

Chapter 4

Government Policies and Programs

...we believe that small business needs many things from government. In general it needs advice, information and support, and it needs a way to access that information.¹

Small businesses do not differentiate between different levels of government. They just see a service, a suite of packages.²

The role of government

4.1 The rationale for government assistance to small business is not necessarily self-evident or explicit. The implicit economic rationale is that small business makes a significant contribution to economic development and employment, and that government has an interest in assisting the sector to maximise that contribution. By addressing some of the disadvantages that small business faces in complying with regulatory requirements and obtaining information, resources or expertise for enterprise development, innovation or export, government assistance can be effective in stimulating business growth and development (and therefore, to some degree, employment).

4.2 Small business is also seen as deserving of support because of its distinctive economic and social contributions. The OECD made the following argument for appropriate government support for small business:

SMEs [Small and Medium Enterprises] are at the core of future economic growth in OECD countries. Productivity growth is fuelled by competitive processes in industry, which, to a large extent, build on the birth and death, entry and exit, of smaller firms. Over 95 per cent of enterprises in the OECD are SMEs, which account for 60–70 per cent of jobs in most countries. They are the source of most new jobs and make significant contributions to innovation and high-technology employment. In addition, they are of considerable importance for regional development and social cohesion. However, less than one-half of small start-ups survive for more than five years and only a fraction develop into high-performance firms. Governments need new and improved approaches for maximising the small firm contribution to economic and social well-being.³

1 Mr John Macdonald, Executive Officer, Melbourne Development Board, *Hansard*, Melbourne, 24 July 2002, p. 253

2 Ms Cindy Ford, Executive Officer, Ipswich and Regional Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 64

3 *OECD Small and Medium Enterprise Outlook*, OECD, Paris 2000, p. 7

4.3 The small business contribution to innovation is of increasing interest to government. A sector that is responsible for one-third of GDP and almost half of private sector employment outside agriculture is clearly fundamental to the development of a more innovative private sector. In addition, while small business may invest less in research and development than large business, it appears to play a distinctive and critical role in renewing the economy through the introduction of new ideas, products, processes and services. In the words of a US report on small business:

New and small firms play a key role in the experimentation and innovation that leads to technological change and economic growth. They are continual sources of new ideas that might otherwise remain untapped—and their experiential efforts are an essential part of the organic and ever changing... economy.⁴

4.4 Appropriate assistance to small business may also pay dividends in the form of improved export performance. Small business has entered the export market at a faster rate than large business in recent years and Austrade estimates that there is significant capacity to increase that rate, with appropriate government support.⁵ The important social contribution of small business, particularly in regional areas, was discussed in Chapter 1. The committee believes that government support for small business is also, and appropriately, based on an implicit recognition of the broader social and community contribution of small business.

The policy framework

4.5 There is a strong argument that the most important role for government is to provide a sound economic and institutional environment, within which small business can prosper.⁶ Regulation to prevent or minimise the abuse of market power by larger business and a coherent, streamlined and workable regulatory environment are important elements of such a framework. Successive Commonwealth governments have highlighted the provision of a sound macro-economic and micro-economic framework as key planks of small business policy.

4.6 However, a sound economic and institutional environment is not, by itself, enough. Small business suffers from a number of handicaps or disadvantages that, if not addressed, limit its capacity to fulfil its economic, employment and social potential. As indicated in Chapter 2, these include limited management and financial resources, few sources of advice or information, and small scale which is a disadvantage in negotiating favourable terms of trade or accessing up-to-date information or technology. To put these factors in perspective, a study of Australian business exits found that while economic factors, primarily interest rates, appear to

4 Submission No. 91, National Centre for Vocational Education Research, Section 3, p. 53, quoting a United States Small Business Administration report to the President

5 Austrade, *Knowing and Growing the Exporter Community*, pp. 6; 54–55

6 Productivity Commission, *Design Principles for Small Business Programs and Regulations*, Staff Research Paper, 21 August 1998, p. xix

play a role in 22 per cent of business bankruptcies, in at least 14 per cent of cases, inadequate business skill or management practices are the main factors.⁷ By addressing some of these areas of disadvantage, government can assist small business to fulfil its potential, with benefits for the wider economy and society.

4.7 In Australia, all levels of government have some involvement in policies and programs for support of the small business sector, although their respective roles and responsibilities are not well defined. At the Commonwealth level, the focus is twofold: providing an economic and regulatory framework that allows business to operate more efficiently; and, addressing areas of market failure that may undermine the competitive position of small business.⁸ The Office of Small Business within the Department of Industry, Tourism and Resources acts as a focal point for policy advice to the government on small business issues and identifies areas where Commonwealth assistance or programs can make a contribution to small business development. Commonwealth programs and policies generally either reflect its areas of responsibility, for example, for Commonwealth regulation, or address ‘gaps’ in the provision of services or support. Other Commonwealth policies such as those designed to promote employment and e-commerce, to stimulate industry, exports and the development of regional Australia or to assist Indigenous Australians, may include some support for small business.

4.8 State and territory governments have primary responsibility for providing support programs and services for small business within their borders. Programs and services vary significantly from state to state but typically include training programs, as well as an array of programs targeting particular segments of small business such as women, high-growth firms or firms in specific regions and industries, consistent with the government’s prevailing social and economic development objectives. Most state and territory governments also fund other organisations, primarily the independent community-based Business Enterprise Centres (BECs), to deliver small business programs, advice and training, primarily, but not only, to business ‘intenders’ or new starters. In conjunction with the Commonwealth, they also fund business incubators to support a subset of new or growing small business. State government assistance for small business may also be channelled through regional development programs.

4.9 Traditionally, local government has mainly supported small business through the provision of local infrastructure and services such as roads, parking, land-use policies and local amenities.⁹ Increasingly, but unevenly, and depending on their resources and priorities, local councils are also becoming more actively involved in promoting economic development within their jurisdictions. Programs and services are varied but can include information, advice and referrals to individual business on both regulatory requirements and government assistance programs, as well as

7 Productivity Commission, *Business Failure and Change; an Australian Perspective*, December 2000, p. 50

8 Office of Small Business at the Department of Industry, Tourism and Resources website: www.industry.gov.au/

9 Submission No. 90, Local Government Association of South Australia, p. 2

programs to stimulate business development through initiatives such as the formation of industry clusters, collaborative networks and skill registers.

Commonwealth programs

4.10 The key Commonwealth programs for small business are:

- the Business Entry Point (BEP), designed to provide business with an on-line ‘one-stop shop’ for information, programs and some transactions services across all levels of government. A revised version of the BEP was launched at the end of October 2002 to provide an enhanced level of information support; and
- the Small Business Assistance program, under which the Commonwealth provides \$36 million to agencies providing services or projects to support skills development in small business (the Small Business Enterprise Culture Program) and for the establishment of small business incubators (the Small Business Incubator Program) and \$24 million towards the costs of providing advisory and support services for small business (the Small Business Answers Program). Funding under the Small Business Assistance Program is disbursed over 4 years.

4.11 The Small Business Answers program is a competitive grants program replacing the Small Business Assistance Officers program from early 2003. Under the Small Business Answers Program, successful bidders will be funded to provide advice for small business on government regulations, programs and services. Priority will be given to funding services in regions not already served by existing advisory bodies.¹⁰

4.12 The Regional Assistance Program (RAP), the Regional Solutions Program (RSP) and the Dairy Regional Assistance Program (DRAP), funded through the Department of Transport and Administrative Services, also provide an important source of funds for programs to support small business in regional areas, consistent with the broader regional development priorities. The local community-based Area Consultative Committees (ACCs) play a key role in identifying local needs and nominating projects for support. There has also been a link to date between Small Business Assistance Officers (SBAOs) and Area Consultative Committees, in that the SBAOs have been located with ACCs for administrative support purposes. In contrast, advisers appointed under the Small Business Answers Program may be associated with, and presumably located with, a range of different organisations including BECs and private sector agencies, depending on the successful bidders. While there may be benefits in expanding the range of service providers for small business assistance in this way, the new arrangements are also likely to add to the fragmentation of services.

4.13 Small businesses may also be eligible to apply directly for some of the 24 industry assistance programs funded by Ausindustry. These programs, seven of which, according to Ausindustry, directly or indirectly target the small business sector,

10 See: www.ausindustry.gov.au/content/content.cfm?ObjectID+A1EF8466-1F40-4D4A

typically include financial and other support for research and development or commercialisation of new technology, access to technology, government purchasing or similar objectives. The nominal value of these programs is estimated at around \$1.7 billion per year. Approximately 9,000 businesses receive assistance under the programs, about half of which have a turnover of \$5 million per year or less.¹¹ There is currently no way of knowing how many of those meet the ABS definition of a small business as this information has not been recorded to date. Austrade also provides advice and assistance, including management advice where appropriate to assist small and medium businesses enter the export market.

4.14 Other Commonwealth portfolios provide programs targeting segments of the small business sector. The New Enterprise Incentive Scheme, administered by the Department of Employment and Workplace Relations, provides business management training and income support for eligible unemployed people starting a small business. The Aboriginal and Torres Straits Islander Commission (ATSIC) administers a range of programs designed to assist Indigenous people, including communities, to establish or grow a small business.

State and territory programs

4.15 State and territory governments adopt varying approaches and administrative arrangements for small business assistance and support. The range of programs and services also varies considerably. The following examples provide an illustration of the range of approaches.

4.16 In Western Australia, the Small Business Development Corporation (SBDC), is a statutory authority with a broad charter of assistance to small business including: championing the cause of small business; developing programs and services to meet the needs of small business development; and, establishing and strengthening relationships between SBDC and key agencies. One strength of the SBDC is its direct links with the small business community. It acts as an intermediary for small business needing advice or support from other government agencies and seeks direct e-mail input from small business through the 'Ready Response Network'. Business assistance programs include mentors, workshops, training and referral and advice services, some of which may be delivered through the network of Business Enterprise Centres.

4.17 In Queensland, the Department of State Development provides a range of services for business generally and small business in particular. These include training programs, workshops and an online and telephone advice and referral service. Unlike Western Australia and most other states, the state government does not fund the Business Enterprise Centres to provide services, relying instead on its networks of State Development Centres. The Department also funds a Red Tape Reduction Task

11 Mr Drew Clarke, Executive General Manager, Department of Industry, Tourism and Resources, *Hansard*, Canberra, 8 October 2002, p. 910

Force of business representatives and advisers to advise it on ways of reducing the burden of regulation on Queensland business.

4.18 In South Australia the Centre for Innovation, Business and Manufacturing (CIBM), with a staff of fourteen, is the main provider of small business services. CIBM staff provide information, government licensing and regulatory help and business advice and referrals. Specialist advice is provided to businesses in selected industries including assistance with enterprise development, export and business growth. Enterprise improvement workshops, special grant assistance for various initiatives including export development and assistance with mentoring and coaching are also provided. A Business Owners Coaching program provides networking support and mentoring assistance for 155 participants. The state government also provides support for BECs and works with local government, BECs, Regional Development Boards and local business associations to provide support networks for local business. The Small Business Government Network in South Australia includes representatives of local, state and Commonwealth government to coordinate activities and assistance to small business and identify opportunities for more effective assistance.

4.19 A small business owner in Sydney described some of the ‘fantastic programs offered through the NSW Department of State and Regional Development’:

Not many people know that they exist, which is part of the problem... These cover all aspects from growing your business to how to implement IT into your business more effectively. I find that really helpful. Also, the other good program was the Women in Business Mentor Program... As a mentor, I have been through the program twice and have seen the benefits of it. I particularly come across women in business a lot. They have no idea about this amazing resource that is offered by the government. Part of it is getting the promotion out there. I do not know how to do it, but I think you have to let people know that the resources are there.¹²

4.20 As noted, all states and territories have introduced Business Licence Information Services, to provide streamlined access to the licences or approvals required to start a business or enter a new market. The Business Licence Information services, which have received Commonwealth funding support, have been developed to various degrees of sophistication.

Business Enterprise Centres

4.21 The independent, community-based Business Enterprise Centres are an important part of the framework for delivery of government sponsored support for small business in Australia. The 136 BECs have governing boards usually comprising local business people, government and community representatives.¹³ They are responsible for raising their own funds and most rely on a combination of grants from

12 Ms Amy Lyden, *Hansard*, Roundtable, Sydney, 15 August 2002, p. 684

13 Submission No. 72, Business Enterprise Centres Australia, p. 1

state and local government with support from the local business community, as well as earned income, from fee-for-service programs and government or business contracts. BECs in Queensland and Victoria are not funded by the state governments, which instead fund their own agencies to provide business advisory services. BECs commonly offer advisory services and one-on-one counselling to ‘business intenders’, provide resources and information on business related products and services, and a range of services such as referral and advice, seminars, workshops and counselling. A number are also active in promoting the development of business networks and the broader local business community. The exact range of services provided by each BEC varies, depending on the priorities of the BEC board and management, local demand and the level of resources. Across Australia BECs receive approximately \$10 million annually from state governments, averaging \$50–75,000 for each BEC.¹⁴

4.22 Because BECs operate in every state and territory they effectively comprise a national network of small business service providers. BEC Australia (BECA) argues that the Commonwealth should make greater use of the BEC network for both policy development and program delivery, in view of its significant ‘reach’ and links to the small business community and capacity to provide a national perspective. The BECA estimates that the network, with 260,000 client contacts per year, and databases or records for 300,000 small businesses, is the largest provider of small business programs and services to the small and micro-business sector.¹⁵

Local government programs

4.23 A number of local governments are becoming active in fostering economic development. Witnesses gave a range of examples of local government business support initiatives:

- the Southwest Councils near Perth, Western Australia, have established a program, Industry Direct, that provides an online register of the capabilities of businesses in their jurisdiction, as a means of promoting investment and facilitating collaboration and contracts with major contractors in a new marine complex;
- 40–50 professional staff are employed by councils in South Australia with a particular focus on economic development or tourism development;¹⁶
- economic development officers in the Gold Coast City councils assist local businesses and industry associations by pointing them to Commonwealth and state assistance programs that may be suitable;¹⁷

14 Mr Colin O’Brien, Business Enterprise Centres Australia, *Hansard*, Melbourne, 24 July 2002, p. 273

15 Business Enterprise Centres Australia, *Capability Statement, 2001*; Submission No. 72, op. cit., pp. 1–2

16 Submission No. 90, Local Government Association of South Australia, p. 5

17 Submission No. 86, Gold Coast City Councils, p. 5

- a number of local councils in South Australia have introduced ‘business charters’ or commitments to services for business;¹⁸ and
- local councils may contribute to regional development organisations or business enterprise centres providing business advice and education services.

4.24 There is clearly some ambivalence within the business and broader community about the scope for local councils to be a focal point or conduit for government assistance to small business. This appears to be partly a reflection of the enormous variation in resources and capacities across local government. The submission from the Ipswich Area Consultative Committee argued strongly against any increased role for local government in providing services to small business, largely because of the limited resources of many councils outside major metropolitan areas.¹⁹ In contrast, a witness from the International Womens’ Business network saw local councils as the natural point of grass roots communication with business.²⁰ A witness from the BEC argued that local governments should not provide business advisory services, such as those provided by the BECs, but focus their support on more general economic development.

4.25 The remainder of this chapter discusses the issues raised during the inquiry about the current arrangements for government support for small business. The committee would also like to flag its own concern that, despite the current investment from all levels of government in small business assistance, many small business people that it consulted appeared to be either unaware of the current programs or do not see them as providing tangible benefits. When the committee asked small business people to identify government programs or services that had made a difference to them, there was little positive response. The exchange below during a roundtable in Western Australia is indicative of the general response:

Senator MURRAY—Is there nothing that anyone has built or done—any policy, program or money given to you—that has made your lives better?²¹

...

Mrs Nowotny Ford—I did think of a good thing that has affected us all. Through the Area Consultative Committee and what was DEWRSB, we got funding for the HMAS *Perth* to be sunk in Albany. It took me a while, but I did think of something.²²

4.26 If nothing else, this response illustrates the difficulties inherent in providing programs and services to meet the needs of more than one million small businesses scattered across Australia. In the committee’s view it also suggests the need for more

18 Submission No. 90, op. cit., p. 4

19 Submission No. 85, Ipswich and Regional Area Consultative Committee, p. 2

20 Mrs Diana Abruzzi, Executive Chairman, International Business Women’s Network, *Hansard*, Roundtable, Melbourne, 25 July 2002, p. 369

21 *Hansard*, Roundtable, Albany, 18 July 2002, p. 163

22 *ibid.*, p. 164

effective information strategies and perhaps better ‘branding’ of small business programs and services as a means of promoting awareness. It may also be an indicator that the current suite of programs is not meeting the needs of a large segment of the small business community, particularly micro-business.

The need for national coordinated policy and program development

4.27 It is apparent that the framework for small business policy and program development is complex and fragmented with significant scope for overlap and duplication. Programs from all levels of governments have evolved in a piecemeal fashion, in an environment where the relative responsibilities of each level of government are not clearly defined, and without the benefit of a coherent, overriding policy framework or effective mechanisms and structures for coordination and leadership. The need for better coordination and a more coherent policy framework for small business assistance and a more informed approach to program development has been identified since at least 1997.²³

4.28 The Small Business Ministerial Council, established in 1998 and comprising the Commonwealth, state and territory ministers directly responsible for small business issues,²⁴ is the primary mechanism for promoting more coordination and a national approach. The charter of the Council, which meets annually, is to:

- provide a forum for Ministers to discuss small business issues of mutual interest;
- promote a national, consistent and coordinated approach to small business policy and development; and
- where appropriate, provide the means to achieve integration of action by governments on small business issues.²⁵

4.29 The Council is supported by a senior officials group comprising state and Commonwealth officials which, the committee was told, promotes further information exchange.²⁶ According to Commonwealth officials, the Commonwealth takes account of the various state support programs for small business when developing its industry assistance programs and ‘overwhelmingly the programs that are introduced in any one year complement or fill a gap in relation to the other offerings in that area’.²⁷

23 Productivity Commission, *Design Principles for Small Business Programs and Regulation*, Staff Research Paper, 21 August 1998, p. 1

24 Office of Small Business, at departmental website

25 Office of Small Business, at departmental website

26 Mr Antony Brugger, Acting General Manager, Office of Small Business, *Hansard*, Canberra, 8 October 2002, p. 917

27 Mr Drew Clarke, Executive General Manager, Department of Industry, Tourism and Resources, *Hansard*, Canberra, 8 October 2002, p. 916

4.30 However, the weight of evidence to the inquiry suggested that effective coordination and integration is still far from being realised. The committee heard many examples of inconsistency and lack of integration of small business programs. The Ipswich Region Area Consultative Committee (IRACC) explained that many small business development support projects require a ‘cocktail of funding’ from the different levels of government, but this is difficult to achieve when there is ‘no alignment of processes or synergies in guidelines’. The IRACC recommended a whole-of-government approach to assistance to overcome this problem.²⁸

4.31 A witness from an Area Consultative Committee (ACC) advised the committee that, while ACCs have a brief of providing a whole-of-government service to small business, they are ‘trying to do that almost at the bottom end of the scale’. There appears to be a need for more coordination at the Commonwealth level as well as between the different tiers of government:

It is not particularly useful for us to try to bring programs together if, at the departmental level, when programs are being developed, departments are not talking to each other or there are overlapping issues. We find that a real issue.²⁹

4.32 The Canberra Business Council described the current arrangements for incubator support as requiring labour-intensive negotiation:

The logical and efficient way to do it would be for the state or territory governments to say, ‘We will support the acquisition of property,’ or something like that, ‘for the purpose of business incubators,’ and for the Commonwealth to say, ‘We will provide you with some start-up funding for business incubators...It seems illogical to negotiate on an individual basis.’³⁰

4.33 A recent report on Australian entrepreneurship found that government programs for small and medium business lack an overall framework and that it is not clear how they fit together, or indeed if they do, the long-term objectives and how success is to be measured. Programs are often considered misdirected and based on a lack of misunderstanding of the entrepreneurial process and the needs of the sector, and to be motivated by a wish to be seen to be doing something rather than responding to a genuine need in an effective way.³¹ The report’s key messages were that well-designed government programs, developed in consultation with stakeholders, have a positive impact on entrepreneurial activity but that a lack of a long-term vision

28 Submission No. 85, op. cit., p. 2

29 Mr John Macdonald, op. cit., p. 254

30 Mr Ian Davis, Deputy Chair, Canberra Business Council, *Hansard*, Canberra, 6 August 2002, p. 478

31 K. Hindle and S. Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p. 27

or framework diminishes the effectiveness of programs and impedes learning from experience.³²

4.34 In response to questions about the extent and adequacy of coordination, the officials responsible for small business issues at the Commonwealth level told the committee that:

...it is extensive and improving. As to whether or not it is adequate, there are always going to be issues where consultation will not be sufficient but, by and large, we have a very significant degree of interaction with our state colleagues in particular, particularly on issue based matters. Just last week the state-Commonwealth body which looks at retail tenancy issues met. So on a specific issues basis it is very good. With the Small Business Ministerial Council over the top there is an overview approach as well. More could be done, but more could almost always be done on all consultation.³³

4.35 The Canberra Business Council proposed that the Commonwealth take the lead in promoting a more consistent national approach by assuming greater responsibility for small business, rather than leaving it largely to states and territories, 'to the disadvantage of the smaller and lower resourced states and territories.'³⁴ Under this arrangement, the Commonwealth would provide the leadership for the development of a coordinated national approach:

There is always an enormous amount of dispute or friction between the states and territories on the one hand and the Commonwealth on the other as to what areas of small business each is responsible for. I think there would be an enormous benefit if there was some sort of protocol between the governments to identify what general areas of responsibility within the small business sector each had. I know this has been discussed because I have read the communiques from the Commonwealth-state small business ministers' meeting. This was discussed in a very loose way at that meeting but there has been no decision made to identify the areas of responsibility.³⁵

4.36 A similar, but even stronger, view was presented by the national association for Business Enterprise Centres (BECs) which advocates that the Office of Small Business play a proactive role in coordinating and managing a consistent national strategy for small business assistance and improving employment understanding for small business.³⁶ Witnesses from the BEC suggested that Australia could learn from the approach taken in the United Kingdom and the United States where there is a more consistent and coordinated approach. The committee was told that the US Federal

32 *ibid.*

33 Mr Antony Brugger, *op. cit.*, pp. 917-18

34 Mr Craig Sloan, Vice Chairman, Canberra Business Council, *Hansard*, Canberra, 6 August 2002, pp.473-74

35 Mr Ian Davis, *op. cit.*, p. 477

36 Submission No. 72, Business Enterprise Centres Australia, p. 3

government funds a lead agency in each state and that agency in turn funds grass roots community-based Small Business Development Centres to deliver small business support. They suggested that Australia could adopt a similar approach by the Commonwealth funding the network of BECs to become the primary delivery point for Commonwealth government assistance to small business, and establishing a national set of standards for service delivery. BECs could then become the Commonwealth's main avenue of reaching small businesses that do not belong to industry associations.³⁷

4.37 The Australian National Training Authority (ANTA) also identified the need for training for small business, including that provided through the Vocational Education and Training (VET) sector, to be better integrated with other government-funded business support programs. In its view, a whole-of-government approach to business support should include government-funded training programs, whether offered through BECs or other agencies, or the VET sector.³⁸

4.38 Improved coordination at the highest level is likely to result in more informed policy and program development, with better information sharing across agencies and jurisdictions on program effectiveness, best practice and areas of unmet need. While the committee heard many examples of excellent working relationships and collaboration across agencies and tiers of government, the absence of formal relationships and structures restricts information sharing and genuine collaboration.

4.39 BEC representatives told the committee that, while they participate in the Small Business Minister's Forum, there is no formal mechanism for them to provide feedback on small business needs or other issues to Commonwealth agencies.³⁹ A representative of an Area Consultative Committee (ACC) advised the committee that it is not necessarily consulted on changes to the Small Business Assistance programs funded by the Department of Industry, Tourism and Resources. There appear to be few if any mechanisms for including local government in consultation on policies and programs at the broadest level. Western Australia's Small Business Development Corporation has developed an online clearing house for information on small business program initiatives across all state, territory and Commonwealth jurisdictions.⁴⁰ While this is a laudable initiative, a more formalised approach to information sharing, ideally under the umbrella of the Small Business Ministers Council would be preferable.

Comment

4.40 While the Small Business Minister's Council and related officials groupings have led to improved coordination of Commonwealth and state and territory policies and programs, there is a need to go further and develop a national, integrated policy and program framework for small business support. A framework of this kind offers

37 *ibid.*, pp. 1–2

38 Submission No. 84, Australian National Training Authority (ANTA), p. 13

39 Mr Colin O'Brien, *op. cit.*, pp. 268–69

40 Submission No. 47, Small Business Development Corporation of Western Australia, p. 13

better prospects for developing more flexible, customer-focussed programs and new and improved approaches for maximising the small firm contribution to economic and social well-being as recommended by the OECD. The framework should be underpinned by a thorough needs analysis and a mapping and evaluation of the complete suite of Commonwealth, state and local government support programs as the foundation for small business support strategy. The small business sector and all elements of the small business network should be consulted in development of the framework.

Recommendation Five

The committee recommends that the Small Business Ministers Council develops a national framework for small business support, with each tier of government having agreed areas of responsibility and more formalised information sharing arrangements. Within the framework, the Council should develop a national strategy with identified priorities for small business assistance based on a thorough needs analysis and evaluation of the effectiveness of current programs.

Program delivery, including information strategies

4.41 There is also a need for more coordinated approaches to program delivery and marketing. Many witnesses explained that the enormous number of different programs and products, the range of agencies involved at all levels and the constant changes, creates confusion and limits awareness of available programs and services. Few small businesses have the time to work through the maze of information and options to select the most appropriate program or source of information. A small business adviser told the Committee that:

It is frustrating for me to know that there are a myriad of good programs that can assist my readers in developing their business, but most of the time they simply do not know that they exist.⁴¹

4.42 Even industry associations find it difficult to ensure that they are across the range of services and can point members to appropriate programs and services, because ‘there are so many people dealing with so many different issues; we are not aware of them all, so it is very hard for us to let our membership know where they can go for more assistance.’⁴² An academic working with small business on development projects in Western Australia also identified this as a major problem:

...there are frequently too many agencies seeking to ‘assist’ small to medium enterprises. Individually they are excellent in what they do, but

41 Ms Clare Loewenthal, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 638

42 Mrs Su McCluskey, General Manager Policy, National Farmers’ Federation, *Hansard*, Canberra, 6 August, p. 505

they do not always coordinate well with each other. This is particularly noticeable at a regional level.⁴³

4.43 A similar point was made by the Western Australian Business Enterprise Centres, which stated that:

The reality of how the three tiers of government frequently work at a regional level is unnecessary duplication of services, and often encumbered by divided political loyalties and aspirations...For example, small business development, planning and support services within regional WA are provided by a variety of local, state and federal government agencies including: the BEC network, WA Department of Agriculture, Federal Small Business Assistance Officers, ATSIC Aboriginal corporations, WA Department of Industry and Technology, Regional Development Commissions, the Telecentre network, Regional Transaction Centres and contracted private sector Consultants. Although each agency is dedicated and competent the impression made on many small business owner-managers is that of a confusing array of bureaucratic entities each with various missions and responsibilities that are largely unknown.⁴⁴

4.44 More coordinated service delivery can be achieved either by rationalising the number of agencies involved or through 'one-stop shop' approaches that bring all services from different agencies together at a single delivery point. Calls for rationalisation arise mainly in relation to regional areas which are host to a broad range of Commonwealth and state government agencies. The Adelaide Hills Regional Development Board (AHRD) submitted that there are significant opportunities for rationalisation of the (state-based) Regional Development Boards and the ACCs in South Australia to reduce administrative overheads. The AHRD argued that the Small Business Assistance Officer program duplicates the functions of regional development boards resulting in 'business confusion, and communication and coordination issues'.⁴⁵ It suggests that the Commonwealth should provide more resources to regional development boards to extend their existing business facilitation services instead of funding additional advisory services.⁴⁶ The committee notes that the new Small Business Answers Program will minimise the risk of duplication by focusing on areas lacking adequate advisory services, particularly in regional areas.⁴⁷ However this approach, while from one perspective an efficient use of resources, can perpetuate and even exaggerate the current complex patchwork of service delivery arrangements.

4.45 A representative from a Hunter regional development association argued the case against rationalisation of agencies. In his view, a multiplicity of organisations

43 Dr Timothy Mazzarol, Chairman, Centre for Regional Innovation and Enterprise, *Hansard*, Albany, 18 July 2002, pp. 96–97

44 Submission No. 40, Western Australia BEC Managers, p. 5

45 Submission No. 95, Adelaide Hills Regional Development Board, p. 4

46 *ibid.*, pp. 4–5

47 Mr Antony Brugger, *op. cit.* p. 917

provides an opportunity for specialisation and for people to ‘come together to give their energy, enthusiasm and skills to the particular set of issues in front of them’, while a rationalisation would result in a reduction of the total quantum and quality of effort invested.⁴⁸ Other witnesses expressed similar concerns about the reduced capacity to meet specific needs that would follow any rationalisation. The committee notes that questions or potential questions of overlap and complementarity in regional business development are part of the terms of reference of the regional business development analysis currently in progress.⁴⁹

4.46 Many witnesses supported the need for a whole-of-government approach to small business program delivery. It is not clear whether this simply entails all service providers being able to act as information brokers on all the available support options, as occurs with the Small Business Assistance Officer program and will occur with its successor, the Small Business Answers Program, or whether a different organisational approach is needed. The Small Business Assistance Officers program is seen as providing a form of whole-of-government service delivery, as explained by a Department of Industry, Tourism and Resources representative:

...there is an individual who understands the maze and who can cut through it and say to the company, ‘These are the three programs that might be relevant to you; I will set up the introductions,’ or, ‘I will track it down myself and advise you.’ That is one of the things that the SBAOs have proven quite effective in doing.⁵⁰

An Area Consultative Committee officer confirmed:

we do not necessarily eradicate some of the other levels of government, but actually take the lead role in working them together.⁵¹

4.47 Several witnesses suggested that a ‘one-stop shop’ was the best means of helping small business to obtain information on relevant government programs or services as well as on government regulatory and other requirements.⁵² A participant at the roundtable in Albany proposed a model of ‘G shops’ or government one-stop shopfronts across the country in regional areas to provide a first point of contact with government.⁵³

4.48 While there was broad acceptance of the merits of a one-stop shop approach, a number of witnesses were cautious about how easy it would be to achieve in practice. The representative of the Melbourne Development Board considered that the

48 Dr Allan Pattison, Chair, Hunter Economic Development Board, *Hansard*, Sydney, 15 August 2002, p. 655

49 Mr Antony Brugger, *op. cit.*, p. 917

50 Mr Drew Clarke, *op. cit.*, p. 916

51 Ms Cindy Ford, *op. cit.*, p. 763

52 Mr Keith Rice, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 453

53 Mrs Beverley Nowotny Ford, *Hansard*, Roundtable, Albany, 18 July 2002, p. 160

proposal has potential, but that it would need to be sensitively implemented through an inclusive approach, drawing on the genuine cooperation and support of the different tiers of government and the agencies concerned. Careful consideration would also need to be given to the appropriate locations and ‘host organisation’ on a case by case basis:

You do not necessarily need them everywhere but, by the same token, you would not solve the problem by just putting one in Sydney, one in Melbourne or one in Perth or wherever. Businesses need access points on a regional basis. I am not saying that you would solve the problem by simply having small business assistance offices with every ACC, because many small business operators do not know about an ACC or where they might find an ACC. I think you need a flexible arrangement that looks at the appropriate delivery points in a particular region. In a regional centre, the most appropriate point might be the council or the local government authority. If the council or the economic development people in that particular area are proactive and are known to be the best reference point, that is where businesspeople will go. So I believe you need a multi-tiered approach, but that will require a long-term commitment and it will certainly come at much more expense than a bunch of web sites.⁵⁴

4.49 Commonwealth agencies were cautious and even sceptical about the need for and merits of a one-stop shop. They commented that, while there may be 10 or so agencies provide support for businesses in regional Australia, a number of these are co-located, reducing the number of actual points of contact. Agencies also attempt to keep abreast of other each other’s programs so that they can refer businesses onto other agencies if needed.⁵⁵ Privacy concerns, particularly relating to tax affairs, may also deter some business people from using one-stop shops.⁵⁶

4.50 Existing state and territory one-stop shops could be possible models for one-stop shops with a more national focus. In addition any, one stop shops focused on business would need to include consideration of their role relative existing state or territory government one-stop shops that may have a focus wider than business.

4.51 The committee was also told that the ‘one-stop shop’ approach should have several dimensions:

- a central phone line—small businesses need to be able to look up a phone book under small business and find a direct contact to answer their questions or direct them quickly to the appropriate person or agency;⁵⁷

54 Mr John Macdonald, op. cit. p. 255

55 Mr Antony Brugger, op. cit. p. 913

56 *ibid.*, pp. 920–21

57 Ms Judith Hartcher, Business Policy Adviser, CPA Australia, *Hansard*, Melbourne, 24 July 2002, p. 210

- an internet site—for a better integration of information from different portfolios and across the three levels of government. Ideally this should be interactive to some degree so that business can define their needs and interests and obtain relevant information, as occurs with the business licensing program. CPA Australia proposed a ‘virtual small business department’ that can provide responses to frequently asked questions and feedback to the small business community about the total range of programs;⁵⁸ and
- an outreach advisory program—to provide one-on-one advice and information along the lines of the Small Business Assistance program and its successor. The Office of Small Business stated that small businesses with no previous contact with government prefer their first contact to be through a site visit.⁵⁹

4.52 The Business Entry Point was introduced following the government’s response to the Bell Task Force to provide a centralised point of information on all government business programs and regulatory requirements. However, a common theme throughout the inquiry was that, while this is a useful service, an internet based information point is not sufficient to meet the needs of the diverse small business community. In part, this is because many businesses do not have the time or inclination to search for information, meaning information strategies need to reach out to small business in a more active way:

There is no point putting up policies and programs and waiting for business to access them. We have to take them out there one on one. We have to knock on doors and find out their issues. We do what we call a business analysis process where we go out, knock on doors and meet and greet, but we then analyse where they are at with their business—are they happy; are they comfortable; do they have a good turnover et cetera. Once you analyse that business, you can then start to map out where the assistance is need.⁶⁰

4.53 In addition, many small businesses do not use the internet⁶¹ and those that do, often lack the time and expertise to search for the right information. They may also not know the right question to ‘ask’ in terms of information searches, because they do not know what is available. The relatively lonely and isolated nature of their work also means that many prefer a more personal approach than the internet can provide. Businesses located on the wrong side of the so-called ‘digital divide’, usually in regional areas with inadequate bandwidth, may also find the internet inaccessible for all practical purposes. Internet-based information is often not presented in an intuitive format or from the perspective of the small business client. This limits its value for small business, although it can be a very useful resource for small business advisers and service providers. A Small Business Assistance Officer told the committee that:

58 CPA Australia, Additional information.

59 Mr Antony Brugger, *op. cit.*, p. 914

60 Ms Cindy Ford, *op. cit.*, p. 760

61 Ms Judith Hartcher, *op. cit.*, p. 201

I do not get too many phone calls from people saying, 'I am very good at using the Internet. I am not having any problems. Please don't come and see me.' I use the various portals for business information and I tend to work as a bit of a translator or broker for many businesses. A fairly big chunk of my work is doing research on the Internet and picking bits out for people to go into, because some of the sites are unwieldy to say the least.⁶²

4.54 More interactive support, such as an online questionnaire to allow business to define its needs, would increase the value of internet based one stop shops. E-mail access to business advisers would be a useful component of such a program:

It seems to me that a core resource which is really lacking at the moment is this online resource that provides the stream, if you like, to put people in touch with all of the other facilities.⁶³

4.55 The Office of Small Business advised that it is using a syndication approach to attempt to address the need for internet-based information to be filtered or packaged for small business. Under the syndication program, government information is packaged around businesses or business cycles and is delivered online to intermediaries, such as accountants, banks and some peak bodies. While this appears to be a useful development it would not appear, on the face of it, to address the need for information obtained through the Business Entry Point to be available in a more user-friendly, interactive way.

Comment

4.56 The need for more coordinated service delivery and information provision for small business is compelling. A range of different approaches have been trialed or proposed, and many of these have merit. The Business Entry Point or some variation is clearly part of the solution and is a particularly useful resource for small business advisers and for those businesses with the necessary time, expertise, inclination and bandwidth. The committee is convinced of the need for some form of one-stop shop in regional areas as a supplement to the Business Entry Point and Small Business Assistance program. The large number of Commonwealth government access points across Australia suggests that it may be feasible to provide a dispersed network of such 'Business Entry Point' shopfronts using existing resources. The committee is aware of the complexities and difficulties with such an approach and considers that some of these could be explored through a pilot of the concept in several locations across Australia, to be evaluated after 18 months.

4.57 More coordinated service delivery arrangements need to include consideration of the role of Business Enterprise centres and industry organisations, as well as government agencies or entities such as the Area Consultative Committees. The Commonwealth government should host an annual meeting of the various government

62 Mr Fred Marchant, Small Business Assistance Officer, Far North Queensland Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 746

63 Mr David Bainbridge, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 628

or government-funded agencies involved in providing small business support to discuss program delivery and effectiveness issues.

4.58 There is also a need to formalise relationships with members of the small business network, including accountants, so that they are included in the information distribution arrangements for business support programs. The committee notes the syndication approach to information delivery being introduced by the Commonwealth and suggests that this be evaluated after 12 months operation, in consultation with the small business network.

4.59 Assistance available through the Business Entry Point also needs to be more user-friendly; for example, by providing an interactive service which allows business to define their needs and circumstances and in response compiles a list of relevant programs from all levels of government, which might assist them. The committee believes that the Commonwealth government should examine the feasibility of developing the Virtual Small Business department as proposed by CPA Australia with more interactive support and clearer simpler information delivery.

4.60 In the longer term, a national, more unified approach to information and program delivery, with a clear 'brand' will be needed to overcome some of the current confusion and to promote greater awareness of, and access to, available services and programs. A possible model of effective branding is the 'FarmBis Program', which aims to develop the business management skills of the agricultural industry. Farmbis has both a national and a Commonwealth/state component and is an example of where Commonwealth and state governments have worked together to provide and deliver a clearly branded suite of services to meet the needs of a sector.

Recommendation Six

The committee recommends that the Commonwealth Government examines the feasibility of developing a virtual small business department with more interactive support and clearer, simpler information delivery.

Recommendation Seven

The committee recommends that the Small Business Ministers Council undertakes a pilot project to trial the feasibility of introducing one-stop shops of government information and assistance for small business, with an evaluation of the project to be conducted after the first year.

Recommendation Eight

The committee recommends that the Small Business Ministers Council develops a national small business support program, incorporating Commonwealth and state and territory programs, within the context of a national framework with a clear and distinctive national brand.

Consultation

4.61 Consultation with the small business sector is necessary to ensure that policies and programs reflect their needs and circumstances, and that the sector is informed and aware of available policies and programs. The Commonwealth and all state and territory governments and some local governments have a range of consultative arrangements but there were many criticisms that consultation is still inadequate.

4.62 The two main consultative mechanisms at the Commonwealth level are:

- the National Small Business Forum, in which representatives of thirty-four peak industry and professional associations representing small business meet, once or twice annually, with representatives of the Government, usually including the Minister for Small Business and officials from the Office of Small Business, to exchange information and views on small business issues; and
- the Small Business Consultative Committee, comprising four small business people as well as a number of accountants and taxation advisers or specialists. The Committee was initially established to provide advice to government on matters related to the New Tax System but since mid-2001 has had a broader charter of advising the government on issues affecting small business as well as possible solutions to compliance concerns.

4.63 Government agencies such as the Australian Taxation Office may also have their own consultative arrangements, based on either a formal, ongoing consultative committee or mailing lists of associations and individuals to be consulted as the need arises. The Small Business Minister's Council has endorsed guidelines for government on consultation with small business particularly on regulation change, and the Office of Small Business can offer advice and assistance to other agencies on strategies and contacts if necessary.

4.64 State and territory governments also have consultative arrangements, usually based on a committee or council of small business people who meet regularly with the relevant ministers to address issues of concern. These may be supplemented by other meetings or mechanisms such as taskforces or networks of small businesses and open meetings on specific issues.

4.65 Effective consultation with a sector as diverse and fragmented as the small business sector is a particular challenge. This is complicated by a low level of participation in industry or other associations: it is estimated that more than 70 per cent of small business do not belong to any industry association or similar interest group.⁶⁴ In addition, while many industry associations claim to represent small businesses, they generally also represent larger businesses in their industry, which may have different interests and concerns. Large businesses may also have a disproportionate influence within an industry association because of their capacity to

64 Submission No. 72, *op. cit.*, pp. 1–2

make larger financial contributions and provide advice or arguments drawing on internal policy or research resources.

4.66 Small business-specific organisations can also represent the interests of small business. Australian examples include the Council of Small Business Associations (a peak body of small business organisations, industry groups and individual firms), the Small Business Coalition of the Australian Chamber of Commerce and Industry, the Micro Business Network, the Home-Based Business Association and the National Federation of Independent Business. Family Business Australia also claims to represent some of the small business community although its membership also includes medium and larger family businesses. Despite the range of organisations, their total coverage of the sector is still relatively small. In addition, and perhaps as a consequence, they appear to have limited administrative and professional or research resources and this undoubtedly limits their capacity to argue their case to government and act as a conduit between business and government. One result, according to a witness at a roundtable discussion in Melbourne, is that governments ‘become seduced by big business’ because of its greater capacity to put a well-researched and well-reasoned case. Small business, lacking access to the professional advice of larger business organisations, tends to present more emotional arguments:

Small business is usually represented by small associations that spend a lot of time trying to remain in existence and cannot quite fund their way through to these things. So, if ever small business is going to be better represented, someone needs to look at how it is funded.⁶⁵

4.67 Information on small business needs and circumstances can also be provided by the small business ‘networks’ of service providers and advisers. These include government agencies and non-government or community organisations, such as the ACCs and BECs that work closely with small business in their regions. Accountants are also recognised as another important source of information and can provide a useful conduit between government and small business, particularly those small businesses that are not members of any association. The Commonwealth government has identified the need to work more closely with these intermediaries to channel information to the small business community. The committee would urge all state governments that have not done so to also work closely with the small business network in terms of seeking and providing information.

4.68 While there were many calls for more effective consultation between government and small business during the inquiry, there was little unanimity on appropriate solutions. Suggestions included:

- making membership of either an industry association or chamber of commerce compulsory so that there is a potential information conduit between government and each small business in Australia;

65 Mr Alan Giles, *Hansard*, Roundtable, Melbourne, 25 July 2002, pp. 371–72

- government support for small business organisations particularly those representing micro-business and home-based business;⁶⁶
- government working more closely with organisations such as industry associations, accountancy bodies, Business Enterprise Centres and Area Consultative Committees—and in some cases providing financial support for those organisations—to better utilise their capacity to act as a conduit between business and government;
- the establishment, at the Commonwealth level, of a Small Business Advisory Council to provide advice to government on a range of small business issues;⁶⁷
- greater support for local councils to increase their capacity to work more effectively with businesses in their local areas in advising them of the full range of available assistance;⁶⁸ and
- formalising the relationship between government and the business network, particularly in relation to regulation.⁶⁹

Comment

4.69 There is a clear message that small business considers that its ‘voice is not yet heard’ or its interests sufficiently represented to government as a whole. Governments need to find ways to encourage small business, particularly home-based business, to join organisations or associations that can represent them and act as a conduit between the sector and government. They also need to continue to find innovative and effective ways to use the small business network to reach small business. However measures that would mandate membership of an organisation, or provide continuing financial support to industry organisations representing small business are problematic. In particular, there is no way of being certain that businesses would derive an appropriate benefit from their membership fees or from any government support.

4.70 There appear to be two main aspects to the need for a stronger voice for small business. First, there is a role for an organisation or entity that could represent the interests of individual small businesses in their dealings with government and big business, in an advocacy or ombudsman-type role. Second, there appears to be a need for a permanent body, such as an advisory council, with a level of resources that enables it to effectively represent the interests of the sector on broad policy issues. The committee considers that the current consultative arrangements, while valuable, do not meet these needs and that the Small Business Minister’s Council should

66 Mr Murray Geddes, Home-Based Business of the ACT, *Hansard*, Canberra, 6 August 2002, pp. 524–25

67 Mr Peter Fitzpatrick, Motor Trades Association of Western Australia, *Hansard*, Perth, 17 July 2002, p. 4

68 Mrs Diana Abruzzi, *op. cit.*, p. 369

69 Mrs Su McCluskey, *op. cit.*, p. 504

consider options along these lines to improve the capacity of small business to put its case to government.

Recommendation Nine

The committee recommends that the Small Business Ministers Council considers options to improve the capacity of small business to put its case to government and for individual small businesses to have improved representation in their dealings with government and big business.

Program design

4.71 While concerns about the broader framework of small business assistance dominated the inquiry, some more specific criticisms of small business or industry assistance programs were also raised. In general, there was insufficient evidence on particular points for the committee to form any specific conclusions.

4.72 The key Commonwealth assistance programs of the Small Business Enterprise Cultures Program and the Regional Assistance Program are based on a competitive grants model under which organisations bid for funding to undertake projects to develop the skills or capacity of local businesses. These can include mentoring projects, networking programs or a range of other strategies designed to support the development of individual businesses or the business community as a whole. The emphasis is on one-off projects, including demonstration projects, that will be either self-supporting in the longer-term or enable access to other, longer-term sources of funding. The benefits of this approach, in terms of providing a catalyst for experimentation and new approaches, as well as meeting a wide variety of needs, is apparent, but there are also a number of limitations. Advice to the committee is that there is no clear mechanism to disseminate the benefits or findings from projects across the range of agencies involved in small business assistance or even within the one tier of government or from one Area Consultative Committee to another.⁷⁰

4.73 Lack of continuity of Commonwealth funding for successful models was also raised as a problem. The manager of the Eastern Suburbs Business Enterprise Centre explained it had pioneered an online business advice and referral service known as ‘Business Buddies’, which is successful in meeting an otherwise unmet need, but that the program may not be able to obtain further funding.⁷¹ This results in a proliferation of ‘one-off’ projects, which can be confusing for small business people and complicates the communication and marketing task. A witness from the Far North Area Consultative Committee told the committee that:

...the small business enterprise culture program...is a small program that I believe is an excellent model. However, because it is a grants based program, you do not have the continuity. One of the issues that we have in rural and remote Australia is people coming in and developing rapport only

70 Mr Paul Goodwin, *Hansard*, Roundtable, Sydney, 14 August 2002, p. 626

71 Mr David Baumgarten, *Hansard*, Roundtable, Sydney, 14 August 2002, pp. 627–28

to be gone six months later, then another person comes in that has been able to access that program and they are now saying, 'We're the funded small business enterprise culture program, and we're here to help you.' If you have this kind of pattern going on year after year, you have business people that cannot develop a long-term relationship with anybody who is able to offer them that assistance. So, while we think that is a great program, we think that there needs to be more of it and in a sustained way, not this one-off grant sort of model that you have got going.⁷²

4.74 The committee believes that these concerns are understandable and that the government should consider whether there needs to be more continuity and consistency of support, particularly for small business in regional areas. Development of a national, integrated support policy framework for small business might also ensure more continuity of programs, and allow for targeted ongoing or extra support to be provided.

4.75 The criteria and procedures for some of the Ausindustry and Regional Assistance Programs were criticised as being pitched too far above the average small business⁷³ (which by definition is likely to be a micro-business); with overly elaborate and time-consuming application processes. Decision processes for the Regional Solutions Program are said to be too lengthy (up to 12 months) with the decision-process lacking in transparency and feedback on reasons for lack of success.⁷⁴ While the committee heard similar comments from a range of witnesses or submitters, there was insufficient evidence for it to form a judgement on the issue. The criticisms may be an indicator that government is not drawing on the advice of all relevant parties in evaluating the appropriateness of programs. All elements of the small business network should be included in future consultations on program development or evaluation.

4.76 Current business support programs were also criticised as not meeting the diverse needs of small business. The Western Australian Business Enterprise Centres identified the need for more segmentation of programs, with different programs targeting micro-business, small business and medium businesses.⁷⁵ While the need for different programs may be intuitively appealing, the committee does not consider that there is a *prima facie* case for programs to be provided for each segment of the small business community. However, all programs need to be flexible enough to meet the diverse needs of all segments of small business, including home-based business. As a first step, government needs to develop a better understanding of some segments of the sector, such as micro-business, as recommended in Chapter 2.

72 Mr Tomas Vieira, Executive Officer, Far North Queensland Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 742

73 Mr Euan Miller, Executive Officer, Business Enterprise Centres SA Inc, *Hansard*, Adelaide, 10 October 2002, p. 952

74 Submission No. 90, Local Government Association of South Australia, pp. 7–8

75 Submission No. 40, *op. cit.*, p. 6

Level of funding and unmet needs

4.77 Some witnesses raised questions about the adequacy of the funding levels for current business support programs. A South Australian regional development organisation claimed that many current small business support programs (which may have included the RAP) are often under-resourced, with approval determined by the level of funding rather than the quality of applications.⁷⁶ There was also an argument for increased Commonwealth funding for small business from BECA. Contrasting Commonwealth funding for small business programs in Australia unfavourably with that provided by the UK and the USA, the BECA commented that:

In my view, we do not really do much to support small business here in Australia, particularly at a national level. We talk about it, but we do not actually support it.⁷⁷

4.78 The need for additional funding was not, however, a consistent or prominent message during the inquiry. Because small business benefits from a range of Commonwealth programs, other than those specifically targeting small business, such as those administered by Ausindustry, it is difficult to determine the total Commonwealth support for small business development. Information on total state and local government expenditure on small business is also not readily available. In those circumstances it is difficult to make any informed assessment about Australia's support for small business relative to that of other countries. That said, there is some evidence of under-resourcing, particularly in relation to business management support (discussed in more detail in Chapter 5). For example, the manager of a Business Enterprise Centre in Tasmania advised the Committee that he did not advertise to the small business community because he only had sufficient funds to service those who walked in the door.⁷⁸ The committee notes that the best approach to determining the appropriate level of funding is through a needs analysis and evaluation of existing services and programs as suggested in the previous section.

Finance

4.79 A number of submissions and witnesses identified the need for more government support for small business seeking access to finance. This is a particular issue for micro-business. The committee was told that many small businesses have difficulty obtaining funding for start-up, growth, working capital or large expenses. This was raised in a number of contexts:

- a witness from the Gulf Savannah regional organisation argued for incentives for small business, whether in the form of revolving loans or tax concessions;⁷⁹

76 Submission No. 95, op. cit., pp. 3–4

77 Mr Colin O'Brien, op. cit., p. 269

78 Mr Danny Keep, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 454

79 Ms Kathryn Sutcliffe, Chief Executive Officer, Gulf Savannah Development Inc, *Hansard*, Brisbane, 12 September 2002, p. 739

- the Albury–Wodonga Area Consultative Committee identified a lack of programs to assist micro-businesses needing finance to expand, but falling below the \$250,000 eligibility threshold for state government assistance;⁸⁰
- the Micro Business Network argued for the provision of a small start-up grant for small business, perhaps along the lines of the Higher Education Contribution Scheme (HECS), to be repaid as financially viable;⁸¹ a similar suggestion was made by a witness from an ACC in Queensland;⁸²
- many small businesses are said to have difficulties paying for trading stock and banks are reluctant to lend for such purposes;⁸³
- the Restaurant and Catering Association (RCA) stated that many restaurant businesses start out under-capitalised or need a capital injection at some stage within their first five years of operation. Lacking other finance options, restaurateurs often bring in a partner or draw down further funds on the mortgage of their own homes. These means of finance are both limited and problematic;⁸⁴
- the National Federation of Independent Business (Gold Coast) considered there should be an alternative to bank finance, particularly for those businesses whose landlords require that they spend large amounts on regular refitting in order to renew the lease. Banks currently require that most restaurateurs mortgage their homes for this form of finance;⁸⁵
- a participant in the Small Business Roundtable in Perth also argued for government support for financing for small business start-up, in view of the lack of support from most of the banking sector;⁸⁶ and
- a role for financial intermediaries was identified in Tasmania.⁸⁷

4.80 Governments can assist by acting as information brokers or intermediaries and an advocate for small business with the financial sector. The Great Southern Development Corporation suggested that state governments open negotiations with banks over relaxing criteria for security and financing of trading stock for small business.⁸⁸ Restaurant and Catering Australia stated that its members would value

80 Submission No. 44, Albury Wodonga Area Consultative Committee, pp. 3–4

81 Mrs Barbara Gabogreca, Managing Director, Micro Business Network, *Hansard*, Melbourne, 24 July 2002, p. 234

82 Ms Cindy Ford, *op. cit.*, pp. 752–53

83 Submission No. 24, Great Southern Development Corporation, p. 7

84 Submission No. 19, Restaurant and Catering Australia, p. 17

85 Mr Vincent Schofield, President, National Federation of Independent Business (Gold Coast), *Hansard*, Brisbane, 12 September 2002, pp. 730–31

86 Mr Louis Symes, *Hansard*, Roundtable, Perth, 19 July 2002, p. 182

87 Mr Richard Zawadski, *Hansard*, Roundtable, Launceston, 26 July 2002, p. 461

88 Submission No. 24, *op. cit.*, p. 7

information on investment pathways and options, and that investors need complementary advice on investment in small businesses in its industry.⁸⁹ Witnesses in Tasmania identified a need for financial intermediaries to match up investors and those seeking funds. The Canberra Business Council noted that the absorption of local financial institutions by major banks had resulted in a loss of knowledge among potential lenders of local business opportunities: the few small venture capital funds and other financing organisations that are locally based need assistance to help them match up with business seeking finance. The committee notes that the Australian Banking Association was invited to make a submission to the inquiry but declined, so it does not have the benefit of the banking sector's perspective on this issue.

4.81 Above all, there is a role for government to assist small business obtain finance on reasonable terms. This is an area where Australia lags behind other countries. An international entrepreneurial effectiveness scorecard ranked Australia 17 out of 25 countries in terms of availability of capital.⁹⁰ The study also found that access to early stage capital and patient capital, while improved, remains a problem for smaller businesses, with banks being highly conservative.⁹¹ In the United States, Small Business Administration provides a Small Business Loans program under which small businesses that cannot obtain financing in the private marketplace, but can demonstrate loan repayment capacity, can obtain a government guaranteed or insured bank loan. Loans of an average value of \$US225,000, up to a maximum of \$US500,000, are available for expansion of facilities, to purchase building equipment or materials or for working capital.⁹²

4.82 In Australia, the main general purpose Commonwealth program is the Pooled Development Fund, designed to increase the pool of equity funds available for growing small and medium enterprises by providing tax concessions for investors in venture capital funds targeting small and medium business.⁹³ Equity finance will, however, only meet the needs of a small proportion of the sector. It will not be attractive to the large group of small businesses that wish to retain the independence and control that comes with full ownership. It will also not be available to the greater majority of small businesses that, while viable and successful, are not growth-oriented or do not meet the other criteria for most venture capital lending.

Comment

4.83 Calls for additional financial aid for small and micro-business indicate that this is an area where the market is failing to adequately support small business. The committee considers that the government should examine the feasibility of a range of

89 Submission No. 19, op. cit., pp. 17–18

90 Hindle and Rushworth, *Global Entrepreneurship Monitor Australia 2001*, Yellow Pages, p. 42

91 *ibid.*, p. 2

92 See Catalogue of Federal Domestic Assistance, Small Business Administration website: www.cfda.gpv/public/viewprog.asp?progid=763

93 See Pooled Development Funds at: www.grantslink.gov.au/grants_finder/search_advanced_detail.cfm?selected=130

proposals to promote better access to affordable finance by small business, including negotiation with the banks, developing information brokerage services for small business, and introducing an income contingent loan arrangement along the lines of the HECS scheme. Unlike with HECS, a loan scheme for small business could be based on real interest rates provided they are at the lower end of the prevailing market rates.

Recommendation Ten

The committee recommends that the Commonwealth Government examines the feasibility of options to improve small business access to finance, including improved information on finance options and pathways and an income contingent loan scheme for small businesses modelled on Higher Education Contribution Scheme (HECS).

Indigenous small business

4.84 Governments are increasingly realising the potential of enterprise development to promote better employment and social outcomes for Indigenous people. The committee also heard from a witness from Far North Queensland that there is a growing interest in Indigenous communities in business formation: ‘We are certainly getting a lot busier in that area and they are expressing a lot of interest. In terms of existing businesses, there are very few. In terms of the real opportunity to move into business, it is very limited.’⁹⁴ ATSIIC advised that progress in Indigenous enterprise development is slow compared with that in other countries such as Canada, New Zealand and the United States.⁹⁵ On its estimates, based on the business development programs that it administers, there are at least 800 Indigenous small businesses in 2002. This compares with 20,000 such businesses in Canada, with the caveat that there is no information on the total number of Indigenous small businesses in Australia.⁹⁶

4.85 In ATSIIC’s view, the current array of Commonwealth and state and territory programs are not well known and do not meet the needs of Indigenous Australians. The committee commends the Small Business Ministers Council’s agreement for governments to consider adjustments to business support programs to better meet the needs of Indigenous communities.

4.86 ATSIIC highlighted the important contribution of its two programs designed to meet the specific needs of Indigenous people. These are the Business Development Program (BDP) designed to assist Indigenous Australians start new businesses, which ATSIIC administers, and the Indigenous Small Business Fund (ISBF), an element of

94 Mr Tomas Vieira, Executive Officer, Far North Queensland Area Consultative Committee, *Hansard*, Brisbane, 12 September 2002, p. 743

95 Submission No. 87, Aboriginal and Torres Strait Islanders Commission (ATSIIC), p. 2

96 *ibid.*, pp. 1–2

the Indigenous Employment Program (IEP), which ATSIC co-manages with the Department of Employment and Workplace Relations.

4.87 Some witnesses were critical of ATSIC programs, including the complexity of the documentation required and the 25 per cent equity required for a loan under the BDP.⁹⁷ ATSIC agreed that the equity requirement restricts access but noted that the program is based on commercial criteria.⁹⁸ One witness suggested there should be low-interest loans specifically for Indigenous people to address the shortage of finance:

We are hearing stories of Indigenous groups approaching overseas organisations who have set up these soft loan facilities. It is a disgrace: we have not yet got those sorts of programs up in our country and you have Indigenous groups looking overseas to get venture capital. It is not good enough.⁹⁹

4.88 The complexity of the regulatory environment is also said to be a major threat to Indigenous small business. In some cases, for example with the introduction of the GST, ATSIC developed information packages targeted to assist Indigenous business people.¹⁰⁰ The committee agrees with ATSIC that this should be the responsibility of the regulatory agencies that are funded for this purpose.

4.89 ATSIC advised that Indigenous people are less likely than other small business owners to affiliate with outside organisations, which isolates them from information and policy development processes. The committee notes ATSIC's proposal that an Indigenous Chamber of Commerce and Industry unit be established within the Australian Chamber of Commerce and Industry. It considers that there is a case for government financial support for the formation of an Indigenous small business association, as a means of improving communication between government and Indigenous small business, and fostering Indigenous enterprise development.

Comment

4.90 The committee agrees that enterprise development can be an important path to better economic, employment and social outcomes for Indigenous Australians and also notes the significant barriers they face in establishing and maintaining viable enterprises. Some of these barriers relate to broader infrastructure and other constraints in communities that lie outside the terms of reference of this inquiry. The limited evidence on Indigenous enterprise programs and the soft loan proposal makes it difficult for the committee to form any firm conclusions on these. One solution may be to target Indigenous small business requirements in the design of any income

97 Mr Tomas Vieira, op. cit., p. 744

98 Mr Philip Neal, Acting Program Manager, Aboriginal and Torres Strait Islanders Commission *Hansard*, Brisbane, 12 September 2002, p. 769

99 Mr Tomas Vieira, op. cit., p. 743

100 Submission No. 87, op. cit., para 1.6.5

contingent loan arrangement. The committee is persuaded by arguments that there should be greater recognition of the requirements of Indigenous Australians in mainstream small business programs, better information on regulatory change for Indigenous Australians, and that assistance should be provided for the formation of an Indigenous small business association.

Recommendation Eleven

The committee recommends that the Small Business Ministers Council considers the following initiatives to foster enterprise development in Indigenous communities:

- **financial and administrative support for an Indigenous small business association;**
- **consideration of ways of adjusting small business assistance programs to better meet the needs of Indigenous people; and**
- **the development, in conjunction with ATSIIC, of guidelines to assist Commonwealth and state and territory agencies proposing regulatory change to better accommodate the information needs of Indigenous entrepreneurs.**

The Committee also recommends that the Commonwealth discuss with ATSIIC the need for any special provision under the Small Business Answers program for advisers to work with Indigenous business people.