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Report for the Department of Treasury (Australian Small Business and Family Enterprise Ombudsman (ASBFEO))

An Investigation into How Crisis Events Affect Small Business and Family Enterprises and which Factors (Internal and External) Stem Decline, Help Recovery, and Promote the Development of Resilience

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Executive Summary

This report has been commissioned by the Department of Treasury (Australian Small Business and Family Enterprise Ombudsman (ASBFEO)) to investigate how crisis events affect micro, small and medium sized businesses (MSMEs) and family enterprises and to determine which factors (internal and external) stem decline, help recovery and promote the development of resilience.

The research methods employed to carry out this research included three distinct phases. The first phase of the research was to undertake a review of the existing literature on MSMEs and crisis response. The second phase of the research was to undertake a longitudinal analysis of MSMEs economic performance though a crisis drawing on data from the Business Longitudinal Analysis Data Environment (BLADE) and using the Global Financial Crisis (GFC) as an exemplar. The third and final phase of the research was to undertake a desktop search of government policies and programs implemented in response to various crisis events and aimed at aiding MSMEs to emerge from the crisis event successfully. Key insights have been drawn from the research and recommendations have been made which will place MSMEs and family enterprise in a better position to be able to stem decline, help recovery and promote the development of resilience when crisis events occur.

Key insights from our review include:

- An effective response to a crisis requires a combination of 'top-down' and 'bottom-up' approaches, and government, private and community initiatives are necessary. The response of governments to a crisis event is the most significant external enabler which can be deployed in times of crisis to help MSMEs to stem decline and to recover.
- It is critically important that governments target policy responses so that they reach those businesses most impacted by a particular crisis event, and that these measures are appropriately executed and monitored in a timely manner.
- Fiscal policies introduced in anticipation of, or in response to, crises must necessarily be shaped by the crisis at hand. Crises of longer duration, such as the GFC, will warrant a different approach to crises which have immediate impacts, such as natural disasters or global pandemics.
- The ability for MSMEs to access finance immediately following a crisis event is of critical importance. Direct financial assistance seems more appropriate for, and has been utilised within, various jurisdictions in response to more immediate (and often devastating) crises such as natural disasters. Promptly stemming decline and initiating recovery is paramount. Government programs providing direct financial assistance must be structured to avoid unintentionally inhibiting the development of sustainable, fiscally responsible, and functionally resilient MSMEs in the longer term. Secondary forms of assistance, such as training and development programs, appear to be supplementary in nature and geared more towards developing resilience in response to crises.

- Mechanisms to remove contractual and other legal constraints during a crisis event, so that businesses can be agile and adapt to the crisis early, are important to assist MSMEs to stem decline and enact recovery.
- Community involvement strategies should be implemented from the earliest opportunity following a crisis event and integrated into a full range of responses within the recovery process.
- It is critically important that MSMEs are proactive, innovative and adaptative during crisis to boost resilience and post-crisis recovery prospects. These traits can create market opportunities and positive performance in times of crisis and have greater long-term efficacy.
- MSME proprietors must be able to easily find and access the support for which they are eligible before, during and after crisis events.
- 'Red tape' for accessing support should be minimised to the greatest extent possible. Processes should integrate with existing systems, and be supported by information available to government agencies, in order to expedite access to these supports and remove the administrative burden on MSMEs.
- The use of online communities has been found to provide significant benefits to MSME proprietors.
- The mental health of business proprietors and workers during a crisis is an important consideration linked to business recovery.
- Government crisis initiatives are overwhelmingly reactive in nature and take place after the event (i.e., within the 'absorptive/adaptive phase' of the crisis lifecycle). Greater investment in the pre-crisis phase of the crisis lifecycle (i.e., the 'proactive phase') may result in greater returns than investments in the later phases.
- There are several internal enablers which can be implemented in the proactive phase of a crisis event that can mitigate against the disruption and losses to an MSME in the event of a crisis. However, there is a paucity of policies designed to incentivise MSMEs to invest in the various known enablers at the 'proactive' and 'new normal' phases of a crisis. MSME resilience can be fostered by policies which facilitate effective lean management through efficiency training programs. Appropriately calibrated, training supports can be extremely beneficial in helping MSMEs withstand and recover from crises.

Key insights from our longitudinal economic performance (BLADE) analysis crisis exemplar of the GFC include:

- The impacts of crisis (GFC) on firm economic performance include: increases in firm exits from the economy; higher levels of firm contractions; lower levels of firm expansions; decreases in firm profits; and reductions in firm revenue and employment growth.
- While the impacts of (GFC) crisis on the economic performance of firms can vary quite markedly, these may stem from a single (GFC) crisis event. However, the overall impact

of (GFC) crisis, and subsequent recovery from this impact, depends on the nature of the firm and its characteristics (i.e. firm size, firm type).

- Medium sized firms in aggregate experience more extreme impacts of (GFC) crisis (i.e. increased firm exits, larger downturns in profit) than small and micro firms. However, those medium sized firms that persist and remain engaged in the economy are also likely more able to recover strongly (i.e. increased firm expansion; increased revenue and employment growth) beyond the (GFC) crisis.
- Aggregate recovery from the impact of the GFC crisis, which reflects the experience of the majority of firms, occurred between one and two years depending on the metric and firm type. Firm contraction seems to be short lived (one year), while profit impact more enduring (two years). Other impacts such as aggregate firm expansion and growth appear to have a more enduring impact, persisting for at least four years.
- Notwithstanding size effects there are significant differences in the impacts of (GFC) crisis across industry sector profitability. Industries driven by aggregate consumer or business demand (e.g. retail or wholesale trade, transport and other services) may experience less strong downturns in profit when compared with generative industries (e.g. manufacturing and construction); however, they are not able to recover as strongly, nor as rapidly.

On the basis of our findings, we recommend that the Department of Treasury (Australian Small Business and Family Enterprise Ombudsman (ASBFEO)) pursue a number of objectives, which we frame as **RECOMMENDATIONS**. These are addressed in **Part 8**.

1. Introduction

This report has been commissioned by the Department of Treasury (Australian Small Business and Family Enterprise Ombudsman (ASBFEO)) to investigate how crisis events affect micro, small and medium sized businesses (MSMEs) and family enterprises and to determine which factors (internal and external) stem decline, help recovery and develop resilience.

The research methods employed to carry out this research included three distinct phases. The first phase of the research was to undertake a review of the existing literature on MSMEs and crisis response. The review highlighted the critical role of 'resilience' as a prerequisite for those firms who experience a crisis event to be able to emerge from that event successfully. Two seminal papers on organisational resilience[1] were used to develop a conceptual framework which was applied in the third phase of the research. The framework outlines the three broad enablers of organisational resilience (resources, dynamic competitiveness, learning and culture) and how they can be cultivated pre, during and/or post-crisis.

The second phase of the research was to undertake a longitudinal analysis of MSMEs economic performance though a crisis drawing on data from the Business Longitudinal Analysis Data Environment (BLADE) and using the Global Financial Crisis (GFC) as an exemplar.

The third phase of the research was to undertake a desktop search of government policies and programs implemented in response to various crisis events and aimed at offering assistance to MSMEs to emerge from the crisis event successfully. The desktop search utilised a broad range of search engines, portals, and government websites. Many of the jurisdictions investigated have a set of generic disaster response policies and programs which are often activated based on a declared disaster event. In addition, governments introduce specific policies designed and implemented for a particular disaster event, such as an earthquake or the COVID-19 pandemic. The policies and programs captured in the desktop search were then arranged in Part X of this report (as well as in an accompanying Excel spreadsheet) according to the categories and sub-categories of broad assets in the Pal, Torstensson and Mattila framework. Key insights have been drawn from the research and recommendations have been made which will place MSMEs and family enterprise in a better position to be able to stem decline, help recovery and promote the development of resilience when crisis events occur.

This report is structured as follows. Section 2 summarises relevant BLADE data and provides unique statistical insight into MSME crisis response. Section 3 summarises insights from the review of literature on small business crisis response policies and programs in Australia and the comparative jurisdictions of New Zealand and the United States. This is followed by Section 4, which summarises the suite of crisis response policies and programs enacted in each of the example jurisdictions in response to notable crises. These policies and programs are also summarised in graphic form in Section 5. In Section 6, some key exemplars of approaches to

[1] E Conz and G Magnani, 'A Dynamic Perspective on the Resilience of Firms: A Systematic Literature Review and a Framework for Future Research' (2020) 38(3) *European Management Journal* 400-412; R Pal, H Torstensson and H Mattila, 'Antecedents of Organizational Resilience in Economic Crises – An Empirical Study of Swedish Textile and Clothing SMEs (2014) 147 *International Journal of Production Economics* 410-428.

supporting MSMEs in times of crisis are examined. The report concludes with Section 7 where a small number of preliminary recommendations are offered based on insights from our analysis.

2. BLADE Analysis

Exemplar: Global Financial Crisis (GFC)

The Australian Bureau of Statistics (ABS) has recently provided enhanced access to the Business Longitudinal Analysis Data Environment (BLADE). This database includes administrative tax and related data about all firms in Australia since 2001-02. This provides an opportunity to retrospectively assess the impact of crises on different types of firms.

The current study examines the 2008-09 Global Financial Crisis (GFC). In essence, the analyses examined the trends in the economic performance of different kinds of SMEs over this period – to understand the impact and recovery of these firms. Specifically, we analyse the period before and after the GFC, the onset of which occurred after the collapse of Lehman Brothers in September 2008. The strongest impact of this crisis was felt by firms in the 2008-09 income year. As such, we use the period 2005-06 to 2007-08 to establish a baseline trend prior to the GFC, and the period 2009-10 to 2011-12 to evaluate the recovery. We analyse: (1) counts of firms; (2) firm exits, contraction and expansion; (3) employment; (4) revenue; and (5) profits.

The analyses compare SMEs by: (a) size class; (b) sector; and (c) innovation (R&D tax concession). The size classes were established by (imputed) Full-Time Equivalent (FTE) employees as follows:

(a) *Non-employing* if FTE=0
(b) *Micro*: FTE > 0 and FTE <5
(c) *Small*: FTE >=5 and FTE <20
(d) *Medium*: FTE >=20 and FTE <200

Revenue limits were also applied for each size class, to exclude likely larger entities (ABNs) that report employees in a related ABN, or businesses that represent some other form of financial instrument (see Appendix).

Before presenting the findings, we would like to highlight a few important limitations of the data that impact upon the interpretation of these findings:

1. It was not possible to distinguish self-employment from other types of business entities that are non-employing, such as entities within group structures, financial instruments, or "side-hustles". Consequently, self-employment is excluded from the analysis of contribution to employment, except where the individual paid themselves wages.
2. Sectors such as Education, Health and Social Services are substantially underestimated because public-sector entities were excluded.
3. The Financial and Insurance sector is excluded due to anomalies in the data (domination of aggregated totals by high revenue low employee firms).

Counts of Firms

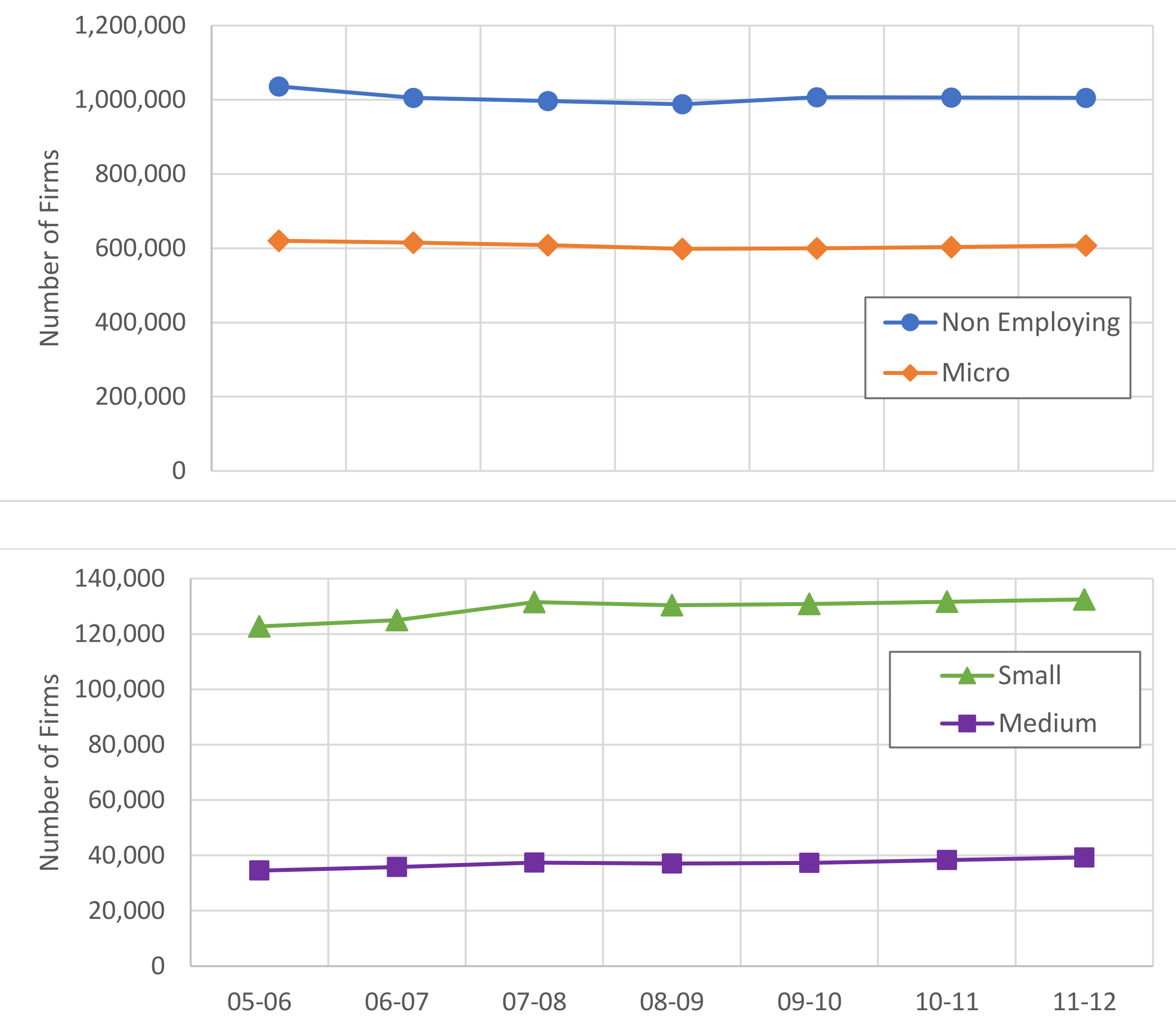
An initial overview of SMEs during the period is provided by Figure 1, which shows the count of firms by size class each year. As expected, the total firm count is dominated by Non-employing and Micro firms. For that reason, we have plotted the trends on two separate axes.

While the firm counts are reasonably stable over time, we observe:

- Non-employing firms decrease from 2005-06 through 2008-09, before increasing in 2009-10.
- Similarly, Micro firm numbers decrease from 2005-06 through 2008-09.
- In contrast, both Small and Medium firms increase from 2005-06 through 2007-08.

Since these shifts occur before 2008, they are unrelated to the GFC.

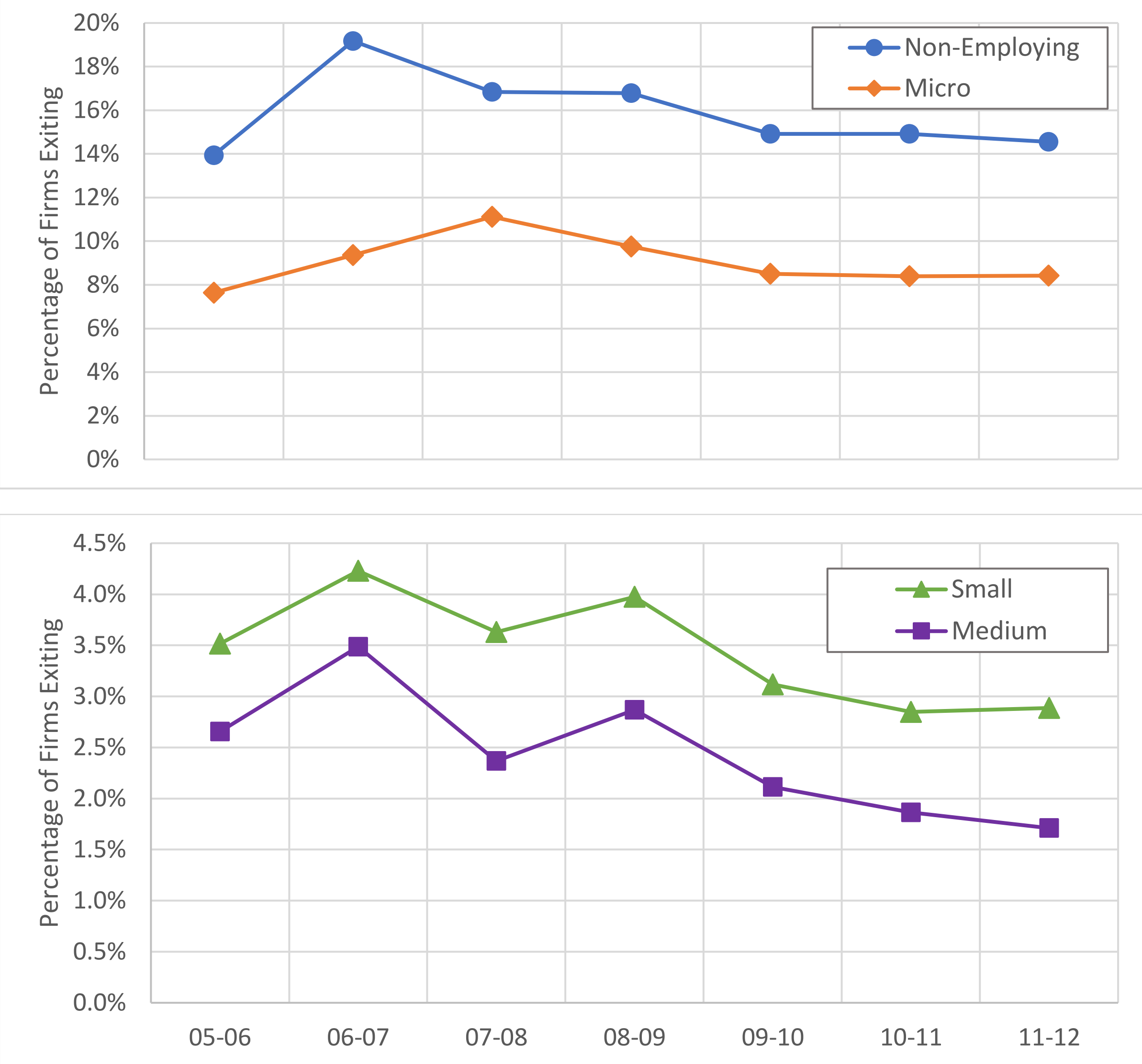
Figure 1: Counts of Firms by Size Class



Exit Rates by Size Class – Impact on Small and Medium Firms

The most extreme impact of a crisis is to bring about firm failure and exit. Accordingly, we commence our analysis by examining the trend in firm exit rates by size class. Figure 1 displays the percentage of current firms that exit in each year (i.e. fail before the subsequent year). Because exit rates vary substantially depending on size class, we plot the Non-employing and Micro firms on separate scale to Small and Medium firms.

Figure 1: Firm Exit Rates by Size Class



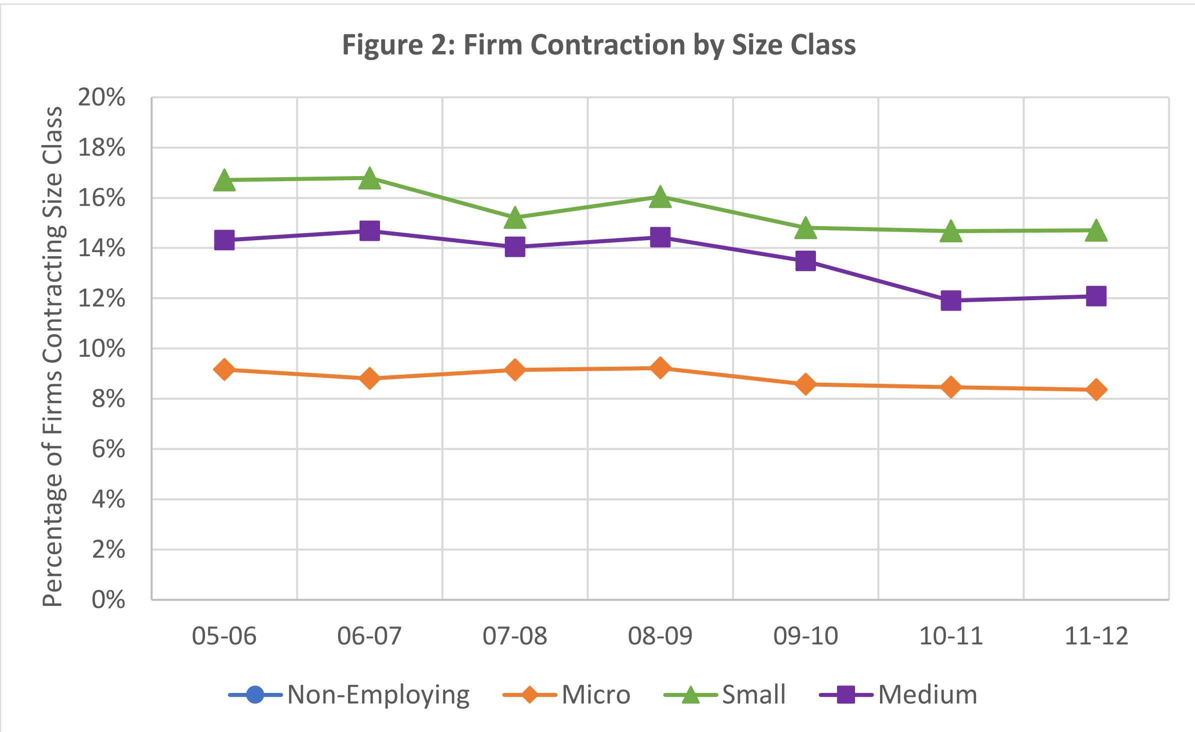
We do not observe any clear negative impact of the GFC (i.e. 2008-09) on exit rates for Non-employing and Micro firms. In fact, Micro firms seem to display a downward trend in exit rate through 2008-09 and 2009-10. However, we observe a clear increase in exit rates for Small and Medium sized firms for the year 2008-09, with a recovery (decrease) by 2009-10. Specifically, we observe:

i. For Small firms, we see an increase from a 3.6 percent exit rate in 2007-08 to about 4.0 percent in 2008-09. Again, the impact was only for a single year, with the exit rate dropping to 3.1 percent in 2010-11.
ii. For Medium firms, we see an increase from 2.4 percent exit rate in 2007-08 to about 2.9 percent in in 2008-09. The impact was only for a single year, with exit rate dropping to 2.1 percent in 2010-11.

Contraction and Expansion Rates by Size Class – More Enduring Impact on Expansion

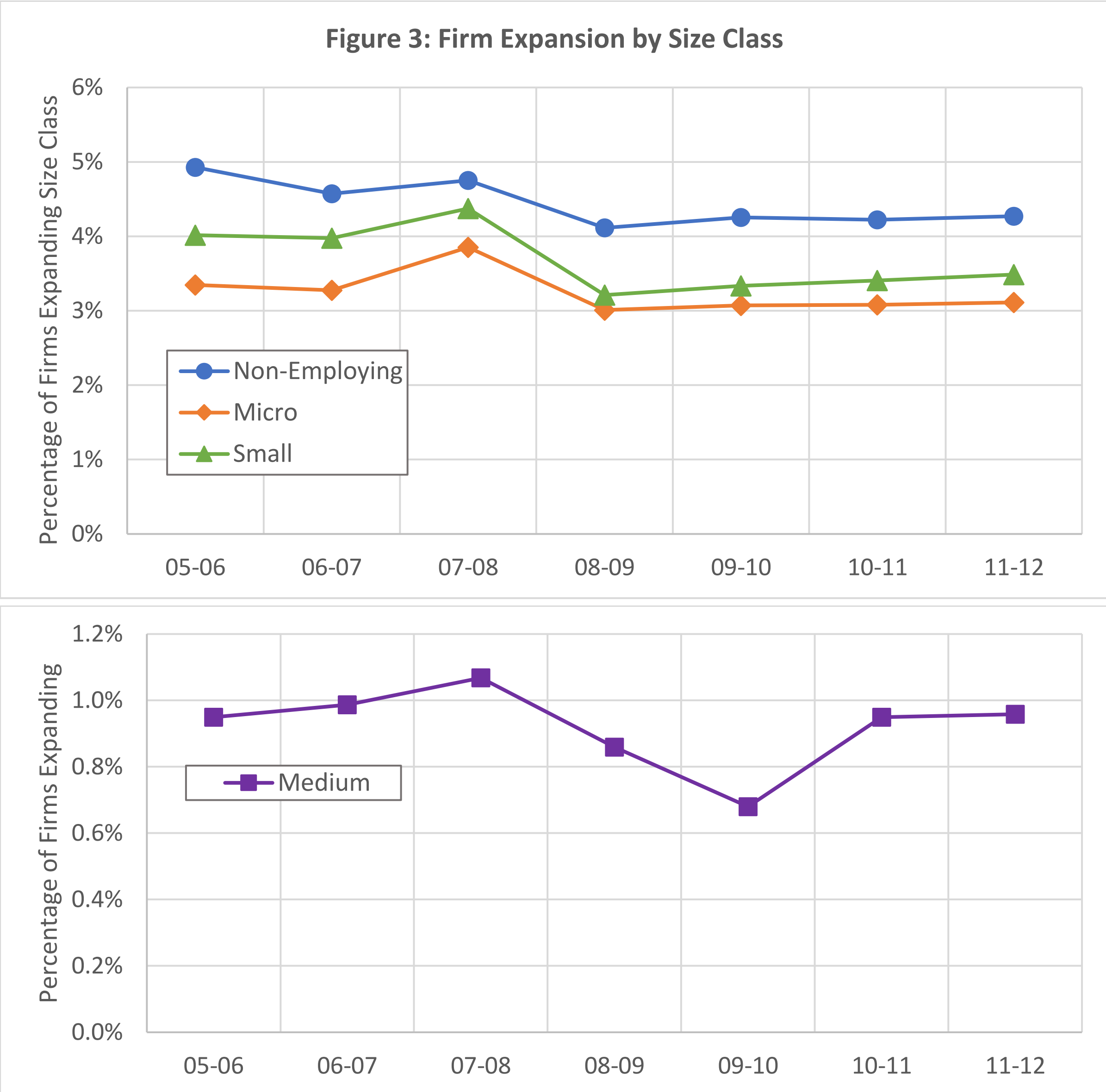
To examine less extreme impacts than firm exits, we next examine the trend in the percentage of firms that contract – that is, decrease in size class – or expand – that is increase their size class in each year. Figure 2 displays the percentage of current firms in each size class that contract (i.e. decrease size class in the following year). Note that Non-employing firms cannot decrease in size class.

We observe a clear but modest increase in the number of firm contractions in the GFC year 2008-09 situated in an otherwise decreasing trend, again with recovery by 2009-10. The observed increase is most pronounced for Small firms (15.2 percent to 16 percent), followed by Medium sized firms (14.0 percent to 14.4 percent) and minimal for Micro firms (9.1 percent to 9.2 percent).



We detect a clear decrease in the number of firm expansions in the GFC year 2008-09, but this time we observe a **more enduring impact**. We plot Medium sized firms on a separate axis because only 1 percent of these grow to become large firms each year. For Medium sized firms, we observe that prior to the GFC, there was a slight upward trend in the proportion of expanding firms. Following the GFC, there is a sharp drop for two years, before a recovery to near pre-GFC levels.

- Drop to 0.86 percent in 2008-09 and to 0.68 percent in 2009-10 from pre-GFC value of 1.07 percent in 2007-08.
- We see a recovery close to pre-GFC levels in 2010-11 and 2011-12 (0.95 and 0.96 percent respectively.



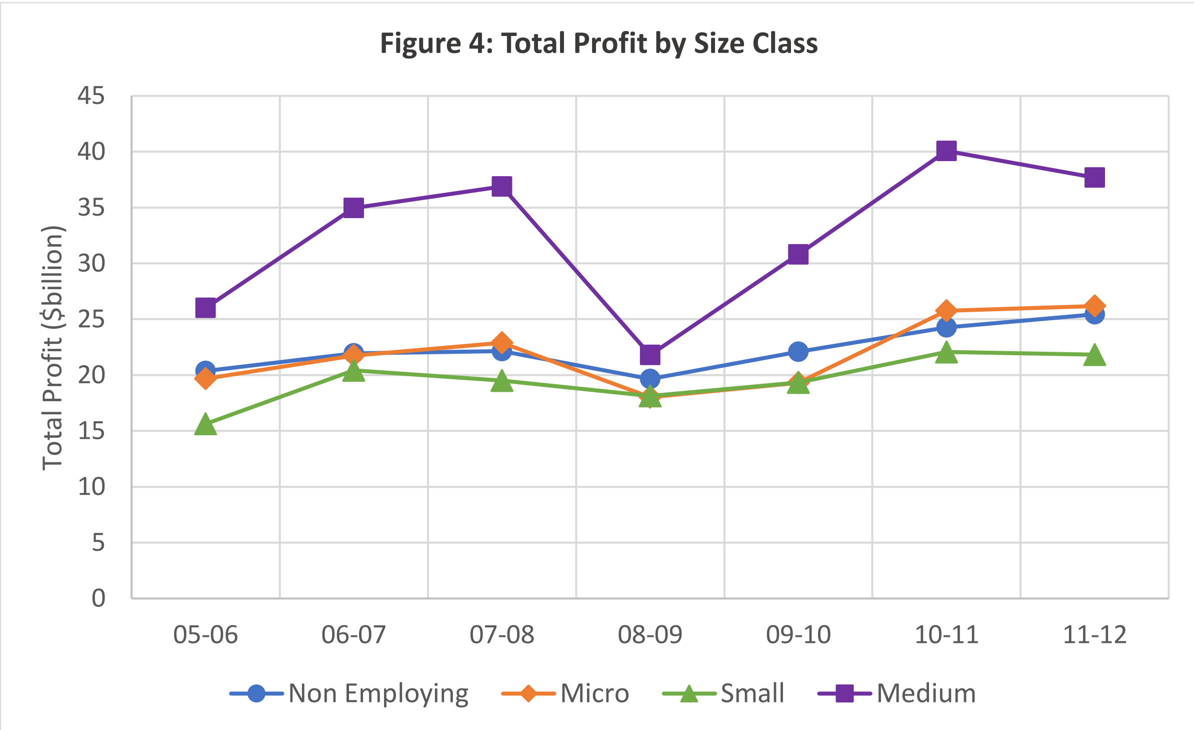
The trends for size class expansion for Small, Micro and Non-employing firms all exhibit a very similar pattern. Prior to the GFC, we see between approximately 4 and 5 percent of firms expanding to a larger size class each year, with a strong year in 2007-08. In 2008-09 we observe a substantial drop for all three trends – in the order of 1 percentage point. Most importantly, this drop appears to be quite persistent, with minimal recovery over the observation period until 2011-12.

Total Profit by Size Class – Substantial Impact on Medium Sized Firms

Figure 4 displays the total profits across each size class of SME over time. In contrast to firm counts, Medium sized firms have the highest totals, followed by Small, Micro and Non-employing. That is, although smallest in number, Medium firms provide the strongest overall contribution to the economy (of SME firms) due to their size.

Figures 4 paints a clear picture of the impact of the GFC according to size class. The most critical observations are:

- The aggregate impact on Medium firms was much more pronounced than other size classes.
- The negative impact was strongest in 2008-09, continued through 2009-10 with (aggregate) recovery by 2009-10.
- The strongest impact was seen in terms of profits, followed by revenue, and then employment.



Drilling down into the results for trends in **profits**, we observe:

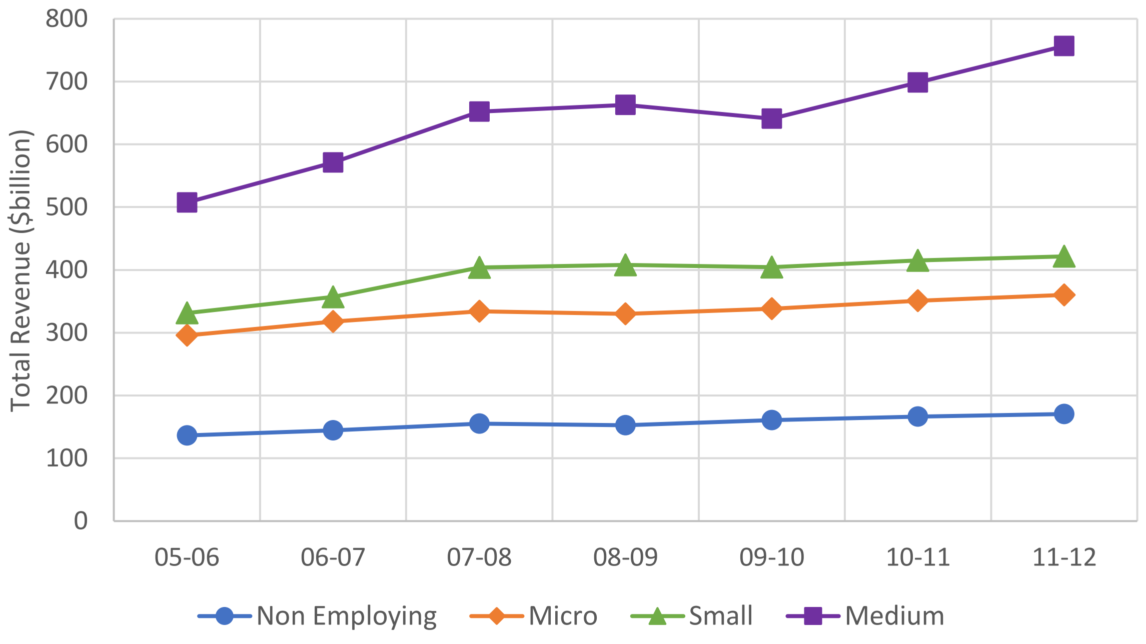
1. There is a **large impact** on total profits for **Medium** sized firms:
   - declining 41 percent in 2008-09 to $21.8b, from $36.9b in 2007-08.
   - recovering over half of that decline in 2009-10, increasing by $9.0b or 24 percent of the 2007-08 total.
   - "Full" recovery in two years by 2010-11, with total profit of $40.1b higher than the 2007-08 total.
2. There is a **less dramatic impact** on total profits for other size classes:
   - Micro firms decline 21 percent in 2008-09 to $18.0b, from $22.9b in 2007-08.

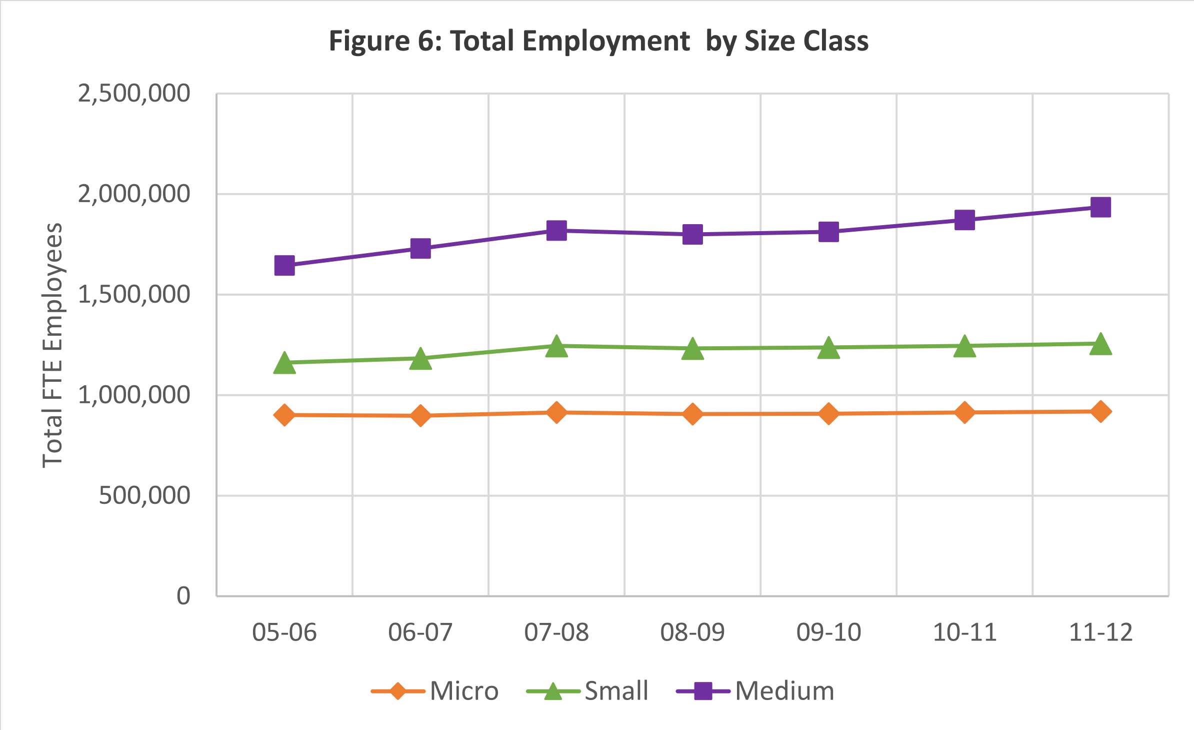
- Non-employing firms decline 11 percent in 2008-09 to $19.7b, from $22.1b in 2007-08;
- Small firms fair the best, declining only 7 percent in 2008-09 to $18.1b, from $19.5b in 2007-08.
- Both small and non-employing firms recovered (in aggregate) more quickly to pre-GFC levels after just one year (by 2009-10).

Total Revenue and Employment by Size Class – Clear Impact on Growth Trend

We next examine the trends in total revenue of employment by size class. What we observe is a distinct upward trend – broadly indicating a growth in the Australian economy. However, this upward trend is clearly impacted by the GFC in 2008-09, and reveals a slowing of growth for all size classes. The most substantial impact is again for the medium size class, where we observe a contraction in employment in 2008-09 and in revenue in 2009-10. We explore these trends in more detail below by examining growth rates.

Figure 5: Total Revenue by Size Class





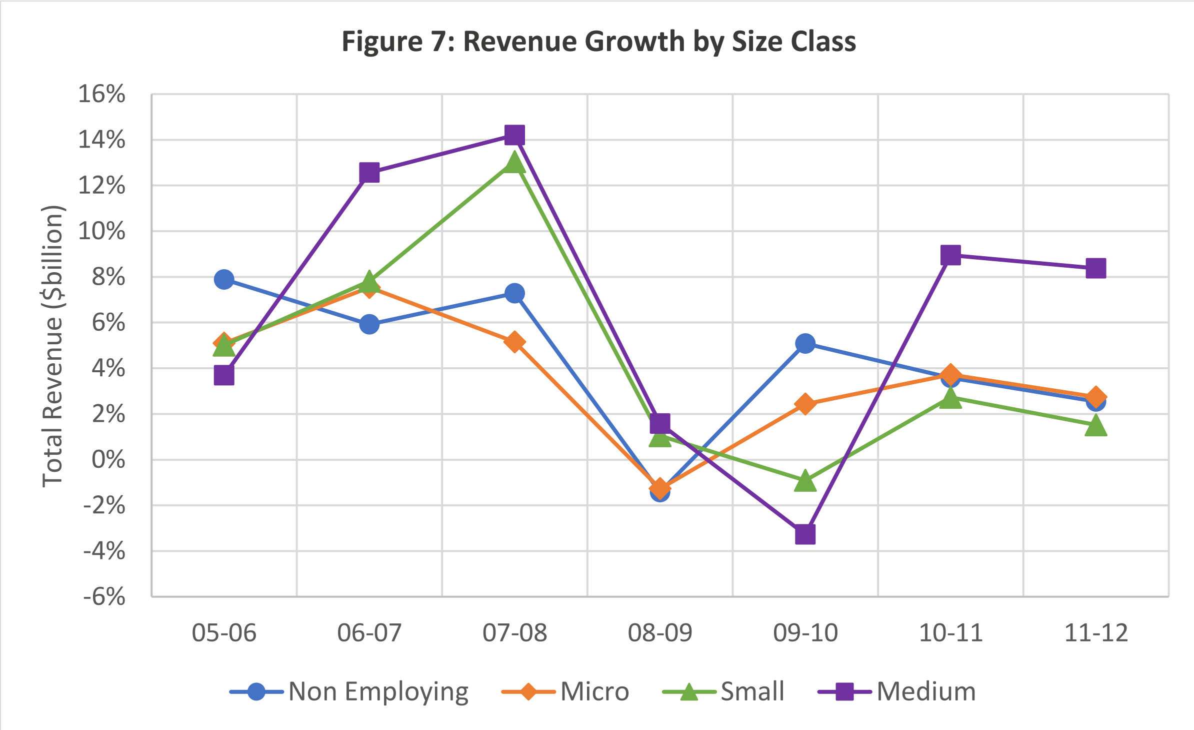
Impact on Growth of Revue and Employment

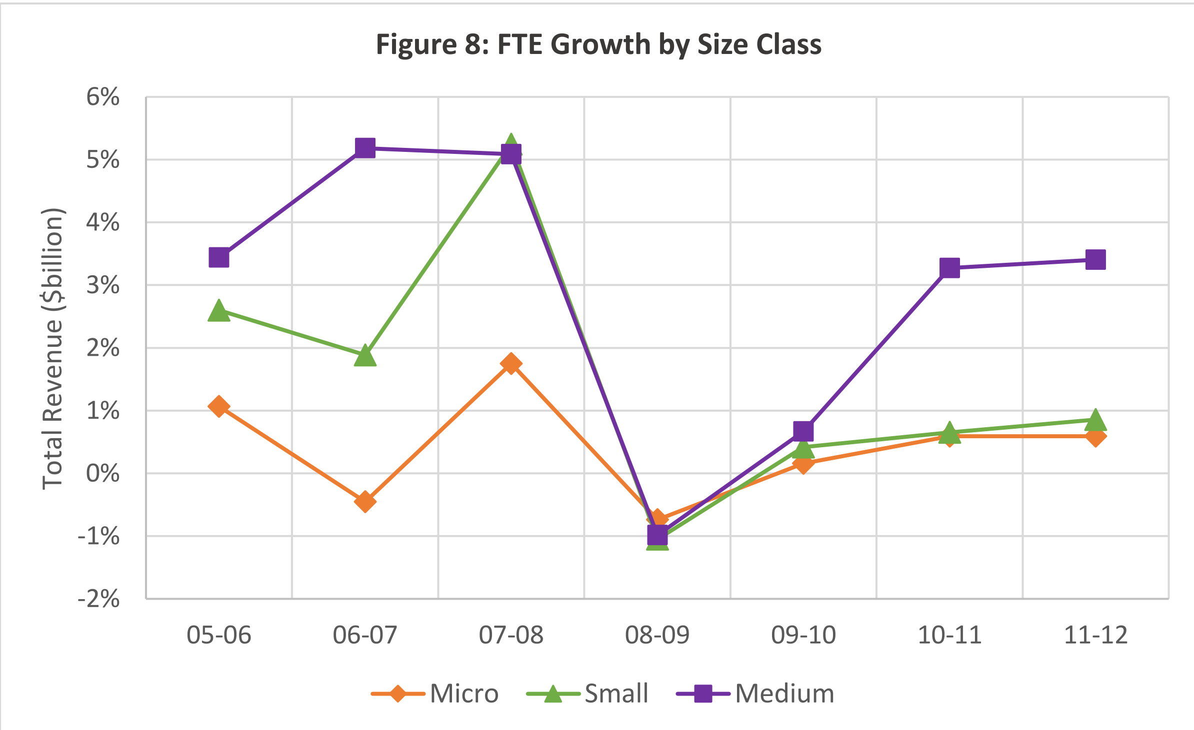
To better investigate the impact of the GFC on revenue and employment, we examine changes in *growth* for aggregate revenue and aggregate employment. We display these trends in Figures 7 and 8 respectively.

Examining the results for trends in **growth in revenue**, we observe:

3. The strongest impact on revenue growth again occurs for **Medium** sized firms, with the negative impact again observed for a period of two years
    - The strongest drop is on aggregate Revenue growth occurs in 2008-09, where it declines to 2 percent from pre-GFC values of about 14 percent in 2007-08.
    - Revenue growth continued to decline in 2009-10, dropping to -3 percent (2 percent contraction in revenue). This is a different pattern to profits, which partially recovered in 2009-10
    - We observe a recovery in two years by 2010-11, with aggregate revenue growth increasing to around 9 percent.
4. The impact on **Small** sized firms was also strong, with a strong negative impact again observed for a period of two years, but with only partial recovery for the observation period of four years (through until 2011-12). There appears to be an enduring impact of the GFC on aggregate small firm growth.
    - The strongest drop is on aggregate Revenue growth and occurs in 2008-09, where it declines to 1 percent from pre-GFC values of about 13 percent in 2007-08.
    - Revenue growth continued to decline in 2009-10, dropping to -1 percent (2 percent contraction in revenue). This is a different pattern to profits, which partially recovered in 2009-10

We observe a partial recovery in the next two years through 2010-11, with aggregate revenue growth increasing to around 2 percent, but remaining lower than pre-GFC values (ranging between 5 percent and 13 percent).





Trends in Employment growth (Figure 8) exhibit very similar trends to revenue growth (Figure 7).

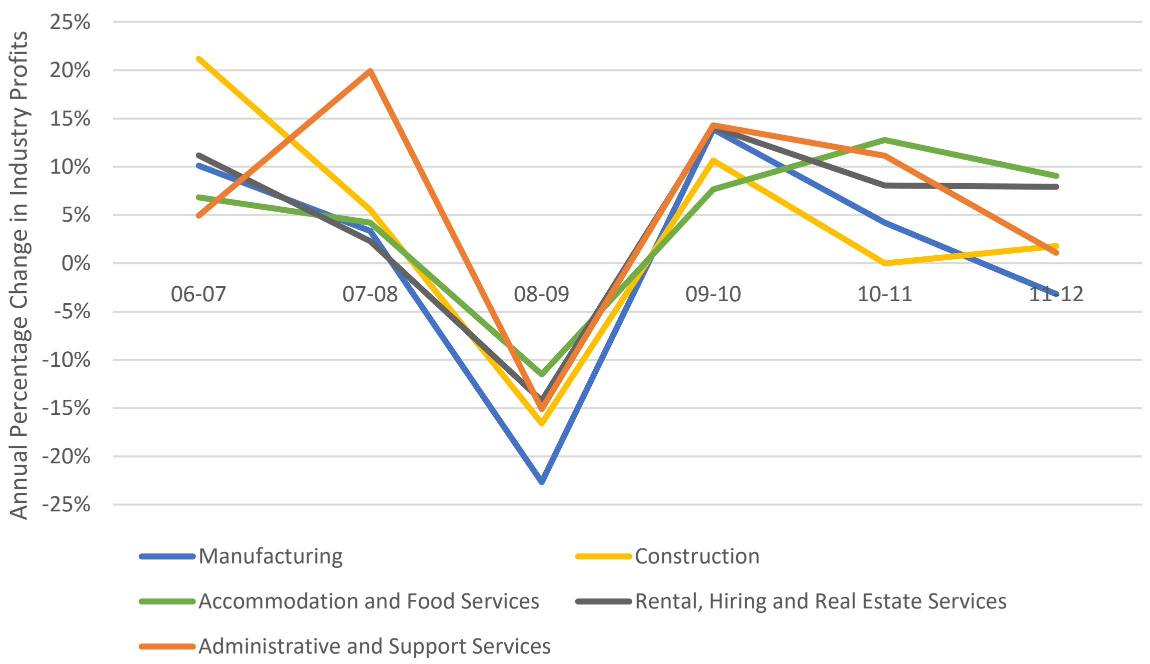
Variations by Industry

Next, we explore variations by industry or sector. For this analysis, we chose to focus on profits due to the strong impact of the GFC. To enable easy comparison across industry, we examine year-on-year percentage change in aggregate profits. Overall, we find strong variations by industry or sector. Figure 9 displays those industries for which we observe a sharp drop in profits during the GFC (i.e. FY 2008-09). Specifically, these industries include:

- Manufacturing (23 percent drop)
- Construction (17 percent drop)
- Administrative services (15 percent drop)
- Rental, Hiring & Real Estate (15 percent drop)
- Accommodation and Food Services (12 percent drop)

All of these industries showed a strong recovery in the 2009-10 year.

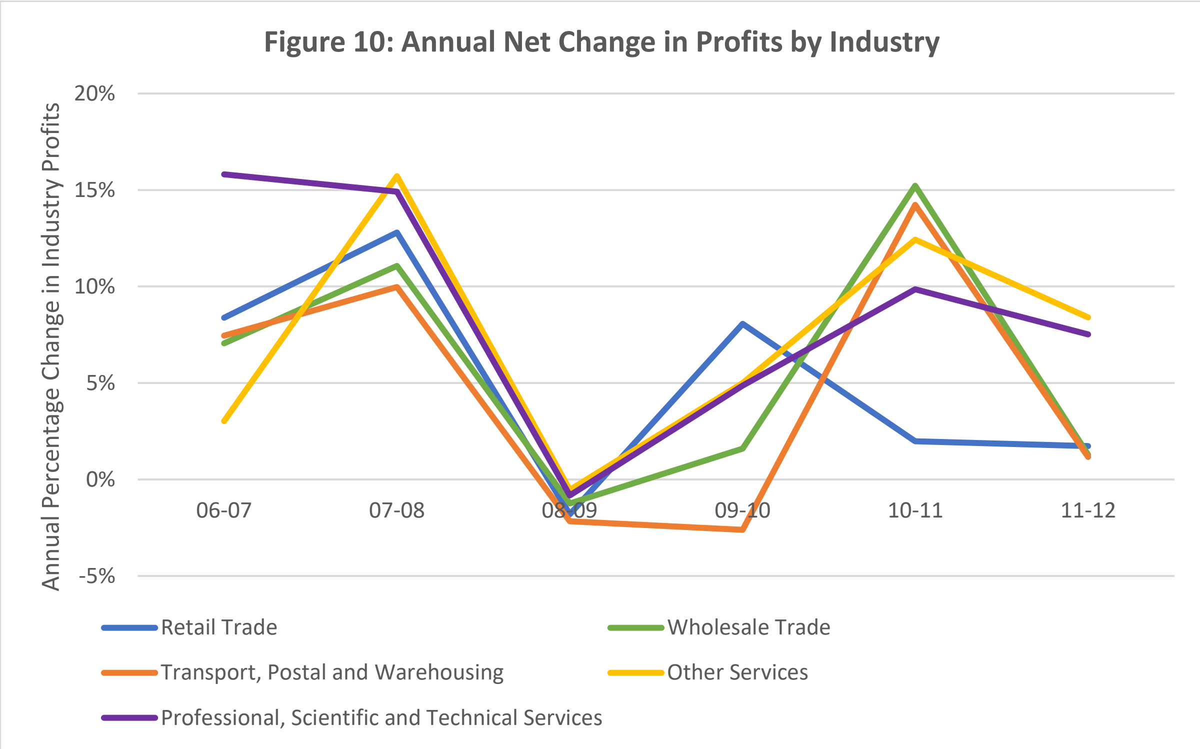
Figure 9: Annual Net Change in Profits by Industry



The next group of industries (Figure 10) exhibited both pre-GFC and post-GFC positive growth in profits that dropped to approximately zero profit growth during the GFC in 2008-19. These are industries / sectors most directly affected by aggregate consumer or business demand:

- Retail Trade
- Wholesale Trade
- Transport, Postal and Warehousing
- Professional, Scientific and Technical Services
- Other Services

The subsequent recovery in 2009-10 exhibits quite diverse patterns. Retail recovers strongly, as do both Professional and Other services. Wholesale and Transport, Postal and Warehousing remain flat (near zero growth) through 2009-10 before a strong recovery in 2010-11.



The remainder of sectors appear to be mostly unaffected by the GFC, albeit most probably for different reasons:

- Profits in Agriculture, Mining and Utilities (Figure 11) are driven by price fluctuations and by industry specific supply versus demand dynamics, only loosely connected to the general economy.
- Demand for Public Administration / Safety, Education and Training, Healthcare and Social Assistance, Information Media and Telecommunications and Arts and Recreation Services (Figure 12) remain reasonably stable during economic downturns.

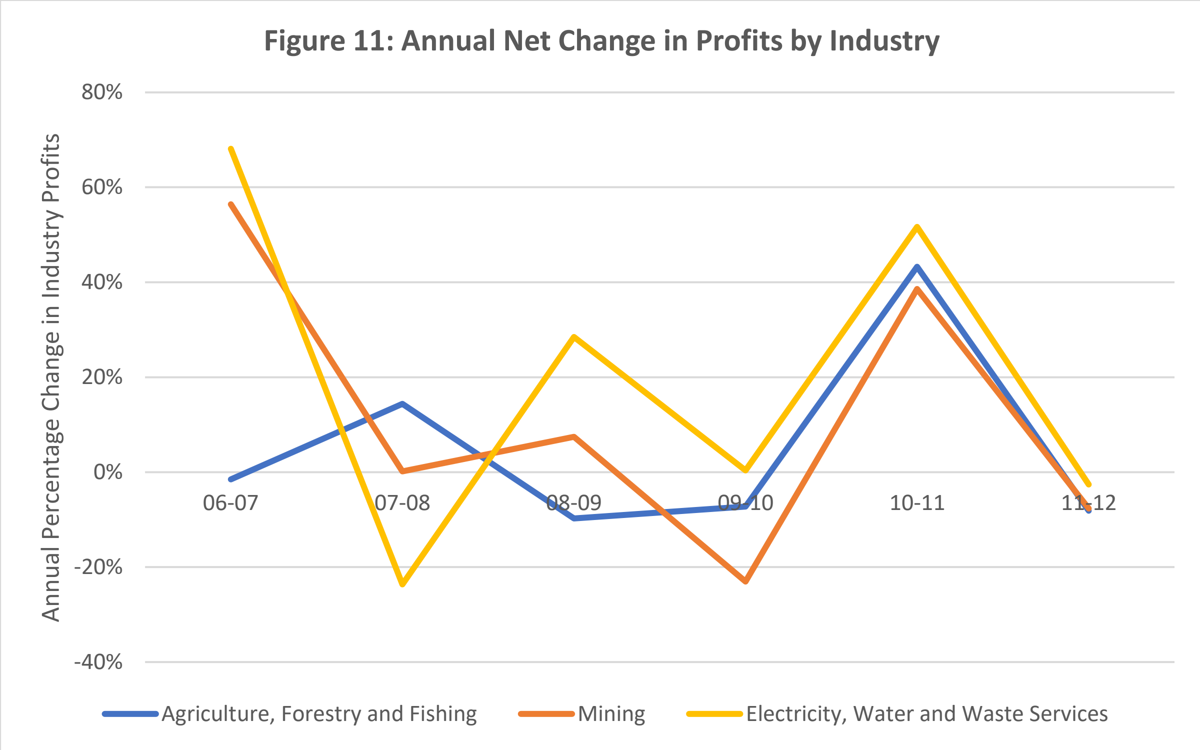


Figure 11: Annual Net Change in Profits by Industry
Annual Percentage Change in Industry Profits
80%
60%
40%
20%
0%
-20%
-40%
06-07
07-08
08-09
09-10
10-11
11-12
Agriculture, Forestry and Fishing
Mining
Electricity, Water and Waste Services

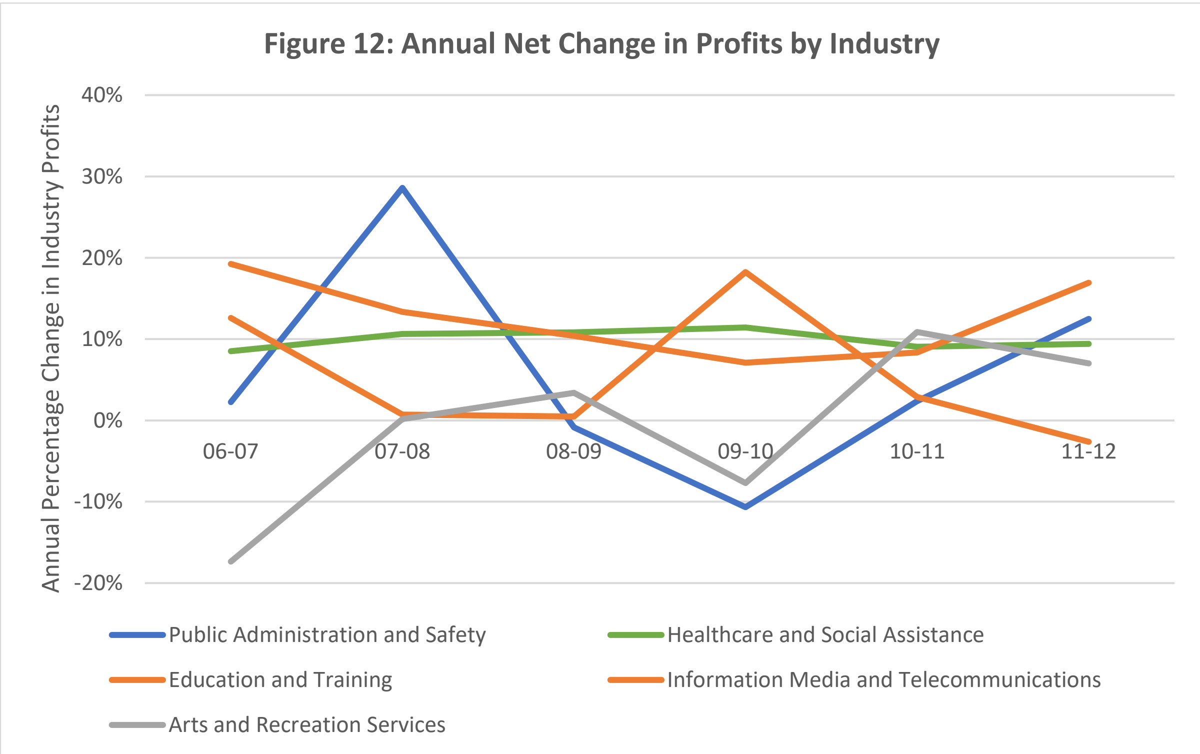


Figure 12: Annual Net Change in Profits by Industry
Annual Percentage Change in Industry Profits
40%
30%
20%
10%
0%
-10%
-20%
06-07
07-08
08-09
09-10
10-11
11-12
Public Administration and Safety
Healthcare and Social Assistance
Education and Training
Information Media and Telecommunications
Arts and Recreation Services

3. Literature Review of Small Business Crisis Response Policies and Programs in Australia, New Zealand, and the United States

Part A – Vulnerability of MSMEs to Crises

MSMEs have been considered particularly vulnerable to failures from both continuous shifts and unpredictable events[2], including disaster events, legislative change, financial fluctuations, supply network disruptions and the broader economic conditions of their place of operation.[3] It has been asserted that much of this vulnerability arises from the nature of an MSME. An MSME will generally have weaker cashflow, less equity in reserve, a lack of resources, and a lack of necessary skills to pursue long-term resilience strategies.[4]

It has been suggested that MSMEs are more likely to be owner-centric, and therefore rely on informal routines and arrangements, with a focus on short-term needs at the expense of long-term growth.[5] This has been described as a "fire-fighting approach" whereby an organisational culture neglects long-term sustainability by overemphasising the short term and dealing with issues only as they arise.[6] The accepted wisdom has been described as being that MSMEs "lack resilience to external shocks and setbacks because they lack resources (financial, human resources, political) required" to survive.[7]

Recent studies have shown that lenders such as banks perceive MSMEs as presenting a higher risk during a time of crisis. This in turn leads to tighter credit conditions and therefore results in a reduced ability for MSMEs to access finance during times when capital or other resources are already stretched.[8] Notably these restrictions apply generally to those businesses which were not part of the pre-crisis clientele.[9] Whilst access to finance generally will be limited for all MSMEs, studies have shown that those which make innovative moves or display innovative traits will face even greater restriction.[10] This is somewhat paradoxical given display of innovation would otherwise generally be positively regarded and demonstrate the MSME's capacity to adapt to change and explore opportunities. In times of crisis, however, innovation is seen by lenders as perilous. The combination of reduced access to finance and changes in consumer trends caused by a crisis, such as through a reduction in discretionary spending, leads to increased pressure on the survival of an MSME.[11]

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[2] Z Acs et al, 'Flexibility, plant size and restructuring.' in Z Acs et al (eds) *The Economics of Small Firms: A European Challenge* (Kluwer, 1990) 141-154; Pal, Torstensson and Mattila (n 1) 411.
[3] Ibid.
[4] J Thun et al, 'Managing Uncertainty – An Empirical Analysis of Supply Chain Risk Management in Small and Medium-Sized Enterprises' (2011) 49 *International Journal of Production Research*, 5511-5525; A Ates and U Bitici, 'Change Process: A Key Enabler for Building Resilient SMEs' (2011) 49 *International Journal of Production Research*, 5601-5618; T Wesson and D Figueiredo, 'The Importance of Focus to Market Entrants: A Study of Microbrewery Performance' (2001) 16 *Journal of Business Venturing* 377-403.
[5] C Gray, 'Entrepreneurship, Resistance to Change and Growth in Small Firms' (2002) 9 *Journal of Small Business and Enterprise Development* 61-72; Ates and Bitici (n 4); Pal, Torstensson and Mattila (n 1) 414.
[6] Ates and Bitici (n 4).
[7] L Branicki et al, 'How Entrepreneurial Resilience Generates Resilient SMEs' (2018) 24(7) *International Journal of Entrepreneurial Behaviour and Research* 1245.
[8] C Piette and M Zachary, 'Sensitivity to the Crisis of SME Financing in Belgium' (2015) 3 *Economic Review* 31-45.
[9] Ibid.
[10] N Lee et al, 'Access to Finance for Innovative SMEs Since the Financial Crisis' (2015) 44(2) *Research Policy* 370-280.
[11] F Eggers, 'Masters of Disasters? Challenges and Opportunities for SMEs in Times of Crisis' (2020) 116 *Journal of Business Resilience* 199-208.

A further consideration is the mental health of MSME owners during a crisis. This has been identified as an area requiring further research – in particular, to what extent owners self-monitor their personal physical and mental wellbeing, and the consequent implications for their business.[12] As an example, studies have demonstrated a marked increase in suicide, alcoholism, domestic abuse and other indicators of mental health decline during the global COVID-19 pandemic.[13] These impacts are described as having a two-fold impact, the first being on the mental health of business owners themselves and the second being on the mental health of customers and the labour supply.[14]

As detailed in Part 7, MSMEs run by proprietors of Indigenous or other minority cultures are more susceptible to crises than MSMEs run by proprietors of nonminority cultures. This is seemingly due to a complex combination of factors, including skill level and greater difficulty in accessing government financial and other supports.

Part B - Crisis and the Role of Organisational Resilience

A Model of Organisational Resilience

It has been argued that the ability of an MSME to survive a crisis is dependent on developing organisational resilience. While several definitions have been put forward, organisational resilience is often referred to the "ability or capacity to withstand, to adapt and to cope with turbulent changes, environmental risks, perturbations or external shocks".[15] Figure 13 presents a model of organisational resilience, which is comprised of three distinct enablers which each have the potential to influence resilience prior to, during and/or post the crisis event.

[12] R Doern, 'Knocked Down But Not Out and Fighting to Go the Distance: Small Business Responses to an Unfolding Crisis in the Initial Impact Period' (2021) 15 *Journal of Business Venturing Insights* e00221.
[13] W Cullen et al, 'Mental Health in the COVID-19 Pandemic' (2020) 113(5) *QJM* 311-312.
[14] R Caiazza et al, 'An Absorptive Capacity-Based Systems View of COVID-19 in the Small Business Economy' (2021) 17 *International Entrepreneurship and Management Journal* 1419-1439.
[15] Conz and Magnani (n 1) 406.

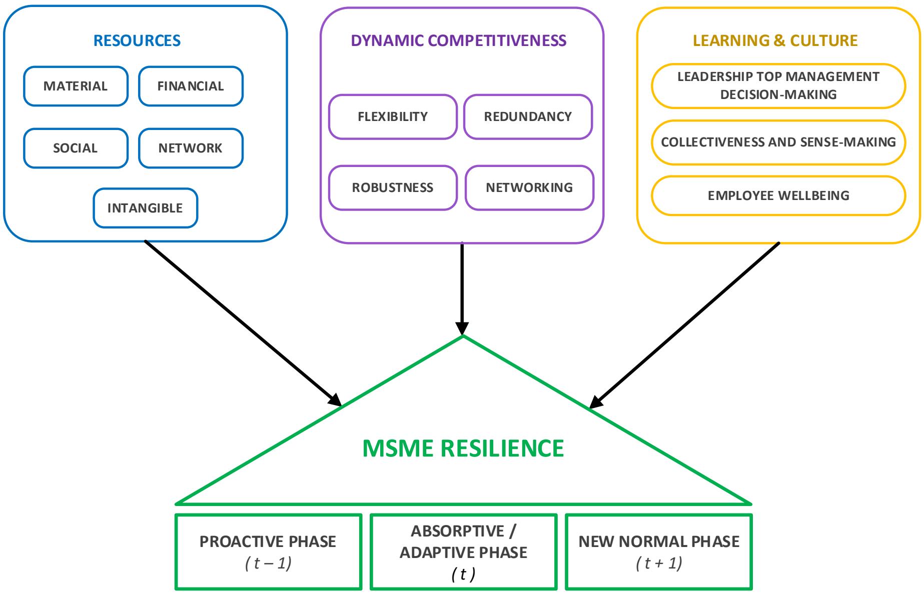

Figure 13: Enablers of MSME Resilience[16]

As Figure 13 highlights, there are three broad categories of enablers for organisational resilience:

- *Resources.* These include physical assets such as materials (e.g. stocks of inventory) as well as financial resources, human resources (employee capabilities, trustworthiness), network resources (collaborative inter-organisational relationships), and intangible resources (e.g. brand reputation). Eggers (2020) highlights that in order for firms to be innovative and proactively seek opportunities during a crisis, effective financial resourcing is required, and that a lack of such resources may prompt business owners to consider a particular innovative idea as too risky.[17] It has been suggested that this constitutes a "strategy/funding chicken-and-egg problem" as a crisis creates the potential to increase performance to enable survival, but also leads to limits being placed on access to resources by MSMEs.[18] A further form of resource resilience is in the encouragement and facilitation of some form of insurance protection.[19] A significant disaster will inevitably cause some damage to buildings and inventory, even where precautions are taken, and safeguards are imposed. Organisational survival has been shown to be improved where property, casualty and business interruption insurance is available and used.[20] This will not revive a failed business, but it has the benefits of protecting equity and facilitating options after the immediate disaster recovery has taken place.

- *Dynamic competitiveness.* These include capabilities such as flexibility (e.g. fast decision-making and adaptability), redundancy (e.g. excess capacity of resources), robustness (e.g. contingency plans, quality control and lean processes), and networking (e.g. co-creation with partners). A key strength, exhibited by MSMEs in a crisis, is their flexibility and the

[16] Adapted from Conz and Magnani (n 1) and Pal, Torstensson and Mattila (n 1).
[17] Eggers (n 11) 206.
[18] Ibid.
[19] D Alesch et al, 'Organisations at Risk: What Happens When Small Businesses and Not-For-Profits Encounter Natural Disasters?' (2001), Public Entity Risk Institute, p 8.
[20] Ibid.

ability to innovate to boost resilience, something which is particularly pertinent when considering recovery from a major disaster.[21] There is a belief that through proactive and innovative postures, some firms can create market opportunities in times of crisis.[22] This innovativeness and proactiveness has been associated with positive performance effects in times of crisis or economic downturn.[23] Business ventures based on market opportunism generally have better survival chances than those which are initiated out of necessity.[24] This concept has been explored further in considering the differences between someone who is self-employed as a means of protecting income, and someone who is an entrepreneur focused on exploiting perceived opportunities.[25] It has been postulated that an exogenous shock would affect these two groups in different ways.

- *Learning and Culture.* Leadership and senior management decision-making (e.g., top management communication, rapid-decision making and learning, transformational leadership style), collectiveness and sense-making (e.g. shared vision, belief and purpose, cognitive resilience, psychological ownership); employee wellbeing (e.g. cognitive wellbeing). It has been noted that entrepreneurs in particular have a degree of inherent resilience due to their own experiences of adversity or operation in uncertain environments.[26] While it has been suggested that managerial expertise does not always help in overcoming crises,[27] this expertise has been shown to be useful in situations of high uncertainty.[28] The role of effectual reasoning developed from entrepreneurial expertise has been described as of utility, in that it foregoes attempting to predict the future and rather seeks to work in the present to convert negatives into positives.[29] Individuals with poor mental health are generally less likely to maintain employment or enter the labour market,[30] creating a further strain on the broader community as well as the human capital available to MSMEs.

It is submitted that disaster recovery should be seen as a process and encompass temporal considerations,[31] rather than a single point in time.[32] As Figure 13 highlights, MSMEs can possess resilience enablers prior to a crisis event (t–1 = proactive resilience), during (t=absorptive or adaptive resilience) and/or as a result of a crisis (t+1=new normal resilience). While some firms may possess these enablers prior to a crisis as part of proactively preparing for future unforeseen

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21 H Salavou et al (2004) 'Organisational innovation in SMEs: the importance of strategic orientation and competitive structure' 38 *European Journal of Marketing* 1097-1112; Pal, Torstensson and Mattila (n 1) 411.
22 Eggers (n 11).
23 Ibid.
24 V Simon-Moya (2016) 'Influence of economic crisis on new SME survival: reality or fiction?' 28(1-2) *Entrepreneurship and Regional Development* 157-176.
25 Caiazza et al (n 14).
26 Ibid 1258.
27 M Cowling, W Liu and N Zhang, 'Did Firm Age, Experience, and Access to Finance Count? SME Performance After the Global Financial Crisis' (2018) 28 *Journal of Evolutionary Economics* 77-100.
28 S Sarasvathy, 'Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency' (2001) 26(2) *Academy of Management Review* 243-253.
29 Ibid.
30 V Bartelink et al, 'Unemployment Among Young People and Mental Health: A Systematic Review' (2020) 48(5) *Scandinavian Journal of Public Health* 544-558.
31 M Marshall and H Schrank 'Small Business Disaster Recovery: A Research Framework' (2014) 72(2) *Natural Hazards* 597-616, p 602.
32 Alesch et al (n 19).

events, most firms will either acquire these enablers during or post-crisis.[33] Overall, this suggests that some MSMEs are better prepared to cope with a crisis event compared to others. Specifically, those MSMEs that have invested in these three enablers prior to a crisis may be more successful in overcoming the associated challenges.

It is important to highlight the need to distinguish between the closure or continuity of a business on account of a disaster and the general course of business, where ordinary circumstances can lead to a cessation or continuance of business.[34] Distinguishing between these two causes of closure has been historically difficult to achieve with a strong degree of certainty, and a failure to adequately make the distinction can lead to a misrepresentation of policy efficacy. Further, economic research on natural disasters has been described as primarily focusing on the impact of the disaster on aggregate revenue and employee loss.[35] This approach has been criticised for failing to consider the nuances of damage which can be caused over the long-term by a disaster event.[36]

Examples of Organisational Resilience during Crises

In a comprehensive analysis of the 1994 Northridge earthquake in Los Angeles, Alesch et al made several key findings. The earthquake was a magnitude 6.7, with a death toll of 57, injury count of 9000 and an estimated US $24-93 billion[37] caused in property damage.[38] An analysis of small businesses within the proximity area of the earthquake determined that most did not fail immediately after the event – a small proportion failed immediately but the majority of failures occurred within two to four years after the earthquake.[39] The authors found many business owners whose business survived the earthquake continued to struggle at recovery and eventually only failed after all of their resources were depleted.[40]

Three reasons were identified for this gradual and delayed failure: (1) business interruption; (2) lost income to employers and employees; and (3) lost business equity assets.[41] The most damaging aspect of the disaster was not the losses which occurred during and immediately after the event, but rather the ongoing economic impact stemming from the disaster. As an example, the Northridge earthquake led to many business owners being stuck in buildings which were not repaired for a long time – by virtue of a lease which prevented them from moving to another location.[42] This was highlighted as an example which demonstrated the economic and legal structural barriers to recovery which in this case caused more long-term damage than the initial disaster event.

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33 Conz and Magnani (n 1).
34 Winter et al, 'Tracking family businesses and their owners over time: panel attrition, manager departure and business demise' 19(4) *Journal of Business Venturing* 535-559.
35 Marshall and Schrank (n 31) p 599.
36 Ibid.
37 D Bartholomew (Los Angeles Daily News) 'Northridge Earthquake: 1994 Quake Still Fresh in Los Angeles Minds After 20 Years' (28 August 2017) available online at https://www.dailynews.com/2014/01/11/northridge-earthquake-1994-quake-still-fresh-in-los-angeles-minds-after-20-years/.
38 D Miller, 'Lessons Learned from the Northridge Earthquake' (1998) 20(4-6) *Engineering Structures* 249-260.
39 Alesch et al (n 19) p 8.
40 Ibid p 9.
41 Ibid pp 9-10.
42 Ibid p 13.

The study on the Northridge earthquake made four key conclusions as to the likelihood of business survival following a disaster event. The authors found a greater chance of survival in businesses whose customers were unaffected by the earthquake, had multiple locations, did not rely on consumers' discretionary income or whose owners were able to adjust to changes in consumer demand.[43]

Further research has been conducted into the effect of the COVID-19 Coronavirus pandemic on the viability and survival of MSMEs. There has been a trend within some MSMEs of being primarily concerned about financial impacts, followed by the general climate of uncertainty, caused by the COVID-19 pandemic.[44] Whilst some businesses were able to innovate in the pandemic crisis and find new market opportunities,[45] others were limited by geographic location, business structure, or restrictions on employees which inhibited a dynamic reaction.[46] It has been noted that in a crisis such as the global pandemic, new business ideas strongly benefited from prompt implementation, and that any limitations to doing so had significant detrimental effect.[47] Responses to COVID-19-related impacts have been categorised as either *active*, whereby improvised offerings were made available or capabilities were used to innovate; *inactive*, where firms opted to remain vigilant and make preparation for post-pandemic operation; or *inoperative*, by discontinuing operations or standing by for protocols allowing for reopening.[48] Where responses were inoperative, this indicated a need for external support to prevent a domino effect.[49]

A key example of active responses in the COVID-19 pandemic has been the "industrial reordering" of certain industries for pandemic-related purposes.[50] Examples of this around the world included repurposing alcohol distilleries to produce hand sanitiser,[51] or packaging and paper manufacturers utilising production lines to create surgical masks and protective equipment.[52] Such a response has been described as only being possible due to the existing technical knowledge of innovators and the fact that capabilities for production could be adequately repurposed.[53] An inactive approach was modelled by airlines in the United States, who in the early days of the pandemic opted to park 95 percent of their fleets in their loan facilities without making any moves to reduce capacity.[54] This was however followed by a temporarily inoperative approach whereby capacities were reduced. In other industries an active

[43] Ibid pp 10-13.
[44] A Alonso, 'COVID-19, Aftermath, Impacts and Hospitality Firms: An International Perspective' (2020) 91 *International Journal of Hospitality Management* 102654.
[45] See, e.g. Eggers (n 11).
[46] Alonso (n 44).
[47] Ibid.
[48] Alonso (n 44) p 9.
[49] Ibid.
[50] Caiazza et al (n 14).
[51] See, e.g. BBC News, 'Coronavirus: Gin Distilleries Switch to Make Hand Sanitiser' (18 March 2020) available online at https://www.bbc.com/news/uk-england-51927519.
[52] See, e.g. Melanie Dinjaski, 'Coronavirus: How Australian Packaging Manufacturer "Hurt" by Pandemic's Economic Impact has Pivoted to Making 145 Million Masks' (Channel 9 News Australia, 2 April 2020) available online at https://www.9news.com.au/national/coronavirus-australian-packaging-manufacturer-hurt-by-pandemic-economic-impact-pivots-to-make-145-million-masks/04019733-9afb-4028-abcc-055f0cc7b634.
[53] Caiazza et al (n 14).
[54] L Budd et al, 'European Airline Response to the COVID-19 Pandemic – Contraction, Consolidation and Future Considerations for Airline Business and Management' (2020) 37 *Research in Transportation Business and Management* 100578.

response has not proven as effective, for example restaurants which invested in outdoor dining were unable to recover the investments due to rolling lockdowns which typically extended to outdoor spaces.[55] This uncertainty increased investment costs and lead to many service-sector MSMEs opting for an inoperative response – choosing to close either permanently or temporarily rather than wait for a stable recovery.[56]

There are two other key internal enablers that demonstrate proactive resilience and resourcefulness regardless of the type of crisis faced. These are: (1) obtaining appropriate insurance; and (2) drafting or amending contracts (particularly commercial leases) to accommodate crises situations. Each will be discussed in turn.

Insurance

A critical internal enabler for MSMEs, which is particularly important for stemming (or, ideally, inhibiting) decline and aiding recovery following a crisis event, is having appropriate insurances in place. Alarmingly, despite numerous global crises which have impacted on the Australian economy in recent times, the MSME sector is poorly insured. A recent report compiled by QBE Insurance and detailing the results of the company's survey of 609 Australian MSMEs revealed that 62 percent considered themselves to be underinsured.[57] More shockingly, a 2015 study undertaken by the Insurance Council of Australia found that 12.8 percent of MSMEs had no insurance at all.[58]

The implications of these statistics are somewhat obvious and particularly disturbing. Where crises impact upon a MSME's cash flow or liquidity, they are imperilled. These businesses may not be able to maintain payroll, meet expenses and overheads, or satisfy market demand for their goods or services. Particular crises may even restrict or abrogate their capacity to operate, as was the case with the COVID-19 pandemic, at the height of which nearly three-quarters of Australian businesses suffered reduced income and were impacted by social distancing and density restrictions.[59]

It seems that experience alone is not the best teacher when it comes to educating MSMEs on the importance of insurance to crisis response. Research from Suncorp insurer Vero found that two-thirds of MSMEs altered their business models in response to the COVID-19 pandemic, yet only a third of those businesses altered their business insurance arrangements.[60] This suggests that MSMEs are, for whatever reason, resistant to the concept of insurance even where alterations to business models expose those businesses to greater risks. Potential reasons from empirical

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[55] Caiazza et al (n 14).
[56] P Gourinchas et al, 'COVID-19 and SME failures' (2020) *National Bureau of Economic Research* (NBER Working Paper No w27877).
[57] QBE Insurance, 'SMEs and Insurance: A Pulse Check on Risk Trends for Businesses' (2019) p 13. Available at https://www.qbe.com/au/-/media/australia/files/covered/j10520 percent20smes percent20insurance-sme percent20version.pdf.
[58] Insurance Council of Australia, 'Non-insurance In the Small to Medium Sized Enterprise Sector' (July 2015).
[59] Australian Bureau of Statistics, 'Business Indicators, Business Impacts of COVID-19' (28 May 2020) <https://www.abs.gov.au/statistics/economy/business-indicators/business-conditions-and-sentiments/may-2020>.
[60] Suncorp, 'SMEs Shake Up Business Models but Insurance Policies Remain Neglected' (24 November 2021) <https://www.suncorpgroup.com.au/news/news/sme-business-models-undergo-shake-up-post-covid>.

surveys include: (a) being too busy to make insurance arrangements; (b) excessive cost; (c) perception of being incapable of reaching an adequate level of insurance; and (d) belief that a risk is too low or not worth insuring against.[61]

There are various types of insurance which can aid a MSME during times of crisis. Business interruption insurance, for example, replaces business income lost in a disaster falling within scope of the policy's inclusions.[62] The insured sum in this instance would be vital to pay ongoing costs and operating expenses such as payroll, taxes, rent, loan obligations, overheads, and the costs associated with temporary relocation where required. This would subsequently preserve profit margins and reduce disruption to the business' operations. Business interruption insurance therefore goes much further than standard building and contents insurance. Unfortunately, take-up of this product among the MSME sector is low.[63]

As discussed in Part 8 of this report, in which recommendations are made, governments and industry groups should increase efforts to encourage uptake of insurance among the MSME sector. This would not only benefit the sector but potentially avoid the need for government support for affected businesses. At the same time, policy responses to support MSMEs during times of crisis should be calibrated to include, among eligibility and scope considerations, whether and to what extent a MSME has insurances in place.

Contracts (primarily leases)

Owing to the costs associated with acquisition and ownership of land, and the difficulty of relocating following purchase, most businesses opt to lease the premises out of which they trade.[64] Leases for equipment such as computers are also common.[65] Reliable and more precise statistics as to the prevalence of commercial leases within the Australian MSME sector are difficult to come by. What is clear, however, is that commercially leases are a staple of Australia's modern market economy.

The risk of impacts to MSMEs following a crisis is particularly high. This is because, among other reasons, many small business tenants enter into leases for relatively long periods of time.[66] Doing so is especially important for small businesses seeking to build goodwill and establish themselves within their local areas. But this also means that businesses are confined to long-term commercial contracts which are difficult to leave. The longer a business remains locked into a commercial lease, the longer it retains liability under the lease and the longer the period of time in which it is exposed to risk.

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[61] Insurance Council of Australia, 'Non-insurance In the Small to Medium Sized Enterprise Sector' (July 2015).

[62] Investopedia, 'Business Interruption Insurance' <https://www.investopedia.com/terms/b/business-interruption-insurance.asp>.

[63] Jordan Lynn, '"Afterthought" Business Interruption Cover Should Concern SMEs' (29 July 2017) <https://www.insurancebusinessmag.com/au/news/breaking-news/afterthought-business-interruption-cover-should-concern-smes-74518.aspx?Region=Australia>.

[64] Cynthia L Greene, *Entrepreneurship: Ideas in Action* (Cengage, 6th ed, 2017) 231; Richard M Hodgetts and Donald F Kuratko, *Small Business Management* (Wiley, 2005) 63.

[65] Bruce R Barringer and R Duane Ireland, *Entrepreneurship* (Pearson, 4th ed, 2012) 339.

[66] Small Business Development Corporation, Government of Western Australia, 'Leasing Business Premises: A Commercial and Practical Guide' (4th ed, 2015) 1. Available at https://www.smallbusiness.wa.gov.au/sites/default/files/Guide-to-leasing-business-premises.pdf.

Various crises over the years have caused immense difficulties for MSMEs privy to long-term commercial leases. The Christchurch Earthquakes of 2011, for example, resulted in turmoil for the MSMEs located in the Christchurch business district, with many being unable to trade but forced to continue making payments under their leases.[67] Underlying the troubles incurred by these MSMEs was the fact almost all affected leases did not provide mechanisms for relief or allow the businesses to exit the agreements, notwithstanding the inability for the tenants to trade. Collins explains:

> Tenants, more than landlords, wanted to terminate their leases. They did not want to pay rent for, or be held to, a lease of a building they could not use for a prolonged period. Most simply could not afford this expense. Yet they were unable to end their leases because their leases did not provide for termination in this situation and nor did the legislation. The law was unclear.[68]

Tenants were confronted with a line of New Zealand authority which did not support the view that earthquakes were unforeseeable and therefore capable of constituting a 'frustrating' event that would have automatically terminated the affected leases.[69] The doctrine of frustration applies when an unforeseeable and supervening event radically alters the obligations of the parties to the contract.[70]

Similarly, the COVID-19 pandemic caught out many MSMEs who, due to government-imposed density requirements and industry restrictions, could not trade. The Australian federal and state/territory governments consequently introduced the *National Cabinet Mandatory Code of Conduct—SME Commercial Leasing Principles During COVID-19*. The Code was designed to mandate good faith negotiations between commercial landlords and tenants and aid the management of cashflow for SME tenants in particular. The Code acknowledged 'the impact and commercial disruption caused by the economic impacts of industry and government responses to the declared Coronavirus … pandemic'.

Again, MSMEs 'trapped' in commercial leases they could not leave faced the very real prospect of being forced to lay off staff to save costs, obtain alternative finance to maintain liquidity, or ultimately close their doors. Those MSMEs contemplating arguing that their leases had been frustrated by the pandemic faced a difficult obstacle in common law authority. Cases litigated during the Severe Acute Respiratory Syndrome (SARS) outbreak in Hong Kong in 2003 were generally decided in favour of the landlord.[71] While the courts accepted the possibility that the frustration doctrine could apply to leases impacted by a viral outbreak, they made clear that the threshold for terminating the lease on this basis was high. Moreover, force majeure clauses are

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[67] Toni Collins, 'The Canterbury Earthquakes and the Effect on Landlords and Tenants with Commercia Leases' (2018) 33(1) *Australian Journal of Emergency Management* 61.

[68] Toni Collins, 'The Canterbury Earthquakes and the Effect on Landlords and Tenants with Commercia Leases' (2018) 33(1) *Australian Journal of Emergency Management* 61, 61.

[69] See *Hawkes Bay Electric Power Board v Thomas Borthwick & Sons (Australia) Ltd* [1933] NZLR 873.

[70] *Davis Contractors Ltd v Fareham Urban District Council* [1956] AC 696; *Codelfa Construction Pty Ltd v State Railway Authority of New South Wales* (1982) 149 CLR 337.

[71] See, eg, *Li Ching Wing v Xuan Yi Xiong* [2004] 1 HKLRD 754. Note, however, this case concerned a residential lease. The court still crucially contemplated the application of the frustration doctrine to a lease.

not common in commercial leases,[72] which is disappointing given they can suspend or terminate a lessee's legal obligations during periods of crisis.

As discussed in Part 8 of this report in which preliminary recommendations are made, MSMEs should be strongly encouraged to negotiate their commercial leases at the outset to include force majeure clauses. A force majeure clause accounts for specific contingencies which may arise during the life of the contract, and which would otherwise threaten to frustrate it. The benefit of such clauses is that they avoid reliance upon the doctrine of frustration[73] (the applicability of which only a court can determine) and can be tailored to the parties' specific needs and desires as well as the particular risks of a given location or enterprise. Education is critical in this regard. MSMEs should be provided with appropriate training to comprehend the importance of this simple but powerful legal gesture. Access to justice remains a considerable hurdle for MSMEs in need of legal assistance.[74] Accordingly, a proactive policy approach could be to improve contract literacy among MSMEs, particularly in the context of leases, and stress the utility of appropriate contractual clauses in their commercial leases. This could be accomplished through subsidised educational materials or training.

Part C - Effects of MSME Crisis Support and General Policy Considerations

Building Organisational Resilience and the Role of Policy

As highlighted previously, MSME owners can play an important role within the firm to developing the three enablers of organisational resilience. However, in order to properly understand MSME resilience in the event of a disaster, it is also important to consider the overlapping frameworks of family, community and public institutions.[75] The recovery and business support process has been described as multi-dimensional, complex and nonlinear,[76] necessitating an approach which considers MSMEs within their broader societal context.[77]

It has been suggested that for policies to maximise efficacy, each crisis should be examined as a unique event – this is because knowing how MSMEs reacted to one crisis does not necessarily foreshadow how they will react in others.[78] Modern crises are increasingly multidimensional, therefore leading to an ever-increasing level of unique proximate causes and effects. The best approach has been postulated as one which considers that each crisis is different, seeking to identify the most effective portions of prior disaster response packages and adapt them in the event of a future crisis, whilst removing those aspects which failed to produce an efficient and

72 Adam Rinaldi, 'COVID-19 – The Legal Implications for Landlords and Tenants' (18 March 2020) <https://piperalderman.com.au/insight/covid-19-the-legal-implications-for-landlords-and-tenants/>.
73 Given that the frustration doctrine only applies in respect of unforeseeable contingencies, having a force majeure clause in the lease demonstrates the parties' foresight, meaning the doctrine has no room to operate.
74 Australian Small Business and Family Enterprise Ombudsman, *Access to Justice: Where Do Small Businesses Go?* (5 December 2018).
75 M Sullivan (2003) 'Integrated recovery management: a new way of looking at a delicate process' 18 *Australian Journal of Emergency Management* 4-27.
76 E Jordan and A Javernick-Will (2013) 'Indicators of community recovery: content analysis and Delphi approach' 14(1) *Natural Hazards Review* 21-28, 22.
77 Marshall and Schrank (n 31) 599.
78 Caiazza et al (n 14).

positive outcome.[79] A response to a crisis requires a combination of top-down and bottom-up approaches, in that government and private initiatives are necessary.[80]

Studies have shown that traditional disaster precautions do not automatically assist business survival.[81] General hazard mitigation in a disaster is oriented primarily towards reducing losses to life and property – contemporary approaches emphasise the prevention of death, injury and damage.[82] Alesch et al challenge what they consider to be a broad assumption – namely that such measures will automatically lead to increased business survival. The authors' research found no clear statistical link between the amount of structural damage to a business and business survival.[83] This suggests that a sole reliance on hazard reduction policies will be insufficient to properly ensure business survival in a crisis.

Some scholars submit that an effective policy response to a disaster must deal with the preparedness for a disaster by boosting the resiliency of MSMEs.[84] Resilience arises from "a complex interplay of many factors at different levels of analysis"[85] and therefore requires more than a mere "capability checklist" approach.[86] Whilst resilience can represent an "indicator of preparedness and capability to cope" it is not a guarantee of successful recovery, with some organisations able to recover without any preparedness.[87] The Australian Government issues certain tools for individual crises and maintains the *Australian Government Crisis Management Framework*. These general documents and frameworks are subject to the criticism that they are a very low priority for small or micro enterprises who lack the funding to apply concepts which appear purely academic before they are suddenly necessary.[88]

Drawing on the organisational resilience model presented in Figure 13 earlier, below we explore how government policies and programs can assist in cultivating the three enablers of resilience.

Building Resilience: Resources

A key form of global disaster relief in history has been the use of large capital injections into an economy to forestall a recession.[89] Australia's response to recent global crises such as the global financial crisis and the coronavirus pandemic have been marked by a strong reliance on large stimulus measures.[90] The Australian Government committed a total expenditure of

[79] Caiazza et al (n 14).
[80] M Belitski et al (2022) 'Economic effects of the COVID-19 pandemic on entrepreneurship and small businesses' *Small Business Economics* 58, 593–609, 595.
[81] Alesch et al (n 19) 7.
[82] Ibid.
[83] Ibid.
[84] M Battisti et al (2019) 'Surviving or thriving: the role of learning for the resilient performance of small firms' 100 *Journal of Business Research* 38-50, p 39.
[85] G Van Der Vegt et al (2015) 'Managing risk and resilience' 58 *Academy of Management Journal* 4, 971-980, 977.
[86] Branicki et al (n 7) p 1247.
[87] B Herbane, 'Rethinking Organisational Resilience and Strategic Renewal in SMEs' (2019) 31(5-6) *Entrepreneurship and Regional Development* 476-495, p 487.
[88] B Herbane, 'Small Business Research: Time for a Crisis-Based View' (2010) 28(1) *International Small Business Journal* 43-64.
[89] See, e.g. M Horton and A El-Ganainy (International Monetary Fund), 'Fiscal Policy: Taking and Giving Away' (24 February 2020) available online at https://www.imf.org/external/pubs/ft/fandd/basics/fiscpol.htm.
[90] International Monetary Fund, 'Policy Responses to COVID-19: Policy Tracker' (2 July 2021) available online at https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

approximately $90 billion over five years in response to the global financial crisis.[91] Some suggest that this scheme was "quite effective" in reversing the adverse impacts of the crisis, but that it was "perhaps excessive" in the scale of its stimulus transfers.[92] As discussed earlier in this Part, the Australian federal and state/territory governments also introduced the *National Cabinet Mandatory Code of Conduct—SME Commercial Leasing Principles During COVID-19*. This code imposed a requirement for commercial landlords and tenants to renegotiate their lease arrangements in good faith so as to reach a mutual compromise that aided both parties in offsetting their financial and situational woes. This policy measure provided immediate financial and emotional relief to stricken commercial tenants (primarily MSMEs) at risk of defaulting on their lease obligations and facing potentially devastating legal consequences such as eviction.

In the wake of the Global Financial Crisis of 2007/08, the United States Government initiated the Capital Purchase Program, whereby over US $200 billion was provided to more than 700 United States banking organisations. This was done with the aim of stabilising their subsidiary banks and promoting lending to small businesses.[93] Analysis of the scheme has found that those banks who received the public money were less likely to lend and finance small businesses than those who received nothing.[94] Whilst the level of demand may have been a factor[95] it remains that the scheme did not accomplish its original goal.

A recent example of a large capital injection is the US $2.2 trillion *Coronavirus Aid, Relief and Economic Security Act (US)* (the "CARES Act"), which injected a significant sum of money into the United States economy. The CARES Act has been condemned as being overtly blunt, and possibly prolonging the recovery process by propping up weak companies, risking uncontrolled inflation, or unnecessarily redirecting productive capital to less productive uses.[96] The CARES Act was designed to rapidly assist in replacing income loss and to assist MSMEs in maintaining employment rolls with the belief that keeping workers on employment rolls would assist in a faster and more efficient recovery.[97] Commentators have noted that the Act was designed to support individuals and small business rather than to promote efficiency or minimise waste.[98]

A further criticism is that the CARES Act drew from (and largely resembled) a form of stimulus utilised in recent financial crises, and this was not appropriate given that no amount of liquidity could forcefully stimulate economic activity if people felt unsafe to travel, spend or leave their homes.[99] One key benefit of the CARES Act and other large stimulus packages is the level of

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[91] P Wilkins et al, 'Independent Review of Emergency Economic Stimulus Measures: Global Financial Crisis and COVID-19' (2020) 80(1) *Australian Journal of Public Administration* 12-28.
[92] S May Li and A Spencer, 'Effectiveness of the Australian Fiscal Stimulus Package: A DSGE Analysis', Research Paper Number 1198, University of Melbourne (2014).
[93] R Cole and J Damm, 'How Did the Financial Crisis Affect Small-Business Lending in the United States?' (2020) 43(4) *The Journal of Financial Research* 767-820.
[94] Ibid 780.
[95] Ibid 800-802.
[96] Caiazza et al (n 14).
[97] Ibid.
[98] Ibid; B Davis (Wall Street Journal) (28 April 2020) 'U.S. Audits of Small-Business Loans Face Daunting Challenges' available online at https://www.wsj.com/articles/sba-to-face-big-challenges-ensuring-coronavirus-loans-arent-misspent-11588094140.
[99] Caiazza et al (n 14).

community and consumer confidence they generate, and the ability for this confidence to positively impact recovery.[100]

The United States' Small Business Administration ('SBA') offers disaster loans to qualifying small businesses.[101] These loans are typically based asset and credit thresholds of a business pre-disaster event, and if a business does not qualify it is required to obtain a commercial loan. This scheme has been criticised for failing to account for the often-significant detrimental impact of a disaster event on a business' asset and credit base.[102] The SBA disaster loans require extensive collateralisation, and it has been noted that whilst some small business owners are willing to risk their business on a loan most are unwilling to risk their family home and all other assets.[103]

It is important to highlight that community recovery from an exogenous shock has at least some degree of relationship to business resilience.[104] This form of social capital (being the nature and resilience of a community around a business) is an essential resource for recovery.[105] It has been recommended that policymakers prioritise community recovery and outreach from the earliest opportunity – with a full range of community and social services integrated into the recovery process.[106]

Building Resilience: Dynamic Competitiveness

Schemes which promote the individual resilience of entrepreneurs or an entrepreneurial approach to small business can have an impact on MSME resilience in crisis.[107] The evidence suggests policymakers should endorse a more nuanced perspective on how resilience is defined in the MSME context (in particular, by considering the role of entrepreneurs) and the implications of this on MSMEs.[108]

The ability of an MSME to undertake training and predict crises is described as "limited",[109] and as such, generic policy and framework documents are of diminished utility. A crisis necessitates a significant bureaucratic burden on any business, and in a context of limited time and capital resources, preparatory documents are often ignored. This process is compounded when dealing with a return to work following a crisis, where extensive documentation and paperwork is invariably required – further distracting from other crisis management.[110] A crisis will often

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100 Ibid; Budd et al (n 54).
101 Small Business Administration, 'Disaster assistance: SBA provides low-interest disaster loans to help businesses and homeowners recover from declared disasters' (Undated) available online at < https://www.sba.gov/funding-programs/disaster-assistance>.
102 Alesch et al (n 19) p 85.
103 Ibid.
104 Marshall and Schrank (n 31) p 598; A Schiller, 'The Impact of a Storm Surge on Business Establishments in the Houston MSA' (2011) 56 *Natural Hazards* 331-346.
105 Ibid.
106 A Rowlands, 'Disaster Recovery Management in Australia and the Contribution of Social Work' (2013) 12(1-2) *Journal of Social Work in Disability and Rehabilitation* 19-38.
107 V Ratten, 'Coronavirus (Covid-19) and Entrepreneurship: Changing Life and Work Landscape' (2020) 32(5) *Journal of Small Business and* Entrepreneurship 503-516, p 505.
108 Branicki et al (n 7) 1257-1258.
109 Ibid.
110 J Eakin et al, 'Playing It Smart' with Return to Work: Small Workplace Experience Under Ontario's Policy of Self-Reliance and Early Return' (2003) 1(2) *Policy and Practice in Health and Safety* 19-41, p 26.

restrict the ability of a business owner or entrepreneur to seek support within their networks.[111] The use of online communities has been found to provide significant benefit to entrepreneurs,[112] with a study finding that they offer the ability to resolve and reframe problems, reflect on situations, and refocus thinking.[113] There are immense possible benefits where these online networks can be facilitated.

A key enabler of resilience can be strategic flexibility, predominately through rapid decision making and internal communications, which allows a business to respond and adapt routines and strategies to a changing situation.[114] It has been proposed that such a resilience can be built by policies which facilitate effective lean management through efficiency training programs.[115]

It has been suggested that during a crisis small business will be less likely to undertake entrepreneurial activity.[116] A potential solution to this is the adoption of "macroeconomic stabilisation policies" with the purpose of encouraging entrepreneurial activity. It is asserted that stability is a requisite condition for economic growth and that boosting it will lead to greater survivability of small business.[117]

Building Resilience: Learning and Culture

As described above, the role of learning and education is significant in the long-term resilience of MSMEs. Contemporary policy approaches, whilst recognising this importance, have been critiqued as being predominately focused on *firm* practices and strategies, rather than consideration of the *person*.[118] Small business owners have a propensity to learn through and engage with learning activities and it has accordingly been argued that policies targeting individuals alongside firm practices may be of strong future benefit.[119]

Alesch et al propose that the most important variable in determining whether a business will survive post-disaster is the extent of the owner's adaptation.[120] It is suggested that owners or operators who recognise and adapt to the post-event situation are more likely to have their business succeed. Policies which can target this and prepare business owners will therefore have a greater long-term efficacy.[121] Such policies can be even more effective when a targeted approach is adopted rather than a blanket "one-size-fits-all" methodology. This is particularly true when support targets productive entrepreneurs rather than dying industries or failing

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111 M Meurer et al, 'Digital Affordances: How Entrepreneurs Access Support in Online Communities During the COVID-19 Pandemic' (2022) 58 *Small Business Economics* 637-663.
112 Belitski (n 80).
113 Meurer et al (n 111).
114 Pal, Torstensson and Mattila (n 1) p 413.
115 H Peck (2006) 'Reconciling supply chain vulnerability, risk and supply chain management' 9 *International Journal of Logistics* 127-142.
116 W Bartz and A Winkler (2015) 'Flexible or fragile? The growth performance of small and young businesses during the global financial crisis: Evidence from Germany' *Journal of Business Venturing* 31, 196–215, p 198.
117 Ibid.
118 Battisti et al (n 84) p 48.
119 Ibid.
120 Alesch et al (n 19).
121 Ibid.

firms.[122] This is a key criticism of policies which seek to use blunt fiscal stimulus or other support measures without considering the need for nuanced support, education or training.

Summary

By their very nature, MSMEs have an inherent vulnerability to crisis events. However, MSME owners can build organisational resilience, defined as the ability or capacity to withstand, to adapt and to cope with turbulent changes, environmental risks, perturbations or external shocks,[123] by investing in the three resilience enablers: firm resources, dynamic competitiveness and learning and culture. Similarly, policymakers can promote organisational resilience with policies and programs that provide MSMEs the access to needed resources, the development of dynamic competitiveness and foster learning and a resilient culture. In the following section, general and specific government crisis response policies employed in Australia, New Zealand and the USA and are categorised and examined using the three organisational resilience enablers outlined in Figure 13: resources, dynamic competitiveness, and learning and culture.

[122] Belitski (n 80).
[123] Conz and Magnani (n 1) p 406.

4. Significant Disaster Events and Small Business Disaster Response

Method

A desktop search was undertaken to locate different policies and programs in Australia, New Zealand and the United States with a specific focus on MSMEs. The search utilised search engines, portals and government websites. Each of the jurisdictions investigated have a set of generic disaster response policies and programs which are often activated upon the declaration of a disaster event. The focus of the desktop research was to identify specific policies designed and implemented for a particular disaster event. The disaster events which have been selected in this research include the 2019-20 Black Summer Bushfires, the 2019 North Queensland Flood, the COVID 19 Pandemic, the Global Financial Crisis and the USA 911.

Broad disaster policies with no specific focus on MSMEs or family enterprise were not included in the dataset. This research has focused solely on policies which directly impact MSMEs, or for which being an MSME is an eligibility requirement and has not considered policies which may have an indirect impact, such as general community development funding which might lead to an increase in customers.

Categorisation/Framework

In conducting the research and categorising the different policies for each disaster event, the Organisational Resilience Model presented in Figure 13 has been used. This framework broadly splits policies into the model's three organisational resilience enablers: **resources, dynamic competitiveness,** and **learning and culture**. Colour coding is used in this report to identify these primary categories of enabler. A further two sub-categories are proposed for each of the primary classifications.

Resources is comprised of two sub-categories:

a) financial/material, being policies such as grants or loans which provide direct assistance, and
b) intangible, being policies which still provide resourcing assistance but without direct finance, such as a free government service.

Dynamic competitiveness is comprised of two sub-categories:

a) government practice, and
b) legal/tax change, both encompassing external adjustments designed to support MSMEs and is broken down to

Learning and culture is comprised of two sub-categories:

a) leadership/education, being policies which assist small business owners, entrepreneurs and their representatives in their business and adaptation skills, and
b) wellbeing, being policies which focus on the mental health and wellbeing of business owners.

It should be noted that some policies have a degree of overlap between categories, and in such an instance a judgement call has been made as to which categorisation the policy best fits with.

Summary of Policy Measures

General Crisis Support Policies

A number of jurisdictions have broad crisis support policies which are either available permanently to MSMEs, or become available in the event of a declared disaster. These 'generic' programs, whilst still available in many of the disasters examined, are broadly available for different declared floods, fires or other natural disasters. The policies are not a direct government response to a specific crisis, but rather a framework which can be, and is, repeatedly applied.

In Australia, these policies lean heavily towards financial resourcing, in particular through State-based disaster assistance loans. The remaining policies are spread over multiple areas of resilience in a patchwork across the jurisdictions researched.

Commonwealth initiatives include:

- The Farm Management Deposits Scheme, which provides primary production businesses with tax deductions on farm management deposits to help them deal with inconsistent income from natural disasters, climate and market changes.

New South Wales initiatives include:

- Small Business Natural Disaster Loans, of up to $130,000 with low interest for small businesses in declared disaster areas.
- The Farm Innovation Fund, which provides loans to help meet the costs of carrying out permanent capital works that will have a significant beneficial impact on the land, and address adverse seasonal conditions.
- The Natural Disaster Transport Subsidy, which provides primary producers affected by a declared natural disaster event with a subsidy for transport of fodder, water and stock.

Queensland initiatives include:

- Small Business Disaster Assistance Loans, of up to $240,000, to provide Queensland small businesses with low-interest loans to help them with disaster recovery efforts.
- Disaster Assistance (Essential Working Capital) Loans, which are low interest loans for small businesses who have suffered a significant loss of income as a result of an eligible disaster.

Western Australian initiatives include:

- An Interest Rate Subsidy, which may be available to small businesses for new loans to repair/replace assets that have been damaged or destroyed as a direct result of an eligible disaster, and for which this DRFAWA assistance measure has been activated.

  Further, South Australia and New South Wales offer the following non-material/financial 'general' crisis support initiatives:

South Australian initiatives include:

- The Family and Business Support Program (FaBS), which provides mentors with the experience to connect small business with support services available and provide frontline support in times of need.

New South Wales initiatives include:

- Natural Disasters and Emergencies - Customer Assistance, whereby Transport for NSW offers a range of free replacement products and services for businesses which have been affected by a natural disaster or emergency.

Specific Crisis Support Policies

The focus of the desktop research was to identify specific policies designed and implemented for a particular disaster event. The disaster events which were selected include:

- Case Study 1: 2019-20 Black Summer Bushfires
- Case Study 2: 2019 North Queensland Flood the
- Case Study 3: COVID 19 Pandemic
- Case Study 4: Global Financial Crisis
- Case Study 5: USA 911

The discussion below lists the various initiatives introduced by the Commonwealth and State and Territory Governments which were aimed at supporting MSMEs during each of these crisis events. Given that the crisis events in Case Studies 1-3 are the most recent, the data collected in relation to these events is closer to representing a full data set than that of Case Studies 4-5. In relation to Case Studies 4-5, a desktop search was only able to collect a limited amount of data due to government webpages no longer providing details of these now defunct programs. Nonetheless, data collected in all case studies was useful in drawing key insights and in making recommendations.

Case Study 1: 2019-20 Black Summer Bushfires

The Black Summer Bushfires were a series of fire events across Australia. It has been estimated that over 24 million hectares of land were burnt, with more than 3,000 homes destroyed, and the overall financial impacts estimated to exceed $10 billion. 33 people lost their lives.[124] Impacted areas suffered from significant losses to community, broad adverse health impacts and a devastation to wildlife.[125]

Resource Support

Australian Governments provided a range of financial or other resource support to MSMEs in response to the black summer bushfire events. These largely took the form of grants and concessional or low interest loans provided to assist with business function or cover damage costs. Some forms of funding were available to small businesses for specific purposes, such as to subsidise legal advice or to assist with a broader community recovery. The material and financial support category constituted the overwhelming majority of government support for small business. A much smaller number of intangible resource support programs were instituted, generally in the form of free or low-cost services provided to deal with the impact of the fires – such as free legal advice or clean-up programs.

Material/Financial Support

Commonwealth initiatives included:

- A $10,000 grant to small businesses in Local Government Areas affected by the bushfires, available to small businesses whose revenue dropped by 40 per cent or more due to the bushfires.
- Recovery grants of up to $50,000 for small businesses in certain bushfire impacted areas, to assist with direct impacts such as fire or smoke damage.
- The Bushfire Recovery for Wildlife and Habitat Community Grants Program, which provided grants to community groups and small business to deliver bushfire recovery activities for native flora and fauna.
- A Concessional Loan Program of up to $500,000 available to small businesses in the bushfire areas, with no interest for two years, and then a concessional rate.
- Loans for farmers establishing and developing or replacing bushfire-damaged plantations.
- A waiver of ASIC late fees for companies with a principal place of business in a bushfire area.

New South Wales initiatives included:

- The Apple Recovery Grants scheme, providing matched funding of up to $120,000 per hectare of apple orchard.

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[124] Royal Commission into National Natural Disaster Arrangements (Final Report, 28 October 2020) 5.
[125] Ibid.

- Bushfire Legal Aid Scheme which allowed eligible small business owners or primary producers to apply for funding of up to $2000 to resolve bushfire related legal issues, or $5000 for related expenses such as expert reports.
- A series of low interest loans, up to $130,000 each, for bushfire impacted small businesses.

South Australian initiatives included:

- The Kangaroo Island Biosecurity Rebuild Project, which provided subsidies for bacterial testing of sheep, weed management and removal of Cape Tulip from properties.

Victorian initiatives included:

- Small Business Bushfire Recovery Grants, a scheme which provided grants of up to $50,000 to eligible Victorian small businesses and non-profits affected by the bushfires.
- Bushfire Recovery Grants for Community Facilities, providing funding to help community groups and social enterprises to build, upgrade and repair important local facilities that were destroyed or damaged by the bushfires.
- The Emergency Bushfire Primary Industries Grants, which were grants of up to $75,000 for eligible primary producers directly impacted by the fires to help pay for the cost of clean-up and other emergency measures.
- Funding for eligible farmers to assist with the restoration costs for fences on private land that have been damaged through fire control and suppression measures.

Intangible Support

New South Wales initiatives included:

- Liquor & Gaming NSW providing support for bushfire-impacted licensees through the provision of extra assistance, temporary licence relocation, replacement copies of destroyed documents, replacement signage cost waivers and financial hardship provisions for annual fees.

Victorian initiatives included:

- The Bushfire Clean-up Program, whereby free assistance was available to clean buildings that had been destroyed or damaged beyond repair.
- Free legal assistance through Disaster Legal Help Victoria for anyone affected by the bushfires.

Learning and Culture Support

The second key category of government support for MSMEs in response to the black summer bushfires consisted of programs dealing with personal support for business owners or representatives. The majority of these programs related to business leadership and entrepreneurship, with a strong focus on adapting through mentoring and consistent engagement. A further category consisted of assistance to business owners or representatives in respect of their own personal wellbeing through mental health and financial counselling schemes.

Leadership and Education Support

Commonwealth initiatives included:

- The Small Business Rebuild Package, in particular the Entrepreneur's Programme's Strengthening Business scheme, which sought to work with business owners to identify the best way to get them 'back on their feet' after the bushfires.

New South Wales initiatives included:

- The Service NSW Business Concierge, to assist small business owners in identifying what support was available in the aftermath of the bushfire events.

South Australian initiatives included:

- The Adelaide Hills Business Recovery Officer, a dedicated office providing business information, advice, support and coaching/mentoring.
- Cultivate Hills, a partnership with Business SA and the Department for Innovation and Skills which provided assistance and mentoring over four months to assist business owners in transforming their business in response to the bushfire events.

Victorian initiatives included:

- The Agriculture Recovery Managers scheme to provide in-depth technical support services for agricultural recovery.
- The Wine Industry Technical Support Package, which provided technical information and advice on managing the effects of smoke exposure on grapes and wine.

Wellbeing Support

Commonwealth initiatives include:

- The Regional Small Business Support Program's Rural Financial Counselling Service, which provided financial counselling and related services to small regional businesses facing hardship due to the impacts of the black summer bushfires.
- A Small Business Bushfire Counselling Support Line for small business owners and sole traders to access free financial counselling.

Case Study 2: 2019 North Queensland Flooding

The 2019 North Queensland flood was a monsoon trough event which took place between 25 January and 14 February 2019, consisting of continuous heavy rain and winds and a slow-moving low-pressure system.[126] The result was a widespread flood, with water covering 15,000 square kilometres and being up to 700 kilometres in the length. Impacts were largely felt by primary producers with significant damage caused to critical infrastructure such as fencing, rail and roads. The combined social and economic cost was estimated as $5.7 billion.[127]

Resources Support

The support for the North Queensland flood events largely took the form of financial grants and loans from both the Commonwealth and Queensland Governments. Commonwealth support was in the form of co-contribution finance with an agricultural focus, whilst Queensland Government support was a blend of loans and grants.

Material/Financial Support

Commonwealth initiatives were contained in the After the Flood: Strategy for Long Term Recovery program, consisting of:

- North Queensland Economic Diversification Grants, which were co-contribution grants of between $10,000 and $500,000 available on a competitive basis for projects in the agricultural and non-agricultural sectors that diversify existing industries.
- North Queensland Recovery and Resilience Grants, consisting of co-contribution grants of between $10,000 and $200,000 available on a competitive basis for projects enhancing land management in eligible areas.

Queensland initiatives included:

- Small Business Disaster Recovery Grants to provide small businesses impacted by the North and Far North QLD monsoon trough 2019 with funding to help them recover and rebuild business confidence.
- Disaster Assistance Loans - which provided small businesses, whose assets were significantly damaged as a direct result of the disaster, with low-interest loans to help in their recovery efforts.

Learning and Culture Support

A smaller degree of support from the Queensland Government (in part funded by the Commonwealth Government) was provided to assist business owners with the running of their businesses and personal mental and psychological wellbeing.

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[126] Queensland Reconstruction Authority, Government of Queensland (undated) available online at < https://www.qra.qld.gov.au/recovery/recovery-operations/2019-north-and-far-north-queensland-monsoon-trough>.
[127] Queensland Reconstruction Authority, Government of Queensland (September 2019) 'North and Far North Queensland Monsoon Trough: State Recovery Plan 2019-2021' (Report QRATF/19/243) 11.

Leadership and Education Support

Queensland initiatives included:

- North Queensland Flood Support by which small business could access in-person support from the Department of Employment, Small Business and Training North Queensland regional office.

Wellbeing Support

Queensland initiatives included:

- The Community Education and Information Program, jointly funded with the Commonwealth but administered by the Queensland Government, to increase awareness of services available to assist community members with their mental and psychological wellbeing. The program had a specific small business owner focus.

Case Study 3: Covid-19 Pandemic

Coronavirus (COVID-19) is a highly infectious disease caused by the SARS-CoV-2 virus.[128] After first being detected in late 2019, COVID-19 has spread to most countries in the world and has mutated to form several variants of differing severity and infectiousness.[129] The economic effects have been significant and wide-ranging, in particular due to the impact of social restrictions such as lockdowns and the imposition of density requirements for premises, alongside global trade difficulties, reduced international travel and mass illness.[130] Governments around the world have instituted numerous policy and structural responses in order to manage and lessen the impacts of COVID-19 on small business.

Resources Support

The overwhelming majority of government support for small and medium business in relation to the COVID-19 pandemic has been financial in nature. This has largely taken the form of grants, loans or rebates, and has been a common theme across all jurisdictions researched.

Material/Financial Support

Australian Capital Territory initiatives include:

- A commercial rates tenancy relief program, whereby eligible landlords could receive 50 per cent of the rent reduction provided to small business tenants as a rebate from the government, capped at the lower of $10,000 or quarters 1 and 2 of rates for 2021-22.
- The COVID-19 Small Business Hardship Scheme, to reimburse businesses for costs incurred for electricity, gas and rates paid between 1 July 2021 to 28 February 2022, and commercial vehicle registration paid between 1 January 2021 and 28 February 2021, up to the value of $10,000 per business.
- HOMEFRONT3 ACT, a scheme which provided ACT-based artists and small arts groups with funding to help them maintain and further develop their arts practice during the pandemic.

Commonwealth initiatives include:

- The JobKeeper Payment scheme, which operated in two phases. During the first phase from 30 March to 27 September 2020, eligible businesses and not-for-profits were able to receive a $1,500 (before tax) payment per fortnight per employee to cover the cost of wages. During the second phase from 28 September 2020 to 28 March 2021, JobKeeper payments were tapered and geared towards businesses that continued to be significantly affected by the economic downturn. During this second phase businesses were required to reassess their eligibility for JobKeeper with reference to their actual turnover. It should be noted that

[128] World Health Organisation, 'Coronavirus Disease (COVID-19) available online at <https://www.who.int/health-topics/coronavirus#tab=tab_1>.
[129] Department of Health (Australian Government) (23 December 2021) 'COVID-19 disease, symptoms and variants' available online at <https://www.health.gov.au/health-alerts/covid-19/symptoms-and-variants>.
[130] J Verschuur et al (2021) 'Global economic impacts of COVID-19 lockdown measures stand out in high-frequency shipping data' 16 *PLoS ONE* (4).

this scheme was available to businesses of *all* sizes that satisfied the eligibility criteria, but that the majority of beneficiaries were MSMEs.

- The COVID-19 Consumer Travel Support Program, which provided one-off grants of $1,500 to $100,000 for eligible travel agents and tour arrangement service providers that had lost income due to COVID-19.
- The SME Recovery Loan Scheme, to provide small and medium-sized businesses with guaranteed loans to help their business recover from the impacts of the coronavirus crisis.

New South Wales initiatives include:

- A series of $10,000 small business support grants to support the ongoing operations of small businesses highly impacted by individual NSW public health orders.
- A Small Business Recovery Grant of between $500 and $3,000 to help small businesses meet the costs of safely reopening or upscaling operations following the lifting of restrictions in July 2020.
- The COVID-19 Micro-Business Grant, to provide cash flow support to microbusinesses with an aggregated annual turnover more than $30,000 and less than $75,000.
- The Hospitality and Tourism COVID- 19 Support Grant, available to eligible tourism or hospitality businesses.
- The Northern Beaches Small Business Hardship Grant, a once-off grant of $3,000 or $5,000 to support businesses that were impacted by the Public Health (COVID-19 Northern Beaches) Order 2020.
- The Southern Border Small Business Support Grant of $5,000 or $10,000 to assist businesses impacted by the NSW–Victorian border closure that started in July 2020.
- The 2022 Small Business Grant to provide cash flow support and help eligible businesses survive the impacts of COVID-19 and maintain their NSW employee headcount. This was implemented in response to the Omicron variant of the virus.
- An Alfresco Restart Rebate, which provided a rebate of up to $5,000 for NSW small or medium food and beverage business wanting to create or expand outdoor dining areas.
- The Commercial Landlord Hardship Grant to provide funding to NSW small landlords who are experiencing hardship as a result of waiving rent for their tenant.
- COVID-19 TechVouchers – a form of matched funding for technology-rich start-ups, scaleups or SMEs to collaborate with research organisations to commercialise innovative R&D solutions to the effects of COVID-19.
- An R & D Fund, as part of the Innovation Scaleup Fund, to support small and medium enterprises and scaleups to commercialise products that address the health, social or economic impacts of COVID-19.
- A rebate of certain New South Wales Government fees and charges rebate for small businesses, sole traders and not-for-profits to help them recover from the impacts of COVID-19.

Northern Territory initiatives included:

- The Business Hardship Grant, whereby eligible business could receive grants of $3,000 for employing businesses, or $1,000 for sole traders alongside a 30 percent reduction on utility bills from January 2022 until March 2022. Where a business had a decline in turnover between 40-60 per cent, the grant amount was doubled. Where a turnover decline exceeded 60 per cent, the grant amount was tripled.

- The COVID-19 Small Business Lockdown Payment Program, to support businesses required to close due to public health orders.
- Small Business Survival Payments, to fund businesses experiencing considerable reduction in turnover due to COVID-19.
- A Business Rebound and Adaptation Grant, which provided matching grants of up to $10,000 to small business to carry out works that would enhance customer experiences and provide permanent improvements to the business premises.
- The Small Business CX Grant of up to $20,000 in matched funding to improve 'front-of-house' experience for customers of a small business.
- A Small Business Pivot Grant, matched, of up to $10,000 with a focus on building and supporting small businesses with their digital capabilities.
- The Arts and Culture COVID-19 Interruption Support Program, for support where money had been lost from cancelled arts and cultural activities due to COVID-19.
- A Tourism Survival Fund to support touring companies, professional conference organisers, businesses with a focus on exhibition booth builds and eligible attractions that had experienced mass cancellations due to state travel restrictions.
- The Visitation Reliant Small Business Support Program to support eligible small businesses and sole traders operating in a range of tourism and hospitality related sectors.

Queensland initiatives included:

- COVID-19 Border Business Zone Hardship Grants – Sole Trader Stream, for Queensland sole traders in border zones affected by the closure of the Queensland–New South Wales border.
- Small Business COVID-19 Adaption Grants, to support small businesses subject to closure or highly impacted by restrictions, to adapt and sustain their operations, and build resilience.
- The COVID-19 Cleaning Rebate, providing small and medium businesses which were an exposure venue with rebates to help cover professional cleaning expenses.

South Australian initiatives included:

- A series of $10,000 emergency cash grants for small businesses impacted by COVID-19, for South Australian businesses with a payroll of less than $1.5 million in either 2018-19 or 2019-20 who were receiving a JobKeeper Extension payment.
- COVID-19 Business Hardship Grants, for businesses impacted by health restrictions in place from 27 December 2021, but were not eligible for the Tourism, Hospitality and Gym Grant.
- The COVID-19 Business Support Grant, a multi-round grant program to support business in industry sectors significantly impacted by the COVID-19 density rules and other trading restrictions.
- COVID-19 Tourism and Hospitality Support Grants to provide funding to eligible businesses in the tourism and hospitality sectors significantly impacted by COVID-19 restrictions.

- COVID-19 Tourism, Hospitality and Gym Grants, a multi-round program to provide funding to South Australian tourism, hospitality and gym businesses whose turnover had been significantly impacted by COVID-19 restrictions.
- The Major Events Support Grant, which provided funding to operators of major one-off events scheduled to take place in South Australia between 27 December 2021 and 31 March 2022.
- The Flexible Apprenticeships Employer Bonus Payment, whereby businesses with 25 employees or less were eligible for up to $5000 for every new apprentice or trainee hired in South Australia on a paid training contract.

Tasmanian initiatives included:

- Accelerating Trade Grants to boost e-commerce, adaptability, and business development where relationships or supply had been interrupted by COVID-19.
- The Business Growth Loan Scheme, which provided concessional loans to assist businesses to develop and transition to sustainable post-COVID-19 operating models.
- The COVID-19 Business Impact Support Program, which provided funding to eligible businesses which had experienced a COVID-19 related downturn.
- The COVID-19 Small Business Advice and Financial Guidance Program, which provided a grant of between $750 to $1,500 to obtain financial or other business guidance services.
- A Hospitality Energy Rebate Program providing one-off rebate payments to eligible hospitality businesses that offer in-house seated dining or drink services, to assist with energy bills for both gas and electricity for the period of July to September 2020.
- A waiver of the April 2020 quarterly energy bill for small business customers in recognition of the ongoing impacts of COVID-19.

Victorian initiatives included:

- The Circuit Breaker Business Support Package, to support small businesses under the circuit breaker restrictions announced on 27 May 2021, which contained measures such as:
  - The Business Costs Assistance Program to provide eligible businesses with payments of $2500 or $5000. The program was extended with further rounds and top-up payments.
  - The Licensed Hospitality Venue Fund, which provided businesses holding an eligible liquor licence and food certificate with a $3500 or $7000 grant per premises.
- The Small Business COVID Hardship Fund, consisting of $20,000 grants for eligible small and medium businesses that had experienced a reduction in turnover of at least 70 percent.
- The Sole Trader Support Fund, to provide extra support to eligible non-employing sole trader businesses to survive the impacts of continued COVID-19 shutdown restrictions.
- Small Business Ventilation Grants of matched funding for eligible public-facing businesses investing in large projects to improve ventilation.
- Small Business Ventilation Rebates, providing rebates to Victorian public-facing small businesses to help them undertake immediate business ventilation and/or air purification improvements.
- A COVIDSafe Deep Cleaning Rebate to assist eligible businesses cover the cost of hiring professional cleaning services after attendance by a COVID-19 positive case.

- COVIDSafe Outdoor Activation Vouchers, providing funding for businesses, including gyms, dance studios, and hairdressers, to offer safe outdoor retail, personal services, recreation, entertainment and dining options.
- The Commercial Landlord Hardship Fund, providing grants of up to $2000 per tenancy, and up to $3300 for landlords experiencing acute hardship. Small landlords and their tenants must have agreed a rent waiver or non-payment of at least 50 percent of the agreed rent.
- The Commercial Tenancy Relief Scheme, providing relief in the form of a proportionate reduction in rent. For example, a business with a turnover of 40 percent of pre-pandemic levels could only be charged 40 percent of its rent. At least half must be waived, with the rest deferred.
- Sustaining Creative Workers, a program providing quick-response grants to individual creative practitioners as well as creative collectives and micro-organisations. Grants of to $5000 were available for creative practitioners, including sole traders and freelancers, and up to $10,000 for creative collectives, micro-organisations and businesses.
- The Small Business Digital Adaptation Program, providing rebates for investments made by sole-traders, micro and small businesses in selected digital adaptation products and services. Applicants who confirmed continued use would receive a purchase rebate of $1200 to cover 12 months' access to their chosen product

Western Australian initiatives included:

- Small Business Hardship Grants to provide funding to Western Australian small and medium businesses that had experienced a significant reduction in revenue due to COVID-19.
- Small Business Lockdown Assistance Grants to provide assistance of $3,000 to small businesses impacted by the Perth and Peel lockdown, four-day lockdown and interim restrictions.
- The Small Business Assistance Grant – December 2021 to provide funding for businesses impacted by COVID-19 restrictions (23 December 2021 to 4 January 2022), operating within the hospitality sector, the music events industry or the creative and performing arts sector.
- A Small Business Electricity Credit of $500 for small businesses and charities that aren't Synergy or Horizon customers but incurred electricity costs during the five-day lockdown.
- The Activating Alfresco Rebate Program, which provided funding to eligible hospitality businesses to establish, expand, or improve their alfresco dining operations.
- A Safe Transition Industry Support Package, intended to support businesses and individuals in sectors most affected by the decision to delay the full reopening of WA's borders. The package included:
  - An Event Suppliers Support Program providing one-off payments to event supplier businesses to partially offset additional costs or lost revenues affected by delay to full reopening of the Western Australian border.
  - International Education Support Grants of $50,000 and $100,000 respectively to assist eligible small and medium-sized education providers impacted by the closure of international borders.

- A Travel Agent Support Fund providing funding to Western Australian small tourism and travel agents impacted by the delayed border opening.

- A Tenant Rent Relief Scheme providing funding of up to $3,000 for small business tenants to offset the financial impact of reduced turnover related to COVID-19. The scheme was accompanied by a Landlord Rent Relief Scheme providing payments of $1,500 to landlords who voluntarily matched the Tenant Rent Relief Scheme payments of $3,000 to their small business tenants.
- The Tenant Rental Credit Scheme (State Government) offered rent relief of up to $6,000 for small business tenants of State Government buildings, including Government Trading Enterprises.
- The Nightclub Assistance Program, consisting of one-off payments for eligible nightclub licensees that had experienced a 30 percent decline in revenue due to the Level 1 Public Health and Social Measures requirements for density limits and social distancing.
- The Performing Arts, Theatres and Cinemas Assistance Program, which consisted of a one-off payment for eligible indoor entertainment venues that had experienced a 30 percent decline in revenue due to the Level 1 Public Health and Social Measures requirements for density limits and social distancing.

New Zealand initiatives included:

- The Cultural Sector Emergency Relief Grant for Self-Employed Individuals, to provide funding to self-employed individuals in the arts, culture and heritage sector who lost work because of the January 2022 change to 'red' alert.
- A Small Business Cash Flow Loan Scheme whereby the Government provided loans to small businesses, including sole traders and the self-employed, impacted by COVID-19.

United States Federal Government initiatives included:

- The COVID-19 Economic Injury Disaster Loan and COVID-19 Economic Injury Disaster Loan Advance, which both provided funding to help small businesses recover from the economic impacts of the COVID-19 pandemic. The Advance program allowed access to an additional US$15,000 which did not need to be repaid – effectively a grant, but without the usual requirements accompanying a United States Government grant.
- The Paycheck Protection Program, a loan scheme providing small businesses with funds to pay for up to 8 weeks of payroll costs, or to use to pay interest on mortgages, rent or utilities. This was later accompanied by the Paycheck Protection Program Loan Forgiveness Scheme, whereby loans could be forgiven if the funding was utilised for certain specific purposes.
- A Restaurant Revitalization Fund to provide restaurants with funding equal to their pandemic-related revenue loss up to US$10 million per business and no more than US$5 million per physical location. Recipients were not required to repay the funding as long as funds are used for eligible uses.
- Shuttered Venue Operators Grants for venues which had closed as a result of the pandemic. Eligible applicants may have qualified for grants equivalent to 45 percent of their gross earned revenue.
- The Emergency Capital Investment Program whereby the United States Treasury made available US$9 billion in capital to Community Development Financial Institutions and

Minority Depository institutions to, among other goals, provide loans, grants and forbearance for small business.

- The Business and Industry CARES Act Program, administered by the Rural Development Agency of the Department of Agriculture, provided Departmentally backed loan guarantees for small business owners and agricultural producers needing assistance to manage COVID-19 economic disruptions.
- The United States Small Business Administration has also offered debt relief to existing loan borrowers whose businesses have been impacted by COVID-19.

Intangible Support

Commonwealth initiatives included:

- The Workplace Legal Advice Program, which provided employers with free, independent legal advice to help them deal with workplace issues arising from the coronavirus outbreak.[131]

New South Wales initiatives included:

- The Innovation Scaleup Fund's Innovation Districts Challenges, a series of challenges designed to accelerate the commercialisation of research products that addressed the impacts of COVID-19 by businesses in partnership with universities and CSIRO in NSW.

Northern Territory initiatives included:

- The Business Hardship Register, which allowed businesses to register and obtain a certificate, entitling the business to certain concessions and assessment for the Business Hardship Grant.

Tasmanian initiatives included:

- The Business Vehicle Registration Relief Package, whereby small businesses looking to suspend activity due to the COVID-19 business downturn and trading restrictions could apply to the Registrar of Motor Vehicles to freeze their business vehicle registrations for both light and heavy vehicles.

Victorian initiatives included:

- The Small Business Mediation Service, as part of the Commercial Tenancy Relief Scheme, giving landlord and tenants access to free and impartial mediation to help them negotiate a rent relief agreement.
- A scheme to provide free, fast-tracked temporary outdoor dining permits for hospitality venues within the City of Melbourne, to assist in reactivation and safe trade in the context of relaxing restrictions.

New Zealand initiatives included:

- The Small Business Digital Support Package, a comprehensive package designed to package to support small businesses and tourism operators to transition digitally in the COVID-19 world. The key components included:
    - A Digital Boost Spotlight Series consisting of video case studies where small business owners shared their experiences of digital transformation.

[131] This program is not strictly limited to MSMEs, but only businesses without a lawyer are eligible – this would most likely preclude any upper-medium to large businesses from obtaining support.

- Digital Boost Educate, a free digital skills training platform available to any small business owner (or their employees) who wanted to boost or accelerate their digital transformation.
- Digital Boost Checkable, an extension of Digital Boost Educate, providing a custom Digital Action Plan to small business to assist them in prioritising where they should focus their time and effort on digitalising their business.
- The Small Business Digital Boost Bi-monthly Update, a newsletter from the Digital Boost team about efforts and initiatives to support small businesses and tourism operators to transition digitally in the COVID-19 world.

- An investment of up to NZ $40 million to provide access to arbitration in a timely and cost-effective way to support small or medium businesses in reaching agreement on a fair rent. The scheme provided a subsidy of up to $6,000 per arbitration alongside temporary compulsory arbitration clauses inserted into the *Property Law Act 2007*.

Learning and Culture Support

Government support policies under this category largely favoured entrepreneurial and business training services. There was a strong universal focus on providing mentoring and support in the area of digital transitioning as a method of navigating the impacts of the pandemic and related public health orders.

Leadership and Education Support

Commonwealth initiatives included:

- New Business Assistance, under the New Enterprise Incentive Scheme (NEIS) to provide support to those interested in starting a business or who needed help to refocus an existing micro-business impacted by COVID-19

New South Wales initiatives included:

- Business Connect, which received specific funding to assist businesses impacted by COVID-19 to prioritise next steps, develop a business/recovery plan, manage cashflow, connect with other support, innovate, digitise and market the business.

Northern Territory initiatives included:

- The Immediate Business Acceleration Program, providing small to medium businesses with advice and expertise to help them manage their businesses through COVID-19 lockdowns.

Queensland initiatives included:

- A series of free online training courses, operated through TAFE Queensland, made available to support businesses and their employees recover from COVID-19.
- The Queensland Tourism Business Financial Counselling Service, providing tourism businesses with free support and advice to help them navigate the impacts of COVID-19.

Tasmanian initiatives included:

- Free Digital Coaching by way of a four-hour coaching session with an expert digital coach under the Digital Ready Program.

Victorian initiatives included:

- A program for business recovery and resilience mentoring done with the Victorian Chamber of Commerce and Industry, where eligible business owners could receive up to four two-hour mentoring sessions with an experienced professional to assist in navigating COVID-19.
- The Small Business Digital Adaptation Program, which helped Victorian sole traders, micro and small businesses adapt to a digital operating environment. A part of this program included free workshops for small businesses and an online portal to allow business to investigate and trial different programs and services.
- Upskill My Business, which provided Victorian small businesses with access to free online courses, live and on-demand events and resources to help them recover from COVID-19.

Western Australian initiatives included:

- A Small Business Development Corporation Hotline for business owners with queries regarding the wide range of recently announced federal and state government measures to alleviate the impacts of COVID-19.

Wellbeing Support

Commonwealth initiatives included:

- The NewAccess Scheme for Small Business Owners, which provided free and confidential mental health support to small business owners.
- The Rural Financial Counselling Service's Regional Small Business Support Program, which provided financial counselling to small regional businesses experiencing financial hardship due to the COVID-19 pandemic.

Victorian initiatives included:

- A broad program of Wellbeing and Mental Health Support for Victorian Small Businesses. This program included:
    - The Partners in Wellbeing program to provide one-to-one wellbeing support and free access to financial counsellors and business advisers for small business to help them navigate through the impacts of COVID-19.
    - A general mental health support service for small business owners.

Dynamic Competitiveness Support

This category was dominated by Australian-state based modifications to payroll tax schemes, often in the form of temporary or one-off waivers or deferrals for businesses with Australia-wide wages under a certain amount. These were usually limited to particular months or financial years during the height of the pandemic. The Australian Commonwealth and United States Federal Governments each made use of more wide-ranging legal and tax changes, reflecting the expanded nature of their taxation jurisdiction and legal powers.

Legal/Tax Changes Support

Australian Capital Territory initiatives included:

- Payroll Tax Modifications, whereby ACT businesses with Australia-wide wages of up to $10 million could defer their 2020-21 payroll tax, interest free until 1 July 2022. A six-month payroll tax waiver, from April to September 2020, was also available for businesses whose operations were directly impacted by the prohibited activities list due to COVID-19.

Commonwealth initiatives included:

- Accelerated depreciation rules whereby eligible businesses for the 2019–20 and 2020–21 income years may have been able to deduct the cost of new depreciating assets at an accelerated rate.
- Commonwealth Business Tax Relief for NSW, a series of tax measures specific to New South Wales small businesses which made grants and payments tax exempt and provided administrative relief including through reduced payment plans and removal of interest on late payments.
- The making of several insolvency reforms to help more small businesses restructure and survive the economic impact of COVID-19.

New South Wales initiatives included:

- Payroll Tax Waivers of 25 percent for businesses with Australian wages between $1.2-10 million that had experienced a 30 percent decline in turnover, as well as payroll tax deferrals and interest free repayment plans.

Northern Territory initiatives included:

- Payroll Tax Relief for business listed on the Business Hardship Register, allowing for a payroll tax waiver for businesses with a total payroll below $7.5 million which had experienced a 30 per cent decline in turnover due to COVID-19 for six months from 1 April 2020.

Queensland initiatives included:

- Payroll Tax Relief measures for eligible businesses, including refunds to the value of two-months' paid payroll tax, a three-month payroll tax holiday, payment deferrals for March to December 2020 and deferral of payment for hospitality and tourism businesses for either the July or August 2021 return.

South Australian initiatives included:

- Payroll Tax Relief for eligible employers with Australian wages of up to $4 million, who received a six-month waiver and were not required to pay payroll tax from April to September 2020 (for the return periods of March to August 2020).

Tasmanian initiatives included:

- Payroll Tax Waivers wherein liability was waived for hospitality, tourism and seafood businesses for the last four months of 2019-20. Other businesses with payrolls up to $5 million were able to apply to have their payroll tax waived for April to June 2020.

Victorian initiatives included:

- A Payroll Tax Deferral allowing employers with Victorian payrolls up to $10 million, based on their 2019-20 financial year annual reconciliation returns, to defer their 2020-21 payroll tax liability until the 2021-22 financial year.

- A Payroll Tax Waiver whereby employers with annual Victorian taxable wages up to $3 million were eligible to have their payroll tax for the 2019-20 financial year waived.

Western Australian initiatives included:

- A Payroll Tax Waiver whereby businesses with grouped Australian wages of $7.5 million or less at 30 June 2020 could have their payroll tax waived for the period of March to June 2020.
- An exemption from payroll tax of wages subsidised by the Commonwealth's Job Keeper scheme.
- A one-off grant of $17,500 paid to business with annual Australian taxable wages of over $1 million and up to $4 million, automatically paid as part of the payroll process by cheque at the completion of annual reconciliation.

New Zealand initiatives included:

- A temporary amendment to the *Property Law Act 2007* was made to insert a clause in commercial leases requiring a fair reduction in rent where a business has suffered a loss of revenue because of COVID-19. The clause required a referral to arbitration.

United States initiatives included:

- The Small Business Tax Credit Program, extended as part of the American Rescue Plan, consisting of the following key policies:
    - Employee Retention Tax Credit (and extension) through to December 2021, which allowed businesses to offset their current payroll tax liabilities by up to US$7,000 per employee per quarter. The credit of up to US$28,000 per employee for 2021 was available to small businesses who had seen their revenues decline, or been temporarily shuttered, due to COVID.
    - The Paid Leave Credit (and extension) provided dollar-for-dollar tax credits equal to wages of up to US$5,000 if small and medium businesses offered paid leave to employees who are sick or quarantining.

Government Practice Support

Queensland initiatives included:

- The Queensland Government On-time Payment Policy, which introduced faster payment terms to support business cashflow during recovery from the pandemic.

Case Study 4: Global Financial Crisis (2007-2009)

The Global Financial Crisis, or GFC, refers to an extended period of financial stress in global financial markets and banks ranging from 2007 through to early 2009.[132] A significant downturn in the housing market in the United States cascaded through to a major financial crisis and the collapse of several large financial institutions. This crisis then spread through the global financial system to impact the economies of other countries around the world.

Due to the time that has passed since the crisis and the difficulty in obtaining accurate and reliable information about international support measures, the research has been limited to Australian Commonwealth Government policies. Available information on small business-specific policies of the United States, New Zealand and the Australian States and Territories is more limited and therefore has been omitted from the research.

Dynamic Competitiveness Support

In contrast to many of the other disasters examined in this report, the approach taken by the Commonwealth Government to support small businesses during the GFC heavily favoured "external" changes to the financial and taxation systems. These comprised the majority of the policies which were implemented to support small business.

Legal/Tax Changes Support

Commonwealth initiatives included:

- A reduction of the Quarterly Pay-As-You-Go instalment payable on 21 January 2009 or 28 February 2009 by 20 per cent for small businesses.
- A further cut to Pay-As-You-Go instalments for small businesses for the full 2009-10 financial years, to the value of $720 million.
- The Small Business Tax Break, which provided a temporary 30 per cent investment allowance to small businesses for eligible capital investments of $1000 or over.
- The Small Business Tax Break (Major Boost) whereby the Small Business Tax Break was extended so that small businesses could claim a bonus tax deduction of 50 per cent – up from the previous 30 per cent - of the cost of eligible assets acquired between 13 December 2008 and 31 December 2009, and installed by 31 December 2010.

Government Practice Support

Commonwealth initiatives included:

- A guarantee of payment for new small businesses' contracts with Commonwealth Government Departments within 30 days. If not done within this time limit, provision was made for small businesses to charge penalty interest.

[132] Reserve Bank of Australia 'The Global Financial Crisis | Explainer, available online at < https://www.rba.gov.au/education/resources/explainers/the-global-financial-crisis.html>.

Resources Support

Material/Financial Support

Commonwealth initiatives included:

- A $950 Farmer's Hardship Bonus paid to around 21,500 drought-affected farmers and farm-dependent small business owners who were receiving exceptional circumstances related income support.

Learning and Culture Support

A further support measure implemented by the Commonwealth Government was to provide dedicated support to small business owners, operators and representatives throughout the GFC.

Leadership/Education Support

Commonwealth initiatives included:

- The Small Business Advisory Service, which was intended to enhance access to information and advice on issues important to sustaining and/or growing small business in response to the current global financial crisis.
- The Small Business Support Line, which provided small business with advice and put them in touch with specialist advisers on matters such as obtaining finance, cash flow management, retail leasing, personal stress and hardship counselling and promotion and marketing advice.

Case Study 5: September 11, 2001 Terror Attacks

On 11 September 2001, a group of terrorists from the extremist group Al-Qaeda hijacked several commercial US aircraft and flew two of them into the two towers of the World Trade Centre in New York.[133] A third aeroplane was flown into the Pentagon, whilst a fourth was re-taken by its passengers before crashing into an abandoned field in Pennsylvania. The Twin Towers collapsed, with the damage from the impact and following fires killing an estimated 3,000 people.[134] The economic effects on both New York City and the wider United States were significant.

Research on policies for the September 11 Terror Attacks has been limited to those identifiable from United States Federal Government websites and reports, alongside identifiable polices of both the State and City of New York.

Resources Support

Material/Financial Support

The support for small business in the aftermath of the terror attacks was predominately financial, dominated by loans and grants.

United States Federal Government initiatives included:

- The Disaster Loan Program, a standard disaster support mechanism operated by the US Small Business Administration, which was modified to respond to the terror attacks. For example, the Administration increased the maximum loan amounts available and decreased the amount of documentation required for certain loans.
- Military Reservist Economic Injury Disaster Loans, which provided loans for small businesses nationwide affected by a loss of employees who were called up as military reservists due to the Federal deployment of military personnel.
- The Expanded Economic Injury Disaster Loan to assist small businesses across the nation that were adversely affected by the lingering effects of the attacks and subsequent government action, such as airport closings and a drop in tourism. This was an expansion of an existing scheme to respond to the attacks.
- A 7(a) Loan Guarantee Program, under the Supplemental Terrorist Activity Relief (STAR) Program, which provided for private-sector lenders to give loans to small businesses which were guaranteed by the Small Business Administration.

New York State initiatives were largely run under the Empire State (New York) Development Corporation, which was funded by the Federal Government but administered by the State. These included:

133 Naval History and Heritage Command (United States Government) (8 September 2021) 'The 9/11 Terrorist Attacks: 11 September 2001' available online at: https://www.history.navy.mil/browse-by-topic/wars-conflicts-and-operations/sept-11-attack.html>.
134 Ibid.

- The Business Recovery Grant Program, which provided grants to businesses (including not-for-profit organizations) with fewer than 500 employees, located in Manhattan south of 14th Street, to compensate them for economic losses resulting from the disaster.
- Small Firm Attraction and Retention Grants to promote economic development by assisting small firms that had suffered business disruption as a result of publicly funded construction projects. The program assisted eligible businesses affected by the temporary closure of streets or sidewalks.
- The Technical Assistance Program was a series of grants to community-based organizations and other service providers to allow them to provide additional assistance to businesses. The programs were required to assist small businesses with strategic planning; finance, insurance, and legal issues; basic business management and to help businesses identify and access disaster funds.

Combined New York City and New York State initiatives included:

- The World Trade Center Disaster Recovery Bridge Loan Program, through which the city and state provided loan loss reserve subsidies to participating lenders, which then made bridge loans to businesses awaiting SBA loan approvals.

New York City initiatives included:

- The New York City Lower Manhattan Business Retention Grant Program provided cash grants totalling $10 million to 1,674 non-retail businesses, including manufacturers and professional service firms. It was available to small businesses located south of Houston Street.
- The World Trade Center Retail Recovery Grant Program, which provided 3,048 retail businesses in lower Manhattan with cash grants totalling $13.7 million. Eligible businesses included retail and personal service firms.

Learning and Culture Support

Leadership/Education Support

Further support was provided to New York businesses in the form of business management assistance following the terror attacks.

United States Federal initiatives included:

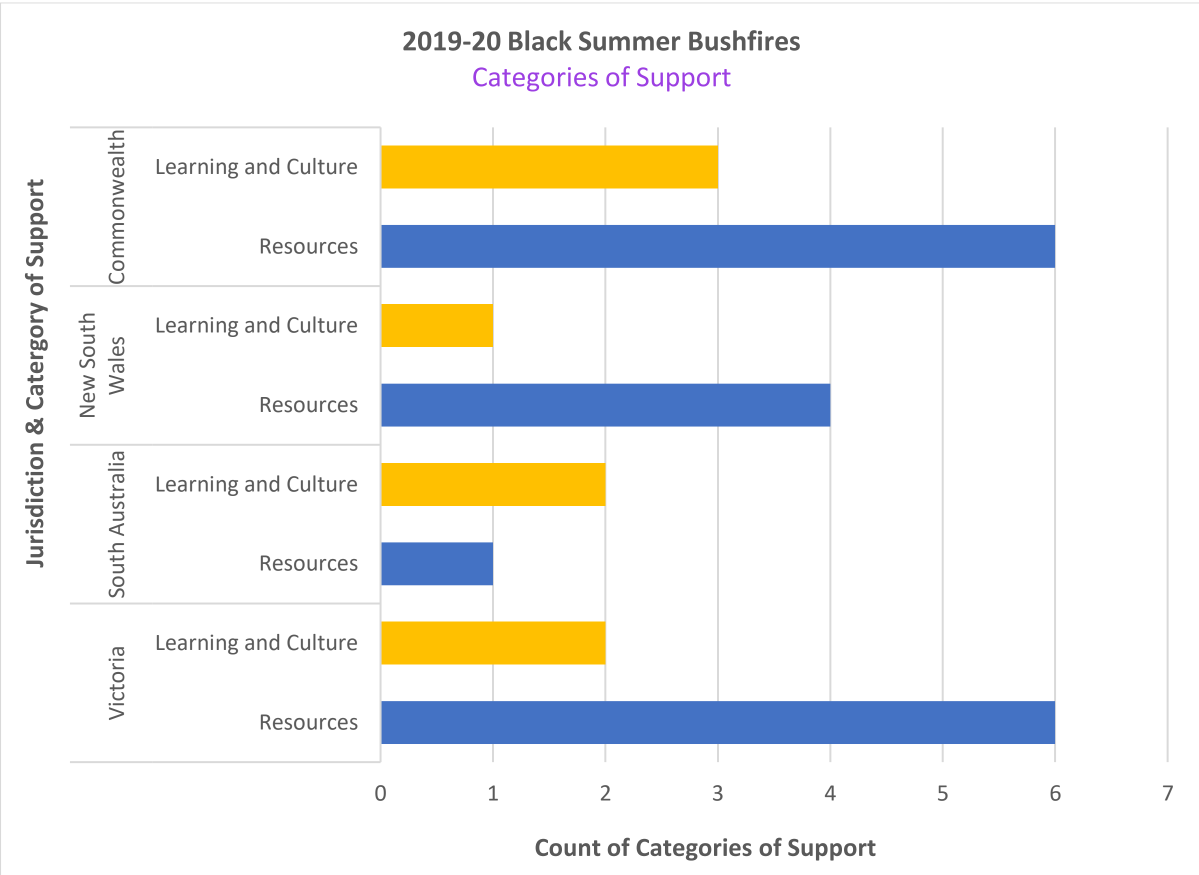
- New York Small Business Development Centres, which received increased funding in response to demand at regional locations in their roles of providing business counselling and management assistance to small businesses.

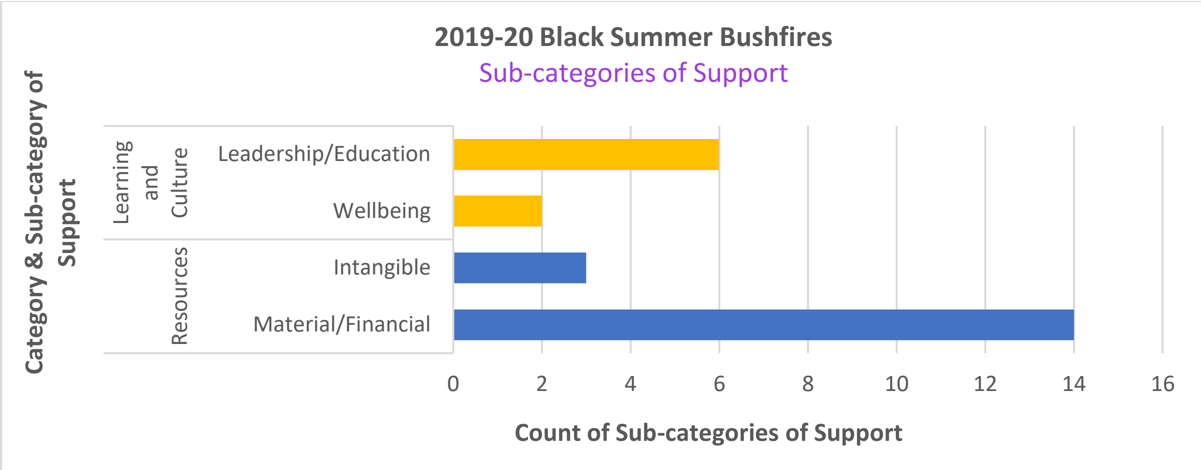
5. Summary Charts

Below are summary charts of the following for each crisis event considered in this report:

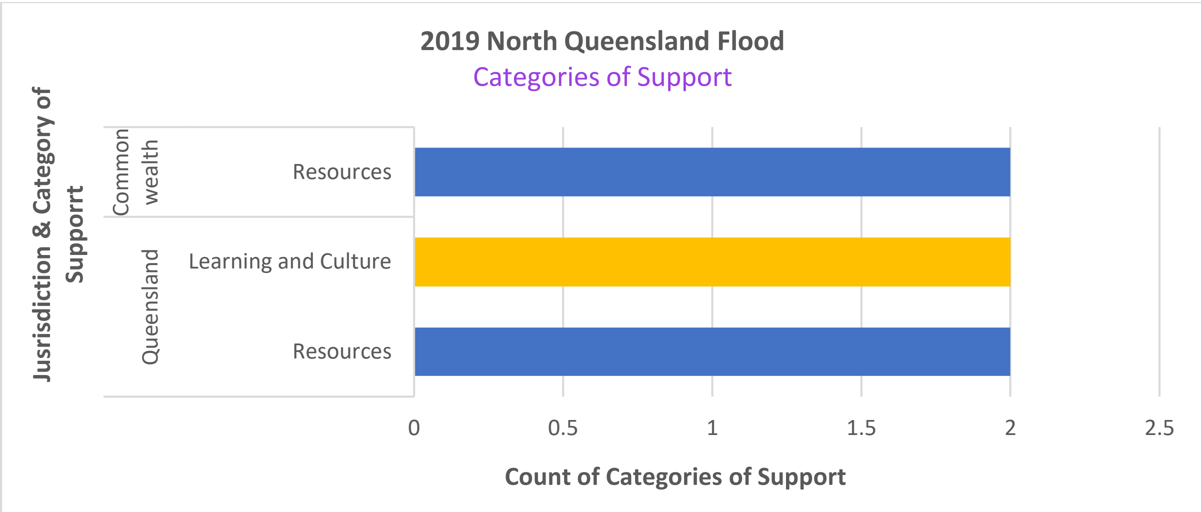
1. The number of programs offered by a government jurisdiction according to the three categories of support introduced in this report: Dynamic Competitiveness, Learning and Culture and Resources.
2. The total number of programs offered by all government jurisdictions according to the sub-categories within each category introduced in this report. The primary categories are:
    - **Resources** the sub-categories include Material/ Finance and Intangible
    - **Learning and Culture** the sub-categories include Wellbeing and Leadership/Education
    - **Dynamic Competitiveness** the sub-categories include Legal/Tax Change and Government Practice.

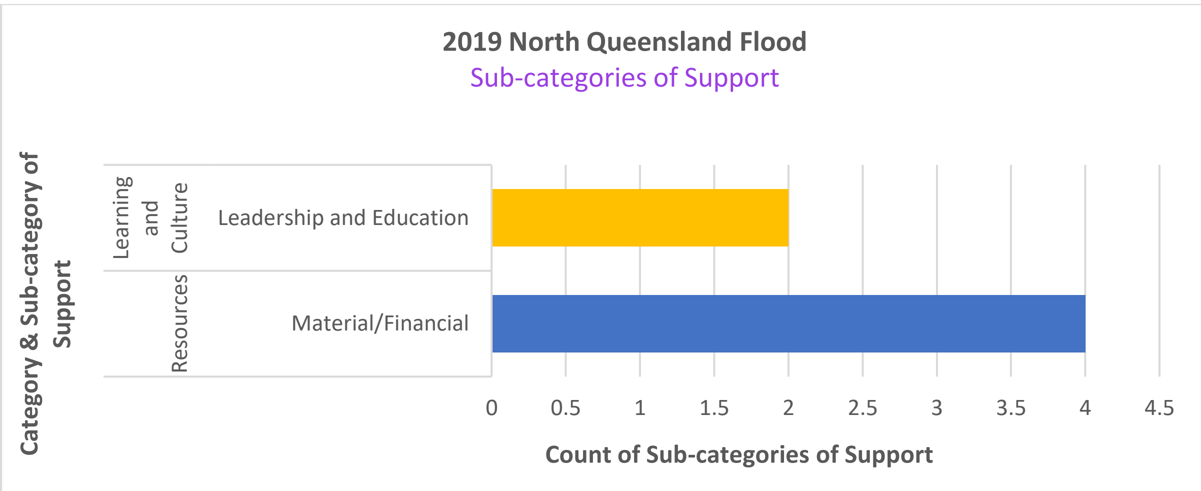
2019-20 Black Summer Bushfires



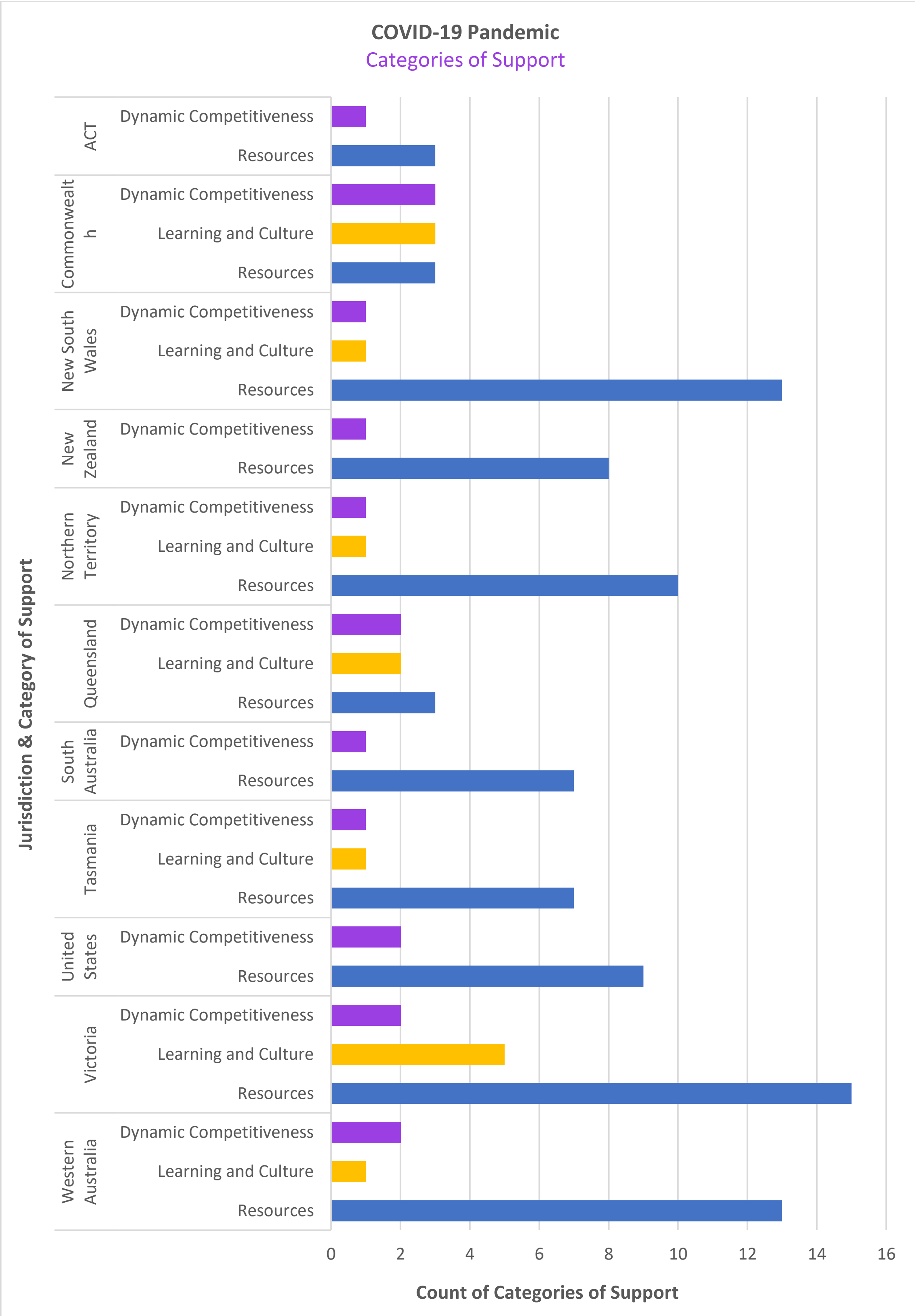


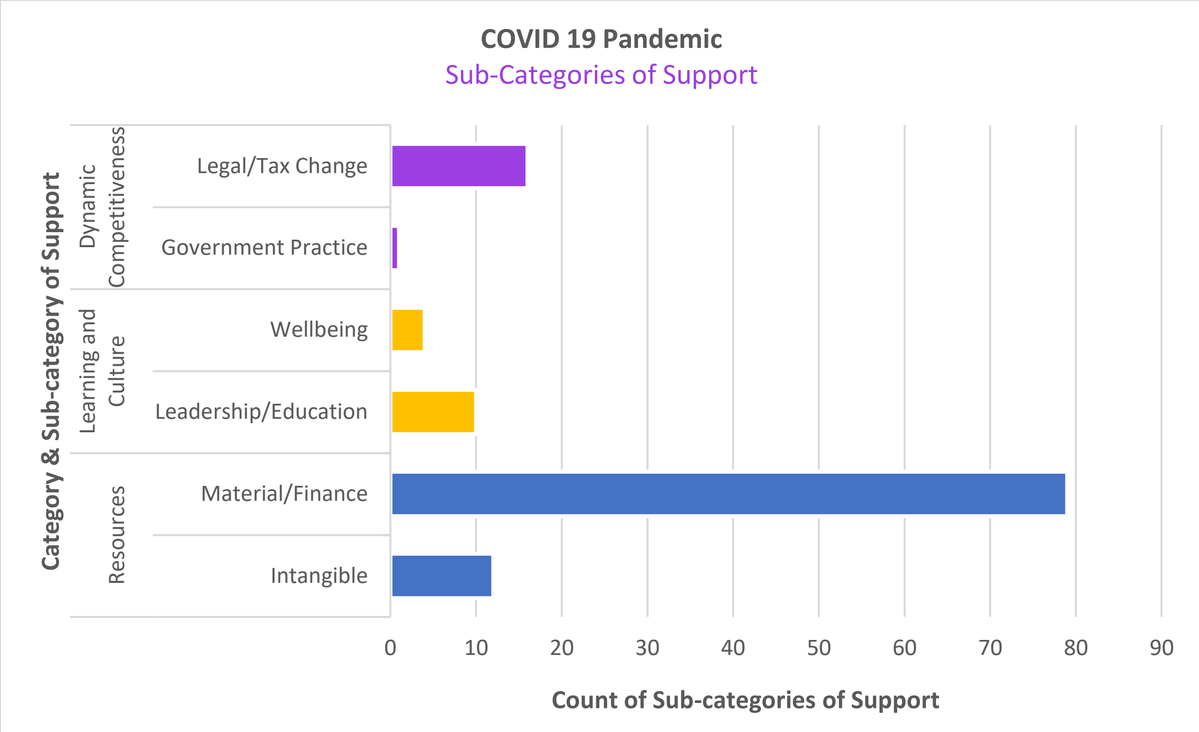
2019 North Queensland Flood



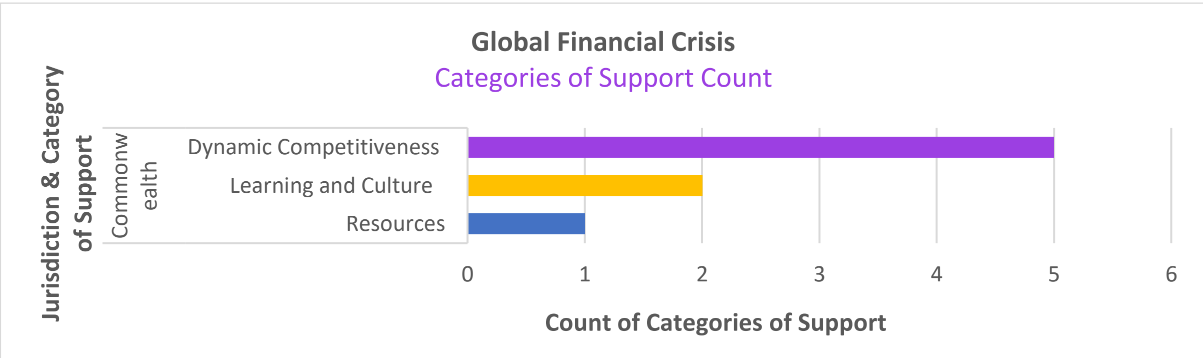


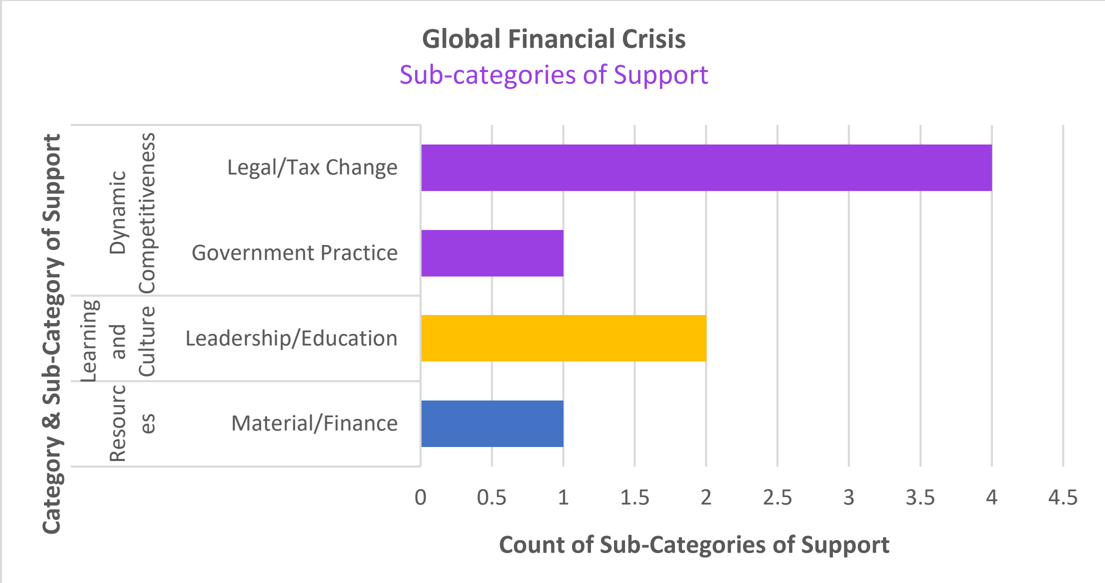
COVID-19 Pandemic



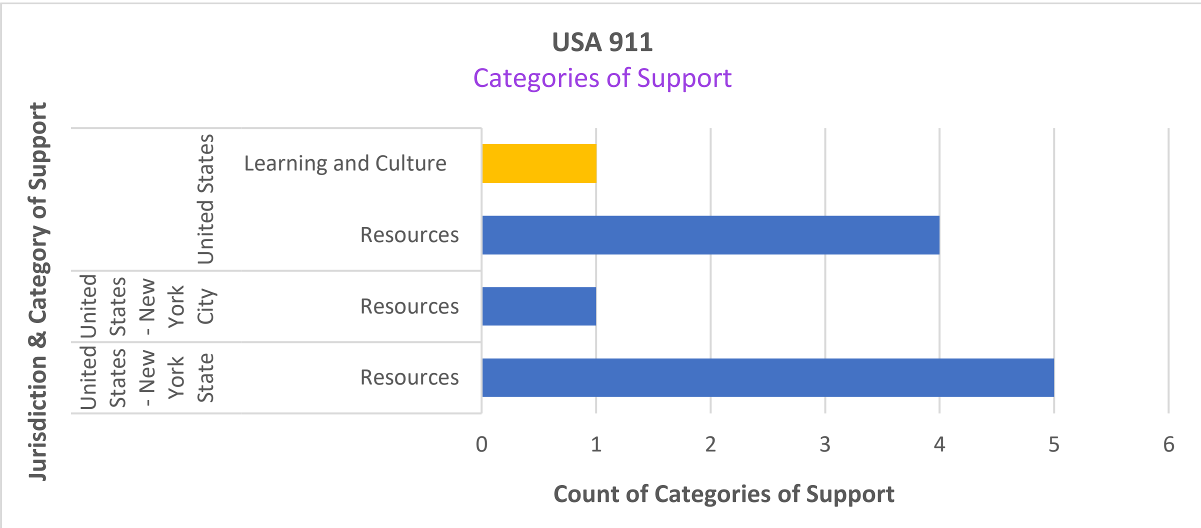


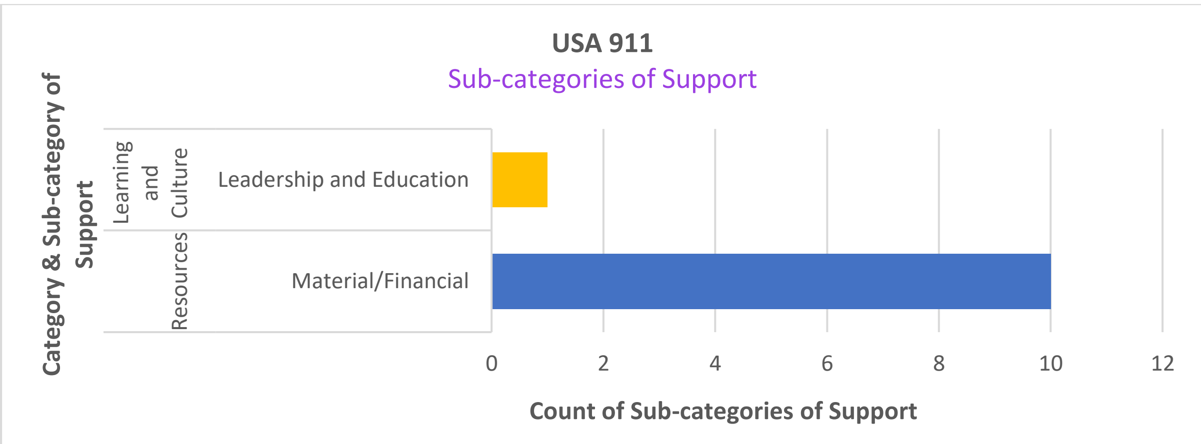
Global Financial Crisis





USA 911 Terror Attacks





6. Exemplars of Approaches to Supporting MSMEs

Christchurch Earthquakes

On 22 February 2011, the city of Christchurch was struck by 6.3 magnitude earthquake at a depth of 4 kilometres. This earthquake is considered by some to have been an aftershock of an earlier magnitude 7.1 earthquake which struck on 4 September 2010 at a depth of approximately 10 kilometres.[135] The damage from both earthquakes was significant, with the 2011 earthquake causing the most destruction due to its close proximity, shallow depth, and the weakening of buildings from the 2010 initial earthquake.[136] It is estimated that as a result of the 2011 earthquake, in excess of 185 people were killed and 6,500 people sustained major injuries.[137] The total estimated cost of recovery was NZ$40 billion.[138]

The critical issues faced by MSMEs included[139]:

Cashflow and access to Finance:

- Reduction in trade sales due to lower demand and location issues;
- Increase in operating costs such as insurance and rent;
- Significant lags between timing on expenditure vs. insurance payouts;
- Inadequate insurance coverage;
- Lower margins to attract customers.

Relocation of business premises

- Uncertainty surrounding relocation of business premises based on designated safe activity zones;
- Lack of affordable rental properties, exacerbated by limited supply, aftershocks, building inspections and remediation work required.

Marketing:

- Ongoing challenge of striving to retain existing customer base as a result of relocating business and the challenge of attracting new customers;

Insurance:

- Significant delays in damage assessment, action and payment

External influences on Organisational Resilience

The New Zealand Government established an Earthquake Support Subsidy (ESS) to assist small and medium businesses to continue operation whilst keeping staff and paying wages. The program was effectively a wage subsidy whereby eligible businesses were paid $3,000 to pay an

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135 NZ History (New Zealand Ministry for Culture and History) (4 October 2021) 'September 2010 Canterbury (Darfield) earthquake' available online at: <https://nzhistory.govt.nz/culture/canterbury-earthquake-september-2010 >.

136 NZ History (New Zealand Ministry for Culture and History) (4 October 2021) 'Christchurch earthquake kills 185' available online at: < >; Australian Disaster Resilience Knowledge Hub (National Recovery and Resilience Agency) 'Christchurch earthquake, 2011' available online at < https://knowledge.aidr.org.au/resources/earthquake-christchurch-new-zealand-2011/>.

137 Ibid.

138 A Wood et al (2016) 'The Canterbury rebuild five years on from the Christchurch earthquake' 79 *Reserve Bank of New Zealand Bulletin 3* (February 2016).

139 Hatton, T., Seville, E., & Vargo, J. (2012). *Improving the resilience of SMEs: policy and practice in New Zealand*. Christchurch, New Zealand: Asia Pacific Economic Co-operation (APEC).

employee for six weeks, equating to a $500 payment per employee per week. This amount was reduced to $1,800, or $300 per week, for part-time employees. This scheme was the primary method of immediate disaster support for the region's small businesses.

A key aspect of the scheme was a rapidly created online Earthquake Employment Support System, which allowed business owners to quickly and easily provide the minimum level of required information to access support. Applicants could also phone a 24/7 hotline or visit one of seven physical offices established in Christchurch. The system began operation six days after the earthquake and paid NZ$53 million within the first week.

Other initiatives included[140]:

- Tax leniency – flexible approaches taken by taxation authorities as many MSMEs were not able to access their financial records and/or had cash flow problems;
- Recovery Canterbury - a free one stop shop for MSMEs to obtain support, assisting in navigating the various levels and support available from government agencies, provision of vouchers to business owners for coaching and training workshops, and financial assistance for targeted recovery strategies;
- Canterbury Business Recovery Trust (CBRT) – administered by Recovery Canterbury, the Trust provided grants to affected MSMEs for marketing, fit-out costs or funding of other recovery strategies;
- Covering registration costs of Business Mentors NZ – a program that provides MSME owners with access to free mentors to evaluate their business models;
- Funding to support employee assistance programs not commonly affordable by MSMEs.

Despite New Zealand MSMEs operating in a free market economy with limited government intervention, many MSME owners reported the significant positive impact that the ESS scheme had in supporting them through the crisis. Based on lessons learnt, it was felt that government could do more in preparing MSMEs for future crisis events. Also, questions were raised as to whether industry associations, as opposed to government agencies, are be better placed to disseminate information to MSME owners regarding crisis support resources available. While multiple channels of promotion of such information would increase the likelihood of MSME owners in accessing such information, there is a need for a coordinating body so as to guard against the provision of outdated or conflicting information.

Internal influences on Organisational Resilience

One study[141] of 545 New Zealand MSMEs affected by the Christchurch earthquake suggests that resource integration from external sources is an essential element of the ability to overcome the disruptions caused. Specifically, by having a proactive posture, NZ MSMEs were more

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140 Hatton, T., Seville, E., & Vargo, J. (2012). *Improving the resilience of SMEs: policy and practice in New Zealand.* Christchurch, New Zealand: Asia Pacific Economic Co-operation (APEC).

141 Battisti, M., & Deakins, D. (2017). The relationship between dynamic capabilities, the firm's resource base and performance in a post-disaster environment. *International Small Business Journal*, 35(1), 78-98.

effectively able to integrate resources from external sources to limit the impact of the crisis on their limited resource base to seize new market opportunities. Hence being able to integrate network resources to seize new opportunities is a key component of the resilience of New Zealand MSMEs during the Christchurch earthquake crisis. Similarly, another study[142] found that MSMEs that with greater flexible and adaptable business models were more likely to overcome the challenges associated with the earthquake and seize new business opportunities.

Australian Droughts (Historical)

Australia has a wide variety of climates owing to its large size. However, large portions of the landmass generally experience drought and these events have at times reached the point of crisis, with very little to no rainfall for prolonged periods of time. Various droughts have struck Australia in the past century and so, rather than highlight one individual incident, several have been considered below to highlight the history of Australian crisis policy response with respect to drought events.

History of Australian policy response – drought

Australia's history was built 'on the sheep's back' and it therefore makes perfect sense for Australian governments to support a wide range of programmes and policy tools aimed at helping the financial position of farmers. Climate and in particular, drought, is one of the main drivers behind this very large plethora of programmes. Australia's drought policy has changed over time and the discussion below provides a brief history of some of these key dates.

1950s

Drought policy in the middle of the 20th century focused on attempts to 'drought proof' agriculture by expanding irrigation.[143]

1971

In 1971, government policy shifted to recognise drought as a natural disaster. This allowed affected people to be helped through joint Commonwealth-state Natural Disaster Relief and Recovery Arrangements.[144]

1989

In 1989, the Commonwealth commissioned the Drought Policy Review Task Force to undertake an independent and comprehensive review of drought policy. The Task Force was established following a Commonwealth decision to remove drought funding from the Natural Disaster Relief Arrangements from 1 July 1989.

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[142] de Vries, H. P., & Hamilton, R. T. (2021). Smaller businesses and the Christchurch earthquakes: A longitudinal study of individual and organizational resilience. *International Journal of Disaster Risk Reduction*, 56, 102125.
[143] Australian Government, Department of Agriculture, Fisheries and Forestry, History of drought policy accessed at https://www.agriculture.gov.au/agriculture-land/farm-food-drought/drought/drought-policy/history
[144] Ibid.

The review found that previous drought policy was poorly targeted, distorted farm input prices and worked as a disincentive for farmers to prepare for drought. The Task Force noted the use of transaction-based subsidies such as freight rebates, agistment and fodder subsidies to those affected, and was concerned that these subsidies are inconsistent with a self-reliant approach to farm and drought management. The Task Force stated that 'a subsidy approach to government assistance can develop into an incentive for less economic, less efficient, and less sustainable farming. It offers little or no incentive to change or adjust management practices according to changing conditions. Nor does it add to the competitiveness or productivity of agricultural industry. Instead, subsidies or rebates provide an incentive to use government assistance as the main drought management strategy'.[145]

Instead, the Task Force noted the need for farmer assistance when the short-term combination of factors, beyond an individual's control, can result in significant resource movements that later need to be reversed. In the Task Force's opinion, concessional loans were the preferred mechanism to do this, and have the following benefits including alleviating cash flow problems, maintaining overall responsibility with the producer (as the principal plus the concessional rate of interest must be repaid), allowing recipients to decide on the best use of funds, are not enterprise specific, are not related to a particular management action, are relatively equitable across industries, can be needs based and allow accountability and monitoring of assistance needs.[146]

The Task Force noted that the treatment of drought as a natural disaster had transferred the responsibility of coping with drought to the public purse. The Task Force noted that a continuation of the concept of drought as a natural disaster would continue to promote a crisis management, rather than risk management, approach to drought relief.[147]

In 1989, drought was removed from the Natural Disaster Relief and Recovery Arrangements. This was a significant change in the way that drought was viewed, and it became accepted that it is a regular feature of our Australian landscape and therefore it is a farm production risk. The work of the review task force caused seismic change and still reverberates within draught policy in Australia because what the review task force did was to recognise self-reliance as the key. What they did was to conceptualise the responsibility of government and farmers within self-reliance. The task force made the following comments about the responsibilities are farmers:[148]

> self-reliance recognises the primary responsibility of individual producers for the commercial performance of their enterprises and for ensuring agricultural activity is carried out in an economically and environmentally responsible manner. This concept also recognises that governments should not intervene to distort market prices or outputs.

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145 Extracts from NSW Parliamentary Stewart Smith, Drought, Briefing Paper No 14/02, Library Research Service (2022) 4.
146 Ibid 6.

147 Ibid 5.
148 Drought Policy Review Task Force, Managing for Drought, Final Report Volume II, May 1990, 9.

This concept also recognises that governments should not intervene to distort market prices or outputs. Government policy must work within the confines of the marketplace, by removing distortions or disincentives to appropriate activities, and by providing positive incentives where markets fair to provide sufficient inducements to act in the community interest. Herein lies the challenge of balancing two ideals: primary producer risk and self-reliance; and the provision of a publicly funded 'safety net' of support and assistance.

In response to the findings of the Drought Policy Review Task Force, a new National Drought Policy was ratified by state and commonwealth governments in 1992. The three principles of the Policy, which reflect the work of the Task Force as noted above, were to:[149]

- encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing for climate variability
- facilitate the maintenance and protection of Australia's agricultural and environmental resources base during periods of climatic stress
- facilitate the early recovery of agricultural and rural industries, consistent with long-term sustainable levels.

The Policy noted that farmers will have to assume greater responsibility for managing the risks arising from climatic variability. In turn, the Policy stated that it was Government's role to create the overall environment which is conducive to a property management planning and risk-management approach. This was to be achieved through a system of incentives, education and training and research and development. A new Rural Adjustment Scheme was established to provide assistance to farmers in times of exceptional downturn. An improved income equalisation deposits and farm management bond scheme were introduced in an attempt to increase farmer self-reliance.[150]

The policy set up the following assistance programs:[151]

- Rural Adjustment Scheme. It offered grants and interest rate subsidies.
- Drought Relief Payment. It provided income support for farmers within declared Exceptional Circumstances (EC) areas.

1997

The Commonwealth Government's 1997 Agriculture – Advancing Australia package recognised that there are exceptional circumstances beyond the scope of normal risk management and in these exceptions the Government should provide assistance. The package also allowed for the introduction of income support in exceptional circumstance declared areas. The Agriculture – Advancing Australia package also introduced the Farm Management Deposit scheme.[152]

[149] Extracts from NSW Parliamentary Stewart Smith, Drought, Briefing Paper No 14/02, Library Research Service (2022) 6.
[150] Ibid 7.
[151] Ibid.
[152] Ibid 8.

At the core of federal government involvement during drought periods is the declaration of exceptional circumstances. The criteria to be met for exceptional circumstances to be declared in a region or for an industry were agreed by the Commonwealth and States at their ministerial council meeting (Agriculture and Resource Management Council of Australia and New Zealand - ARMCANZ) in 1999. They were:[153]

- the event must be rare and severe;
- the effects of the event must result in a severe downturn in farm income over a prolonged period; and
- the event must not be predictable or part of a process of structural adjustment. The key indicator, a severe income downturn, should be tied to a specific rare and severe event, and be beyond responsible farmers normal risk management strategies. The ARMCANZ criteria define 'rare' events as those that occur, on average, once every 20 to 25 years. The event is 'severe' if its impacts lasts for a prolonged period, ie, greater than 12 months, and is of a scale that affects a significant proportion of farm businesses in a region.[154]

Exceptional Circumstances assistance was provided by way of interest rate subsidies and/or the Exceptional Circumstances Relief Payment (ECRP). Interest rate subsidies provided business support (a 50 percent subsidy on interest rate payments associated with farm business borrowings, up to $100,000 in one year and $300,000 over five years) and the ECRP provided farm families with income support and special access to Health Care Cards, Family Payments, Youth Allowance and AUSTUDY. Between 1997 and 2012, EC arrangements were the main way farmers were supported. Over time, the EC arrangements were shown to be inequitable. Eligibility was determined by 'lines on a map'. Some farmers who experienced the same drought as their neighbours were located on the other side of a boundary line. This meant they could not access support.[155]

The decision to close the EC programs was based on successive reviews of drought policy which found that EC assistance was ineffective and could result in farm businesses being less responsive to drought conditions.[156] A review in 2008 recommended that drought assistance programs be restructured to help farmers prepare for drought rather than waiting until they are in crisis to offer assistance.[157] The Commission inquiry report was released in May 2009. The report:[158]

- found that EC declarations and related drought assistance programs did not help farmers improve their self-reliance, preparedness, and climate change management
- recommended that farmers facing hardship should have access to a farming family income support scheme, regardless of drought

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[153] Ibid 9.
[154] Ibid.
[155] Ibid.
[156] Australian Government, Department of Agriculture, Fisheries and Forestry, History of drought policy accessed at https://www.agriculture.gov.au/agriculture-land/farm-food-drought/drought/drought-policy/history
[157] P Kenny et al, *It's About People: Changing Perspectives on Dryness* (2008) Report to Commonwealth of Australia by an Expert Social Panel on Dryness.
[158] Productivity Commission, *Government Drought Support: Final Inquiry Report* (Report No 46, 2009).

- placed primary responsibility for managing risks, including climate variability and change, with farmers.

On 30 April 2012, the last EC declarations lapsed. There have been no EC declarations since.

On 12 December 2018, the Council of Australian Governments agreed and signed a new National Drought Agreement (NDA). The NDA sets out a joint approach to drought preparedness, responses and recovery, with a focus on accountability and transparency. The agreement recognises the need to support farming businesses and farming communities to manage and prepare for climate change and variability. It focusses measures across all jurisdictions on bolstering risk management practices and enhancing long-term preparedness and resilience.[159]

2018-2022

Since 2018-19 (as at 31 January 2022), the Federal Government reports that $11.1 billion in Australian Government funding committed to drought-related programs as follows:[160]

Long-term resilience and preparedness
$5 billion Future Drought Fund
8 drought resilience hubs
80 soil and agricultural landscapes projects

Immediate action for those in drought
2,573 drought loans to farmers
124 drought loans to small businesses
11,389 rebates for on-farm emergency water infrastructure
16,800+ farmers received Farm Household Allowance (since 2014)
1,591 small regional businesses accessed rural financial counselling
57 regional climate guides

Support for wider communities affected by drought
57,000+ households assisted to pay urgent expenses
Support for **180** local government areas (infrastructure & other projects)
Support for **250** schools
Over **$11 million** in cash and/or voucher support for farmers

[159] Australian Government, Department of Agriculture, Fisheries and Forestry, National Drought Agreement accessed at https://www.agriculture.gov.au/agriculture-land/farm-food-drought/drought/drought-policy/national-drought-agreement.
[160] Australian Government, Department of Agriculture, Fisheries and Forestry, Drought policy accessed at https://www.agriculture.gov.au/agriculture-land/farm-food-drought/drought/drought-policy.

Assessing the efficacy of the programs

One recent study of 87 farming businesses in central Queensland found that 87 percent of all the farmers relied upon one or more of the subsidies below to reduce their costs:[161]

Input cost subsidies	Diesel rebates and Fuel tax credits
Debt assistance	Concessional drought loans
Social grants for farm families	Farm Household Allowance
Free Advice and training	Rural financial counsellors
Income tax concessions	Long-term averaging Deferring profits from forced disposals or livestock deaths Deferring proceeds from double wool clips when sheep are sheered earlier than normal Farm Management Deposits

<u>Concessional drought loans</u>

50 percent of the participants in the study used the government's concessional loans scheme. The scheme is administered by the Regional Investment Corporation. These loans assist farming businesses to 'Prepare for drought. Manage or recover from the effects of drought'. Eligible businesses can access credit for five years interest only at the current variable rate then five years' principal and interest over a 10-year loan term. After 10 years, businesses can refinance any remaining balance with a commercial lender. The borrowed funds can be used to refinance debt, access new debt for operating expenses and capital or to pay for operating expenses or capital. A Drought Management Plan must be submitted at the time of application management plan. The plan must outline how the borrower will use the loan to prepare for, manage through or recover from drought.[162]

<u>Farm household allowance</u>

32 percent of participants in the study had accessed to the Farm Household Allowance. The farm household allowance is administered by Services Australia. An assessment of income and assets is included in the test for eligibility. Total income must be below the cut off for the JobSeeker Payment income test which includes farm business income and non-farm income combined. Combined personal and farm assets must be below $5.5 million. Those eligible will receive the following:[163]

- a fortnightly payment for up to 4 years in each specific 10 year period
- activity supplements up to a lifetime limit of $10,000 to pay for activities to help improve your financial position

161 The following discussion refers to a paper presented by Voogt Thea, entitled 'Measuring the Impact of Drought Policy Tools on Self-Reliance', presented at 12th Queensland Tax Researchers Symposium, July 2022.
162 Australian Government, Regional Investment Corporation, Drought Loan accessed at https://www.ric.gov.au/drought#drought-plan.
163 Australian Government, Services Australia, Farm Household Allowance accessed at https://www.servicesaustralia.gov.au/farm-household-allowance.

- a Farm Household Case Officer to work with you to help you improve your financial circumstances.

Given the strict eligibility criteria which requires quite significant hardship, 32 percent of participants in the study receiving this payment, represents a surprisingly high percentage. The struggle faced by these farmers is then whether the access the payment or to find an alternate source of revenue outside the farming activities so as to diversify income as a protection measure. 86 percent participants in the study had non primary production income which suggests that the many farmers need to seek an alternate source of income due to their dire circumstances.

Tax averaging for primary producers

11 percent of participants in the study had used tax averaging for primary producers. Tax averaging enables the farming business to even out its income and tax payable up to a maximum of 5 years to take good and bad income years into account. This is intended to create a situation in which farming businesses do not pay more tax over time than taxpayers on similar, but steady, incomes.[164] The study highlighted that the reason for such a low uptake was due to the need to generate taxable profits in order for tax averaging to be of benefit to the taxpayer. Very few of the farming businesses in the study were generating these taxable profits.

Farm management deposits (FMD)

The FMD Scheme assists primary producers to deal more effectively with fluctuations in cash flows. It is designed to increase the self-reliance of Australian primary producers by helping them manage their financial risk and meet their business costs in low-income years by building up cash reserves. The scheme allows eligible primary producers to set aside pre-tax income which they can draw on in future years when they need it, such as for restocking or replanting when conditions start to improve. Income deposited into an FMD account is tax deductible in the financial year the deposit is made. It becomes taxable income in the financial year in which it is withdrawn (repaid).[165] The Australian government has referred to the Farm Management Deposits Scheme as a 'flagship' program.[166] However, appears to be very little evidence to support such an assertion.

The study discussed above found that as the majority of farmers were not generating a taxable profit, that it was therefore very unlikely that there would be any investments into her farm management deposit. One of the requirements for the FMD scheme is that there must be a tax profit which then represents that maximum amount that can be put into farm management deposit. The author of the paper comments:

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164 Australian Government, Australian Taxation Office, Tax Averaging for primary producers accessed at https://www.ato.gov.au/business/primary-producers/in-detail/tax-averaging-for-primary-producers/.
165 Australian Government, Department of Agriculture, Fisheries and Forestry, Farm Management Deposits accessed at https://www.agriculture.gov.au/agriculture-land/farm-food-drought/drought/assistance/fmd.
166 Australian Government, Department of Agriculture, Fisheries and Forestry, Farm Management Deposits Scheme: 2021 evaluation (2021).

[T]he problem that we face to us when we think about something like the farm management deposit scheme and governments characterisation as a flagship, is firstly it implies that government has a sure-fire fail-safe way a normative standard to evaluate the impact of the FMD on farmers and they don't! What we know is how much money is sitting in the scheme and how many accounts, but that doesn't tell us if it is actually farmers who are suffering drought who putting their money into the scheme and of course then the second part to that is that if FMDs have a particular application in a drought preparedness context you can't focus on the deposits in the scheme you've got to look at how farmers use it to know if there's any correlation between how you take the money out of the scheme and what you actually do with it at the farm gate level.

7. Key Findings from Research

This report has considered how crisis events affect MSMEs and which factors (internal and external) help to stem decline, help recovery and promote the development of resilience when crisis events inevitably occur. The overarching theme and model used in the report is premised on the importance of building business resilience to successfully navigating a crisis event. Business resilience can be built at various points of the spectrum or lifecycle of a crisis. The three defined points of the spectrum include before the crisis event (***proactive phase***), during the crisis event (***absorptive/adaptive phase***) and after the crisis event (***new normal phase***).

Relying upon the literature and the further research undertaken in phase two of this study, key enablers of resilience, both internal and external, are generally be categorised into three categories: Resources, Learning and Culture and Dynamic Competitiveness. The identified MSME support programs in Australia, the United States and New Zealand detailed in this report largely fall within these three categories.

There are a number of key findings which can be drawn from this research and which are discussed below.

Building Business Resilience: Resources

In relation to internal and external enablers which build a business's resources, key findings include:

1. Importance of being able to access finance

The overwhelming majority of primary government policy responses in Australia have been financial in nature and have favoured a more direct form of financial assistance for MSMEs.[167] This has largely taken the form of grants, loans or rebates, and has been a common theme across all Australian jurisdictions researched. Policy measures, being financial in nature, have been targeted to the immediate problem of MSMEs lacking the capacity to meet operational expenses, primarily payroll, rent and overheads (due to the crisis event). The United States' approach to disaster relief across the specific crisis events researched heavily emphasises the use of loans for all forms of small business disaster relief.[168]

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[167] It is arguable that direct assistance measures during times of crisis are helpful in the short-term but ultimately inhibit the development of sustainable, financially responsible, and functionally resilient MSMEs. Conversely, other studies suggest that immediate measures that improve a MSME's cash flow and performance dramatically improve the business' prospects for prosperity and encourage the attainment of finance from alternative sources, such as creditors and investors: Dong Xiang and Andrew C. Worthington, 'The Impact of Government Financial Assistance on the Performance and Financing of Australian SMEs' (2017) 30(4) *Accounting Research Journal* 447, 451-2.

[168] It is noted that there is empirical evidence supporting the view that fiscal support measures which revolve around loans, guarantees and equity investments generally improve a MSME's competitive advantage but do not lead to increased profits: Albena Pergelova and Fernando Angulo-Ruiz, 'The Impact of Government Financial Support on the Performance of New Firms: The Role of Competitive Advantage as an Intermediate Outcome' (2014) 26(9-10) *Entrepreneurship and Regional Development* 663, 691

Some studies suggest that these types of immediate financial policy responses in response to crises improve an MSME's cash flow and performance, dramatically improve the business' prospects for prosperity, give the business a competitive advantage and encourage the attainment of finance from alternative sources, such as creditors and investors.[169] However, there are differing views as to the utility of these programs, particularly in the longer term. There is empirical evidence that other fiscal support measures, such as direct provision of cash through grants, tax benefits, subsidies and the like, foster a 'non-repayment culture' among MSMEs and discourage them from accessing non-credit forms of financing, resulting in market distortion.[170] It is noted that fiscal policy among Australian governments during periods of crisis has historically favoured this more direct form of financial assistance for MSMEs.[171]

Whilst direct financial assistance measures during times of crisis are helpful (and in some cases imperative) in the short-term, such measures must be measured so that they do not unintentionally inhibit the development of sustainable, financially responsible, and functionally resilient MSMEs in the longer term.

2. Adapting contracts and removing other legal constraints that do not allow businesses to adapt to crises soon enough

Often, the most damaging aspect of a crisis event is not the losses which occur during and immediately after the event, but rather the ongoing economic impact stemming from the disaster. For example, fixed term lease agreements are likely to impact on the MSMEs ability to relocate from a building which because of the crisis, is no longer suitable to carry on the MSMEs business. One possible solution is to educate MSME owners to carrying out their due diligence to ensure leases contain appropriate protections in the event of crises striking. There is a body of case law in which long-term commercial leases have been challenged in response to crises such as the current COVID-19 pandemic.

In addition to lease agreements, there are likely to be many continuing contracts with suppliers and other commercial contracts which due to the crisis event, are no longer commercially viable. These inflexible contractual arrangements and other legal constraints do not allow the MSME to adapt to the crisis event soon enough, which inhibits the MSME from being able to stem decline and to aid recovery.

Relying solely upon MSMEs conducting the appropriate due diligence and pursuing legal proceedings against contracting parties, is not an ideal solution. There must be mechanisms in place which assist MSMEs to foster resilience and allow these businesses to adapt quickly to crises by ensuring they have legal protections and exit strategies available to them when crises occur.

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169 Dong Xiang and Andrew C. Worthington, 'The Impact of Government Financial Assistance on the Performance and Financing of Australian SMEs' (2017) 30(4) *Accounting Research Journal* 447, 451-2.

170 Kristin Hallberg, 'A Market-Oriented Strategy for Small and Medium-Scale Enterprises', International Finance Corporation, Discussion Paper No 40 (2000) 12.

171 Dong Xiang and Andrew C. Worthington, 'The Impact of Government Financial Assistance on the Performance and Financing of Australian SMEs' (2017) 30(4) *Accounting Research Journal* 447, 448.

3. The importance of government crisis relief policies and programs

A response to a crisis requires a combination of top-down and bottom-up approaches, and both government and private initiatives are necessary. The response of governments to a crisis event is the most significant external enabler which can be deployed in times of crisis to help MSMEs to stem decline and to recover. For example, this report captured 91 Government policy responses and programs targeted at MSMEs which were implemented by the Australian Federal and State and Territory Governments during the COVID 19 pandemic. In particular, Australia's response to the recent global coronavirus pandemic was marked by a strong reliance on large government stimulus measures.

Fiscal policy introduced in anticipation of, or response to, crises must necessarily be shaped by the crisis at hand. Crises which take longer to materialise, such as the GFC, will warrant a different approach to crises which have immediate impacts, such as natural disasters or global pandemics. Direct financial assistance seems more appropriate for, and has been utilised within, various jurisdictions in response to more immediate (and often devastating) crises such as natural disasters. The principal goal here is to promptly stem decline and initiate recovery.

On the other hand, secondary or 'indirect' forms of assistance, such as training and development programs appear to be supplementary in nature and geared more towards developing resilience in response to crises. Governments in all jurisdictions examined in this report appeared to utilise a combination of both methods when supporting MSMEs in response to crises. This holistic approach appears to address all points of the spectrum or lifecycle of a crisis. It is also consistent with the three 'assets' in Pal, Torstensson and Mattila's model of MSME resilience; namely (1) resourcefulness ('what they have'); (2) competitiveness ('what they do'); and (3) learning and culture ('what they think and feel').

4. Ensuring that the policy response of government is targeted to support those businesses most impacted by the crisis event.

When responding to crises, government policies and programs may result in unintended and undesirable outcomes. An obvious example is that of the Australian Government's JobKeeper Payment scheme introduced during the COVID-19 pandemic.

Given the immediacy with which government-imposed lockdowns and density restrictions were imposed upon businesses, and the haste with which businesses started losing substantial sums of money, it was naturally essential that primary policy measures be rolled out with some urgency. The largest and most obvious candidate in this regard was the aforementioned JobKeeper Payment scheme, an Australian Federal Government initiative. However, a critical weakness to this approach was that the eligibility criteria for the JobKeeper Payment scheme, though broad enough to reach the most vulnerable businesses affected by the pandemic, was not nuanced enough to account for those businesses which had already benefited or were poised to benefit from internal enablers such as income protection insurance.

Put another way, the policy did not account for measures those affected businesses took to prevent losses. It certainly did not account for measures they *could* have taken, the aim being to prop up those businesses and not cause them further detriment. The Australian Taxation Office confirmed through public fora that businesses receiving income protection payments could still receive JobKeeper payments provided they satisfied the eligibility criteria.[172] Essentially, therefore, some businesses were able to 'double dip' and received the Commonwealth's subsidy payments despite their losses being offset, in part or possibly whole, by appropriate insurances. Moreover, in one of several test cases funded by several large insurers, the Full Court of the Australian Federal Court in February 2022 confirmed that insureds entitled to recover indemnity payments under business interruption insurance policies did not have to account for certain payments or benefits received from third parties, such as JobKeeper payments.[173]

Consequently, many businesses whose turnover was not realistically affected as badly as reported ended up remaining eligible for and did receive JobKeeper payments.[174] At least $38 billion resultantly went to businesses that did not need the subsidy,[175] triggering heavy criticism from the Australian Taxation Office and the Federal Opposition.[176] Of course, this was partly due to misreporting on the part of businesses, but it was not detected during the assessment phase of the JobKeeper program. This suggests not only that the policy itself was flawed but that these flaws were exacerbated by a lack of appropriate assessment and enforcement in delivery.

This is a powerful case study which highlights the importance of government targeting the policy response so that it reaches those businesses most impacted by the particular crisis. Further, it also highlights the importance of execution of the measure so that the measure can be implemented as intended.

5. Business recovery is linked to community recovery

Social capital in the form of the nature and resilience of a community around a business is an essential resource for MSME recovery post a crisis event. Where policymakers prioritise community recovery and outreach from the earliest opportunity following a crisis event and integrate a full range of community and social services into the recovery process, this will then greatly support MSMEs in that community to recover from the event.

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172 See https://community.ato.gov.au/s/question/a0J9s00000016mM/p00002365.

173 *LCA Marrickville Pty Limited v Swiss Re International SE* [2022] FCAFC 17 . Note that an appeal to the High Court of Australia has been filed and is pending.

174 Dan Conifer, 'At Least $39 Billion in JobKeeper Went to Companies Where Turnover Did Not Fall Below Thresholds, Data Shows', *ABC News* (online, 2 November 2021) <https://www.abc.net.au/news/2021-11-02/38b-in-jobkeeper-went-to-companies-where-turnover-did-not-fall-/100586310>.

175 Dan Conifer, 'At Least $39 Billion in JobKeeper Went to Companies Where Turnover Did Not Fall Below Thresholds, Data Shows', *ABC News* (online, 2 November 2021) <https://www.abc.net.au/news/2021-11-02/38b-in-jobkeeper-went-to-companies-where-turnover-did-not-fall-/100586310>.

176 Paul Karp, '"Incompetent": Frydenberg Attacked Over JobKeeper After Profit Warnings from ATO Revealed', *The Guardian* (online, 5 October 2021) <https://www.theguardian.com/australia-news/2021/oct/05/incompetent-frydenberg-attacked-over-jobkeeper-after-profit-warnings-from-ato-revealed>.

6. **Greater use of the 'proactive phase' (as described above) to mitigate against business risks including crisis events**

There are several internal enablers which can be implemented in the proactive phase of a crisis event which can mitigate against the disruption and losses to an MSME in the event of a crisis. For example, the facilitation of some form of insurance protection is critical. Ensuring adequate coverage, and understanding of how policy exclusions and inclusions work, is also critical. There have been some recent cases in which insurances have been tested by, for example, the pandemic, and questions have arisen as to what has 'caused' particular losses, whether policies cover COVID-19 pandemic losses or related illnesses.

7. **Removing or reducing the amount of 'red tape' for business during a crisis event.**

A crisis event generally brings with it, extensive documentation and paperwork which distracts the owners of MSMEs from undertaking their crisis management. There are many examples, including the need to complete paperwork to make claims under business insurance policies, in applying for some form of government relief or to make changes to employment arrangements. Where possible, where MSMEs are involved, the processes should be as streamlined as possible and integrate into the MSMEs existing processes and systems or information gathered from government agencies to remove the additional administrative burden imposed on MSMEs.

Learning and Culture

In relation to internal and external enablers which build a business's learning and culture, key findings include:

8. **Mental health of business owners and their staff**

A form of relief common to most Australian States and Territories has been support and learning programs for entrepreneurs or small businesses. These have largely been confined to two sub-categories: personal or mental wellbeing, and business leadership and mentoring. The mental health of business owners and entrepreneurs during a crisis is an important consideration linked to business recovery. This has been identified as an area requiring further research, in particular, to what extent entrepreneurs self-monitor their personal physical and mental wellbeing, and the consequent implications for their business.

9. **Efficiency training programs**

MSME resilience can be built by policies which facilitate effective lean management through efficiency training programs. The value of training supports (whether in person or online), both pre- and post-crisis, also should not be underestimated. Properly undertaken mentoring and access to appropriate planning advice is beneficial to the development and survival of MSMEs.[177]

[177] H Block and M Bhattacharya 'Promotion of Innovation and Job Growth in Small and Medium Sized Enterprises in Australia: Evidence and Policy Issues' (2016) 49(2) *The Australian Economic Review* 192, 204.

Even without crises to face, MSME training programs have been found to enhance the managerial skills of owner-managers and reduce business failure rates,[178] while also fostering self-confidence among business owners and the broader community.[179]

A powerful example of the value of training programs is the South Australian Government's 'Cultivate Hills' program (discussed in Part 4 of this report), which was an expansion of its successful pilot program (Cultivate KI) on Kangaroo Island in 2021. So successful was the pilot in assisting KI businesses affected by the devastating fires that struck the region in 2021 that it was adapted to serve South Australian businesses impacted by the COVID-19 pandemic.[180] Appropriately calibrated, training supports can be extremely beneficial in helping MSMEs withstand and recover from crises.[181]

Two key difficulties stand in the way of the development and implementation of appropriate MSME training supports as aids to crisis survival and resilience. These include:

1) the price of development which is often exorbitant due to high service costs, a lack of qualified service providers, and an inability to adequately adapt programs for the MSME sector;[182] and
2) the well-known reluctance among MSME proprietors to engage in formalised training programs.[183] Often this reluctance is attributed to a lack of time, finance, perceived irrelevance and questions as to return on investment on behalf of the proprietor. Accessing training has usually been triggered by necessity and immediate need rather than as a form of long-term future planning.[184] Moreover, as discussed in Section 3 of this report, MSMEs are far less likely to undertake entrepreneurial activity during a crisis.

SMEs lack finances, resources and time, and are typically run by fiercely independent artisans who are more focussed upon their trade than upon administrative issues such as paperwork or upskilling.[185] During crisis periods, it is probable that little thought will be devoted to accessing secondary support programs, as opposed to primary support programs oriented towards the direct provision of finance. Given the proprietors of most MSMEs are dual owners and managers, this likely contributes to the low participation rates of these smaller-scale businesses in

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178 R Barrett 'Small Business Learning Through Mentoring: Evaluating a Project' (2006) 48(8/9) *Evaluation and Training* 614, 614.
179 Ibid 624. There was however minimal evidence to suggest that the program led to objective benefits such as increased sales or new job creation (see p 625).
180 Adelaide Hills Council, 'Cultivating Business in the Adelaide Hills' (18 February 2022) <https://www.ahc.sa.gov.au/ahc-news/Pages/Cultivating-business-in-the-Adelaide-Hills.aspx>.
181 A Rickard and K Rickard 'E-mentoring for Small Business: an Examination of Effectiveness' (2009) 51(8/9) *Evaluation + Training* 747, 757; E Walker et al 'Small Business Owners: Too Busy to Train?' (2007) 14(2) *Journal of Small Business and Enterprise Development* 294, 303.
182 Francis Lwesya, Adam Beni Swebe Mwakalobo and Justine Mbukwa. 'Utilization of Non-Financial Business Support Services to Aid Development of Micro, Small and Medium Enterprises (MSMEs) in Tanzania' (2021) 5(2) *Small Business International Review* 358.
183 T Smith and R Barrett, 'Online Learning: An Effective Means for Developing Small Business Owner-Managers' Capabilities?' (2016) 23(1) *Journal of Small Business and Enterprise* 207, 208.
184 Ibid.
185 KA Van Peursem and PK Wells, 'Contracting Practices in Professional Accounting SMEs: An Analysis of New Zealand Firms' (2000) 19(1) *International Small Business Journal* 68, 68.

formal business training.[186] There is also a peculiar resistance to online or e-learning training.[187] Accordingly, efforts must be made to highlight for the MSME sector the value of training supports (whether in person or online), both pre- and post-crisis.

10. Knowing where to find support

With so many government support programs in place during times of crisis, it is imperative that business owners can easily find the supports for which they are eligible. Numerous attempts have been made to institute "one-stop-shop" style portals or online resources to assist MSME representatives in accessing government support programs. The issue is that these are not typically comprehensive, and any person attempting to find support is required to visit multiple websites, often containing dead or expired weblinks, and complete multiple different forms and applications. There could be substantial benefit in streamlining the nature of crisis relief for MSMEs through a dedicated small business crisis support portal. In particular, reference could be made to the rapidly established and highly successful online portal in the aftermath of the Christchurch Earthquake in 2011.

Dynamic Competitiveness

In relation to internal and external enablers which build a business's dynamic competitiveness, key findings include:

11. The importance of innovation during crisis

A key strength, exhibited by MSMEs in a crisis is their flexibility and the ability to innovate to boost resilience, something which is particularly pertinent when considering recovery from a major disaster. Often, crises will result in changes in consumer trends and a reduction of consumer discretionary spend. MSMEs rely on their ability to be flexible and innovate to respond to these changes and their ability to do will materially impact on the recovery of an MSME.

An inhibitor to innovation during crises is the reduced access to finance of MSMEs during these events. A crisis will also often restrict the ability of a business owner or entrepreneur to seek support within their networks.

12. Importance of adaptation during crisis

There is some literature which proposes that the most important variable in determining whether a business will survive post-disaster is the extent of the owner's adaptation.[188] Policies which can target adaptation and prepare business owners will therefore have a greater long-term efficacy.

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186 E Walker et al 'Small Business Owners: Too Busy to Train?' (2007) 14(2) *Journal of Small Business and Enterprise Development* 294, 295.
187 Smith and Barrett (n 183) 219.
188 Alesch et al (n 19).

Schemes which promote the individual resilience of entrepreneurs or an entrepreneurial approach to small business could have an impact on MSME resilience in crisis.

13. Use of online communities

The use of online communities has been found to provide significant benefit to entrepreneurs.

14. The phases of response

Business resilience can be built at various points of the spectrum or lifecycle of a crisis. The three defined points of the spectrum include before the crisis event (PROACTIVE PHASE), during the crisis event (ABSORPTIVE/ ADAPTIVE PHASE) and after the crisis event (NEW NORMAL PHASE). Phase two of the research evidenced that most government responses to crises are reactive in nature and take place in the 'ABSORPTIVE/ ADAPTIVE PHASE' of the crisis lifecycle. This has been identified as an area requiring further research, in particular, there has been very little research undertaken in relation to the efficacy of internal and external enablers in the PROACTIVE PHASE or the NEW NORMAL PHASE. It may be the case that more investment in the PROACTIVE PHASE will result in greater returns than investments in the later phases.

The research undertaken suggests that governments are not investing enough in policy responses and programs for MSMEs in the PROACTIVE PHASE or the NEW NORMAL PHASE in the crisis lifecycle. These programs are currently lacking in all three key enablers of resilience: Resources, Learning and Culture and Dynamic Competitiveness.

In terms of internal enablers in these two overlooked phases of crisis response, the key challenge is to encourage MSME owners to make this investment early in anticipation of the crisis event occurring. The real barrier to overcome is the inherent reluctance of MSMEs to commit their time or to invest during these phases. Policies can be implemented to incentivise MSMEs to invest in the enablers at this time which can include government training vouchers or access to owner/ growth programs. Alternatives can be for government to penalise those MSMEs who fail to make this investment, or to make the investment mandatory. Another potential strategy is to work towards a shift in culture through the provision of educational resources.

Impacts of crises upon MSME proprietors of Indigenous heritage

The scope of the present study did not permit an exhaustive review of the impacts of various crises upon MSME proprietors of Indigenous heritage. However, some interesting findings in the COVID-19 pandemic context were made and are outlined below.

The COVID-19 pandemic is a crisis which has had a considerable impact upon MSMEs with proprietors of Indigenous heritage. The Commonwealth Government reported in November 2020 that many Indigenous businesses were facing significant strain, 'with some experiencing employee, cash flow and supply chain pressures'.[189] The most recent available data indicates that around 12,000-16,000 of the 2.1 million businesses trading in Australia are Indigenous-owned.[190] Many of these firms have, like all others, suffered heavily from the pandemic crisis.

Although empirical data both in Australia and abroad is limited, there is some which speaks to the importance and efficacy of government policy support measures. A Deloitte report commissioned in February 2021 by the Minderoo Foundation, one of the nation's largest philanthropical organisations, found that an estimated 14,400 Indigenous workers lost their jobs in the first three months of the COVID-19 pandemic (from March to June 2020).[191] The states of New South Wales, Queensland and Western Australia experienced the greatest Indigenous job losses.[192] For those Indigenous MSMEs that export goods, more than half indicated that their export activities have been negatively affected by the impacts of the pandemic.[193]

The key policy response initiated by the Commonwealth to address workforce losses in response to COVID-19, the JobKeeper program, was not as beneficial to Indigenous workers and businesses compared to non-Indigenous workers and businesses. This is because Indigenous Australians were less likely to qualify for the JobKeeper scheme given its eligibility requirements. To qualify for JobKeeper, in its initial phase, a business had to demonstrate a minimum 30 percent reduction in turnover (or 50 percent if their turnover exceeded $1 billion). Self-employed individuals were eligible but subject to additional income means tests. Importantly, however, employers could not claim JobKeeper support for *casual* employees, unless those employees were employed on a 'regular and systematic basis' over a 1-year period. Indigenous workers were therefore unlikely to be eligible for the scheme due to a disproportionately high number being employed on a casual basis for less than 12 months.[194] Indigenous workers often undertake short-term work or otherwise work casually on a sporadic basis. Moreover, those who did manage to qualify for JobKeeper were often more severely impacted by the program's withdrawal due to higher barriers to employment.[195]

In its recent report, the Department of Foreign Affairs and Trade found that the majority (63 percent, n=15) of exporting MSMEs operated by those of Indigenous heritage and who were surveyed in the study did not receive any kind of government support to enable or grow their export activity. Only 2 MSMEs (8 percent) applied for and received COVID-19 stimulus support.

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189 Australian Government, Department of Industry, Science, Energy and Resources, *Aboriginal and Torres Strait Islander Business Support Roadmap* (November 2020) p 5.

190 Australian Government, *The Indigenous Business Sector Strategy: Supercharging Indigenous Business Start-Up and Growth 2018-2028* (12 February 2018) p 4. It is estimated that an additional 73,250 prime working age Indigenous Australians will operate in the economy by 2026 (p 19).

191 Minderoo Foundation, *The Impacts of COVID-19 on the Indigenous Workforce*, Deloitte (February 2021) p 5.

192 Ibid 11.

193 Department of Foreign Affairs and Trade, *Inclusive Trade: Unlocking the Export Potential of Australia's Indigenous SMEs* (December 2021) p 34.

194 Minderoo Foundation, *The Impacts of COVID-19 on the Indigenous Workforce*, Deloitte (February 2021) p 16.

195 Ibid.

The pandemic has had disproportionately negative impacts upon Indigenous MSMEs. Aside from the issue of access to support programs such as JobKeeper, other factors contributing to this disproportionate impact include:[196]

- **Business size** – Indigenous businesses are generally small to medium sized and far more likely to employ Indigenous workers, meaning they are more susceptible due to lack of resources and finance and due to a workforce that is generally more at risk;
- **Age and occupational skill-level** – Indigenous workers are generally younger and have lower educational attainment and qualifications, meaning they find it more difficult to transition into the workforce and are often crowded out by older and more skilled non-Indigenous workers;
- **Digital exclusion and working from home** – Indigenous Australians have significantly lower rates of digital inclusion. This is particularly so in remote locations, where infrastructural weaknesses and low socioeconomics contribute to a common lack of access to digital technologies. Moreover, given the pandemic drove the transition to 'work from home' arrangements, Indigenous Australians typically suffer given they are often impacted by crowded housing arrangements and a lack of access to appropriate facilities and resources. Indigenous Australians are 2.4 times less likely than non-Indigenous Australians to work from home.
- **Discrimination and Cultural Differences** – Indigenous Australians are, as mentioned above, generally younger and less qualified than non-Indigenous Australians. This means they are often overlooked for appropriate employment opportunities, which have become scarcer during the pandemic. Moreover, unconscious bias and latent racism can often see Indigenous candidates for a job be overlooked in favour of non-Indigenous candidates who may not necessarily be better for the position and may even be less favourable. Indigenous Australians also typically lack key employment connections and networks and prioritise unpaid commitments to family and Country. Differing cultural expectations and standards also make it difficult for Indigenous Australians to participate in the predominantly non-Indigenous workforce.

A research report published by Supply Nation – Australia's leading database of verified Indigenous businesses – in 2021 described four major impacts upon Indigenous businesses:[197] (1) almost half of those businesses consulted indicated they had to reduce their number of employees by up to 50 percent or otherwise had to put them onto reduced hours; (2) sectors hit the hardest included travel, tourism, hospitality, construction, and the arts; (3) half of those businesses consulted reported a substantial reduction in revenue, with decreases ranging from 30-80 percent between March and May 2020; (4) April to June 2020 was the most impactful period, with government-imposed lockdowns and a subsequent inability to trade being the major contributor to business stress in this period.

Indigenous business and workers will also continue to be affected in different ways to their non-Indigenous counterparts. For example, 'there are a higher proportion of Indigenous people

[196] Ibid p 19.
[197] Supply Nation, *State of Indigenous Business*, Research Report No 3 (2021) p 7.

working in the industries that have been the most affected from COVID-19 compared to the non-Indigenous workforce'.[198] Most casual workers of Indigenous heritage also work in the most affected industries, meaning they are more at risk of unemployment without access to benefits.[199] The ratio of Indigenous persons losing their jobs due to COVID-19 compared to non-Indigenous persons is considerably high. 'Since the onset of COVID-19, an additional 8 percent of the Indigenous workforce have had to commence receiving payments due to unemployment. The increase of Indigenous people receiving these payments compared to the non-Indigenous population was almost double'.[200]

Evans and Polidano suggest that any government support policy measures (not restricted to those addressing crises) should be designed and evaluated in consultation with affected communities and that this is especially so with Indigenous communities.[201] Cultivating trust in the programs being implemented is essential to their success. Applying this to the context of Indigenous MSMEs, it is important that measures which seek to address crises affecting these organisations and wider Indigenous communities are developed in a 'bottom-up' manner.

International experiences

Again, data on the impacts to Indigenous MSMEs in other jurisdictions is quite limited. However, Canada has published data which corroborates the view that Indigenous MSMEs have been significantly impacted by the COVID-19 pandemic. This impact, it would seem, has been comparatively harder on Indigenous MSMEs compared to their non-Indigenous counterparts. An ongoing Indigenous Business Survey carried out by the Canadian Council for Aboriginal Business with the support of various cultural support organisations has found that 91 percent of Indigenous businesses in Canada experienced a negative impact from COVID-19, with half or more reporting decreased revenues, decreased demand, and cancelled events and services.[202] Almost half (43 percent) of the Indigenous businesses surveyed reported that they needed up to $50,000 to maintain normal business operations over the next six months.[203] One third (29 percent) indicated that they would need even greater amounts.

Of the Canadian MSMEs who required financial assistance, 'more than half (58 percent) applied for at least one type of government support and 52 percent received it. This left 6 percent who did not receive any government funding they applied for and 42 percent who did not apply'.[204] The primary source of government financial assistance accessed by affected Indigenous MSMEs was the Canada Emergency Business Account (32 percent received among those needing financial assistance), followed by the Canada Emergency Wage Subsidy (18 percent received). The former provides interest free loans to support small businesses and the latter is designed to help businesses re-hire workers, prevent further job losses, and recommence normal operations.

198 Ibid p 9.
199 Ibid.
200 Ibid.
201 Michelle Evans and Cain Polidano, 'First Nations Businesses: Progress, Challenges and Opportunities' (June 2022) *Bulletin* 35 at p 37.
202 Canadian Council for Aboriginal Business, *COVID-19 Indigenous Business Survey – Phase II: First Nations, Inuit, and Métis Businesses* (October 2021) pp 5-6.
203 Ibid p 15.
204 Ibid p 16.

Canadian media reported difficulties experienced by Indigenous MSMEs in that jurisdiction attempting to access vital government support during the height of the COVID-19 pandemic. A quarter of respondents indicated that they applied for, but did not receive, such support.[205] The principal barrier for most of these businesses, as identified by the Canadian Council for Aboriginal Business, was arduous financial and application requirements.[206] The Council's report explained:

> Many Indigenous businesses indicated that meeting the eligibility criteria was a barrier to accessing government funding. Nearly half of Indigenous businesses say the financial requirements were a barrier to accessing the COVID-19 Economic Response Plan; one-quarter say they had difficulty meeting some of the application requirements. Many Indigenous businesses are small, with few or no employees, which has made meeting payroll requirements (19 percent), inability to repay tax deferrals or loans (15 percent), or providing additional assets for security (13 percent) difficult for many businesses.

The Canadian experience thus mirrors the Australian one in that MSMEs affected by the pandemic found it difficult to access the support they needed as the crisis worsened. Ensuring accessible government funding for Indigenous businesses is, as noted by the Canadian Council for Aboriginal Business, 'an ongoing challenge'.[207] Past research in that jurisdiction has shown that a lack of appropriate information and administrative 'red tape' were the principal impediments to accessing government programs.[208]

Ongoing research

It is noted that there is currently ongoing research in this space. For example, Indigenous Allied Health Australia is at the time of writing conducting an open survey to assess the impact of COVID-19 on the Aboriginal and Torres Strait Islander allied health workforce.[209] Anecdotal feedback from industry reveals that longitudinal surveying of MSMEs in South Australia and other Australian jurisdictions is ongoing. It is anticipated that more data will emerge as studies such as these are completed.

Impacts of crises upon culturally and linguistically diverse MSMEs

Again, the scope of the present study did not permit an exhaustive review of the impacts of various crises upon culturally and linguistically diverse MSMEs. It is noted, however, that empirical studies of the impact of the COVID-19 pandemic and associated control measures upon culturally and linguistically diverse MSMEs are very limited in number. The following preliminary insights – which warrant further exploration in a follow-up study – are noted:

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205 Pete Evans, 'Indigenous Businesses Faced Barriers Accessing COVID-19 Relief Programs, Survey Finds', *CBC News* (online, 24 June 2021) <https://www.cbc.ca/news/business/indigenous-business-covid-1.6075078>.
206 Canadian Council for Aboriginal Business, *COVID-19 Indigenous Business Survey – Phase II* (June 2021) pp 26-27.
207 Ibid p 27.
208 Canadian Council for Aboriginal Business, *Promise and Prosperity: The 2016 Aboriginal Business Survey* (2016) p 43.
209 For more information, see: https://iaha.com.au/survey-understanding-the-impact-of-covid-19-on-the-aboriginal-and-torres-strait-islander-allied-health-workforce/.

- *Culturally and linguistically diverse MSMEs have generally been disproportionately affected by the pandemic compared to non-minority MSMEs. The former have also been less advantaged in government support funding rounds.*

According to the National Bureau of Economic Research (NBER) US, pandemic-induced losses for businesses owned by women, racial minorities, and immigrants were especially severe. African Americans experienced the largest losses.[210]

Some interesting differences in experience were identified between MSMEs which were not culturally or linguistically diverse and those that were. The US Government provided a series of financial assistance measures to assist small businesses during the pandemic. The largest measures were two funding programs: (1) the $660 billion Paycheck Protection Program (PPP) and (2) the $220 billion Economic Injury Disaster Loan (EIDL) program. The NBER study generally found 'a slightly positive relationship between PPP loan receipt per business and the minority share of the population'. There was also some evidence that the first round of funds 'was disproportionately disbursed to nonminority communities', whereas 'the second was disproportionately disbursed to minority communities'. Focusing specifically on PPP loan amounts per employee, the study identified a negative relationship with the minority share of the population. Conversely, EIDL loans and advances, both in terms of number and amount, were provided positively to minority communities.[211]

Shaun Danielli and colleagues have similarly noted that 'COVID-19 and measures to reduce the spread of COVID-19 have disproportionately affected some populations groups including the elderly, *ethnic minority groups*, those with underlying health conditions and those on lower incomes'.[212]

- *The pandemic has been particularly damaging for people, including small business proprietors, of East Asian ethnicity in particular.*

Given that COVID-19 was first detected in, and is assumed to have originated from, the province of Wuhan in China, it is derogatorily associated with China. Margaret Douglas and colleagues therefore posit that people of East Asian descent are at increased risk of discrimination and harassment as a consequence of the pandemic.[213]

[210] National Bureau of Economic Research, 'COVID-19, Small Business Owners, and Racial Inequality', *The Reporter* (4 December 2020) <https://www.nber.org/reporter/2020number4/covid-19-small-business-owners-and-racial-inequality?ftag=YHF4eb9d17>.
[211] Ibid.
[212] Shaun Danielli et al, 'Economic Interventions to Ameliorate the Impact of COVID-19 on the Economy and Health: An International Comparison' (2021) 43(1) *Journal of Public Health* 42 (emphasis added).
[213] Margaret Douglas et al, 'Mitigating the Wider Health Effects of Covid-19 Pandemic Response' (2020) 369 *BMJ* m1557.

8. Recommendations

Based on the insights gained from our research presented in this report, we propose the following recommendations for the Department of Treasury and ASBFEO to consider.

Recommendation 1: Calibrate the eligibility criteria for post-crisis direct financial assistance support policies to take into account whether a MSME's losses are being offset through other sources, such as insurance policies.

Recommendation 2: Develop and implement a comprehensive industry-wide educational program which highlights the value of incorporating, and provides advice on how to incorporate, force majeure clauses into commercial leases and general contracts.

Recommendation 3: Develop and implement a comprehensive industry-wide educational program which highlights the value of taking out appropriate insurances to safeguard against losses caused by various crises.

Recommendation 4: Establish a 'one-stop' online portal housing all crisis relief policies and programs offered at all levels of government, equipped with search engine functionality and facilitating applications for all listed initiatives. This could be complemented by, or housed within, a 'crisis response' webpage targeted at MSMEs, which provides resources in relation to particular crisis events and a forum for affected community members to seek support from one another.

Recommendation 5: Conduct extension studies which permit broader research into domestic and international policy responses to crises affecting MSMEs. As policy responses mature and evolve, and in the wake of emerging crises (e.g. the current Monkeypox outbreak in various countries across the globe), it would be highly beneficial to extend the present study and track developments to inform future policy responses.

Recommendation 6: Conduct extension studies which permit deeper analysis of BLADE data across a range of different categories and variables (beyond the Global Financial Crisis exemplar) to further inform the discourse concerning optimal policy responses to crises impacting upon MSMEs. For example, it would be insightful to compare the impact and recovery of MSMEs across other crises, such as national disasters or trade restrictions. It would also be insightful to compare innovative vs. non-innovative firms.

Recommendation 7: Conduct extension studies to evaluate the effectiveness of specific crisis relief programs by linking firms that participated in specific programs into the BLADE data environment. This would require permission of the data owners concerning program participation. Once linked, the subsequent firm-level outcomes for MSMEs participating in programs could be compared to matched firms that did not participate.

Recommendation 8: Consider implementing a greater number of policies and programs which are targeted at the pre-crisis phase (proactive phase) of the crisis lifecycle. For example, enhancing the dynamic competitiveness of MSMEs through programs that foster process and product innovation, and the ability to proactively identify and exploit new market opportunities.

Recommendation 9: Consider implementing a range of policies and programs aimed at incentivising MSMEs to invest in the known enablers at the 'proactive' and 'new normal' phases of the crisis lifecycle.

Recommendation 10: Consider implementing appropriately calibrated efficiency training programs for MSME proprietors.

Recommendation 11: Consider implementing targeted programs which provide mental health supports for MSME proprietors and workers during a crisis ('adaptive phase') and during the 'new normal' phases of the crisis lifecycle.

Recommendation 12: Identify opportunities to reduce 'red tape' inhibiting access to government crisis supports, in particular direct financial support measures, so that processes integrate with existing systems, as and be supported by information available to government agencies. This will serve to remove the additional administrative burdens imposed on MSMEs.

Recommendation 13: Consider integrating a full range of community and social services into the MSME crisis recovery process.

Appendices

APPENDIX 1: BLADE Research Methods

BLADE Database

The Business Longitudinal Analysis Data Environment (BLADE) is an economic data tool combining tax, trade and intellectual property data with information from ABS surveys to provide a better understanding of the Australian economy and businesses performance over time. It provides data from 2001-02 until 2018-19. This project utilised ATO Business Income Tax (BIT) data and ATO Business Activity Statement (BAS) data.

Information about these datasets and the BLADE database generally can be accessed here: https://www.abs.gov.au/about/data-services/data-integration/integrated-data/business-longitudinal-analysis-data-environment-blade.

Sample

- All 'active' business units in BLADE (ABN for non-profiled firms, Type of Activity Unit (TAU) for (larger) profiled businesses.
- Excluded public sector and finance and insurance sector.
- Excluded firms with no apparent economic activity (missing or zero revenue, wages and capital expenditure).

Each variable was determined as follows.

Firm Size Class & FTE

- Firm size classes were determined by full-time equivalent employees (FTE)
  - (a) *Non-employing* if FTE=0
  - (b) *Micro*: FTE > 0 and FTE <5
  - (c) *Small*: FTE >=5 and FTE <20
  - (d) *Medium*: FTE >=20 and FTE <200
- Where available, FTE as imputed by ABS from BAS was used
- Where FTE was unavailable, FTE imputed from wages (maximum reported in BAS or BIT) divided by Industry Division average (wage / fte).
- Revenue Limits were also applied for each size class, to exclude likely larger entities (ABNs) that report employees in a related entity or business that represent some form of financial instrument
  - (a) *Non-employing* < $10 million
  - (b) *Micro*: < $50 million
  - (c) *Small*: < $200 million
  - (d) *Medium*: < $1,000 million

Revenue

Maximum of turnover or business income reported annually in BIT or BAS.

Profit

Reported annually in BIT.