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Submission: Enhancing the competitiveness of the SME sector through the establishment of an Australian national small business agency

This submission has been prepared by Professor George Tanewski on behalf of the IPA-Deakin SME Research Centre. Professor Tanewski is an accounting academic employed in the Department of Accounting, Deakin Business School, Deakin University, Victoria, and is also director and research leader of the IPA-Deakin SME Research Centre, which focuses on issues that inform and support the small-medium size enterprise (SME) ecosystem. The mission of the Centre is to generate robust research evidence and to translate the evidence into knowledge on SMEs to inform policy change that supports better SME practice.

It is a pleasure to take this opportunity to contribute to this Treasury consultation on revitalising national competition policy. This submission advocates for the establishment of an Australian national small business agency along similar lines to the USA's Small Business Agency (SBA) to support the growth, sustainability and competitiveness of Australia's economically essential SME sector¹. The submission outlines arguments for establishing a national centralised 'one-stop shop' small business agency such as it would not only enhance co-operation and co-ordination between (and within) different levels of government, but it would lead to better service delivery, lower transaction costs and enhance the competitiveness of the Australian SME sector.

A national centralised 'one-stop shop' agency supporting SMEs would serve two primary purposes: (a) Improving the economic performance and competitiveness of the Australian SME sector; and (b) Increasing the efficiency and effectiveness of government service delivery to the SME sector. Although the initial set-up costs for the agency may be high, these could be more than offset by resulting efficiency gains for governments and for SMEs themselves. A 'one-stop-shop' agency

¹This submission is based on the following 2022 report that was written by Tanewski, G.A., Shi, W., Kavourakis, J., and Zaman, M., and published by the IPA-Deakin SME Research Centre:
https://www.deakin.edu.au/_data/assets/pdf_file/0011/2630954/National-Australian-SB-Agency_SBWP_2022_Digital-ISBN.pdf

would offer multiple support services to small businesses from a single central source – taking over and consolidating many roles currently performed by a disparate array of federal and state-run small business agencies.

There is recognition by governments in some developed economies that purely market-based solutions for provision of support services to small businesses are limited by the possibility of market failure – particularly in relation to access to finance – resulting in lost opportunities for businesses and the broader economy. Based on overseas evidence, we argue that Australian governments must not only do more to mitigate market failure relating to financing of small business but play an active role in developing and deepening financial systems to support the SME sector.

Hence, we identify two important roles for such an agency. The first would be as an intermediary for financial capital assistance to SMEs – facilitating access to both public and private sources of assistance for small businesses. We believe this could go a long way towards overcoming existing blockages and information barriers that arise from the currently fragmented array of small business support services across various state and federal bureaucracies – problems that ultimately lead to lost opportunities and competitiveness for businesses and the economy as a whole. In its other role, the agency would support the formulation of government policy on SMEs by becoming a national hub for researchers. Currently, valuable government data on Australian small businesses is held in the data vaults of multiple state and federal agencies, making it difficult and sometimes prohibitively expensive for researchers and policymakers to access essential information for public policy debates and policy formulation. In this second role, the small business agency would work with the Australian Bureau of Statistics to provide ready and affordable access for researchers, policymakers, and others to a broad and comprehensive spectrum of state and federal government data relating to SMEs, thereby assisting the evaluation and formulation of public policy and support programs – including those conducted by the agency itself.

The need for a new agency to support small businesses in Australia is also underlined by the functional limitations imposed by legislation on the existing roles of the Australian Small Business and Family Enterprise Ombudsman (ASBFEO). The Ombudsman's office was established under the Australian Small Business and Family Enterprise Ombudsman Act in 2015 and although it acts as an independent advocate for small business, the ASBFEO is limited in its assistance functions. ASBFEO's responsibilities are legislatively limited to the following primary three roles only:

1. Advocating for small businesses and family enterprises.
2. Assisting these businesses with dispute resolution services.
3. Ensuring that government policies are small business friendly.

These narrow roles are also divided among a multitude of different commonwealth and state-based agencies and government departments, which has both hampered the competitiveness of Australian SMEs and exacerbated the fragmented nature of support that Australian SMEs receive from government.

Establishment of a single Australian national small business agency is based on a detailed analysis that the IPA-Deakin SME Research Centre undertook of SME support programs and infrastructure in OECD countries that already have established centralised small business agencies. The Centre analysed and compared different SME support programs from several OECD countries including the United States, Canada, the United Kingdom, France, Netherlands, Ireland, Poland, Japan, South Korea, and Singapore. We analysed and compared financial support programs that varied along the lines of debt, equity, grant, tax, and subsidy funding for a wide range of small business purposes and circumstances – including key considerations such as business life-cycle stage, size of business and industry. We found that after establishing centralised small business agencies in their respective countries, especially recently created centralised agencies such as in France, the UK and Poland, the governments reported that their centralised agency had overcome problems of poor coordination between interdependent government agencies and departments, reducing fragmentation and duplication of services, and minimising search costs.

So, the evidence from these countries strongly supports the argument for establishing a centralised small business agency in Australia – but with important distinctive features. Specifically, the agency should have defined objectives and mandates to assist SMEs using a ‘pro-market activist’ approach, which holds that interventions must be supported by a robust cost-benefit analysis. This requires that state intervention to overcome market imperfections should occur only where the benefits of intervention can be shown to outweigh the costs. Several SME agencies in OECD countries with a ‘pro-market activist’ stance have specific mandates to develop institutional infrastructure for small business financial support, and to complement, rather than replace, the role of private capital providers in areas where the state has comparative advantage – in particular, provision of public goods, coordination, and risk bearing. This approach is typically underpinned by sound information and data sharing systems and platforms, and by development of a complete set of financial instruments to assist in the provision of either equity or debt capital. We support such an approach for Australia.

Assistance programs to address market failures relating to small business tend to fall into two broad categories: those that seek to foster competition by reducing the market power of oligopolies and monopolies, and those that seek to alleviate difficulties faced by small businesses in accessing financial capital (Dilger, 2016). Financial support provided by these programs can take

various forms, each serving a slightly different purpose. Some offer direct loans or venture capital to firms, while others seek to enhance small business access to private capital – or to overcome financial constraints that may otherwise limit the formation or expansion of SMEs. Other initiatives offer direct and indirect assistance to small businesses, such as programs to increase small business access to government contracts, programs offering natural disaster recovery assistance, and small business management and technical assistance training programs to help increase managerial and technical capacities among SMEs.

Under a ‘pro-market activist’ approach, determining whether government intervention is warranted to support capital access to SMEs requires an evidence-based understanding of costs and benefits. Moreover, given the competing claims on scarce public capital and resources, interventions must not only be effective but economically and politically appropriate and feasible. For these reasons we propose an important secondary role for a centralised small business agency: curating and facilitating the dissemination of open data related to small business – primarily from government databases – to support the formulation of evidence-based programs and policies.

The release of open data not only provides potential private benefits for SMEs, but also substantial public benefits from reducing barriers to effective research and policy evaluation. Despite the evident benefits, it took Australia until 2018 to begin a dedicated program of opening government data to public scrutiny. Open data is a public good. For research purposes, it enables investigation in areas where it would be otherwise unfeasible to procure or produce research data due to its high cost of construction, purchase, or compilation (Pfenninger et al., 2017). The release of open data also maximises economies of scale, and provides common, homogenous, and consistent data to researchers, collectively improving the quality of research and policy formulation. For data relating to capital access programs and SMEs, the prospects of external examination of such data in the absence of its mandated release by government are likely limited or non-existent. Accordingly, we propose that a small business agency coordinate the release of data relevant for SME policy investigation and provide formal recommendations to government on the release of specific datasets.

To test the case for the agency having this role, we examine the data offerings of a sample of OECD countries and compare these to those currently available in Australia. We adopt a broad interpretation of open data based on the Sebastopol Principles and the International Open Data Charter, to which Australia is a signatory, factoring in the availability of data, the conditions under which the data are provided and the extent to which those conditions support effective data use. Drawing on a sample of similar jurisdictions including Canada, France, the United Kingdom and the United States, our analysis reveals that while the provision of open data in Australia is at a level

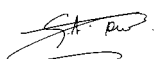
comparable to other OECD countries, the available data – particularly bulk data in machine readable datasets – is not always as easy to access or to use. Accordingly, we argue that a new central agency with clearly defined objectives would be well-placed to support the curation and release of open data on issues of relevance to small business policies and programs.

In summary, based on overseas evidence, we propose that Australian governments must not only do more to mitigate market failure relating to financing of small business, but they must play a more active role in developing and deepening financial systems to support and to enhance the competitiveness of the SME sector. Despite extensive evidence for the advantages of establishing such an agency, Australia remains something of an outlier with its fragmented array of support programs spanning multiple governments (federal and state), and various departments and agencies within those governments. This lack of coordination and integration of support for small business represents a significant lost opportunity for Australia and – given the importance of the SME sector – a potential drag on national economic prosperity and competitiveness.

Accordingly, the best way to pursue these objectives in Australia is to set up a new centralised national small business agency that has two important roles. The first would be as an intermediary for financial capital assistance to SMEs – facilitating access to both public and private sources of assistance for small businesses, whereas the second role would be for the agency to support the formulation of government policy on SMEs by becoming a national hub for researchers. Such a body would not only assist the small business sector in accessing reliable information related to financial capital, but it would also contribute to small business owners better understanding and accepting the decisions affecting them as well as shaping the situations in which they operate, thereby enhancing the democratic processes in Australia.

We look forward to discussing further and in more detail our proposal for the establishment of an Australian national small business agency with Treasury. Please address all enquires to Professor George Tanewski. Department of Accounting, Deakin Business School, [REDACTED]
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Yours sincerely



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