loughnane 2004: 2). Indigenous Australians have not received value for money in terms of the delivery of informed and responsible government services. The IBR illustrated the poor delivery of value as they undertook preliminary research on 100 businesses based on data given to it by the Office of Aboriginal and Torres Strait Islander Affairs (OATSIA), ATSIC and IBA (IBR 2003: 18). It selected just 32 subjects for case-study analysis from a narrow spread of businesses by industry and a broad range of geographical locations in remote, rural and urban areas. Some of these were community-based organisations (IBR 2003: 49). The validity of the IBR findings are questionable as they cover a broad geographic area and a narrow sample of business entities from a very limited sample group restricted to clients of OATSIA, ATSIC and IBA (IBR 2003: 18). The research by their own admission did not include stand-alone non-government funded Indigenous businesses that evolved within a

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competitive commercial environment. They only assessed businesses that enjoyed either direct government assistance or indirect financial assistance at below market rate interest.

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