

1 October 2020

## **COSBOA Communique**

### **Confidence is crucial to the recovery process**

#### **SYNOPSIS**

COSBOA's COVID 19 Roundtable seeks to engage SME representative industry bodies and related stakeholders in a discussion about the current issues being experienced by SMEs in the wake of the COVID19 economic downturn - and to canvass potential initiatives for the remedy of same. This latest meeting was conducted on **Friday, 25 September 2020** - at a time when Metropolitan Melbourne was still operating under Stage 4 lockdown restrictions.

The meeting was addressed by Mr Richard Marles (Deputy Leader of the Federal Opposition). Mr Marles provided a perspective on the nature of the recovery challenge for business and industry with a specific focus on the challenges of small business. Mr Marles pointed to the fact that the economic downturn, notwithstanding the hardship that it has wrought on Australian households and businesses, provides an opportunity for Australia to rethink the structure of its' national economy.

Participants discussed the merits of two major initiatives flagged by the Treasurer – that is, proposed changes to both Australian Insolvency Practices and Responsible Lending Rules. These measures not only provide material financial benefit to small businesses but are expected to increase the confidence of small business owners by providing them with the tools needed to rebuild their business in a post COVID19 market.

To that end, confidence in the future of the economy – from the perspective of both small business owners and consumers – will be an essential ingredient in the national economic recovery process.

A brief summary of the key themes discussed at this meeting is provided below.

#### **KEY THEMES**

##### **1. Small business is on the front-line of COVID pain and the recovery of small business will be crucial to the national economic recovery process**

- The impact of the COVID19 economic downturn has been hardest on small and family business in Australia, with 10 jobs lost for every job lost in big business. Strategies seeking to restore these jobs must therefore be central to the economic recovery process.
- While much is being done to provide small business owners with the tools needed to *build back* their businesses at both Federal and State/Territory level, the economic

downturn has drained the financial and emotional resources of small business owners. Consequently, confidence in the capacity of all Australian governments to repair the national economy will be crucial to the recovery process – both from the perspective of small business owners believing in their own capacity to rebuild their businesses and households believing that the risk of further substantial increases in unemployment is decreasing.

- Failure to manage this ‘confidence equation’ risks sub-optimal utilisation of the economic repair measures being advanced by Australian Governments (e.g. the SME Loan Guarantee Scheme), with businesses refusing to reinvest in rebuilding their businesses because they perceive that wider economy is unlikely to recover in the foreseeable future (or stands a high risk of being closed down as a result of another COVID19 outbreak).

**2. There is an opportunity to ‘reimagine Australia’ with consequent benefits in terms of creating new small enterprise opportunities in new industries (and associated supply chains) and accelerating national employment restoration.**

- The COVID19 downturn has exposed the vulnerability of some of Australia’s traditional industries in terms of the limited capacity of the small businesses in these industries to ‘pivot’ and/or take advantage of accelerated digitalisation. In addition, the global pandemic has highlighted the vulnerability of key supply chains for existing Australian industry sectors (and the small businesses that operate in these industries).
- There would appear to be an opportunity for Australia to invest in the establishment of new industries that take advantage of our nation’s inherent strategic strengths, effectively allowing our country to ‘buy a stake’ in emerging global industries. Such *early investment* is unlikely to come from private capital markets. Rather, conversion of these opportunities will require the Australian government to make considered ‘bets’ on new industries – or growth of new infant industries – via the development of appropriate policy settings and provision of seed funding for new enterprises.
- Strong opportunities for new industry and employment creation in Australia potentially include space exploration (and deep space observance), manufacture of component technology for electric vehicles, manufacture of new battery storage technologies, and advanced manufacturing.

**3. New insolvency laws foreshadowed by the Treasurer in advance of the 2020 Federal Budget are very welcome, albeit that there is a need to better understand the detail of how these new laws will work - and the safeguards that will be put in place to prevent unintended adverse consequences.**

- Roundtable participants warmly welcomed Treasurer Frydenberg’s announcement of proposed new insolvency laws that will effectively harness elements of the Chapter 11 Bankruptcy provisions to give small business owners greater control of bankruptcy and insolvency processes – including the capacity to negotiate a reasonable plan with creditors that provides for the survival of the business.
- While recognising (and indeed supporting) the need for these measures to be advanced with ‘considered urgency’ given the imminent expiry of the current safe harbour provisions on 31 December 2020, there is an absolute need to ensure that these new laws do not expose business owners to inappropriate advice being provided

by insufficiently skilled 'small business insolvency practitioners'. Accordingly, there is likely to be a need to regulate the provision of insolvency and restructuring advice to minimise potential unintended consequences such as the provision of incorrect advice to business owners and an increase in phoenixing activity.

**4. Foreshadowed changes to responsible Lending Laws are expected to maximise the potential for small business survival by increasing access to affordable lending products for small business owners.**

- Small business owners have reported a substantial increase in the difficulty of securing business credit in the wake of the Hayne Royal Commission and the COVID19 economic downturn, with many also reporting that banks had apparently made unilateral changes to borrowing covenants without any marked change in the financial position of their business.
- Despite Responsible Lending Laws not being directly targeted at small business lending, roundtable participants stated that these rules had created constraints for business owners, many who were borrowing against personal assets. This fact, coupled with an apparently overly cautious risk stance of banks to small business lending, has created significant difficulty for small business owners seeking to *build back* their businesses.
- Within this context, changes to the operation of the Responsible Lending Laws are strongly welcomed by the small business community.

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