

It's Our Economy

Placed Based responses to our Jobs Challenge

In the 1990s an American President was elected on the slogan *'It's the Economy, Stupid'*. That still rings true although in the new environment we might 'pivot' that expression to *'It's Jobs, stupid'*.

COVID-19 has presented us with the economic challenge of our lifetimes. We will have to create at least one million jobs and do it relatively quickly. And do it in a whole new environment.

As always, we will need our governments to present the best policies and support the best activities. So far we have seen leadership and in the main success from our governments in the immediate response. Now we need to empower the rest of us to do what is needed to create jobs.

We need a national program of Local Economic Development to promote place-based responses to economic need and job creation.

[Local Economic Development: 'Placed based response to the economy'](#).

[What is it? Why is it needed?](#)

In the modern world change is a constant. The COVID crisis has reinforced and indeed added confusion to a world in change.

Change management is an essential skill. We know large businesses and centralised decision makers are often not agile enough to respond quickly to change, they are held back by complex process across many levels of management and government. It is the SMEs that cause, manage and/or can take advantage of change including the modern phenomena of digital disruption. This is change that effects everyone – individuals, families, sporting organisations, charities, business, education and government.

Local Economic Development (LED) is the empowering of business communities at the micro level to have a greater say in what happens in their economy and through that provide a better more sustainable national economy.

Australia spends well over 8 billion dollars a year on training, employment services and welfare support. By allocating around 3% of that funding to give local business communities a greater say in activities we will see an increase in efficiency and a better use of these billions of dollars.

Government agencies and some local governments, mining companies and other large businesses are already undertaking some of these activities; we can build on success and learnings to better enable the business leaders who embrace change at the community level.

The current dominance of centralised decision making in Australia inhibits change management and hinders innovation. Centralised decision making has its place around certain issues such as interest rates changes, finance regulations, competition management etc, but the impact of centralised decision making loses momentum when local economies are considered. Indeed, a decision made at the national or state level can have a negative or positive impact on communities depending upon a range of factors. The locals are best placed to manage impacts.

We need to give key business people in communities the capacity to influence their own economies. These people from local small, medium and family businesses, are best placed to deal with change - good or bad. Local business communities can also create the change they believe they need. If small economies around Australia are functioning well then the whole economy will be healthy.

Local Economic Development is also a material way to give 'silent Australians' in the business community an actual say on key issues in a way that suits their needs and their situations.

A national program of Local Economic Development will embed change management processes at the local level and have a greater influence on national and state policies and processes, on the national economy and create more efficient expenditure of government funds.

We see this as a great challenge for the public service and policy makers. This is a 'MicroEconomic Challenge' for Australia which must be embraced.

Key Issues

Key issues at the local level are and always will be around training and education, communications, innovation, competition, health, business financing, import and export activity, infrastructure, business regulations and specific needs of various industry sectors. In the end for small and medium business it is always about process and communications.

The key part of LED is the Local Economic Development Committee (LEDC) composed only of self-employed business people who have 'skin in the game'; those who employ locals and put their own economic security at risk or at benefit by doing so.

The Empowerment Process

Empowering local communities can be a challenge for centralised decision makers who are used to making the rules and managing process as well as assessing performance of others.

It is hopefully true that public servants do have good knowledge of economic process. It is also true that many in the peak industry bodies that exists within Australia have good knowledge as well.

They are however not living in any 'local community' except their own. It is incumbent upon those with knowledge to provide it to the local people so they, the locals, can choose what they believe is the best path.

The Economic Development Committee - local business people only

A key to LED is a planning committee consisting only of local business people. These are the people who would use their own money to undertake a business activity. They know what would create better opportunity to invest.

This approach does not dismiss the capacity of others in the business community such as local managers of corporate stores and national businesses. It does however ensure that local issues are paramount.

This approach does not dismiss the skills, knowledge and capacity of local service providers such as TAFE, RTOs, employment services, the welfare sector and local government; these groups will still be consulted and included as needed. History shows that where government or service provider representatives are on local economic development committees and boards, that they tend to take over - not through deliberate intent but by their better capacity to 'turn up' - and the fact that being on the committee will be seen as part of their job. For local employers their job will always be the business, their passion will be the community.

To ensure the committee functions effectively and to develop plans and processes based upon the decision of the committee the LEDC would have a secretariat consisting of at least an executive officer and likely with one support worker.

The role of the Executive Officer.

The Executive Officer for an LEDC would manage the administration for the committee, develop strategic plans based upon committee instructions, gather information needed to develop plans and, based upon the plan, seek funding from federal, state and local governments as well as from the private sector. The support of the Executive Officers from the relevant agencies is an important part of the process.

The role of public servants – the program managers.

Public servants in Australia are in the main highly skilled and dedicated. They are excellent project and contract managers. Policy makers within the public service can at times be dismissive of those who question their ideology or their policies.

Empowering local business communities will need a change in the mindset of the policy makers. They need to re-learn this process where Australia once led the world – giving the SME business community a real say in economic management. Not by lecturing but by providing information; challenging where necessary; ensuring accountability; allowing for learning through experience; and accepting that there are times when others know better.

Policy makers can still influence activities by new programs to meet the needs of community and the national economy as well as through encouragement and information.

The role of politicians

Politicians are at their best in their local communities, the places in which they are elected. For LED we need to ensure that 'local politics' do not get in the way but are a positive influence. Decisions on local funding and any approval process needs to be remote from local party politics and, if possible, will be delegated to an agency. Governments would of course approve overall national budgets and probably budgets at the deemed 'local level'. But the actual approval of individual projects should rest with agencies.

The politicians are then able to fight for more funds for their community and distance themselves from the project approval process (perhaps in cases begrudgingly) and allow themselves to become better enablers of empowerment and change management.

The role of big business

There are currently examples of big business, mining companies in particular, who already enable similar activities in areas where they have interests. A national program of LED will provide a way to better support communities in change while enhancing their reputations for community engagement.

Where change is occurring that effects large enterprises, such as the profound changes embracing the power production industry, there can be a strong linkage between enterprise restructuring activities, or closure, and the local business community, training providers, the welfare sector and other key parts of a community.

History of LED in Australia

In the last recession Australia had developed a large network of local economic development committees. The communities where these committees existed had a lot of say in their economies. Over time the centralised program secretariats, often on advice from ministers, took over the decision making from the local committees. At one stage Australia had some 75 Area Consultative Committees spread across the nation who were tasked with developing responses for their communities.

Frustration was rife among these committees as they seemed to be hitting a brick wall in Canberra when it came to approvals and sourcing funds. Why this happened can be explained by the response of the person who, at that time, headed up the Canberra based secretariat – “The trouble with the ACCs is that that do not do what they are told”. The fact that one person based in Canberra believed that some 750 business leaders around Australia needed to be lectured and told what to do shows that centralised thinking and arrogance had removed business communities from the world of influence.

The employment problem that now faces us will be resolved by a partnership between governments and communities, not by a handful of centralised decision makers.

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Local Economic Development

Empowering Small Business to strengthen local economies

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Local Economic Development

Empowering Small Business to strengthen local economies

Purpose

The purpose of this paper is to outline the importance of fostering strong local economies, and to articulate the link between a thriving small business sector and a healthy economy. The paper suggests a possible strategy for engaging small businesses directly in local economic development.

What is local economic development (LED)?

Local economic development (LED) is a practical approach to sustainable economic development that aims to strengthen economies at local and regional levels; ultimately having a positive impact on the national economy. LED strategies are markedly different to the macroeconomic frameworks that governments are usually concerned with.

LED is an approach to economic development which encourages local people, including local businesses, to work together to achieve sustainable economic growth. This brings economic benefits and improved quality of life for all residents in the local area and contributes to the health of the national economy.

Who makes local economic development happen? In a market economy, the engines of economic development are primarily private businesses that create wealth and jobs. But the private sector cannot succeed without favorable business conditions in which to thrive and grow. Local governments and other public sector actors have a major role to play in helping to establish and maintain those favorable business conditions so that firms in the city's region can compete successfully with firms from other regions. (Thomas C. England <https://www.meandahq.com/why-is-local-economic-development-led-key-to-sustainable-development/>)

What is small business and why is it important to the economy?

There are several 'official' definitions of small business in Australia.

The Australian Taxation Office defines a small business as a sole trader, partnership, company or trust that has an aggregated annual turnover less than \$10 million.

The Australian Bureau of Statistics (ABS) on the other hand, uses a different definition - which is the number of persons employed:

- a micro-business employs between 0-4 persons
- a small business, between 5-19 persons
- a medium business, between 20 and 199 persons; and
- a large business employing 200 or more persons

The Australian Securities and Investments Commission (ASIC) which administers the *Corporations Act 2001*, defines a 'small proprietary company' as an entity that satisfies at least two of the following criteria:

- an annual revenue of less than \$50 million
- less than 100 employees at the end of the financial year, and/or
- consolidated gross assets of less than \$25 million at the end of the financial year.

Arguably, these varying, sometimes contradictory definitions are indicative of the lack of deep understanding of the small business sector among responsible government agencies.

Data at a national level reveal the important role small businesses play in the economy.

- *In June 2018 just under 5 million people worked for small businesses which was equivalent to 44 per cent of all people employed in selected industries in the private sector.*
- *Small businesses accounted for 34 per cent of Industry Value Added (IVA) and 29 per cent of all wages and salaries paid in selected industries of the private sector in 2017-18.*
- *Employment growth in small businesses accounted for just under 60 per cent of total employment growth in the private sector between June 2013 and June 2018* (Geoff Gilfillan, Parliamentary Library, January 2020).

Local economic development and small business

If Australia's economy is to prosper it will be to a significant extent because small businesses are thriving. But if small business sector is important to the national economy, how much more important is it in regional areas? Small businesses do the heavy lifting in many regional economies.

Australia's regions are economically diverse. Some regions have large enterprises or institutions which are drivers of economic activity (e.g. Nestlé in Gympie, SMEC in Cooma, SPC Ardmona in Shepparton, Defence bases in several regional locations, and numerous mining communities).

However, the presence of these large employers in regional communities is becoming less common as industry and government restructuring occurs. The closure of manufacturing, and food and dairy processing enterprises (and even some mines) has become a common story in recent years.

There are great disparities in the economic makeup of regional centres (Collits, P. 2000, *Small Town Decline and Survival: Trends, Success Factors and Policy Issues*, <http://www.regional.org.au/au/countrytowns/global/collits.htm>). Reliance on local small businesses has increased in towns that have lost population and where larger enterprises have closed. As economic shocks, such as bushfires in 2019-2020 and the COVID-19 pandemic, inflict damage on small businesses, the viability of regional economies can be seriously threatened.

Economic development in Australia – A chequered history

How have Australian governments performed in terms of creating nationally coordinated, coherent, long-lasting economic development policies and programs?

Australia governments have struggled to maintain a consistent approach to the challenge of fostering economic development in regional areas.

Ideas have come and gone. From time to time government policy makers have been attracted to particular trends in economic development strategy. Design and implementation have sometimes been rushed and outcomes have often been less than desired. In some instances, strategies have been dropped before being given a chance to fully develop.

At various times Australian policy makers have sought to emulate strategies adopted in Europe, the UK and USA. However, strategies that work in densely populated, geographically compact European nations, or countries with massive domestic markets such as the USA, are not necessarily effective in Australia.

European and US governments take a much longer-term view of economic development strategy, often allowing decades for strategies to come to fruition. For example, the US *Small Business Development Centre* (SBDC) network has been operating consistently since 1979, despite numerous changes of administration.

Some of the more common strategies used to grow regional economies include:

Decentralisation

Decentralisation will occur naturally if a regional economy is functioning well and has strengths that offer significant market opportunities to industry. However, from time to time Australian governments have perceived that a form of market failure has occurred as the populations of rural cities and towns have shrunk and the capital cities have burgeoned.

Decentralisation policy in Australia has a mixed reputation. Over several decades Australian governments have experimented with decentralisation policy and programs. The most prominent set of decentralisation policies in Australia was that initiated by the Whitlam government during the period 1972-1975. As late as 2017 the Australian Government adopted a Decentralisation Agenda.

However, the current view of decentralisation is focused almost entirely on the relocation of capital city-based *government* agencies to regional centres. To say the least, this is an incomplete representation of decentralisation strategy. The controversial relocation of government agencies has had very limited success and does not address the need for long-term private sector investment. While regional cities such as Albury-Wodonga and Bendigo have benefited from past decentralisation investment, there are few, if any, recent success stories. Successful decentralisation of major industry and government agencies from capital cities to regional centres requires large government inputs over many years.

Major infrastructure projects can be used to drive decentralisation. Government infrastructure initiatives such as Snowy 2.0, the Inland Rail project and the recently announced \$270 million increase in defence procurement, provide opportunities to attract private sector investment to regional centres. A successful tenderer can be encouraged to develop a long-lasting presence in centres such as Cooma, Jindabyne, Townsville, Darwin, Wagga Wagga and Albury-Wodonga.

Business attraction

Business attraction could be characterised as a limited, localised attempt to encourage decentralisation. Sometimes referred to by critics as ‘smokestack chasing’, this approach has traditionally been used by many local government organisations, often supported by State government programs. Councils (even very small ones) build industrial estates and then undertake promotional campaigns in the hope of attracting businesses to re-locate. There is little evidence that Business Attraction strategies have been successful in regional Australia. Certainly, there are examples of small/medium firms relocating to regional centres, but this can often be an exercise in economic cannibalism, with one LGA enticing a business to relocate from another LGA.

As a broad generalisation, successful, well managed larger enterprises will only locate in regional and rural centres if there is a logical (market or supply chain) reason to do so. This market-led investment in regional areas is much more likely to be sustainable than investment driven by a government program. This can be seen in the Riverland in South Australia with major investments by Treasury Wine Estates and Almondco.

Industry Clusters

Fostering the development of industry clusters is a well-trodden path in Europe and North America and has been highly successful in places such as Silicon Valley, Seattle, Milan, Stuttgart and many other places in Europe, North America and Japan.

True industry clusters are much more than supply chain agglomerations. They are regional concentrations of businesses in related industries (including competitors) that benefit from a critical mass of research, technology, skills and support services. A successful cluster not only brings together industrial capacity and infrastructure but creates the conditions for a convergence of skilled people, who exchange ideas and techniques.

Australian government policy makers tend to be quite sceptical about cluster development. A common perception is that cluster development strategy in Australia has failed. However, policy makers in Australia have rarely understood the need to create a *uniquely Australian form* of industry cluster. Cluster development programs in Australia have usually been short lived and inconsistent.

Australia does not have the same framework conditions that led to the formation of clusters in USA, Europe and parts of Asia. Australia does not have a long history of geographical concentration of industry specialisations.

Some observers argue that industrial clusters '*...cannot be created, they emerge*' (Gilmore, R. 2013, *Smart Companies, Smart Regions – The Innovation Challenge for Regional Business*, in *Regional Advantage and Innovation*, Physica-Verlag). However, as signs emerge of innovative businesses developing in geographic concentrations, government can play an effective role in encouraging and resourcing innovation.

Close research and knowledge-sharing collaborations between universities and industry is an important factor in the successful development of modern industry clusters (Stimson, R.J. Stough, R.R. Roberts, B.H. 2006, *Regional Economic Development – Analysis and Planning Strategy*, Springer). Compared to the USA, the policy drivers for Australian universities do not motivate them to innovate in an entrepreneurial way, or to collaborate closely with small business. For example, Stanford University in California has played a massive role in the creation of Silicon Valley. In its relationship with business Stanford has operated in very different ways to any Australian university.

Advanced industry clusters utilise *technology transfer* between universities and businesses to provide competitive advantage to businesses in the cluster. This strategy has been less effective in Australia than in countries such as the USA and Germany.

Historically, Australian universities and local industries have been less likely to collaborate than in many other developed countries (NSW Business Chamber, 2014, *Industry Research Collaboration – Insights Paper* <http://www.businesschamber.com.au/NSWBC/media/Forms/NSWBC-Industry-Research-Collaboration-Insights-Paper.pdf>). The Australian system still primarily rewards academics and researchers who publish in peer-reviewed journals rather than those who work collaboratively with businesses.

Clusters in Australia are most likely to build gradually, originating with small local industry/business networks in related industries. The characteristics of the wine industry provide an example of an industry cluster successfully forming in Australia:

- Geographic industry concentration (driven by market logic)
- High levels of specialised skill and knowledge
- Technological innovation
- Research and university collaboration
- Access to large markets beyond the location of the businesses.

The thoroughbred horse racing industry in the Hunter Valley is another example of an industry cluster supported by technology and research intensity. Arguably, the financial services and financial technology (fintech) industries in Sydney and Melbourne are also examples.

These concentrations of global industry excellence are important examples of the potential importance of industry clusters to the Australian economy.

Because of the small average size of Australian businesses, it is likely that an emerging industry cluster will have a mix of different sized businesses and will include many small businesses that provide specialist skills and knowledge.

Business incubation

Traditionally, business incubators are organisations that provide workspaces for new and start-up enterprises, and assist founders to develop their businesses by providing services such as management coaching, information exchange market evaluation, planning and product/service launches.

Even though business incubation is normally applied to start-ups, it can be used to support existing small and medium enterprises that are developing innovative new business spin-offs.

Modern incubators can be research-led, entrepreneur-led and investor-led. In Australia incubators receiving seed funding from government are the norm, although this initial, base-level funding is now usually complemented with private sector sponsorship. The Commonwealth Government currently offers funding under the Incubator Support program.

Universities are increasingly involved in business incubation.

Compared to incubators in the USA, Australian incubators are hampered by much lower access to 'angel' and venture capital. The Commonwealth Government has attempted to remedy this situation by creating programs including the *Australian Venture Capital Fund of Funds* (AFOF) and *Early Stage Venture Capital Limited Partnerships* (ESVCLPs).

Sophisticated incubators and accelerators such as *Cicada Innovations* (Eveleigh, Sydney), *iAccelerate* (Wollongong) and the *Griffin Accelerator* (Canberra) form relationships with angel investors and venture capital organisations. These incubators also have close partnerships with universities. This combination of factors appears to deliver the best outcomes.

Support for local entrepreneurs / Business growth programs

These are programs that tap into the dynamism of entrepreneurs in small and medium business. If growth-oriented local businesses can be helped to succeed, then the local economy will also prosper.

The success of one or two high-growth businesses in a regional town can make a massive difference to local prosperity and employment. An example is the online clothing store *Birdsnest* which was a start-up business in the early 2000s and now employs 140 people at its headquarters in Cooma.

Of course, entrepreneurs like *Birdsnest* founder Jane Cay, will succeed or fail on their own initiative and on the resources they can muster. However, many small businesses fail as they attempt to start, innovate or grow (Fels, E. *Dangers of Rapid Business Growth and What to Do About Them*, January 2020 <https://www.businessknowhow.com/money/rapidgrowth.htm>).

An important function of programs that support entrepreneurs is to provide advice and information during growth and change, to help improve the success rate.

There is a history of government *and* non-government involvement in business growth strategy. All three levels of government in Australia have involved themselves in entrepreneur support from time to time.

Over many years Australian Governments have delivered programs that have offered assistance to established, growth-oriented businesses. Examples of such initiatives were the *Australian Industry Productivity Centres* (AIPC) launched in 2007 which (in 2009) grew into *Enterprise Connect* which, in turn morphed into the current *Entrepreneurs Programme*.

The great strength of Enterprise Connect (EC) was the private sector input into program design, and the genuine freedom that the Business Advisers (drawn from the private sector) had to work alongside business owners. As EC evolved into the Entrepreneurs Programme, Departmental staff exercised much greater control over design and delivery. Arguably this has made the Programme more bureaucratic.

A research paper evaluated Enterprise Connect (EC) as a highly effective program:

"...results show that firms that received a Business Review and a grant from the EC program performed better in terms of growth in turnover, employment and capital expenditure, as well as higher rates of survival compared to similar non-participating firms. However, the size and direction of impacts differ across cohorts and industries." (Department of Industry, Science, Energy and Resources, Staff Research Paper, 1/2019 <https://www.industry.gov.au/data-and-publications/business-performance-of-enterprise-connect-participants>)

An interesting component of Enterprise Connect was the Innovative Regions Centre (IRC) which employed specialist Innovation Facilitators in regional locations. The task of the Facilitators was to partner with regional business communities and universities to generate innovative approaches to business growth and economic development.

The IRC had begun to achieve exciting results with business communities in places such as Northern Tasmania, Illawarra, Geelong and NSW Central Coast. Unfortunately, a change of leadership in the Department of Industry in 2015 resulted in a dramatic change in direction for the IRC and a loss of the original vision. The IRC ended in 2015, being converted to a supply chain analysis team.

The essential problem with all government-run business growth programs is that they typically become a 'one-size-fits-all' offering. When designing a new program, Government often undertakes initial consultation with a select group of industry representatives. However, the future development of program elements quickly becomes the domain of departmental staff and policy teams.

Ultimately, local business communities have no input into the nature of the program being delivered in their locality. Past examples of this dilemma have included the Small Business Field Officer program, Enterprise Connect and the Entrepreneurs Programme. This is an inherent structural challenge which cannot be resolved without the planned inclusion of local small businesses in decision-making.

Non-government entrepreneur support strategies in Australia and elsewhere are often based on the fundamental principle that business communities and individual business owners must be empowered to generate the type of growth that meets their needs.

Two notable examples of non-government strategies are:

- *Enterprise Facilitation* (Ernesto Sirolli, Sirolli Institute)
- *Economic Gardening* (Chris Gibbons, Colorado)

Enterprise Facilitation trains local facilitators who provide free support to local entrepreneurs. Because the Enterprise Facilitators are members of the community they are able to commit to long-term involvement with local businesses.

The intent is to foster sustainable development and a culture of entrepreneurship that becomes a long-term characteristic of the community. Local projects are established which offer simple management coaching services to encourage entrepreneurs to form management teams that are competent in product, marketing and finance.

Enterprise Facilitation teams partner with motivated community leaders to pool their knowledge and networks to assist local entrepreneurs build their teams and bring their business ideas to fruition.

Enterprise Facilitation can only be delivered by the Sirolli Institute, which has registered ownership of the brand.

Economic Gardening focuses on owners of established businesses (beyond the start-up phase) who:

- Possess fundamental management skills to operate viable enterprises
- Have demonstrated a desire to enhance or grow their enterprises
- Can articulate their preferred pathways to business development or growth.

Economic Gardening connects entrepreneurs to resources, encouraging the development of essential infrastructure and providing entrepreneurs with information they need to make sound decisions about the development of their businesses. (Grace, J. 2013, *Building Entrepreneurial Culture in a 'Company Town': Innovative Initiatives in the Illawarra*, in *Regional Advantage and Innovation*, Physica-Verlag).

A major strength of the strategy is the emphasis it places on market intelligence. It utilises small, skilled teams that work with entrepreneurs to help them make decisions about new business initiatives, based on sound information and analysis. The strategy also emphasises the importance of the smart use of the internet as a path to market.

Australian adaptations of Economic Gardening were developed by Dr Roy Powell and (separately) by John Grace and Jane Robinson. Joanna and Takahiro Kubota have developed additional resources to improve the effectiveness of the program in Australia.

Economic Gardening in the USA is under the oversight of the National Center for Economic Gardening; a non-profit organisation funded entirely by the private sector. In Australia the strategy is 'open source'. Local organisations can develop versions that are suitable for local market conditions.

The Australian versions of Economic Gardening (to date) have had a much stronger emphasis on business networking and coaching than the US programs. Funding has been reliant on local councils and short-term grants.

An independent evaluation of the Economic Gardening program in the Illawarra region in 2014 confirmed that the majority of participating businesses experienced increased turnover and profit. A lesser number had increased the size of their workforces.

Enabling infrastructure

Infrastructure can play a vital role in enabling the development of industry in a region, especially. The Australian Marine Complex in Henderson, Western Australia is an example of how substantial infrastructure investment by government (not just a business park), using market logic, can bring major economic benefits.

Initial State government infrastructure investment in 2002 has ultimately led to the creation of a world-class centre of excellence in manufacturing, fabrication, assembly, maintenance and technology servicing the marine, defence, oil and gas, and resource industry.

Enabling infrastructure can include government and private sector investments that impact positively on industry in a more general sense. It is quite evident that the presence of university, TAFE and hospital campuses in a regional community will, for a range of reasons, have a positive effect on business growth.

Communication infrastructure such as NBN and 5G can support the growth of businesses. The reverse is also the case. If internet connectivity and mobile phone signal is poor, it will have a very negative effect on business, and therefore on the local economy. (Ramsay, B. 2013, *Catalysing Regional Business Development Through High Speed Broadband: Opportunities and Risks*, in *Regional Advantage and Innovation*, Physica-Verlag)

The more closely targeted the infrastructure is to the support for industry in a specific location, the bigger impact it will have, e.g. the Australian Marine Complex.

Government procurement

Government procurement represents approximately 12 percent of global GDP. Because governments are such large customers, procurement can be a powerful tool in a nation's approach to economic development. Procurement can be used to stimulate technological innovation in local industry.

Australian governments have been very inconsistent in their approach to promoting the use of Australian small businesses as suppliers for government contracts. The dominant philosophy among Australian policy makers has been to focus on a lowest cost / highest

efficiency procurement compromise, and to avoid government intervention on behalf of local businesses

By contrast, US federal procurement policy promotes the use of small businesses in both federal prime and subcontracting. The federal government has a goal of directing 23% of prime contracting dollars to small businesses. Large contractors are also required to take efforts to meet subcontracting goals for small businesses.

Small business contracts and subcontracts therefore represent a very substantial portion of the federal procurement market. This has enabled government to partner with domestic industry to develop innovative technologies that are owned by US businesses.

Empowering Small Business to strengthen local economies

How can government engage small business in local economic development?

Operating Principles

If governments wish to harness the potential of regional and local economies - in an effort to rebuild national economic vitality and create real jobs - they must genuinely collaborate with small business communities. This collaboration is most likely to be effective if it operates according to the following principles:

1. Strategic

Local economic development efforts will work best if they are part of a bigger strategy. Regional business communities are capable of contributing to a major strategic effort if they understand the role they are being asked to play and are part of the decision-making process for their local economy. Governments can play an important coordinating role and are key partners in communicating the strategy.

2. Flexible

The 'one size fits all' approach that characterises most centralised economic development programs is not appropriate for local economic development. Every local economy is different. Even during a *national* economic crisis, many of the barriers and opportunities relating to economic recovery and growth will be different from region to region. To effectively play the role only business can perform in economic recovery, local business communities need flexibility from governments.

3. Accountable

Government economic development strategies can be:

- done **to** local communities, or
- done **with** local communities.

Decisions about economic development strategies and programs must be transparent. Local communities to do be informed about program funding processes and outcomes. Governments must be accountable to the communities in which strategies and programs are being delivered. Communities must also be accountable for funds they receive.

An example of a strategy being 'done to' a community was the Illawarra Region Innovation Investment Fund (IRIIF) which was delivered in the aftermath of the global financial crisis. The premise of the program was to provide direct grant funding to local manufacturing businesses that had plans to expand, differentiate or invest in new technology. The program was funded by the Commonwealth Government (majority), NSW Government and Bluescope Steel, but centrally administered by the NSW Government largely through existing bureaucratic methods.

The problem with the program delivery was that it appeared to be totally unaccountable to the Illawarra community. Decisions were, in effect, made in secret. There were media scandals about the funding, freedom of information requests were denied and funding recipients have reported they were instructed not to speak about the process – even to university researchers doing a program evaluation (O'Brien, M. and Burrows, S. *Assessing the Effectiveness of Regional Policy Responses to Mass Redundancies: The Case of the Illawarra Region, Australia*, Economic Papers, The Economic Society of Australia, Volume 38, Issue 2, June 2019).

It is now difficult to ascertain what positive outcomes flowed from the \$40 million IRIIF program. Even to this day, the lack of accountability (to the community) appears to hinder proper analysis of the program's effectiveness.

4. Local

Historically most government approaches to economic development have operated according to immutable, centralised guidelines that have failed to allow for genuine locally driven initiatives. **Place-based** approaches to economic development decision making and strategy development are, ultimately, the most likely to succeed.

Place-based economic development is a “.....paradigm of local and regional development” that “....emphasises the identification and mobilisation of endogenous potential, that is, the ability of places to grow drawing on their own resources, notably their human capital and innovative capacities....The active role of local stakeholders is critical to the success of place-based approaches....” (Tomaney, J. 2010, *Place-based Approaches to Regional Development: Global Trends and Australian Implications*, Report for the Australian Business Foundation).

Why are these principles essential?

- Local small businesses are an integral part of the life and economy of regional communities.
- Government must work in partnership with local business communities to develop truly responsive strategies, tailored to the unique characteristics of regional economies.
- Regional business communities are in the best position to decide which strategies will be most effective in the economies in which they operate.
- Communities must be trusted and be seen to be trusted. Accountability and transparency relating to government strategies and programs is a vital part of building this trust.

- Each regional economy operates in a unique set of market conditions. Strategies should be designed around clear market logic that addresses those conditions.
- Small business communities should be provided with opportunities to have meaningful input the design and delivery of government-funded business assistance programs in their regions.

Existing local structures relating to small business and economic development

The **Business Enterprise Centre** (BEC) network has been operating in some locations since the 1980s. BECs are small not-for-profit organisations that largely rely on government contracts to deliver programs such as the New Enterprise Incentive Scheme (NEIS). To varying degrees BECs have connections to business through their boards but, generally speaking, they are not owned and operated by local business communities.

The **Regional Development Australia** (RDA) network is comprised of committees in 52 locations around Australia. The RDA was created in 2010 and was originally tasked with consulting with regional communities to develop ideas, strategies and projects for economic and community development. They were intended to form close working relationships with local government, business organisations and the community sector.

Originally funded in a partnership between Commonwealth and State governments, some States and Territories no longer provide direct funding to RDAs.

COSBOA does not recommend using an existing government-funded structure to drive local economic development. Old structures *can* be roadblocks to innovation. In order to genuinely empower communities to drive their own economic development, a future strategy must hand over genuine decision-making power to local business communities. Such as strategy should focus on helping local businesses to strengthen their operations, to innovate and, sometimes, to grow. It is COSBOA's view, especially in the wake of the COVID-19 pandemic, that locals are best placed to manage impacts on their own economies.

A possible new framework for Local Economic Development

In a global context it is widely acknowledged that one of the keys to sustainable economic development is the empowerment of local communities and local entrepreneurs (Bridge, S. and O'Neill, K. *Understanding Enterprise: Entrepreneurship and Small Business*, MacMillan, 2012).

The challenge is how best to achieve this.

How can government foster local economic development empowerment without:

- Creating yet another organisation that ultimately becomes a quasi-bureaucratic structure; or*
- Inadvertently implementing a structure that becomes an exercise in tokenism?*

To achieve empowerment of local communities and entrepreneurs the key objectives must be:

- To support the creation of grass roots organisations, run by local businesses, solely focused on helping local businesses to thrive and add value to the economies in which they operate.
- To impress on government agencies the need to resist the temptation to exert control.

A Place-based approach

Following is an overview of a possible approach to local economic development which would be driven by small business. This is designed to stimulate thinking about small business-led local economic development, rather than being a fully refined program design.

BUSINESS AND EMPLOYMENT DEVELOPMENT COMMITTEES

(Local economic development committees)

In effect the *Business and Employment Development Committee* is a local economic development committee with a focus on assisting innovation and growth in local SMEs growth and reducing unemployment. According to this approach each Business and Employment Development Committee would be led by a locally selected Board comprised of business champions from a regional community.

The aim of each Board would be to oversee the design and delivery of the local version of the *Stronger Business Program* with the aim of helping small businesses to reach their full potential. The Committee would also have a strong focus on growing local jobs.

The Board would also seek to have input to government decision making (including local government) that will have a direct impact on the local economy and local business.

STRONGER BUSINESS PROGRAM

Each Business and Employment Development Committee would adapt and manage the delivery of a *Stronger Business Program* tailored to meet the needs of the local business community. A general framework for the *Stronger Business Program* would be provided to each board as a resource for this design process.

The *Stronger Business Program* would not be delivered by centralised agencies or their contractors. Services to small businesses would be provided by the professional networks in the broader regions in which the small businesses operate.

The *Stronger Business Program* is likely to include elements such as:

- Market analysis
- Marketing strategy
- Digital business strategy (including online selling and cyber security)
- Product / Service strategy
- Cashflow management / Break-even analysis
- Improving team and people skills

- Customer service
- Supply chain effectiveness
- People management / HR / IR
- Small business financing
- Practical innovation and growth strategies
- Growing competitiveness of small business through alliance-building.

COMMUNITY EMPLOYMENT SERVICE PROVIDERS

Each Business and Employment Development Committee would also play a vital role in collaborating with a new network of *Community Employment Services* providers.

Committees would also assist Government in the oversight of the Community Employment Services providers and the labour market programs they would deliver at a local level.

(See Attachment 2)

**BUSINESS AND
EMPLOYMENT
DEVELOPMENT COMMITTEE**

LOCAL BOARD

- Comprised of local small business owners
- Responsible for design of tailored program to help strengthen local small businesses
- Encouraging local people to work together, support small business and achieve sustainable growth.
- Work with business chambers to Advocate for the local business community on small business/economic development issues.

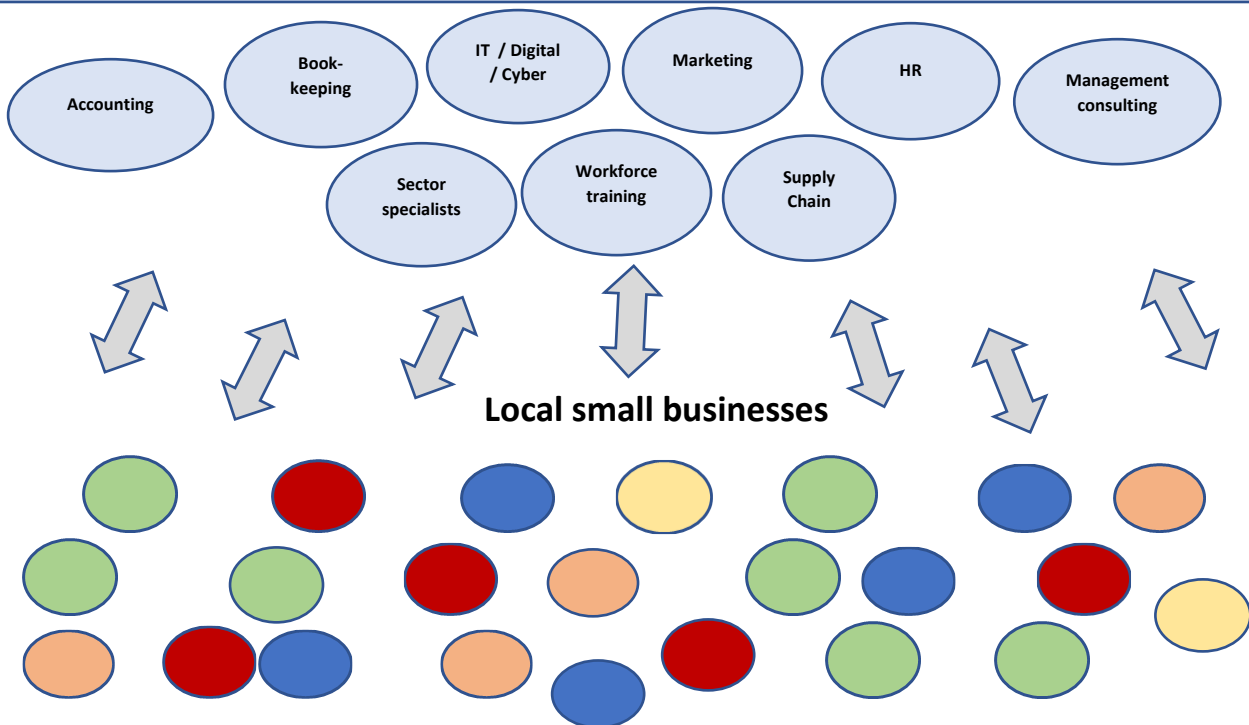
Executive Officer

- Network coordination
- Market Research to support program
- Managing and monitoring performance, reporting of program
- Event management
- Government / stakeholder relations

STRONGER BUSINESS PROGRAM

Delivered by local professional network

Professional Network of Business Advisors and Specialists



Building back better

Empowering local business communities to drive growth and create jobs

*It's all about **JOBS***



Place-based responses to economic challenges

*Creating a sustainably strong Australian economy after COVID-19
is not possible without re-building **local** economies.*

- There is an undeniable link between a thriving small business sector and a healthy economy.
- Government policies and programs must acknowledge the importance of fostering strong local economies.
- Both macro-economic and micro-economic strategies are needed.
- However, no initiative to strengthen local economies can be effective without engaging small businesses directly in local economic development.

Who is responsible?

Federal and State responsibilities under the Australian Constitution have been interpreted and re-interpreted over many decades.

The States have responsibility for economic development in their regions. Local government also has some responsibility for economic development in the LGAs (delegated by the States).

State, Territory and local governments use highly variable methods, but rely heavily on business and investment attraction. These strategies are often driven by 'top-down' decision making (e.g. NSW REDS).

Commonwealth Government involvement in local economic development is limited by the Constitution.

However, the Commonwealth Government can claim responsibilities relating to:

- **Business growth and innovation** enabled through the 'corporations power' of the Commonwealth, inferred by Section 51(xx)
- **Employment and labour markets** inferred by Section 51 (xxiiiA).

In the past the Commonwealth has used these powers to directly fund services at a regional local level. (e.g. Enterprise Connect, Area Consultative Committees, Commonwealth Employment Service).

Why is this important?

Assuming macro-economic settings are correct, the keys to re-building regional economies are:

- 1. A strong focus on business growth and innovation,**
combined with
- 2. Initiatives that create real jobs at the local level.**

This provides the Federal Government with an opportunity to support the re-building of regional economies in a highly effective way, by empowering communities Australia-wide.

State and Territory Governments can continue to concentrate on regional economic planning and strategy, while the Commonwealth fosters the growth of healthy businesses and labour markets.



Healthy regional economies and labour markets



- These are the key elements of local economic revitalisation in the wake of the COVID-19 pandemic.
- They need to be facilitated in local economies using genuine place-based strategies.

Why are place-based employment and labour market strategies essential?

- High unemployment in a local community is extremely detrimental to well-being and prosperity.
- Local SMEs provide a significant proportion of jobs.
- The current job services system – *jobactive* – has no local community oversight. The large majority of *jobactive* providers are almost totally disconnected from the business communities in which they operate.
- The current quasi-market system which sets providers up in artificial competition with each other has made collaborative efforts with local business communities totally unworkable.
- This has resulted in a very low level of vacancy lodgement from local businesses.
- The proposed 'Next Generation' of outsourced employment services does not incorporate design features to address these problems.
- An entirely new system is needed that has a meaningful degree of place-based oversight.
- Local business communities need to be engaged in a partnership in which they can provide genuine guidance to employment services providers.

How could it work?

COSBOA proposes a new, articulated, place-based approach which empowers local business communities to coordinate a collaborative effort:

1. **To foster business growth and innovation, and**
2. **To reduce unemployment** caused by the COVID-19 pandemic.



Business and Employment Development Committees

*The funding of **Business and Employment Development Committees** is an essential step in empowering communities to re-build their economies.*

True place-based strategies require government to enable local people to be in the 'driver's seat'.

Business and Employment Development Committees need to be led by local business owners. These are the people who are best placed to find solutions to economic problems in their regions.

The role of Committees would include:

- Managing the design and delivery of a **Business Innovation and Growth Program** aimed at assisting local SMEs to achieve their full potential.
- Guiding the implementation of **labour market adjustment programs** aimed at reducing unemployment in the region.

There are no existing place-based structures that perform these functions.

Business growth and innovation strategies

COSBOA proposes the implementation of Business Growth and Innovation strategies in the regions.

This would comprise the funding of:

- **Business and Employment Development Committees** to be led by local business owners.
- The development of a **Stronger Business Program** which would be available to all local SMEs – tailored to meet local needs by the Business and Employment Development Committees.

The Committees would have direct influence over the design and delivery of the Program at a local level.

The Program would be delivered by business specialists (business advisors, marketing specialists, accountants and bookkeepers etc), mostly from within the region.

Program services would be delivered through both one-to-one business advice as well as networked learning.

Employment growth

Fundamental changes to the national employment services system are urgently needed

- COSBOA proposes the creation of an **Australian Employment Services Agency** – a Government-owned business enterprise to directly manage an entirely new network of community employment services providers.
- The employment services contracts should only be made available to not-for-profit organisations. These organisations must commit to establishing specialist, skilled employment services teams to deliver services at a local level.
- The contracts for the **Community Employment Services providers** would require collaboration and accountability to the **Business and Employment Growth Committee** at the local level.
- There should not be competing agencies within any community. The original argument for jobseeker 'choice' has, in practice, proven to be illusory.
- A focus on employing well-trained, highly skilled, well paid staff is more important than maintaining a 'quasi-market'.
- The development of professional employment services career paths would reduce staff turnover and provide better outcomes for jobseekers.

Overview of structure

Commonwealth strategy for local Business and Employment Growth *A place-based approach*

