



# The G20 Agenda for Growth: Opportunities for SMEs Conference

Hosted by the Hon. Bruce Billson MP, Minister for Small Business  
and the Australian Chamber of Commerce and Industry



Friday, 20 June 2014  
Parliament House, Melbourne

REPORT & RECOMMENDATIONS



**Global Access Partners Pty Ltd**

ACN 000 731 420  
ABN 74 000 731 420

© 2014 Global Access Partners Pty Ltd,  
Writing Partners Pty Ltd

53 Balfour St, Chippendale  
Sydney NSW 2008  
AUSTRALIA

T +61 2 8303 2420  
F +61 2 9319 5754  
[www.globalaccesspartners.org](http://www.globalaccesspartners.org)

Global Access Partners Pty Ltd has no objection with this report being quoted, as long as it is recognised as the source and the quoted material remains unaltered.

Copies of this publication can be obtained by contacting (02) 8303 2420 or downloaded at <http://treasury.gov.au/Policy-Topics/Economy/G20/Events>.

**DISCLAIMER:** This Report represents a wide range of views and interests of the participating individuals and organisations. Statements made during discussions are the personal opinions of the speakers and do not necessarily reflect those of the organisers and sponsors of the Conference.

## INTRODUCTION

'The G20 Agenda for Growth: Opportunities for Small to Medium-Sized Enterprises (SMEs)' Conference was held on 20 June 2014 at the Legislative Assembly Chamber of Parliament House in Melbourne, Victoria. It was co-hosted by the Honourable Bruce Billson MP, Minister for Small Business, and the Australian Chamber of Commerce and Industry (ACCI) as part of the work programme of Australia's G20 Presidency.

Organised by the Australian Treasury and public policy think-tank Global Access Partners (GAP), the Conference was sponsored by ACCI, the Organisation for Economic Co-operation and Development (OECD), ANZ Bank and the Australian Bankers' Association.

The event brought together Australian and international thought leaders to focus on key challenges facing SMEs. Over two plenary sessions representatives from government, business and academia discussed reforms and strategies to increase productivity, opportunity and employment.

The Conference featured a keynote address by the Hon. Bruce Billson MP, Minister for Small Business.

Over 120 attendees heard speeches from the Hon. Michael O'Brien MP, the Hon. Russell Northe MP, Ms Kate Carnell AO, Mr Barry Sterland, Dr Sergio Arzeni, Mr Richard Goyder AO, Mr Phil O'Reilly and Ms Kate Gibson and raised a series of points, insights and requests in subsequent discussions. They called for further reductions in red tape, 'smarter' regulations across the whole of government, improved access to information and finance, fairer competition with larger companies, streamlined tendering procedures for government work and a new emphasis on entrepreneurship in the nation's schools.

Outcomes of the Conference were summarised in a communique issued to the B20 leaders and G20 Finance Deputies and Sherpas to inform their discussions of SME financing and government procurement policy.



## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b>	<b>6</b>
<b>KEY RECOMMENDATIONS</b>	<b>10</b>
<b>REPORT OF PROCEEDINGS</b>	
Welcome and Acknowledgement of Country	13
Introduction & Welcome	14
First Plenary Session "The Role of SMEs in Meeting the G20 Target of +2% Growth"	15
Lunch Session Keynote - The Hon. Bruce Billson MP, Minister for Small Business, Australian Government	34
Second Plenary Session "Enabling SME Growth"	43
References	58

## ATTACHMENTS

Conference Communique to the B20 leaders and  
G20 Finance Deputies and Sherpas

Conference Brochure

## EXECUTIVE SUMMARY

### I. Encouraging Growth

G20 nations dominate international trade and drive global economic policy. At their meeting in Sydney in February 2014, G20 Finance Ministers and Central Bank Governors pledged to boost growth by 2% above trend over the next five years, generating an additional \$2 trillion of economic activity and tens of millions of new jobs. The 2014 Australian presidency prioritises growth and economic resilience, and the encouragement of a vibrant SME sector is integral to these goals.

Australia, and all nations, must release the potential of the private sector to drive growth, improve productivity and lift living standards for all its citizens. The flexibility and dynamism of SMEs is an essential part of this strategy, and their success must be encouraged by prudent macroeconomic policy, investment in infrastructure, enhanced competition, trade liberalisation and the reduction of red tape and compliance burdens. The SME sector must be supported by better research, improved access to information and a renewed emphasis on the commercialisation of Australian innovation.

The Competition Policy Review<sup>1</sup>, announced by the Australian Prime Minister and the Minister for Small Business in December 2013, will identify impediments to enterprise, while the \$484.2 million Entrepreneurs' Infrastructure Programme<sup>2</sup> will link research to business for mutual gain. The Australian Government is scrutinising the financial, legislative and tax requirements faced by SMEs and removing or reforming those which act against the public interest.

Proportionate compliance costs can be 10 to 30 times greater for SMEs than larger firms. The OECD calculates that reducing the costs of red tape by 25% would increase growth by 1% — half the G20 target. The Australian Government has pledged to cut at least \$1 billion of red tape every year, deregulation units have been created in every department, and two parliamentary days each year will be dedicated to removing superfluous Acts and regulations. New digital reporting and information systems will cut costs, improve efficiency and reduce administrative burdens, while alternative sources of finance for SMEs will be encouraged and the effects of recent banking legislation monitored for their impact on business lending.

The Hon. Bruce Billson MP announced three new measures to help small businesses at 'The G20 Agenda for Growth: Opportunities for SMEs' Conference. A reduction in PAYG reporting requirements will reduce annual compliance costs by \$56 million for a range of small businesses. Around 32,500 SMEs will no longer have to lodge a BAS simply to report their PAYG instalments, and a further 340,000 SMEs will be spared further interaction with the PAYG system after lodging their BAS.

## II. Developing Human Capital

Australia's relations between academia and business rank last of 33 OECD states, reducing the employment potential of young graduates and leaving them ill-equipped to start their own firms. A recent paper by Sir Andrew Witty<sup>3</sup> called for universities to accept a third mission, in addition to teaching and research, to engage with SMEs through local enterprise partnerships. New Zealand is already linking schools, tertiary institutions and employers to ensure that businesses can hire new workers with confidence, and Australia could benefit from a similar approach.

Conference delegates called for better links between education and industry to ensure that young people are ready for work and advocated the development of an entrepreneurial culture in schools to fight the bane of youth unemployment.

Delegates also called for domestic regulations which impede the hiring of new staff to be eased alongside restrictions to free movement of skilled labour across national borders. Greater flexibility of opening and working hours would benefit businesses, customers and employment, and excessive penalty rates should be examined and amended to encourage trade, particularly when Australian exporters must operate at times convenient to their clients overseas.

New networks to link SMEs with their peers and targeted online education programmes will help busy SME owners share insights and improve their capabilities outside traditional courses they have no time to attend.

### III. Improving Infrastructure and Investment

The Australian Government is shifting resources from recurrent spending to investment in the infrastructure required to support economic growth. \$125 billion of new government, state and private sector investment will boost GDP by 1% in perpetuity. More than \$50 billion will be invested to improve transport links as part of the Economic Action Strategy to generate growth and boost productivity, ensuring Australia's prosperity and supporting thousands of new jobs. \$6.6 billion is being fast-tracked as part of the Government's Infrastructure Growth Package<sup>4</sup>, while the Infrastructure Investment programme<sup>5</sup> will improve the nation's roads and railways, eradicate 'black spots', improve heavy vehicle safety and renew the nation's bridges.

Minister Billson pledged government support of the *Digital by Default* strategy and *Single Touch Payroll* systems to reduce costs and drive efficiency for the public sector and business. Not all innovation is based on technology, and technology will not be the sole driver of future economic growth, however, technology is changing the landscape for all businesses today. Delegates urged SMEs to adopt new technology and embrace the digital economy and warned that firms which fail to face the future risk exclusion from it. Australian businesses will increasingly cut costs by sourcing goods and services overseas, and Australian SMEs supplying such services must add value, increase their competence and compete in overseas markets to survive.

Better sharing of data will improve efficiency, generate insights and enable Australian participation in OECD studies and research. Single payment and information portholes for government would reduce costs, save time and force a rethink of service provision by public authorities.

### IV. Facilitating Trade

The G20 must confront trade issues with the same urgency it accords to global financial stability. Trade liberalisation offers the benefits of a debt-free stimulus package to every nation, and action in this area will accelerate global economic development.

The Australian Government is opening opportunities for the nation's SMEs by pursuing trade liberalisation through the G20, the World Trade Organization (WTO) and bilateral and regional negotiations. The removal of trade barriers not only opens new markets abroad for dynamic

Australian companies, but intensifies competition at home, improving efficiency and customer value. As well as guaranteeing access for Australian goods, such agreements address a range of other pressing issues, including intellectual property rights, government procurement and competition policy.

Australia has free trade agreements with New Zealand, Singapore, Thailand, the USA, Chile, Malaysia and the Association of South East Asian Nations (ASEAN), accounting for over a quarter of the nation's total trade. Agreements were signed with South Korea and Japan in 2014 and will come into force when domestic processes have been completed. These two nations alone account for 16% of Australia's overall trade. Australia is negotiating with China, India and Indonesia and is engaged with the Trans-Pacific Partnership Agreement, the Gulf Cooperation Council, the Pacific Trade and Economic Agreement and the Regional Comprehensive Economic Partnership Agreement, covering a further 29% of Australia's total trade. While these are welcomed, business has cautioned the Government about the potential increase in red tape from a lack of a harmonised approach to such agreements.

Improved labour flexibility, the removal of 'behind border' barriers and improved infrastructure and connectivity will also boost trading opportunities at home and abroad. Concluding the Doha Round<sup>6</sup> of free trade negotiations could increase growth by 0.5%, while reducing internal barriers to trade could boost global trade by five times that amount.

### ACHIEVING THE 2% GROWTH TARGET

1. The OECD calculates that reducing the costs of red tape by 25% would increase growth by 1%.
2. \$125 billion of new government, state and private sector investment will boost GDP by 1%.
3. Concluding the Doha Round of free trade negotiations could increase growth by 0.5%, while reducing internal barriers to trade could boost global trade by five times that amount.

## KEY RECOMMENDATIONS

- Tendering and insurance requirements for government business should be streamlined and reduced for SMEs. A voluntary target encouraging government departments and large businesses to purchase 20% of their goods and services from Australian SMEs should be established and promoted.
- SMEs and industry organisations should submit specific instances of existing red tape requiring reform to relevant members of a nation's executive for review. Smarter regulation and cross-departmental cooperation is required over the longer term.
- The Government should improve labour market flexibility, secure tax reform, harmonise regulation across domestic jurisdictions and continue the liberalisation of international trade. Improving productivity is the key to success.
- Entrepreneurship should be integrated into Australian school curricula and encouraged as a post-education employment option.
- The Australian Government's Digital Economy agenda should include a single online entry point for the input of personal and business information and credentials.
- The 30-day limit for the settlement of government accounts should date from the issue of the initial invoice, with the burden of further requests falling on public officials, rather than the SME.
- SMEs must adopt new technology and embrace the digital economy to become globally competitive. A stronger focus on design and brand quality can also underpin long-term domestic and export success.
- Alternative sources of SME finance should be encouraged, with appropriate protection for stakeholders involved. Most SME expansion is financed by retained profits and so profitability should be encouraged to generate future growth.
- 'Economic gardening' of local small firms, through which SMEs are encouraged to take on an extra worker or two, can incrementally increase employment. Medium-sized companies with export scope have the greatest potential for output and employment, and policy should therefore encourage their expansion.

- A possibility of elevating the status of the OECD Working Party on Small- and Medium-Sized Enterprises and Entrepreneurship to an OECD Level 1 Committee should be explored.
- Australia should seek to improve its SME data collation to enable Australian participation in international benchmarking studies and research.
- A follow-up SME conference should be hosted in Istanbul, Turkey in March 2015 as part of the Turkish G20 Presidency programme of activities.
- The B20 should continue to focus on issues relevant to SMEs and international growth.



Photo: Delegates in the  
Legislative Assembly  
Chamber of Parliament  
House of Victoria

## REPORT OF PROCEEDINGS

### Welcome and Acknowledgement of Country

#### The Hon. Michael O'Brian MP, Treasurer, Victorian Government

Michael O'Brian acknowledged the traditional owners of the land and paid his respect to their elders past and present. He thanked the organisers of the Conference and welcomed delegates and guests, notably Minister Billson and Ms Kate Carnell, Chief Executive Officer of ACCI, to Melbourne, Australia's fastest growing state capital and the world's most liveable city<sup>7</sup>.

He acknowledged the G20's vital role in promoting strong economic growth through coordinated policy implementation and outlined its target of securing 2% extra growth above trend over the next five years. A strong SME contribution of output and employment is vital, if this ambitious aspiration is to be achieved. The public concern which sparked the WTO riots in Seattle in 1999 has abated in recent years, and the G20 and similar organisations continue to promote growth and the welfare of global communities.

Victoria is encouraging its SME sector by tackling red tape and burdensome regulation which disproportionately disadvantage hard-pressed SMEs. Firms should spend their time expanding their businesses, rather than filling in superfluous forms. Treasurers would rather employ frontline teachers, doctors, nurses and police officers than administrative staff. The Victorian Government has a budget surplus of \$1.3 billion and will deliver tax cuts from July 2014, while investing in transport infrastructure to boost trade. The State's population grew 1.8% in 2013 — 108,000 people, more than enough to fill the Melbourne Cricket Ground — through natural growth and migration from interstate and overseas. This offers opportunities for business, but challenges the State Government to improve infrastructure to keep pace and ensure Victorians' quality of life is enhanced, rather than diminished, as a consequence.

Government procurement policies should encourage SMEs and purchases their products and services will deliver better outcomes at lower cost. The Victorian Government fosters public-private partnerships to allocate risk to the party best able to bear it and drive innovation beyond the scope of the public sector alone.

## Introduction & Welcome

### **The Hon. Bruce Billson MP, Minister for Small Business Australian Government**

In his opening comments, Minister Billson spoke about the G20's work to accelerate economic growth, increase employment, boost living standards and help citizens achieve their aspirations. Australia's current stewardship of the G20 offers significant opportunities for the nation. Although the need to energise SMEs is clear and acknowledged across the G20 community, more specific and concrete actions are required.

Governments must remove impediments faced by businesses, and Minister Billson encouraged delegates to contribute to his department's deregulation agenda by reporting specific instances of red tape and burdensome compliance arrangements. The needs of SMEs must remain 'front and centre' in consideration of credible +2% growth strategies, and the debate must produce a tangible agenda for action.

Minister Billson then introduced Ms Kate Carnell AO, Chief Executive Officer of the ACCI, as the first speaker and Chair of the first plenary session.



Photo: Minister Billson introducing Ms Kate Carnell AO

## First Plenary Session: “The Role of SMEs in Meeting the G20 Target of +2% Growth”

### Introduction

**Ms Kate Carnell AO, CEO Australian Chamber of Commerce & Industry**



Photo: Ms Kate Carnell AO, Session Chair

Major economic benefits would accrue from further reductions of trade barriers abroad and the adoption of a ‘one stop’ system for the input of information and credentials for government services at home. SMEs should have the same opportunities to secure government contracts as large multi-national companies, and Ms Carnell urged delegates to consider strategies to achieve these goals.

Over 95% of businesses around the world are SMEs and, however diverse the domestic policies implemented to achieve it, meeting the +2% target will be impossible without invigorating the sector. Labour market flexibility, major tax reform and continued global trade liberalisation will boost growth, but options for debt-financed government stimulus have declined. Successful completion of the Uruguay WTO round increased global GDP by 1%, and conclusion of the current Doha round should deliver an additional 0.5%—25% of the G20 growth target.

The ACCI represents about 300,000 businesses and launched the 'Small Business - Too Big to Ignore' campaign<sup>8</sup> before the 2013 federal election to encourage debate. It offered four policies - 'the big four you can't ignore' - of cutting red tape, simplifying taxation, improving infrastructure and making it easier to hire new workers.

A single website on which to enter business or personal information for use by every government department at one stroke would save time and inconvenience. The tax system should also be simplified as its labyrinthine complexity not only forces SMEs to hire expensive specialists, but allows larger companies to avoid tax which inevitably increases the burden on smaller firms.

**Cutting red tape, simplifying taxation, improving infrastructure and making it easier to hire new workers are the 'Big Four' policies critical to small business survival and success.**

Current regulations which impede the hiring of new staff must be eased alongside cross-border restrictions on the free movement of labour. Education and training should be improved to ensure that SMEs can find sufficient 'work ready' candidates, as they often lack the resources required to train staff themselves. Greater flexibility of opening and working hours would benefit businesses and customers, while excessive penalty rates should be amended to encourage trade, particularly when Australian exporters must operate at times convenient to clients overseas. Ms Carnell also called for a reduction in employee superannuation payments to allow their owners to save more for their own retirement.

Australia must invest in its ports, airports, railways and roads to encourage the free movement of goods. Businesses also increasingly rely on internet connectivity, and fast and reliable networks are required to keep pace with competitors in Asia and beyond.

The voice of individual SMEs will be lost in the furore of political debate, but as a chorus, they are too big to ignore. If every SME could hire an extra employee, then many problems of employment, growth and productivity would be solved.

1<sup>st</sup> Guest Speaker  
Summary of Progress of the Australian G20 Presidency

**Mr Barry Sterland, Australia's G20 Finance Deputy  
Executive Director (International), Macroeconomic Group  
The Treasury, Australian Government**



Photo: Mr Barry Sterland speaks

Galvanised by the need to respond to the Global Financial Crisis (GFC), the G20 evolved from a finance minister's group to incorporate a leader's forum in 2008, and its importance and influence continues to grow. G20 nations account for 85% of global economic activity, 75% of world trade and 66% of direct foreign investment, and its agenda for growth will therefore benefit not only its own citizens, but the entire global economy.

Australia will use its presidency to strengthen the G20 and underline Australia's strong and constructive reputation in international affairs. G20 leaders will meet in Brisbane in November 2014, while meetings of Finance Ministers, their deputies and other officials will continue through the year. Australia's agenda and conduct has evoked a positive response, and the professionalism of the B20 is contributing to its progress.

The Australian presidency prioritises economic growth and building resilience in the global economy. Many economies are struggling to achieve a self-sustaining recovery in the long wake of the GFC, and Australia seeks to reinvigorate the vision which created the G20 in its current form.

Resilience will be buttressed by completing reforms to address weaknesses exposed by the GFC. These measures will strengthen the ability of banks to handle crisis, allow the orderly closure of failed financial institutions and improve transparency in financial markets. SMEs depend on a stable financial sector, as can be seen by their struggle in parts of Europe still ridden by debt after 2008.

### **Fairness demands that the tax burden is spread widely and imposed evenly, without placing undue compliance burdens on SMEs.**

A revamp of international taxation arrangements to ensure that profits are taxed where economic activity occurs will prevent large companies hiding much of their revenue from fair and equitable taxation. Fairness demands that the tax burden is spread widely and imposed evenly, without placing undue compliance burdens on SMEs.

G20 nations can promote stronger growth through domestic initiatives and reforms and by collective international action on investment, competition, trade and employment. While Australia advocates unlocking private sector-led growth through investment and trade, all members have been asked to compile comprehensive growth strategies for the Brisbane summit. These must offer fresh concrete proposals, rather than redressed existing measures, vague statements of intent or empty political rhetoric.

The unambiguous goal to raise G20 GDP by more than 2 percent set at the initial meeting of Finance Ministers in Sydney in February 2014 was an unprecedented step. The growth strategies implemented to achieve it could generate an extra \$2 trillion of additional economic activity around the globe and tens of millions of new jobs. The target was set in the wake of rigorous research conducted by the OECD, World Bank and International Monetary Fund which suggests it is achievable given new initiatives to improve infrastructure, encourage competition, increase trade and deregulate labour markets. Success will reduce the current dependence on monetary policy to support the recovery, balance growth, ensure financial stability and improve the business environment for SMEs. Australia will work with member nations to boost private sector investment, and joint initiatives to improve international flows and sources of finance are also underway.

Improved and innovative approaches to SME financing in developed nations are required, while redoubled international efforts to redress poor levels of financial inclusion and a dearth of investment sources in developing countries may be necessary.

**The removal of ‘behind the border’ barriers to imported goods is crucial to supplement cross-border agreements on free trade.**

Improved domestic policy frameworks are the key to progress. Mr Sterland agreed with earlier calls for the removal of poor and excessive product legislation and barriers to growth, and noted the importance of labour flexibility and market entry. The removal of ‘behind the border’ barriers to imported goods is crucial to supplement cross-border agreements on free trade.

## 2<sup>nd</sup> Guest Speaker

**Dr Sergio Arzeni, Director, OECD Centre for Entrepreneurship,  
SMEs and Local Development  
Head of Programme, Local Economic and Employment Development**

In a passionate address, Dr Sergio Arzeni argued that the proportionate compliance costs suffered by SMEs can be 10 to 30 times greater than incurred by a larger company. The OECD estimates that reducing these costs by a quarter would generate an extra 1% of economic growth — half the Sydney G20 target. He called for smarter, better regulation, rather than its elimination altogether.

SMEs and large businesses should play by the same rules to build a just economic system. Extravagant levels of profit shifting by large companies into tax shelters have been well documented and mean SMEs can pay six times more tax than large companies. In some countries, SMEs pay 30% corporate tax while many hugely profitable and widely admired corporations pay just 5% or even 2%.



Photo: Dr Sergio Arzeni speaks

Investment and growth will rebuild trust between citizens and government and renew faith in the economy. The recovery from the GFC has created relatively few jobs, and the OECD advocates 'inclusive growth' to remedy this situation. A recent OECD report on 'missing entrepreneurs'<sup>9</sup> focuses specifically on the potential of entrepreneurship to address the worldwide blight of youth unemployment. Too many young people are not in education, training or employment in Europe and the United States. Even in China there are millions of unemployed graduates, while Australian degree holders can struggle to find suitable jobs.

The OECD produced an evidence-based tool to monitor access to finance for SMEs after the GFC. The 2014 Scoreboard for Financing SMEs<sup>10</sup> will be released shortly, covering 31 countries, although a lack of domestic data means it will not encompass Australia. The G20 Small and Medium Enterprises Workshop held in March 2014 in Riyadh, Saudi Arabia<sup>11</sup>, emphasised the need to identify and adopt international best practice. The OECD is developing an SME policy benchmark to help nations adopt appropriate policies.

The influence of politicians, the financial sector and big business upon international negotiations is undoubted, but the input of SMEs has been largely ignored.

Modern economies are so interconnected that the solutions to pressing regional and national problems can depend upon international accords. The influence of politicians, the financial sector and big business upon such negotiations is undoubted, but the input of SMEs has been largely ignored. Dr Arzeni therefore praised the appointment and commitment of Minister Billson and underlined that SMEs require a voice at every level of government deliberation.

Germany's recent trade surplus of 200 billion euros was generated in large part by its 10,000 'Mittelstand' companies. Italy's medium-sized companies rank highly among 1,000 product categories, despite the nation's smaller size. Policy should therefore encourage the domestic and export development of such firms as they offer the greatest scope for increased output and employment.

Australia's creation of a cabinet position for SMEs should offer an example for other OECD members, and Australia's range of progressive SME policies could offer an example of best practice around the world.

### 3<sup>rd</sup> Guest Speaker

**Mr Richard Goyder AO, Managing Director & CEO, Wesfarmers Limited**



Photo: Mr Richard Goyder AO speaks

Having been raised on a family farm whose demise was precipitated by the Government's market interventions designed to protect it, Mr Goyder emphasised the power of private enterprise to benefit shareholders, employees, customers and society. He outlined the success and growth of Wesfarmers over its hundred years of operation, noting that an investment of \$1,000 when the cooperative became a listed company in 1984 would be worth \$300,000 today.

Underlining the concern regarding youth unemployment at home and abroad, he called on the G20 to agree upon actionable, implementable and measurable policies to create sustainable economic growth and good jobs. He agreed that smarter regulation, attractive tax rates, low interest rates, improved productivity, more available finance and efficient infrastructure are all important drivers, as are the Doha talks and — even more importantly — trade facilitation behind borders. Reducing barriers to trade behind borders could boost global trade by five times the estimated benefits of Doha alone.

Mr Goyder outlined the work of the B20 and its focus on trade, infrastructure, financing for growth and human capital. An additional anti-corruption committee runs across these four taskforces. These groups include over 300 business people from around the world and are co-chaired by senior Australian figures. In addition, a CEO Forum of more than 120 international CEOs has provided advice on recommendations currently being finalised.

The B20 summit will be held in Sydney in July, hosting around 300 senior business people from around the world, to finalise recommendations to the G20. It is expected they will propose structural flexibility, freer movement across borders, consistent and transparent regulation and other measures to improve credibility in the private and public sectors. Investment will only flow where corruption is minimised.

**Reducing barriers to trade behind borders could boost global trade by five times the estimated benefits of Doha alone.**

Mr Goyder called for the implementation of banking regulations imposed after the GFC, but cautioned that their effects should be measured and unintended consequences assessed, lest the combined weight of new legislation undermine, rather than underpin, economic growth. Minimum capital ratios and other requirements should not become so strict they dissuade banks from lending to important infrastructure projects and potentially successful SMEs.



## Discussion

The floor was opened for contributions under the Chatham House rule of non-attribution.

An academic agreed that SMEs are crucially important job creators, as young firms grow organically while larger firms tend to expand through acquisitions with little net job creation. However, long-established small businesses are more likely to dwindle than expand, and many small firms have no need, potential or desire to grow bigger. High-growth firms – gazelles – are lionised, but seldom stable, as high growth at the expense of profitability is unlikely to be sustained. Frenetic growth tends to be a stage which many firms pass through, rather than an attribute inherent in particular firms. SMEs rely on retained earnings to grow, more than any external source, and sound growth and investment therefore flow from consistent profitability.

**SMEs rely on retained earnings to grow, more than any external source, and sound growth and investment therefore flow from consistent profitability.**

A small business owner called for less red tape to encourage SME partnerships with local councils, state governments and larger organisations. Convoluted public tenders mean that good ideas are stymied, rather than become profitable and beneficial realities. A better system would allow councils to take a 10% return on activities on public land with no risk taken on their part. Larger firms are more likely to accept good ideas offered to them, with people then working as concessionaires.

The next speaker underlined the importance of focusing on established, medium-sized firms – the German ‘Mittelstand’ – with export-led potential to maximise employment and growth. He emphasised the need for good design as well as innovation, as many European firms remain highly profitable in fields as diverse as white goods and footwear through a focus on global brand quality, rather than product breakthroughs. A recent paper by Sir Andrew Witty<sup>12</sup> called for universities to accept a third mission, in addition to teaching and research, to engage with SMEs through local enterprise partnerships. Continuing education and information for managers is as important as it is for staff, as many companies fail to understand the concept of intellectual property protection, among other issues.

Large companies could integrate SMEs into their supply chains for mutual benefit, but many SMEs struggle to meet the compliance costs involved. Many SMEs in Western Australia, for example, were excluded from LNG supply chains<sup>13</sup> through an inability to meet overly complex pre-compliance conditions. Data sharing should also be improved across government departments, as privacy issues are not insurmountable and the benefits in time and efficiency would be considerable. State and federal agencies should share and integrate data to produce longitudinal analysis regarding SME activity and factors driving their growth or decline.

Consideration of measures to prevent unnecessary business failure was urged alongside the encouragement of start-ups and SME expansion. Smarter regulation, best business education and help with reducing costs and improving cash flows could both save smaller firms from an early demise and increase their prospects of expansion in the future. If medium businesses are to develop from smaller firms, then innovative small businesses must have a chance to thrive, not least through improved access to finance. Exports should be encouraged, as the domestic market is too small to sustain significant growth. Small businesses must 'face north' and trade in Asia to access the billion potential customers there.

### Exports should be encouraged, as the domestic market is too small to sustain significant growth.

Qantas is pursuing closer working relationships with SMEs, and its 'Aquire' scheme allows small firms to participate in a joint purchasing group to extract extra value.

An industry association representative said domestic manufacturing must adjust to a 'multi-channel world'. Where industries must slim down to survive, not every business can — or should — survive. A Labor government survey concluded that 70% of Australian businesses had no desire to grow and preferred 'the quiet life' of the status quo. There is a clear distinction between the attributes and needs of the self-employed and small businesses, and policy makers should allow for that dichotomy.

Another speaker acknowledged that although red tape, overregulation and payroll taxes may pose problems, all that matters to an entrepreneur is winning more business. A voluntary code of conduct could be introduced to encourage public departments and larger firms to spend 20% of their budgets with SMEs. The best way for government to help SMEs is to become their customer as 40% of the economy lies within the public sphere. SMEs often offer better service at lower cost than larger and more established suppliers.



Photo: Mr Peter Fritz AM makes a comment

Another small business owner found nothing in the discussion he had not heard 20 years ago. He called for networks of small business people to share experiences and tips and offer mutual support. He explained his poor experiences with the traditional banking system and criticised the 'ridiculous tendering criteria' and outlandish insurance conditions demanded by government departments.

An event organiser praised the initial state requirement for the settlement of government accounts within 30 days and its recent adoption across the country. He agreed a 20% quota for government purchases from SMEs was both practical and desirable, and criticised the difficulty of borrowing from banks, with a second mortgage the only option when setting up a firm. Just as governments must listen to SMEs and their organisations, so SMEs must clearly articulate specific measures and policies they wish to see. Online technology can facilitate such interactions, and a single entry point would simplify many dealings

with the public sphere. Once a query is made, it should be a public official's responsibility to drive a result, rather the onus always being on the SME.

A representative of a small business association emphasised the need for youth entrepreneurship. People do not suddenly become entrepreneurs when they leave education, and the instincts of the 8–10% of people who 'want to do their own thing' should be nurtured at school. At least 50,000 — and perhaps 100,000 — pupils already run a small business of their own, but self-employment or start-ups are seldom discussed as careers. More effort should be made to identify and encourage entrepreneurial young people, as they will create employment for themselves and their communities.

**More effort should be made to identify and encourage entrepreneurial young people, as they will create employment for themselves and their communities.**

Another speaker stressed the transformational potential of new technology and wearied of complaints about penalty rates which have not changed in 30 years. The internet has usurped the 'tyranny of distance' which once protected Australian firms from competition as much as it hampered their ability and ambition to export. Australian SMEs can now have their accounts compiled in India and run their call centre from the Philippines — reducing their costs, but forcing local suppliers to seek opportunities abroad or offer extra value to compete in a globalised world. Australians must increase their capabilities or face a bleak future, and urgency is required as the rest of the world is not waiting for Australia to change.

Innovation, human capital and technological readiness are three key drivers of competitiveness. The B20 and other forums should continue to encourage SMEs to look to the future and embrace the digital economy. The importance of hard infrastructure is often stressed, but 'soft' infrastructure is also vital, particularly in relation to government. Regulation reduction targets are less important than 'smart regulation' to reduce the compliance burden, as well as document size.

Despite the chorus of complaints regarding red tape in general, the ACCI has found it difficult to encourage its members to specify the precise regulations they want changed. Businesses must stop complaining about regulation in general and accept Minister Billson's invitation to identify specific reforms instead.

3–5% of Australian SMEs face a serious commercial dispute with another business every year. Businesses which opt for litigation generate substantial legal costs for both parties, while the civil justice system can take up to a year to apportion blame, causing stress for small business owners. Alternatively, businesses can resolve their disputes quickly, cheaply and effectively outside the justice system through resolution services. These bodies achieve an 80% settlement rate, keep businesses out of court and allow all parties to return quickly to their jobs. The Victorian resolution model could be expanded nationally with positive results.



The importance of youth entrepreneurship was stressed. The OECD notes that businesses run by people under 30 grow twice as quickly as those by over 40s, but young people struggle for bank credit, hampering their efforts to expand. Young business people would benefit from assistance to defray start-up costs and negotiate public bureaucracy. Not all innovation is based on technology, and technology will not be the sole driver of future economic growth, but technology is changing the landscape for all businesses and access to affordable and

reliable high-speed connectivity is now a prerequisite of success. Cross-national recognition of training and educational qualifications and the easing of restrictions on labour market mobility are also required. A disconnection remains between the academic offerings of education and practical business needs. Australia ranks last out of 33 OECD countries in relations between business and academia, reducing the employment potential of young graduates and leaving them ill-equipped to start their own firms.

**Australia ranks last out of 33 OECD countries in relations between business and academia, reducing the employment potential of young graduates and leaving them ill-equipped to start their own firms.**

A May 2014 member survey by a national SME organisation<sup>14</sup> found 76% of respondents backing its representation of their interests to government, and the receptiveness of Minister Billson and his office to their concerns was praised. More than 80% of these firms wanted simplified tax office arrangements, and the long waiting times suffered by users of its helpline were raised as a particular concern. The Australian Taxation Office (ATO) still requires faxes, rather than email, an anachronism in today's digital business world.

The NSW Government recently removed more than 300 legislative instruments, but reducing the number of regulations does not necessarily reduce the burden on SMEs. The NSW Small Business Commissioner runs a series of workshops for SMEs throughout the state, but ultimately government is the problem, rather than the solution – with payroll taxes penalising the employment growth governments wish to see. The roles of federal, state and local government must be re-examined and clearly defined, just as small business advocates must clarify the measures they demand from government.

A federal politician acknowledged the problems caused when issues bisect isolated government departments and agencies. Government has imposed a cost recovery model on departments which merely passes costs onto citizens, rather than drive efficiency. The problem of red tape should top the Council of Australian Governments (COAG) agenda and effective action should replace oft-repeated words. All governments seek to cut spending on attaining office before turning their attention to

long-term growth, and the speaker promised to tackle specific barriers brought to his attention and fight for the interests of Australia's SMEs.

SMEs should have the capacity to enter markets and compete against existing firms, and SMEs should have recourse if established firms use unfair market power to suppress fair competition. National competition frameworks seldom consider their impact on SMEs, and international bodies should pursue their interests as part of encouraging competition overall.



Photo: Mr Craig Laundry MP makes a comment

A representative of a small technology company hoped the Conference would encourage greater accountability in the public service, given the frustration of finding a public servant who would take responsibility for action or success. Governments often initiate good policies which are then subsumed by the bureaucracy or hijacked by larger firms. Government should make better use of technology, as the main result of billions of dollars of technological investment had been to expand the number of government brochures and forms. Public processes must be simplified to render them comprehensible and therefore useable. The tax breaks for research and development work better in theory than practice, for example, because their convoluted conditions mean that firms are uncertain if they are complying with them or not. Any grant or law which requires the hiring of a specialist to understand it is not fit for purpose and should be redrawn.

The treatment of stock options for employees is 'woeful' and should be overhauled to help start-ups retain talent and prosper, rather than simply extract more tax from the successful.



Photo: Mr Ian Excell makes a comment

An employee of an accounting software firm extolled its potential to help SMEs automatically handle their data more cheaply and effectively. He argued that such private sector services could deliver government objectives more effectively than government itself. Cloud-based accounting software offers real-time monitoring of the 'pulse' of an SME, allowing problems to be identified and nipped in the bud while automatically fulfilling previously onerous government reporting requirements. The standard business reporting framework recently implemented by the ATO and state revenue offices allow SMEs using accounting software to submit their BAS automatically, for example, while credit card payments can now be taken via an app and mobile phone.

A state Small Business Commissioner focused his office on practical deliverables. It ensures SMEs can find the information they need in clear and comprehensible formats, offers SMEs a direct voice to government and provides access to justice through its own dispute resolution service.

Policy advisors all too often try to tackle red tape by rewriting 400-page bills into 300-page drafts without actually reducing its compliance burden on SMEs. The emphasis should shift to improving productivity to deliver gains for both SMEs and government departments. Digital technology should guide the correct completion of forms, as well as deliver them over the internet. If departments were allowed to retain a portion of these benefits, they would be motivated to generate more. Harmonising regulations between Commonwealth, states and local authorities remains important. Small building firms in Perth must deal with 39 different specifications for concrete connections between driveways and the road, for example, the worst of which would be better than the status quo if it was universally approved.

A small business owner voiced his dissatisfaction with inflated insurance requirements and premiums for government work. Public liability and professional indemnity cover for \$5 or \$10 million a year will cost between \$6,000 and \$8,000 a year. Minimum cover — and the premiums charged by insurers — have ballooned for no readily apparent reason and increasingly price SMEs out of the market for government work. Public procurement officers often lack the technical knowledge required to properly assess the value, rather than merely the price, of private tenders. Although SMEs may offer better service, all too often public officials prefer to sign a 'big name'.

The 30-day payment requirement is frequently flouted or ignored as public officials can issue a series of requests for more information or new invoices from SMEs, resetting the start date again and again. As a result, sub-contracting firms are often left to pay their contractees before they have received any payment from government, increasing their risk to unacceptable levels. The 30-day requirement should therefore date from the issue of the initial invoice, with the burden of complying with requirements falling on the officials, rather than the SME.

A successful small business owner in Queensland agreed that smarter regulation is required, rather than merely cutting red tape. Dilution of quality regulations could allow Australian firms to be undercut by counterfeit products and shoddy services from abroad.

A health industry spokesman underlined the importance of removing duplicate and unnecessary regulation and harmonising standards between states. He, too, called for more flexible labour markets, making it easier for SMEs to hire new employees, before the chairperson thanked the Conference's sponsors and organisers and brought its morning session to a close.

## Lunch Session

### Introduction

#### **The Hon. Russell Northe MP, Minister for Small Business Minister for Energy and Resources, Victorian Government**

Mr Northe welcomed guests to Victoria and thanked them for their contributions to the debate. He highlighted the Victorian Government's support for SMEs through foreign trade missions, the appointment of a Red Tape Commissioner and reductions in payroll tax and work cover premiums worth millions of dollars a year. The Victorian Small Business Commissioner has been given additional powers to deal with disputes, and funding for the small business portfolio has been increased to run more workshops and events. A \$4 million programme will reinvigorate Victoria's shopping strips, while the first 'Support Small Business Day' in 2013 proved a significant success. It will be held again on 4<sup>th</sup> October 2014, after the small business festival in August.



Photo: Lunch Session  
in Queens Hall of  
Parliament House

## Keynote Address

### **The Hon. Bruce Billson MP, Minister for Small Business Australian Government**

Minister Billson welcomed attendees and placed the Conference in context as part of Australia's year-long presidency of the G20. Australia will deliver effective stewardship of the G20, maintaining its global focus and relevance to major challenges. Australia will prioritise economic growth, prosperity and employment, particularly for young people around the world, and strengthen global economic resilience to withstand future turbulence. Australia will unlock private sector-led growth through investment, trade and enterprise and help SMEs create stronger and more prosperous economies.

#### ▶ **A Focus on Growth**

Recently dominated by mining investment, Australia's economy is transitioning to a broader base of activity in other sectors. Growth will be marginally below average in this period, with the significant decline in resource development only partially offset by strengthening elsewhere.

Productivity improvements are vital if Australian living standards are to be maintained. Increased productivity means more and better goods and services can be generated from available resources. Maintaining Australia's current rate of income growth will require annual productivity improvements of 3% — well in excess of Australia's performance in the past half century, and more than double the performance of the past decade.

The challenge of robust and sustainable growth extends beyond Australia's shores. The recoveries underway in other developed economies are welcome, but remain patchy and subdued. Employment in the USA did not regain its pre-GFC level until May 2014, and growth in the Eurozone remains weak and uneven, with unemployment remaining near record highs. The recovery must create more jobs and encourage investment for the future as well as heal the wounds of the past. Australia and other advanced economies share several looming challenges, not least the threat to fiscal sustainability posed by ageing populations. Governments cannot control productivity, but can encourage it through the drive and flexibility of SMEs.

▶ **The G20 Growth Target**

G20 Finance Ministers agreed in Sydney to increase growth by an extra 2% over the next five years. Comprehensive domestic growth strategies will be presented by each member nation at the Brisbane summit in November 2014. Australia will energise enterprise and encourage SMEs to play their full role.

The four key priority reform themes of the Australian G20 presidency are Investment, Trade, Employment, and Competition.

▶ **SMEs and Global Economic Growth**

SMEs are crucial to the social and economic health of local, regional and national communities. As the mining boom naturally evolves from investment to production, SMEs will increasingly drive future economic growth. Their adaptability and flexibility allows the exploitation of niche markets and embrace of new technology. SMEs can enter and exit markets more nimbly in response to fluctuations of price and demand, thereby boosting competition, increasing choice, delivering value and forcing existing firms to improve. Australian entrepreneurs are optimistic, motivated, diligent and hard-working, and Minister Billson praised their continued toil and risk-taking energy. The Government will give Australian SMEs every chance to thrive and prosper in a competitive economy, acting as their ally.

Government support for SMEs includes prudent macroeconomic policy, investing in infrastructure, enhancing competition, facilitating trade, supporting research and commercialisation, and improving information.

The Government will foster entrepreneurship by strengthening the economic ecosystem, removing barriers to market entry and growth and partnering with SMEs to build skills and capacity. Secure, predictable and supportive frameworks give SMEs the certainty and confidence required to take risks and expand.



Photo: Keynote Address by Minister Bruce Billson

### ▶ **Prudent Macroeconomic Policy**

The Government will build vital infrastructure, enhance competition, facilitate trade, encourage a vibrant research sector and develop information and programs to help SMEs thrive. Australia's macroeconomic policy includes a flexible medium-term inflation target for monetary policy run by an independent central bank; a robust budget committed to transparency and medium-term sustainability; and a freely floating exchange rate. Monetary policy will maintain inflation between 2% and 3% over the medium term to anchor expectations and encourage investment and growth. Fiscal policy will remain flexible to address short-term economic conditions without threatening the fundamental structure of the public balance sheet.

### ▶ **Investing in Infrastructure**

The Government is shifting resources from recurrent spending to investment in the new infrastructure required to power Australia's future. \$125 billion of new government, state and private sector investment will boost GDP by 1% in perpetuity.

▶ **Enhancing Competition**

Competition drives productivity, improves living standards and spurs investment. The National Competition Policy and related domestic reforms increased Australian GDP by 2.5% in the 1990s, but consumers and businesses now operate in a global marketplace where efficiency and innovation are more important than ever. The Government announced a Competition Policy Review<sup>15</sup> earlier this year, led by Professor Ian Harper, which will assess competition laws, identify impediments and examine the role of government and regulators in the market. SME issues will form an important element of the Review, and a better competitive framework will help all companies compete on an equitable basis.

▶ **Facilitating Trade**

Trade barriers continue to impede economic development and opportunity. A joint OECD-APEC study in 2008 confirmed the vital role which international trade plays in helping SMEs achieve growth and economies of scale unattainable from domestic markets. Removing barriers through bilateral and regional free trade agreements creates opportunities for exporters, investors and SMEs while motivating competitive improvements at home. With more than a fifth of Australian jobs dependent on export-related industries, better access to global markets is critical to future prosperity and growth. The Government recently finalised trade agreements with South Korea and Japan, and aims to conclude negotiations with China later this year.

▶ **Supporting Research and Commercialisation**

Research and development must be commercialised to maximise its benefits for the nation. Supporting research, innovation and moves to market are therefore key government priorities. Collaboration between researchers and businesses offers enterprises a competitive edge and helps them access domestic and international knowledge networks, infrastructure and technology. The \$484.2 million Entrepreneurs' Infrastructure programme<sup>16</sup> will help Australian businesses forge research links and develop the expertise required to commercialise ideas. The R&D Tax Incentive offsets the costs of eligible research activities, while the CSIRO SME Engagement Centre connects SMEs with the resources of Australia's national science agency.

▶ **Improving Information**

The Abbott Government has put SMEs at the centre of national decision-making, with a dedicated cabinet minister driving progress across the whole of government. The National Small Business Support Line offers information and referral services tailored to practical needs, while a new single business service initiative will streamline access to government information and put the needs of time-poor businesses first. Such services are part of a cultural shift to prioritise SMEs ahead of bureaucratic convenience.

▶ **Removing Barriers to Entry and Growth**

The Government is scrutinising the financial, legislative and tax requirements faced by SMEs and removing or reforming strictures which act against the public interest. Too many regulations have been implemented without regard to their cumulative impact, and the Government will reduce a compliance burden which disproportionately disadvantages SMEs.

▶ **Reducing Red Tape**

Red tape displaces effort which could be more productively employed. 'Compliance overreach' impedes, rather than promotes, the public good. The Australian Government will cut at least \$1 billion of red and green tape each year as part of its deregulation agenda. Deregulation units have been established in every portfolio, incentives for success have been offered to public servants and two parliamentary sitting days will be dedicated to the repeal of unnecessary legislation every year.

The inaugural repeal day in March 2014 scrapped more than 9,500 regulations and repealed 1,000 redundant Acts, saving hundreds of millions of dollars in compliance costs in the future.

Minister Billson encouraged SMEs and other stakeholders to highlight specific legislation they feel is ripe for reform.

▶ **Cutting Costs**

Responsibility for the Small Business Superannuation Clearing House has been transferred to the ATO to encourage more SMEs to meet their superannuation obligations through a single transaction. The Senate is considering a proposal to amend employer responsibility for paid parental leave. The Coalition will fast-track the tender process for

smaller contracts to encourage SMEs to compete for such work and will honour its election commitment to force Commonwealth agencies to pay accounts within 30 days or incur general interest charges from 1<sup>st</sup> July 2014.

The Minister announced three new measures to help small businesses. A reduction in PAYG reporting requirements will reduce annual compliance costs by \$56 million, 32,500 SMEs will no longer have to lodge a BAS simply to report their PAYG instalments, and a further 340,000 SMEs will be spared further interaction with the PAYG system after lodging their BAS.

#### ▶ Digital by Default

Standard Business Reporting (SBR) simplifies administrative procedures, saves time, minimises compliance costs and frees SMEs to concentrate on their trade. SBR-enabled software allows firms to complete the bulk of their reporting directly from their accounting or payroll system. Such software prefills forms and, after review, securely delivers them online to government agencies.

The ATO and Treasury are *Enabling Digital by Default* and encouraging *Single Touch Payroll*. The ATO will progressively adopt digital channels as their default, although clients will retain the right to opt out if required. In the future, an employee could use an app to access their tax file number and superannuation details, for example, while employers will use *Single Touch Payroll* to automatically meet reporting and payment obligations. This could be further extended to other non-Commonwealth obligations such as payroll tax and workers compensation. *Single Touch Payrolls* will streamline cash flows over monthly and quarterly cycles and level the playing field for compliant SMEs by reducing non-lodgement and phoenix opportunities for miscreants.

#### ▶ Access to Finance

Access to affordable finance is the oxygen of enterprise, and alongside human capital and accessible markets is a pre-requisite of growth. The Australian Government has ordered an independent inquiry into competition and innovation in the financial system and will ensure it meets the needs of SMEs.

The Government will encourage new products to increase availability of finance and help drive down its cost. Crowd-sourced equity funding allows large numbers of individuals to contribute to businesses they support, for example, and opens possibilities beyond the realm of traditional equity markets. Australia and other nations are considering how crowdfunding can become a vibrant alternative, whilst also protecting those involved. Peer-to-peer lending allows investors to lend directly to borrowers online, bypassing traditional institutions, and the Government is exploring the regulatory changes required to accommodate it.

The Government will also encourage SME employee share schemes to align employee and employer interests, encourage positive working relationships and retain talented staff. Current tax penalties put Australia out of step with international best practice, and the Government is examining ways to address these concerns.

The Government will help SME owners develop the skills they need to develop their firms. Many small business people have little time to attend specialist courses and seminars, but personal networks, inter-business relationships and industry associations can offer rich sources of experience and new ideas.

Small businesses often pioneer new technologies and work practices which then spread throughout their industry. Businesses that embrace innovation are three times more likely to export and 18 times more likely to increase their number of export markets than those which shun change. 91% of Australian businesses report benefits from innovation, including increased revenue, reduced costs, fresh competitive advantages and improved customer service.

Modelling by Microsoft suggests that improving small business technology could boost GDP by nearly \$6 billion. A recent Grattan Institute report shows that affordable and scalable cloud computing offers SMEs access to unprecedented IT capacity unattainable in-house. The Government has released a series of guides for SMEs adopting cloud computing services, while the National Broadband Network will help small businesses stay competitive, integrate communities, drive productivity and create jobs. The Government's mobile 'black spots' program will identify areas of inadequate coverage and encourage competition to the benefit of all Australians.

The Minister stressed his ambition of making Australia the best place in the world for small business. However, Australia must earn that accolade in a competitive global market and embrace ideas from other countries where appropriate. SMEs are the once and future engine room of the economy, and Minister Billson encouraged Australia's budding entrepreneurs to 'turn up and have a go'.

### Question & Answer

The Minister welcomed questions from the floor, offering himself as the champion of SMEs in government with a 'hunting license' from the Prime Minister to cross ministerial boundaries in search of obstacles to remove. Recognising the deleterious effect of departmental silos, he promised a more integrated, client-centred approach overall.

One delegate applauded the digital engagement initiative and stressed the importance of SMEs developing a full e-commerce strategy.

Minister Billson agreed, recalling that studies from Deloitte, Ernst & Young and Microsoft have proved the importance of deep ICT engagement, with many companies investing in such approaches enjoying 'spectacularly improved' prospects of growth and profitability. A third of companies are wary of 'vendor-driven advocacy', fearing being hoodwinked into pointless expenditure, while a final third 'hope it will all go away'. He warned that new technology will not disappear, and companies which refuse to engage with the future may find no place within it.



Photo: Minister Bruce Billson MP and Mr Richard Goyder AO

Mr Billson mentioned his 'TEASE' project - promoting Technologically Enabled and Active Small Enterprises - and stressed the Government's enthusiasm for partnership with firms, industry associations, the ACCI and vendors to develop solutions. Mr Billson again urged attendees to act as 'pathfinders' to inform and energise their peers. He praised the achievements of the British government in e-government, describing the UK.Gov portal as 'spectacular' and admitting it put Australian efforts in the shade. The British have streamlined digital engagement, retooled 'back of house' operations, optimised processes, simplified language, reduced red tape and resisted the urge to harvest unnecessary data for the sake of it. British experts are currently in Canberra and have briefed members of the Australian cabinet on its success.

Finally, the Minister pledged the reform of cumbersome procurement procedures, with several million dollars earmarked in the budget for this task. He recounted his time assisting the Department of Defence and learning how difficult conducting business with it had become. The Government is looking at 'right sizing' specifications and insurance, splitting large contracts of unrelated elements compiled for administrative convenience and using standard contracts for tenders under \$300,000. A mobile app to alert SMEs to regional opportunities is also being developed.

Mr Billson once again welcomed further suggestions from SMEs and thanked attendees for their time.

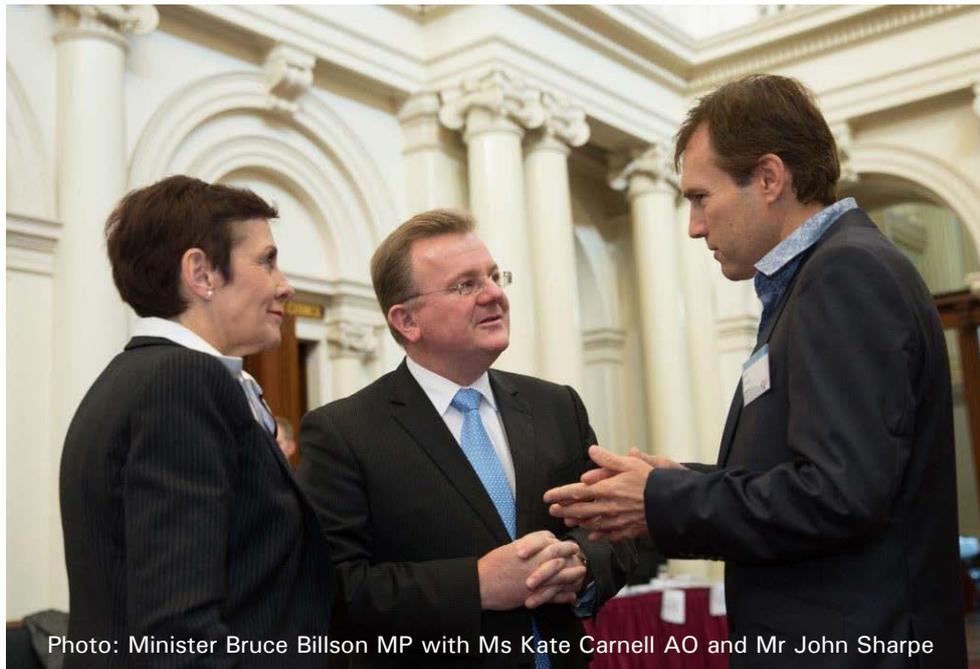


Photo: Minister Bruce Billson MP with Ms Kate Carnell AO and Mr John Sharpe

## Second Plenary Session - "Enabling SME Growth"

### 1<sup>st</sup> Guest Speaker

**Mr Phil O'Reilly, CEO BusinessNZ**  
**Chair of the Board, Business and Industry Advisory Committee**  
**at the OECD**

New Zealand ranks highly on World Bank business indices. Although the New Zealand Government has a specialist minister for small business, BusinessNZ does not advocate for one. They advocate a whole-of-government approach, where every minister is also a minister for small business, growth and employment. Rather than cut red tape in piecemeal fashion or make concessions for SMEs, BusinessNZ advocates that the NZ Government designs legislation to work properly for all businesses from the start.

Mr O'Reilly's mission focuses on increasing opportunities for growth, rather than reducing compliance costs. New Zealand has several Better Public Services<sup>17</sup> targets, with number 9 calling for businesses to be able to conduct 95% of their government dealings online in the near future. Internet access to poorly framed regulation does not improve it, but mandating online access forces public services to rethink their approaches to business relations, improving efficiency for all.

Each payment to government — be it taxation, licenses or fees — has used its own payment system in the past. A single online portal appears an obvious alternative, just as Amazon allows a vast range of goods to be bought in the same way. The root causes of compliance costs — such as complex and siloed payment systems — must be tackled to reduce them, and the New Zealand Government has also learned much from the UK experience in promoting a modern, digital approach.

A lack of skills presents a significant, and under-discussed, barrier to SME growth. SMEs often lack the time and resources required to train their own staff, and so seek 'business ready' candidates with the 'hard' and 'soft' skills they require. New Zealand is doing a lot of work around linking schools, tertiary institutions and employers to ensure that businesses can hire new workers with confidence. This is proving difficult to achieve.

Appropriate financial regulation remains essential for economic sustainability. The GFC shocked the world's regulators into a host of reforms, notably Basel III. However, some believe the 'regulatory pendulum' has swung too far, and a plethora of uncoordinated international and domestic financial regulations have fragmented and unduly shackled financial services. This complex new web of regulation may impede the economic progress it was designed to protect, with SMEs finding banks have lost their appetite for the relatively risky, low-yield loans they require. Important infrastructure projects may also suffer from a lack of investment capital.

**As traditional institutions are less willing or able to lend, a more diverse and innovative system of financing SMEs should develop.**

Banks remain under pressure to record reasonable returns, but faced with restrictive new rules on capital, liquidity and other aspects of their business model, they can shoulder less risk than before. Banks have juggled lower profits, passing higher costs to customers and eschewing lending to riskier clientele as a result, and more research is required to assess the impact of banking legislation on the economy. A more coordinated approach to financial affairs must facilitate, not hinder, economic growth, financial stability and prudent investment.

**Banks should be encouraged to innovate to better serve their customers and remain competitive.**

As traditional institutions are less willing or able to lend, a more diverse and innovative system of financing SMEs should develop. A start-up might look to microfinance, crowdsourcing, friends, family and 'business angels', while a developing firm may utilise venture capital or asset based finance, export credits and private debt placements. Reform of existing regulation must be contemplated to facilitate these alternative sources, alongside encouraging transparency and allowing easier assessment of SMEs' credit worthiness and growth potential. Policy makers should also be sensitive to the rise of 'shadow banking' and ensure customers remain protected, as unregulated, non-transparent financing sources will inevitably generate new problems of their own.

Despite the increasing role of alternative sources, traditional forms of finance such as bank overdrafts and loans will remain crucial, and instruments such as credit guarantee schemes and credit insurance could help banks support SMEs in the near term without risking scarce capital. Banks should be encouraged to innovate — despite the role which some reckless banking practices, in association with poor regulation, played in triggering the GFC — to better serve their customers and remain competitive.

In conclusion, Mr O'Reilly offered four key recommendations from the Business and Industry Advisory Committee at the OECD:

- 1. Economic growth and financial stability must be considered together, rather than as separate issues.**
- 2. Independent analysis should assess the cumulative impacts of different financial regulations on domestic and international economies.**
- 3. A more co-ordinated approach to financial regulation should balance investment, economic growth and financial stability.**
- 4. Reforms and initiatives should encourage alternative sources of funding to play their part in a more diversified landscape of SME financing.**



## 2<sup>nd</sup> Guest Speaker

**Ms Kate Gibson, General Manager, Small Business Banking, ANZ Bank**



Photo: Ms Kate Gibson speaks

The 28<sup>th</sup> of February, April, July and October mark the deadlines for submitting quarterly BAS, and Ms Gibson expressed the hope that Minister Billson's announcement of reduced reporting requirements would spare her and many others from the chore. Too many small business owners are spending too much time grappling with complex government requirements, rather than expanding their business or starting new ones. Large companies like ANZ Bank can hire employees to deal with employee paperwork, superannuation and government regulations, but small businesses owners often do all that work themselves.

Despite the diversity of SMEs in Australia – from scientists to hairdressers and concrete polishers – every SME needs the business skills to turn its great idea and job-related talents into a successful enterprise. Although many SMEs work in traditional sectors, every business is being changed by technology. Ubiquitous internet and increasing consumer confidence in online purchasing mean it is much easier to create a business and trade outside a local area than before, but lowered barriers to entry mean competition is intense. Small businesses can operate on eBay or Facebook, and every good idea spawns any number of clones.

Improved access, connections and education are needed to drive SME growth and develop a more entrepreneurial culture in Australia. Access to finance, markets and skills, for instance, are vital. The ANZ and

other banks offer online tools to help businesses manage their money, take payments through smartphones and maintain their accounts. Despite widespread assumptions to the contrary, the ANZ is willing to lend to SMEs, with a billion dollars lent to new small businesses in 2013 and two billion earmarked for 2014.

However, banks must be prudent and not fund start-ups doomed to fail and mire their owners in debt. Most start-ups are funded by personal savings or credit, but other banking tools can help prospective business people become 'bank-ready' when needed, by developing credible business plans and prospective cash flows.

### Access to finance, markets and skills is needed to drive SME growth and develop a more entrepreneurial culture in Australia.

Ms Gibson backed the development of alternative sources of funding, including venture capital and crowdsourcing, which remain underused in Australia compared to the USA. Access to government contracts through reform and simplification of tender requirements will offer SMEs a lifeline, and ongoing free trade agreements will open new opportunities abroad.

Connectivity encompasses human networks as well as internet speeds. The ANZ links SMEs with larger firms and other organisations at home and abroad to open new markets and opportunities, and other major firms should open their long-established networks to SMEs to help them grow and generate mutual value.

Businesses can struggle to find new customers or hire suitable staff. Banks, government agencies, business associations and private consultancies can all offer advice, but SMEs 'may not know what they don't know' and should be encouraged to use such services more. Information must be offered in easily accessible forms, while online education can help busy small and regional business people expand and improve their management skills through online study in their own time. Such education must be pitched appropriately to match the technological ability or knowledge gaps a small business person may have.

Australia's 2 million small businesses employ half the working population and are creating yet more jobs. International conversations regarding macroeconomic growth cannot ignore the sector, and Australia must support the start-up of new SMEs and encourage existing ones to grow.

## Discussion

Statements and questions were again invited from the floor, with the initial speaker requesting comments on the perceived New Zealand impetus to 'think small first' in terms of regulation and the need to research the financial literacy of SME owners, given that most research focuses on consumers. It was observed that 'think small first' is not a formal policy, but conversations between businesses and the bureaucracy follow that principle. Asking how panel beaters in a regional town might understand a new law is a good starting point for its design.

Although research into the financial literacy of SME owners is scant, it may be little better than the disappointing levels displayed by many consumers. People need more education to handle their finances properly, and the public's dearth of knowledge should influence the design of relevant forms and documentation to ensure they are clear and to the point.

**Most small businesses fail to control their cash flow or understand their balance sheet, and better education would help drive the sustainable growth required to create stable jobs.**

The second speaker noted that although governments encourage SMEs to increase employment for the nation, SMEs hire people to further their own concerns. Growth is risky and, as previously outlined, newly formed, fast growing 'gazelles' comprise only 1–2% of all firms. Firms should concentrate on functional quality, rather than structural quantity, as a result. Although there are 2 million registered businesses in Australia, 60% comprise the self-employed or 'micro-firms', but encouraging the remaining 40% to hire one more worker would transform the economy. Helping such firms think more strategically, assess their own capacity and mentoring their managers would help create new jobs in every community. Finally, the speaker saw the completion of a quarterly BAS as a useful discipline and warned against a return to the haphazard business practices of a previous era. Most SMEs fail to control their cash flow or understand their balance sheet, and better education would help drive the sustainable – rather than frenetic – growth required to create stable jobs.

Another speaker discussed the problems caused by the crash of hotel valuations during the GFC and hoped banks had learned circumspection in assessing a sector's fundamentals and would show more sensitivity in the wake of a similar event.

The following speaker stressed the importance of profitability as the driver of private sector-led growth and noted that no speaker had discussed it. He urged the adoption of still more ambitious growth targets to spur the fundamental reforms society required, rather than settle for the low hanging fruit of small and incremental changes. He advocated a 'bigger Australia' to produce more customers and generate economies of scale and the wholesale deregulation of the labour market to boost employment and business returns.

The next speaker hoped a follow-up event could be held in Istanbul under the Turkish G20 presidency. He advocated the elevation of the OECD's highly successful working party on SMEs, founded in 1993, to full committee status. He also welcomed the ACCI's offer to help develop a voluntary commitment by government departments and large entities to purchase 20% of their requirements from SMEs.

An industry association representative asked how often banks refer small businesses back to associations such as the ACCI, Master Builders or the Australian Retailers Association for assistance in good time. Such associations are all too often left to deal with the 'scrapheap' of businesses who approach them in dire straits, having signed an expensive lease they cannot afford or failed to understand employee relations, penalty rates and other issues. It was agreed that entrepreneurs should be 'bank ready' before seeking finance, and more advice from industry associations would be benefit all concerned. No-one's interest is served when firms are doomed to failure from their inception.

The following contributor re-emphasised the need for smarter regulation and implementation. Governments should consider why specific licenses and registrations exist, and why they take the form they do, rather than maintain them through mere force of habit. If passports are valid for ten years, then more trivial licenses and registrations should not be renewable every year without good reason.

Government acts as a 'model litigant' in legal affairs and should become a 'model business' when contracting SMEs. Government should partner with business, rather than control it, it should simplify and educate, rather than legislate and enforce. Government should encourage networks across the public and private sector to improve collaboration in research and other areas.

**Government should partner with business, rather than control it, it should simplify and educate, rather than legislate and enforce.**

The next speaker reiterated a previous call to transform traditional thinking. Rather than incur the costs and administrative headaches of employing another person to do his work, he preferred to save money by using a string of low-cost freelancers on an ad-hoc basis. The 'freelance economy' is growing quickly, fuelled by social networks and a lack of full-time alternatives, but its effects are not being recorded by research. Many people run home businesses via Facebook, eBay or other sites as well as holding a day job. Policy makers should not be constrained by the definitions they grew up with as technology is changing them an unprecedented rate.



Photo: Mr Brad Howarth makes a comment

It was agreed that prospects for companies which shun technology engagement are grim. 75% of Australian consumers research purchases online, and though 80% would rather buy online from Australian providers, domestic companies which are not online are effectively invisible.

The future of Australian SMEs may rest in their integration with global supply chains. The next speaker recommended a focus on innovation, technology and commercialism to reduce the risks faced by new ventures and help them secure support from financial institutions. Many SMEs remain 'lonely enterprises' and connecting them with like-minded and larger firms in new clusters, networks and associations could benefit all concerned.

An academic acknowledged that reducing SME failures, encouraging start-ups and boosting the growth of individual businesses are all feasible, but argued policies to save particular firms or jobs would be counter-productive. Estimations of small business failure rates are greatly exaggerated, as most firms choose not to continue for a host of reasons other than incipient bankruptcy. Start-ups should be encouraged, particularly in technology and knowledge-intensive industries. The speaker agreed that freelancing improves the economy's flexibility and that individual businesses do not grow for the sake of employing more people or generating more tax revenue, but because it makes individual sense for them to do so. Rather than pushing small businesses to grow for the sake of it, policies should develop their competence, competitive edge and ability to generate profit. This will then generate the confidence, ability and retained earnings required for sustained expansion. Many countries have adopted expensive and unsuccessful approaches based on mistaken assumptions or poorly executed in practice. Small business policy should not protect existing SMEs, but encourage a dynamic economy of firms of every size. The businesses of today should not be favoured over the potential businesses of tomorrow.

The next speaker stressed the importance of women to SMEs and the wider economy. The Australian Bureau of Statistics' data shows the number of women running their own business has increased by a quarter over the last decade, compared to just a hundredth more men. Only 1% of government contracts go to women, even though women in Australia account for 40% of SMEs. The former Labor government distributed \$11 billion to SMEs in government contracts, but recorded no data regarding the percentage of female recipients. A wider lack of research is handicapping Australia's involvement in international benchmarking by the OECD and leaves policy makers ill-informed about

developments in the economy. More data is needed to identify areas of failure and learn from business success.

A wider lack of research is handicapping Australia's involvement in international benchmarking by the OECD and leaves policy makers ill-informed about developments in the economy.

A family business representative claimed there are 480,000 family-owned businesses in Australia, generating \$4.3 trillion in total, albeit with the help of some major mining companies. Most family businesses remain SMEs, however, and face the same issues regarding technology, markets and regulation as other small firms. Issues of succession are also important to family businesses, and many are lost when older parents retain control until their frustrated adult children seek other avenues. Capital gains and other tax issues can complicate or penalise early generational transition and should be addressed. The speaker then elaborated on the concept of 'economic gardening', through which SMEs are encouraged to take on an extra worker or two, and outlined its success in Wollongong after the contraction of its steel mill and the failure of alternative re-employment strategies.

Another speaker noted that banks are businesses and maximise profit and minimise risk in the same manner as SMEs. Banks are profitable when the economy is thriving, and the economy will thrive when SMEs succeed. The whole economy must be funded properly for SMEs to receive loans, given that relatively high-risk, low-yielding firms are the first to suffer from a reduced willingness to lend, and so banks will encourage the Government to continue funding flows. Banks want to make it easier and less stressful for SMEs to apply for loans and are working with small business associations and accountants to build materials to help owners understand what banks require.

A small business owner with experience within the public sector had been struck by the extent and negative impact of the oft-lamented silos within government. He argued that regulation, although much criticised during the Conference, could offer Australia a competitive advantage. Foreign firms looking to invest in medical research, for example, would be attracted to nations with favourable regulatory environments, given the huge costs of developing new drugs and health equipment.

These sentiments were endorsed by a chemical industry advocate who criticised the large number of specific regulations and controls affecting her sector. A 2008 Productivity Commission report offered a roadmap for regulatory relaxation, but in practice more regulation has been added than reformed. Change needs champions in government and she agreed that a cross portfolio approach is required. Industry must offer the public a better rationale for deregulation to secure their support and government must employ better risk management to balance risk and reform.



A guest from South Australia praised Minister Billson's passion for the issues and his focus on business outcomes rather than government process. He stressed the potential of better education, noting the success of Australia's long standing anti-smoking campaigns. Teaching entrepreneurship in schools could help tackle youth unemployment and reinvigorate Australian business culture. Not every young person will start a business, but they would all understand what small business entails. In the 1990s, a Melbourne schools competition offered seed funding as a prize for the best business idea, and several young people went on to form highly successful firms as a result. Such programmes are not complicated or expensive, but can generate lasting benefits.

A small business owner agreed that SMEs are handicapped by paying tax rates more than six times higher than many larger companies, who similarly appear to evade much of the red tape which entangles their smaller competitors. Competitiveness should not be an euphemism for

paying employees as little as possible, and corporate social responsibility should see all companies competing on an equal playing field. It was underlined that large scale tax avoidance and 'creative accounting' by major firms will be targeted by the G20. Transfer pricing and thin capitalisation are also being addressed.

Another speaker emphasised the importance of retaining an international perspective. Governments always focus on jobs, because jobs mean votes and votes motivate politicians, but employment is a significant cost to any business and boosting profitability would be more productive over time. Businesses will increasingly use freelancers for occasional services to avoid the fixed costs of permanent employment. Disruption driven by globalisation and technology has been little discussed at the Conference, but is ongoing throughout the economy. Many Australian businesses feel threatened by these changes, but this will motivate improvement. Disruptive technologies always favour new entrants, and Australians are well placed to grasp new opportunities. Incumbent and traditionally oriented medium-sized businesses should not be protected from more innovative start-ups. Singapore, Malaysia, Indonesia and other fast-growing neighbours have established tax favourable zones to encourage innovation and small business, and Australia could follow suit.

Australia's 40,000 exporting SMEs are courageous, innovative and optimistic – qualities which make them Australia's best companies as they must compete with the cream of local and international competition to succeed. SMEs seeking export support favour services which are simple, efficient and employ new technology. Disruption in financial services, including peer to peer funding, will open more finance opportunities for exporting SMEs, as well as start-ups and firms wanting to expand.

A host of international meetings to set the B20 agenda raised the same issues of tax, regulation, access to finance, labour market flexibility, training and support for innovation discussed during the day. The issue of integration with global supply chains provoked a mixed reaction, however, with some countries remaining wary in an effort to protect local content. The G20 must continue to discuss and drive these domestic policy settings. The day's discussion of regulation and risk taking highlights a fundamental divide in the community, as many citizens enjoy the security of regulation, although it may undermine the enterprise on which their prosperity depends.



An attendee from an organisation supporting start-ups saw a lack of education underpinning many of the problems facing budding entrepreneurs. There is no formal path to become an entrepreneur, unlike most trades and professions, and people may have the desire but not the know-how to attempt it. Skills in a particular task do not necessarily translate to the ability to run a business or generate sales, and mentoring by successful small business people is often the best way to share knowledge. Internet networks to this end have cost-effective potential, while non-profits such as Start-up Australia offer e-business and online courses for free. A thriving non-profit sector has emerged in recent years to support start-ups and SMEs, helping around 100,000 firms a year, given that they are expected to collect tax, protect consumers, employ people and benefit the economy, as well as ply their trade.

### **Mentoring by successful small business people is often the best way to share knowledge.**

Another speaker appealed to academics to produce more relevant research. There is little relation between many studies and actionable outcomes; indeed researchers are often not funded for practical work. Most studies target medium-sized firms because they have the infrastructure to generate the statistics required, but the bulk of smaller businesses behave more like individual consumers than the impersonal operations of larger firms.

Another speaker praised the work of the oft-maligned regulators, as necessary, efficient and relevant regulation benefits the country economically as well as socially. Industries would not enjoy the sales-generating credibility they rely on, were it not for regulation. Regulators should see themselves as part of the industry they administer and be as committed to its success as anyone within it.

## Closing Remarks and Vote of Thanks

### **Mr Victor Perton, Senior Adviser, G20 Engagement, G20 Division The Treasury, Australian Government**

Victor Perton praised Minister Billson for his commitment to the issues and the event, thanked Ms Kate Carnell for her chairmanship and Mr Ben Carroll MP for allowing the use of the Legislative Assembly Chamber. He acknowledged members of the steering committee, the G20 team at the Australian Treasury, the GAP taskforce on SMEs and the staff of Global Access Partners. Mr Perton paid tribute to the keynote speakers and the sponsors, thanked attendees for their contributions and brought proceedings to a close.

## REFERENCES

- <sup>1</sup> Australian Government Competition Policy Review: Terms of Reference; December 2013; <http://competitionpolicyreview.gov.au/>
- <sup>2</sup> Australian Government Entrepreneurs' Infrastructure Programme; <http://www.industry.gov.au/industry/Pages/EstablishmentOfTheEntrepreneursInfrastructureProgrammeDiscussionPaper.aspx>
- <sup>3</sup> "Encouraging a British Invention Revolution": Sir Andrew Witty's Review of Universities and Growth, Final Report and Recommendations, October 2013, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/249720/bis-13-1241-encouraging-a-british-invention-revolution-andrew-witty-review-R1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249720/bis-13-1241-encouraging-a-british-invention-revolution-andrew-witty-review-R1.pdf)
- <sup>4</sup> Infrastructure Growth Package, Media Release by the Australian Minister for Infrastructure and Regional Development, 13 May 2014; [http://www.minister.infrastructure.gov.au/wt/releases/2014/may/budget-infra\\_12-2014.aspx](http://www.minister.infrastructure.gov.au/wt/releases/2014/may/budget-infra_12-2014.aspx)
- <sup>5</sup> The Infrastructure Investment programme, Department of Infrastructure and Regional Development; Australian Government, <http://investment.infrastructure.gov.au/>
- <sup>6</sup> The Doha Round is the latest round of trade negotiations among the WTO membership.
- <sup>7</sup> Global Liveability Ranking and Report, August 2013, Economist Intelligence Unit's (EIU) Global Livability Survey. [https://www.eiu.com/public/topical\\_report.aspx?campaignid=Liveability2013](https://www.eiu.com/public/topical_report.aspx?campaignid=Liveability2013)
- <sup>8</sup> Small Business - Too Big to Ignore; <http://toobigtoignore.org.au/>
- <sup>9</sup> The Missing Entrepreneurs: Policies for Inclusive Entrepreneurship in Europe - Report; OECD, The European Commission, 18 December 2013; <http://www.oecd.org/cfe/leed/missing-entrepreneurs.htm>
- <sup>10</sup> OECD Scoreboard for Financing SMEs 2014; <http://www.oecd.org/cfe/smes/financing-smes-scoreboard-2014.htm>
- <sup>11</sup> The G20 Small and Medium Enterprises Workshop, Riyadh, Saudi Arabia; March 2014; [https://www.g20.org/news/g20\\_small\\_and\\_medium\\_enterprises\\_workshop\\_riyadh](https://www.g20.org/news/g20_small_and_medium_enterprises_workshop_riyadh)
- <sup>12</sup> "Encouraging a British Invention Revolution": Sir Andrew Witty's Review of Universities and Growth, Final Report and Recommendations, October 2013, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/249720/bis-13-1241-encouraging-a-british-invention-revolution-andrew-witty-review-R1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249720/bis-13-1241-encouraging-a-british-invention-revolution-andrew-witty-review-R1.pdf)
- <sup>13</sup> Liquefied Natural Gas (LNG)
- <sup>14</sup> SME Association of Australia (SMEA) Survey released June 16, 2014; <http://www.mcnairingenuity.com/media-release-smea-survey-outlook-for-sme-sector-strong-but-anchors-are-holding-back-growth-economy-monday-june-16-2014/>
- <sup>15</sup> Australian Government Competition Policy Review: Terms of Reference; December 2013; <http://competitionpolicyreview.gov.au/>
- <sup>16</sup> Australian Government Entrepreneurs' Infrastructure Programme; <http://www.industry.gov.au/industry/Pages/EstablishmentOfTheEntrepreneursInfrastructureProgrammeDiscussionPaper.aspx>
- <sup>17</sup> Better Public Services Targets, New Zealand Government, <http://www.ssc.govt.nz/better-public-services>