

Backing our businesses



Unlocking growth for small
and medium enterprises



About this report



Background

This is a customer-led, solutions focused report designed to help our customers succeed. It serves as an updated perspective on our 2020 publication, "Supporting Economic Recovery – What We Can Do for Small Businesses."

Since then, the small and medium-sized enterprise (SME^(a)) landscape has evolved. Existing challenges have continued to transform, while new challenges have emerged, affecting SMEs in distinct ways.



Purpose

This report examines the key challenges faced by SMEs in today's economy. It further provides recommendations on practical, policy-based solutions to address these challenges and help businesses unlock growth.



Impact

Large businesses, industry stakeholders and governments are instrumental in narrowing the divide between SMEs and the rest of the market. By acting on the policy recommendations outlined in this report, we can further back our SMEs to unlock growth and drive even greater outcomes for Australia's economy.



Methodology

This report has been created to provide a voice for Australia's small and medium businesses. It has been co-designed in consultation with NAB customers to present their perspectives and challenges. This has been captured via:

- 01 Customer roundtables with business owners from a broad range of industries
- 02 Targeted surveys with SME customers
- 03 1:1 interviews with select customers and stakeholders
- 04 Focus groups with small business bankers who are on the ground with our customers
- 05 Findings from other industry agencies and reports to contextualise insights within broader market trends

Note: (a) SMEs refer to small and medium enterprises. The Australian Bureau of Statistics (ABS) defines 'Small Businesses' as those with 0-19 employees, 'Medium Businesses' as those with 20-199 employees, and 'Large Businesses' as those with 200+. For the purpose of this report, the ABS definition of these terms is used, unless otherwise specified.

FOREWORD

Backing our businesses



Rachel Slade

Group Executive Business &
Private Banking



Small and Medium Enterprises (SME) are the backbone of our economy, accounting for more than 99% of Australian businesses and employing two-thirds of the country's workforce. They are resilient, innovative and extraordinarily passionate.

They need to be. Small businesses and the Australians behind them face a series of challenges that are stopping them from growing and supporting more of their customers. From the discussions with customers as part of this report, the overwhelming majority identified the top concerns as:



Many of these barriers to growth have remained persistent and were also identified in our 2020 report "Supporting Economic Recovery – What We Can Do for Small Businesses". While the challenges highlighted in this report may not necessarily be new ones, they require different thinking if we're to find real solutions to unlock further growth for SMEs – and, in turn, the broader economy.

This customer-led report has been created to help find solutions and provide a voice for Australia's small and medium businesses. It has been co-designed in consultation with NAB customers to present their perspectives and challenges. During the past few months, we've sat down with many of them across the country – builders, primary producers, IT firms, medical suppliers, cafes, restaurants and retailers – to better understand the challenges of running a business.

As Australia's largest business bank, we need to use our voice to back businesses and help find a way through. This is not something that they can do by themselves. Nor should they have to. They need banks, governments and industry groups to come together and unlock solutions; not just for our customers, but all businesses and the broader economy.

Because when small businesses win, Australia wins.

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01

Executive Summary





Executive Summary (1 of 2)

SMEs are the backbone of the Australian economy. However, evolving challenges are impeding their potential. This report offers an insight into the real-time challenges that SMEs face and makes practical recommendations to help unlock growth. As Australia’s largest business bank, NAB has a key role to play in helping remove these barriers for our customers so that they can succeed.

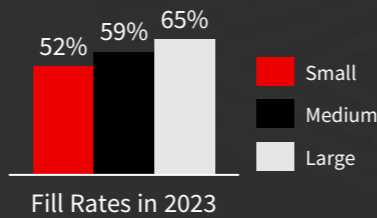
KEY CHALLENGES

POLICY SUGGESTIONS



Hiring and retaining staff

Difficulties related to skill shortages, high turnover rates, and attracting and retaining talent

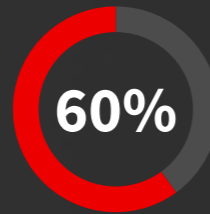


Small businesses have lower vacancy fill rates compared to larger enterprises



Too much red tape

Increased regulatory burdens, and rising cost of compliance



60% of small businesses note that the impact of red tape has increased in the last 12 months

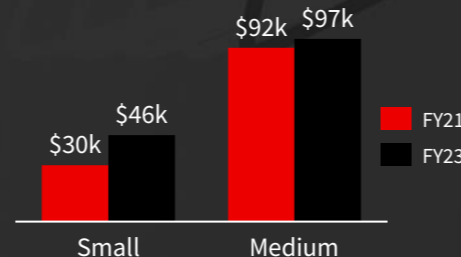
For SMEs, the monetary costs of compliance between 2021 and 2023 has grown by roughly: 2X



Cyber-attacks

Growing threat of frequent and damaging cyber-attacks, leading to significant time and financial losses.

The average loss per cyber crime has grown significantly for small and medium sized businesses between FY21 and FY23



- Improve transparency and accessibility of Australia’s skilled migration program for small business
- Increase flexibility in modern awards for SMEs
- Provide assistance to SMEs hiring their first worker

- Continue investing in and scaling Single Touch Payroll (STP) and other technologies to streamline regulatory compliance processes
- Ensure tax collection supports both compliance and ongoing business viability
- Develop “right-sized” regulation that recognises the challenges faced by SMEs in meeting regulatory obligations

- Ease cost barriers of adopting up-to-date cybersecurity technology
- Expand cybersecurity support from governments, encouraging involvement from industry and the education sector
- Introduce minimum cybersecurity standards and simplify cyber incident reporting processes
- Minimise the threat of scams to the Australian community



Executive Summary (2 of 2)

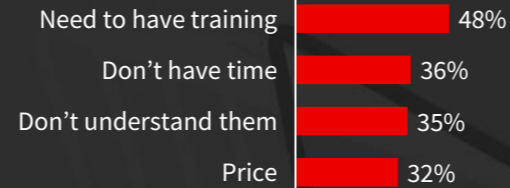
KEY CHALLENGES



Digitisation and Artificial Intelligence

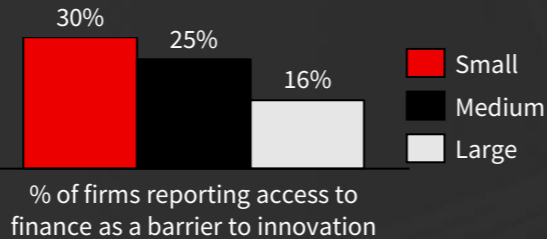
High cost and complexity in adopting digital technologies

Surveyed SMEs revealed several **key barriers to using emerging technology solutions**, including:



Access to Capital

Ability of SMEs to secure funding from lenders to help fund growth and financial sustainability



SMEs reportedly face greater difficulty in accessing funds than larger firms



Resilient Supply Chains

Challenges of ensuring resilience against disruptions

SMEs struggle to absorb supply shocks due to variable supply and demand fluctuations, caused by factors such as **tighter lending conditions, limited resources and a smaller customer base**



POLICY SUGGESTIONS

- **Involve SMEs in the delivery of the Digital Government Strategy**
- **Improve regional internet connectivity**
- **Support digital and data skills learning and development**
- **Encourage responsible AI adoption**

- **Support initiatives to enhance payment times and cash flow for SMEs**
- **Increase accessibility to key Commonwealth initiatives**
- **Advocate for better access to low-cost finance for First Nations businesses**
- **Enable SME acceleration through the loan process**

- **Encourage further action to meet the Federal Government's SME procurement targets**
- **Ensure that SMEs, First Nations and regional and remote businesses are adequately consulted in the delivery of the Buy Australia Plan**
- **Strengthen partnerships and procurement programs for First Nations SMEs**
- **Adopt a SME lens in a Future Made in Australia's procurement and investment process**

02

Market Overview

The role SMEs play





SMEs are the backbone of Australia's economy



Over 99%

of businesses in Australia are SMEs¹



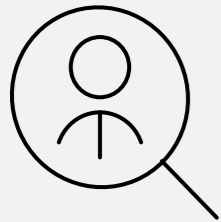
Two thirds

of Australia's labour force is employed by SMEs¹



56%

of Australia's Gross Value Added^(a) is attributed to SMEs²



> 50%

of jobs in Australia's top 10 largest industries (by employment) are provided by SMEs²



~ 30%

of SMEs are located outside of capital cities, demonstrating the critical role they play in regional communities

Note: (a) Gross Value Added (GVA) is a way to measure the value that is added to goods and services in the economy. In simple terms, it is the difference between what a business sells its products for and the cost of the raw materials and services it used to produce them. GVA excludes COVID-19 government support payments.

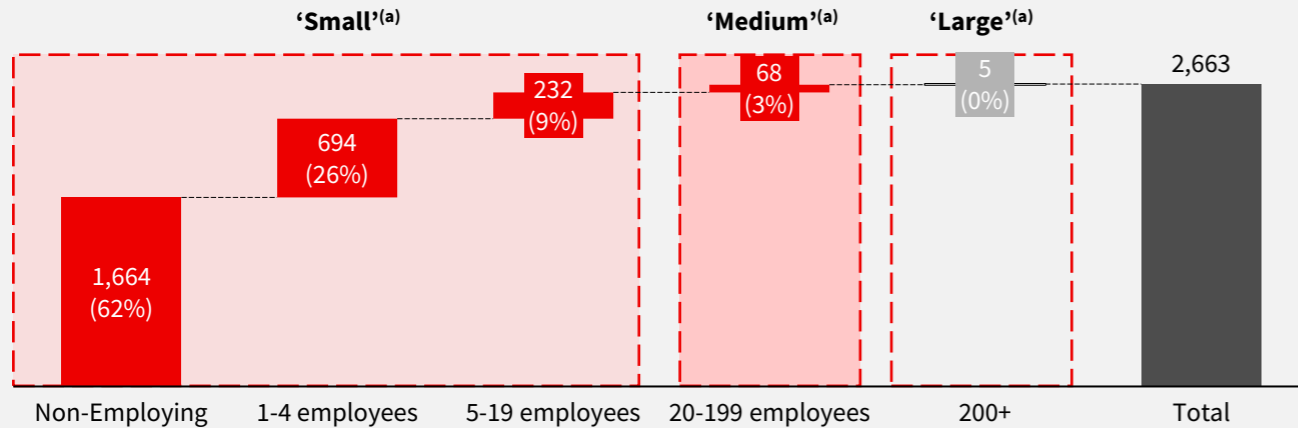
Source: (1) ABS, Counts of Australian Business, including Entries and Exits, 2024; (2) ABS, Australian Industry, 2024; (3) Australian Small Business and Family Enterprise Ombudsman, [Location of Australia's small businesses – regional and metro areas, 2024](#)



They play a critical role in driving growth and jobs

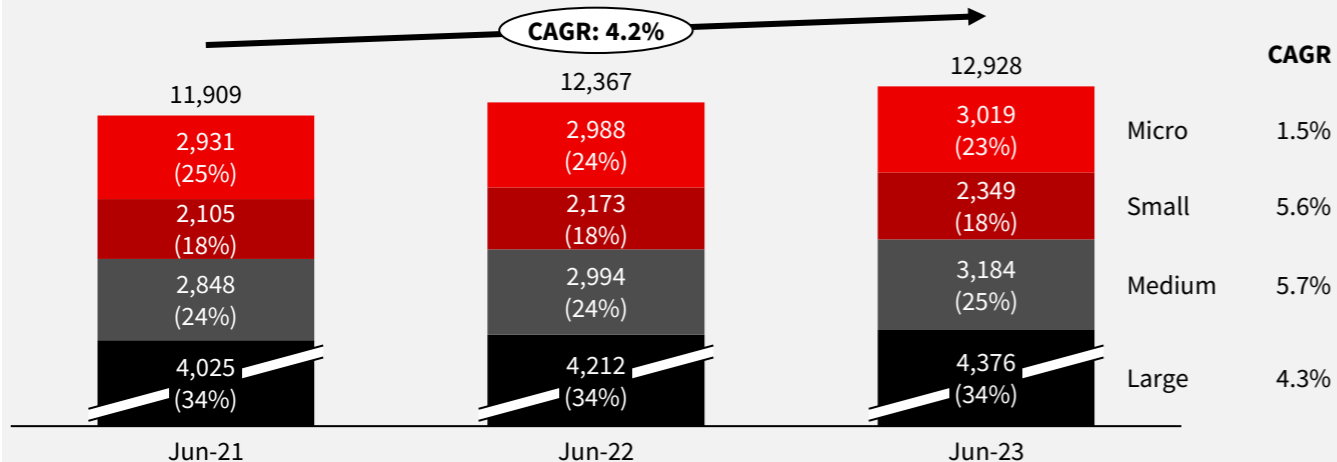
Number of Australian businesses measured by employment size¹

000's, June 2024, ABS^(a), excludes businesses not registered for GST



Employment numbers by business size²

000's, FY21-FY23, ABS^(b)



SMEs account for over 99% of the business landscape and two thirds of the labour force

SMEs play a critical role in Australia's business market and labour market. With 97.2% of businesses classified as 'small' and another 2.6% as 'medium,' SMEs form the backbone of Australia's economy. They employ about two-thirds of the workforce, underscoring their importance in driving employment and supporting economic stability.

Despite recent economic fluctuations, **SMEs have maintained their significance.** Over the past three years, their share of employment has remained relatively stable, and their Compound Annual Growth Rate (CAGR) has slightly outpaced that of larger firms. Notably, businesses with fewer than 20 employees account for 41% of employment, emphasising the critical role of small enterprises in job creation.

Their contribution to GVA^(c) has also remained significant, increasing from 54% to 56% in the last three years.² This highlights their increasingly important role in stimulating the nation's economy.

While the SME sector has demonstrated resilience in the face of rapid changes, there is **a need for policies and support programs that foster their growth and sustainability.**

Note: (a) ABS business counts exclude businesses not registered for GST; (b) Count only includes private sector industry; (c) Gross Value Added (GVA) is a way to measure the value that is added to goods and services in the economy. In simple terms, it is the difference between what a business sells its products for and the cost of the raw materials and services it used to produce them. GVA excludes COVID-19 government support payments.

Source: (1) ABS, Counts of Australian Business, including Entries and Exits, 2024; (2) ABS, Australian Industry, 2024

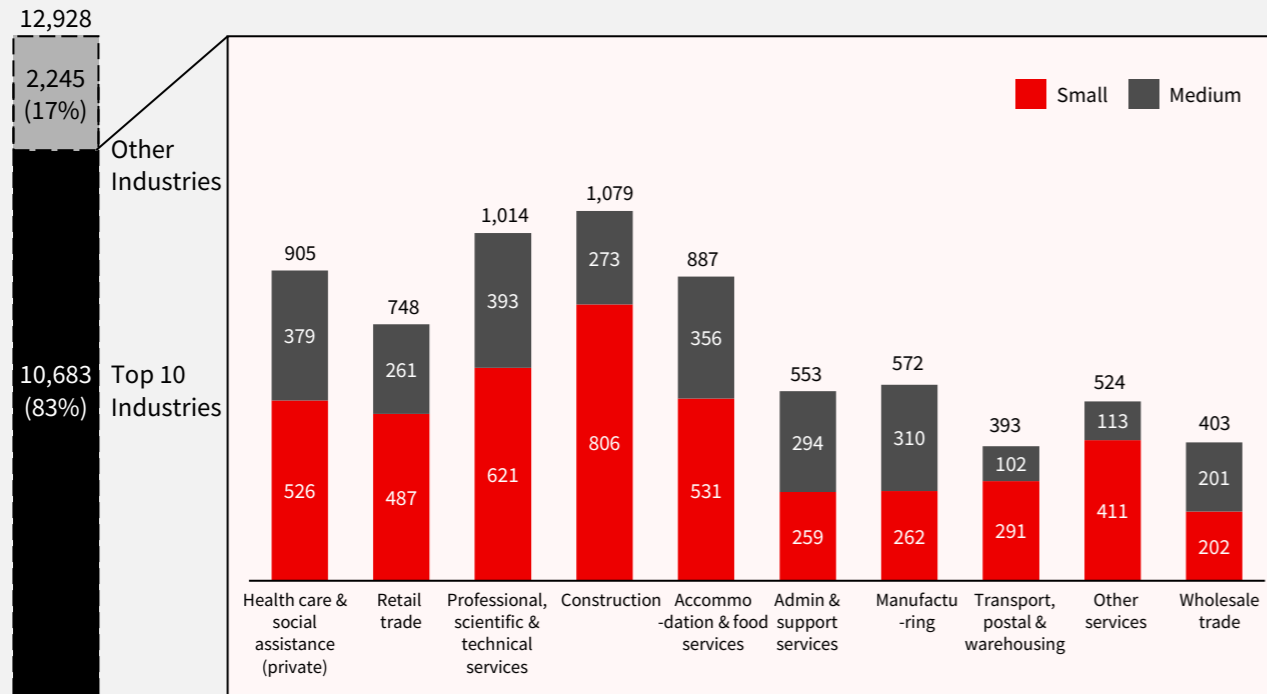


Across all industries, SMEs are essential for job creation and economic vitality

Total employment numbers by top ten industries¹

June 2023, ABS^(a)

of people employed (000's)



Total people employed

# of people employed by SMEs ('000s)	905	748	1,014	1,079	887	553	572	393	524	403
Total # of people employed ('000s)	1,663	1,479	1,329	1,250	1,208	999	899	660	600	597
People employed by SMEs as a% of total	54%	51%	76%	86%	73%	55%	64%	60%	87%	68%

SMEs contribute to over 50% of jobs in several key industries

Australia's **top 10 industries by employment** account for over **80% of the workforce**, with **SMEs providing more than half of the jobs** in each sector.

SME contribution is **particularly strong in professional, scientific, technical services, construction, and accommodation and food services**, where they account for over **70% of employment**.

Recent survey results show that many SMEs plan to invest in their workforce. Approximately 55% of SMEs have plans to grow their business. Of these SMEs planning to grow, **59% intend to focus on hiring, retaining and training staff.**^{2(b)}

SMEs' instrumental role in employment across a broad range of industries further reinforces the need for SME-conducive growth policies.

Note: (a) ABS data is for select private sector industries, excluding financial and insurance services. Totals may not sum due to rounding. (b) See Appendix 2 for more detailed information on this survey data.

Source: (1) ABS, Australian Industry, 2023; (2) NAB, Business Research & Insights, 2024



They also play a crucial role in regional Australia

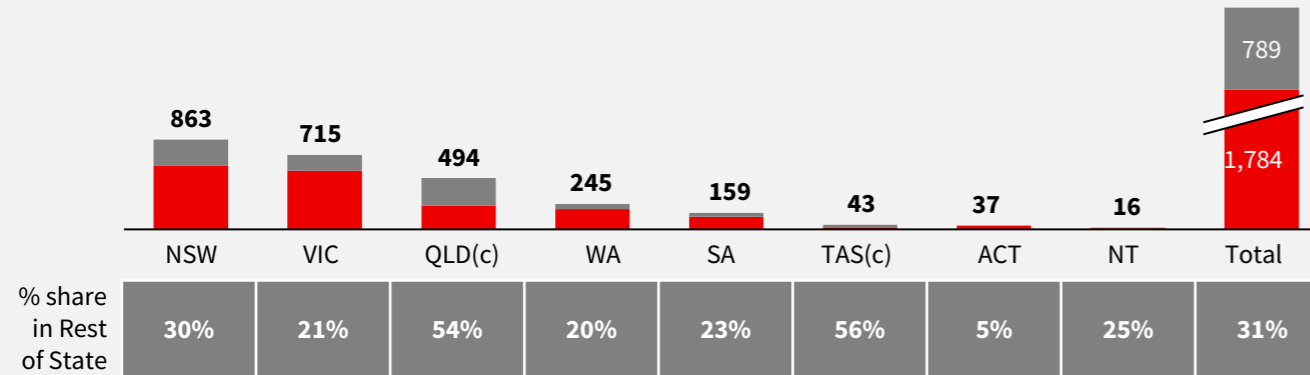
SME breakdown by location¹

June 2023, ASBFEO^{(a)(b)}

of SMEs ('000's)

■ # of SMEs in Capital City
■ # of SMEs in Rest of State

Total SMEs (in '000s)



Thirty per cent of SMEs are situated outside of capital cities, demonstrating the role they play in regional communities

SMEs play a crucial role outside Australia's capital cities, with approximately 20-30% of SMEs in each state and territory located beyond these urban centres. This underscores their importance in serving and thriving in regions often overlooked by larger corporations.

SMEs provide essential goods and services in regional and rural areas. They address local needs with tailored products and services, often filling market gaps.

Their presence supports local economies by creating jobs and boosting economic activity outside of capital cities. The regional spread of SMEs helps balance the country's economic distribution and reduces reliance on major cities.

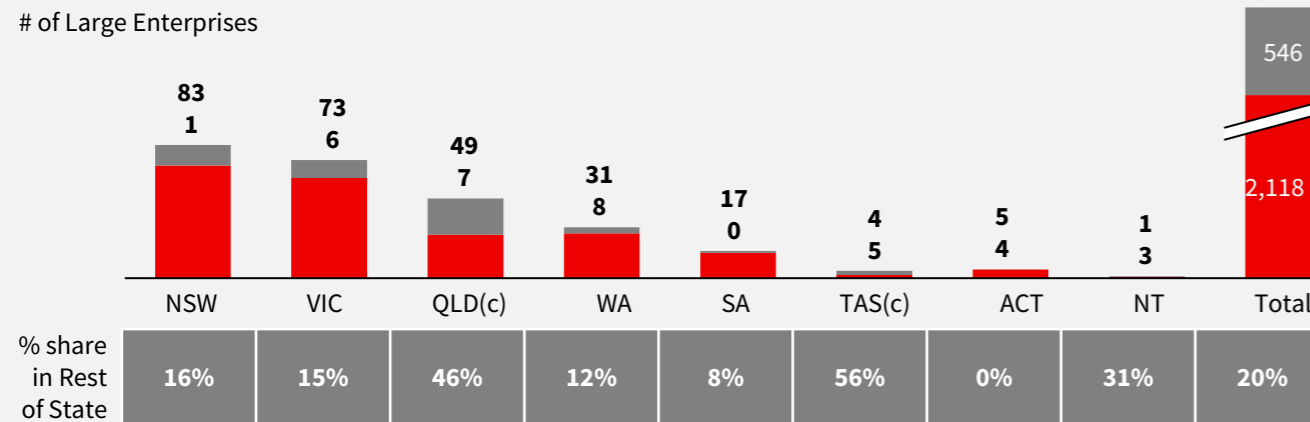
Large Enterprise breakdown by location

June 2023, ASBFEO^{(a)(b)}

of Large Enterprises

■ # of enterprises in Capital City
■ # of enterprise in Rest of State

Total large enterprises



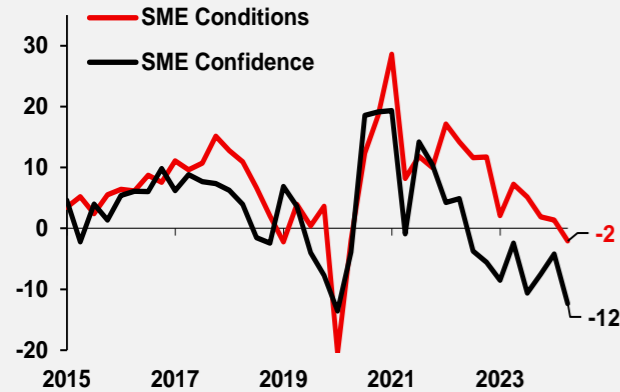
Note: (a) Businesses can operate over multiple geographies. To avoid duplication, this data attributes a business to one geography. In succinct terms, businesses that have simple structures that are suitable for ABS statistical purposes at the Australian Business Number (ABN) level are categorised by their main business address. More complex businesses are profiled by the region with the highest employment. As such, this data is not a reflection of the full extent of business activity in each area. For more information regarding this methodology, see the 'Main State' and 'Two Population' section of the ABS methodology section; (b) Data is rounded by the ABS for the purpose of confidentiality and may result in rounding errors; (c) Queensland's and Tasmania's figures are largely impacted by the Gold Coast, Sunshine Coast, and Launceston, all of which represent major business hubs for these states
Source: (1) Australian Small Business and Family Enterprise Ombudsman, *Location of Australia's small businesses – regional and metro areas, 2024*



SMEs have weathered disruptions, rising costs, and weak consumer spending

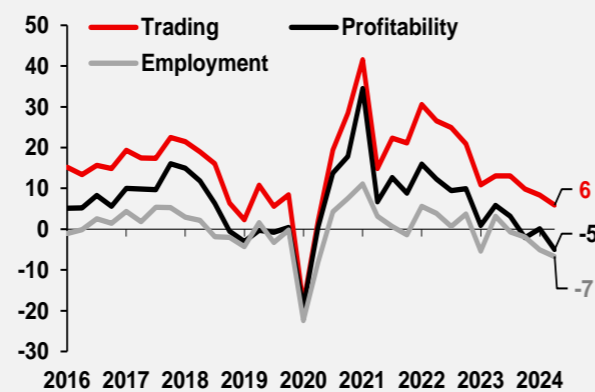
Business Conditions & Confidence (Net Balance)¹

2016 – Q2 2024, NAB



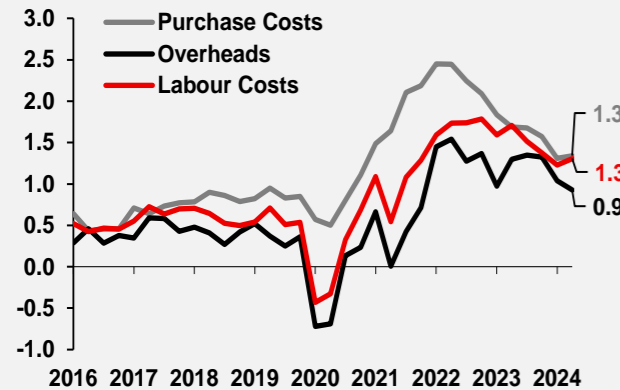
SME Conditions Components (Net Balance)¹

2016 – Q3 2024, NAB



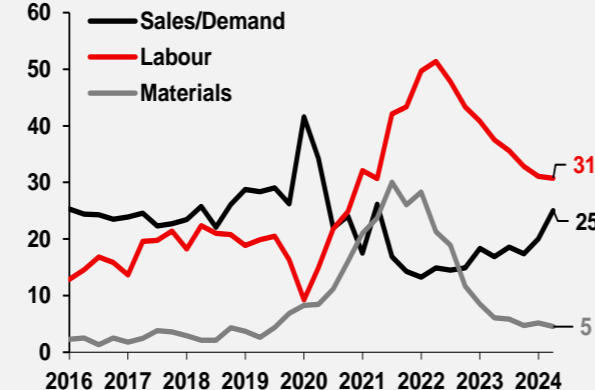
SME Business Cost Growth (% Q/Q)¹

2016 – Q3 2024, NAB



Significant Constraints on SMES (% of Firms)¹

2016 – Q3 2024, NAB



Pandemic-era disruptions have been followed by rapidly rising input costs, a record tight labour market and weak consumer demand growth

The pandemic caused unprecedented disruptions to SMEs. While businesses were supported through this disruption in many ways, this was nonetheless an incredibly challenging period for SMEs as seen in the **volatility of measures such as business conditions and confidence** in the NAB SME Business Survey.

Since the pandemic, SMEs have weathered additional challenges. **Supply chain disruptions** saw materials availability become a significant constraint for a quarter of SMEs and drove input cost growth as high as 2.5% q/q. A **tight labour market** also saw labour availability become a constraint for 50% of firms, with labour cost growth peaking at over 1.5% q/q.

In some cases, firms have been able to pass through rising costs to prices, but over time higher interest rates and inflation have put **pressure on consumer demand**, seeing SME trading conditions soften and squeezing firms' profitability. The recent **rise in insolvencies**, particularly in SME-heavy industries further underscores that these challenges are taking a toll.

The good news is that some of these challenges are trending in the right direction – but SMEs remain under pressure.

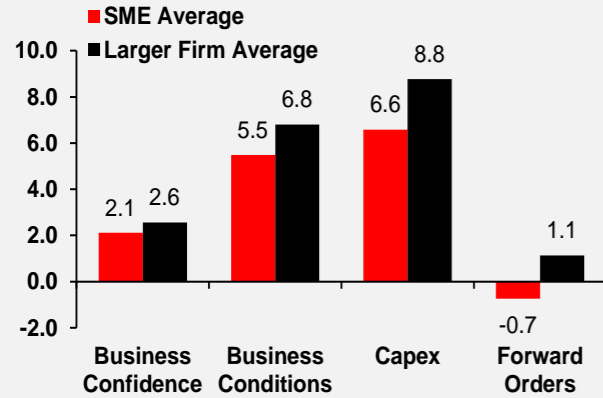
Source: (1) NAB, Quarterly SME Survey, Q3 2024



They also face longer-term structural barriers to success

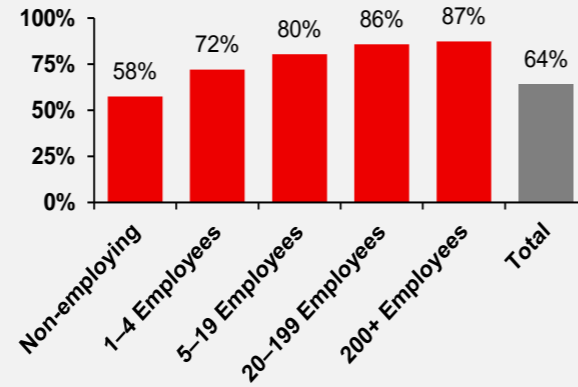
NAB Survey Measures Comparison (Net Balance)¹

2006-2024 Averages, NAB^(a)



Business Survival Rate After 4 Years²

June 2020 to June 2024, ABS



Over the long term, SMEs report softer outcomes and face lower survival rates than larger businesses

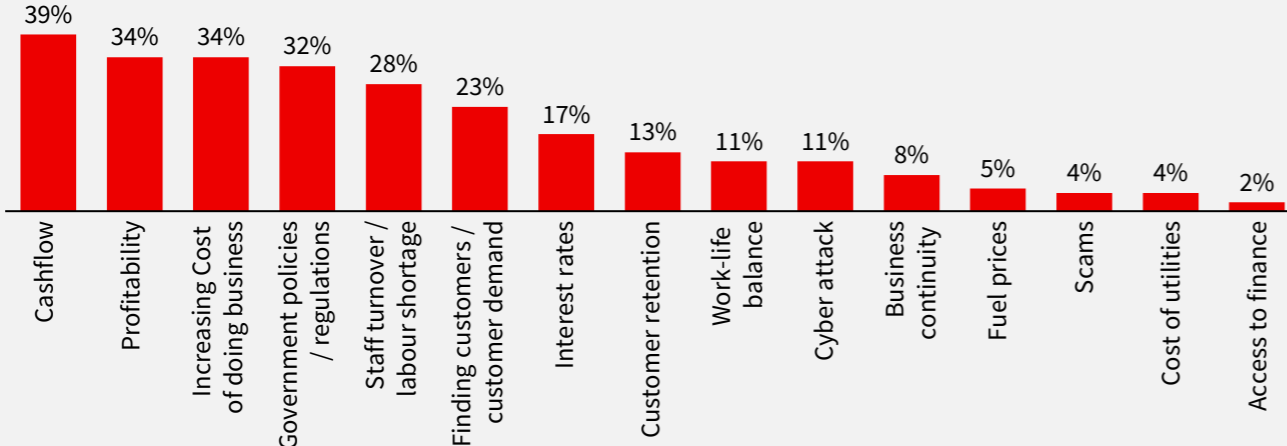
Across NAB's business surveys, SMEs have tended to report softer outcomes than larger businesses, including **lower business confidence and conditions**, lower capex and weaker forward orders on average over time.

ABS data on the number of businesses shows that **SMEs have lower survival rates than larger businesses**, with just 72% of businesses with 1-4 employees surviving four years, compared to 87% of businesses with 200+ employees.

NAB's recent quarterly survey of around 700 Australian SME owners and managers identified the key issues keeping SME owners 'awake at night'. **The report insights provide valuable guidance on the key areas needing attention to support SME growth.**

Factors Keeping SMEs 'Awake at Night': All SMEs³

%, Q2 2024, NAB^(b)



Note: (a) Chart compares the average net balance for SMEs since 2006 in the NAB Quarterly SME Survey to the average over the same period for larger firms in the NAB Quarterly Business Survey; (b) The results from the 'Factors Keeping SMEs Awake at Night' represent the number of businesses that noted that factor as a 'top 3 factor keeping them awake at night' (i.e. 39% of SMEs surveyed noted cashflow as a top 3 factor keeping them awake at night).

Source: (1) NAB, Quarterly Business Survey, Q3 2024 and Quarterly SME Survey, Q3 2024 (2) ABS Counts of Australian Business, June 2024, (3) NAB, SME Business Insights, 2024



03

Barriers to growth

The challenges SMEs face





Customers told us these are the biggest barriers to growth



Hiring and retaining staff

Difficulties related to skill shortages, high turnover rates, and attracting and retaining talent



Digitisation and Artificial Intelligence

High cost and complexity in adopting digital technologies



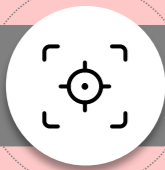
Too much red tape

Increased regulatory burdens, and rising cost of compliance



Access to Capital

Ability to secure funding from banks and other lenders to enable growth and financial sustainability



Cyber- attacks

Growing threat of frequent and damaging cyber-attacks, leading to significant time and financial losses



Resilient Supply Chains

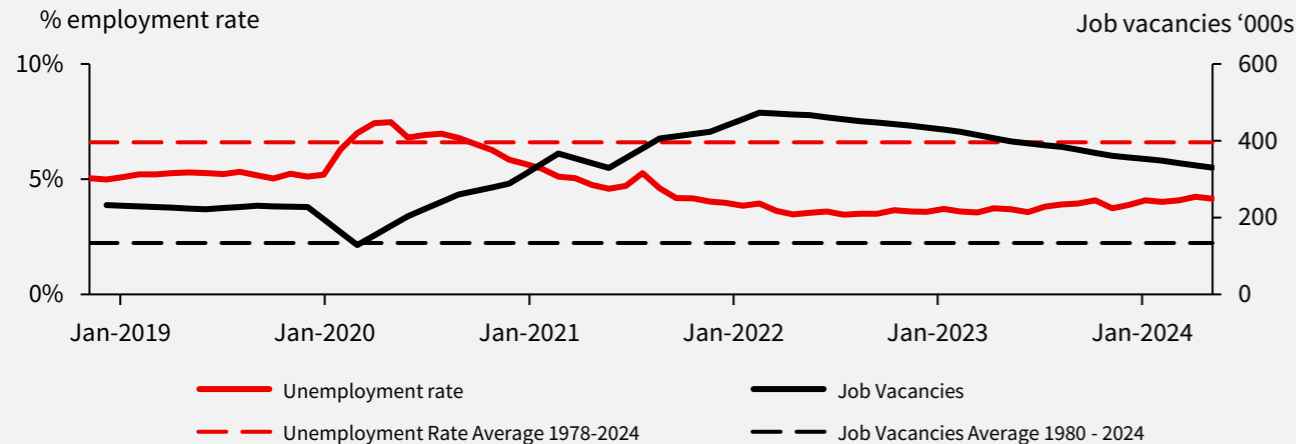
Challenges of ensuring resilience against disruptions



Tight labour conditions are making hiring and retention harder

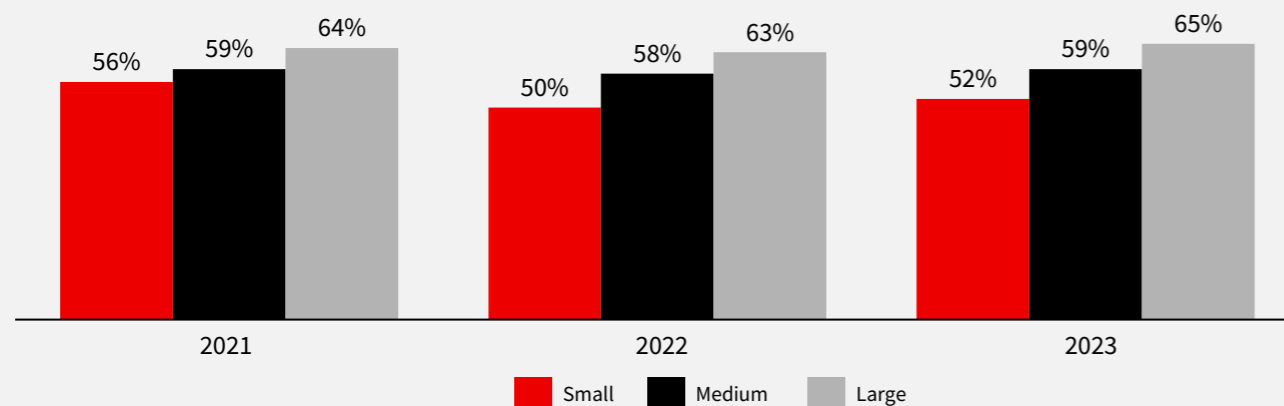
Australia's unemployment rate¹ and job vacancies³

Jan 2019 - July 2024, ABS^(a)



Fill rates^(b) by business size^{4 (c)}

2020-21 to 2022-23, Jobs and Skills Australia



Australia's employment market has been significantly impacted by historically low unemployment rates and high job vacancies

Despite slowing growth, the labour market has remained resilient, with strong employment driving the seasonally-adjusted unemployment rate down to 4.2% in August 2024.¹

Forecasts indicate a gradual easing of the labour market, with unemployment projected to rise to approximately 4.5% by the end of 2024 and remain there through 2025²—**still notably lower than the long-term average of 6.6%**.¹ This tight labour market presents challenges for SMEs in attracting and retaining skilled workers.

Recent job vacancy figures highlight a skills mismatch and increased competition for talent. On average, small businesses have lower vacancy fill rates—52% in FY23 compared to 59% for medium-sized and 65% for large businesses.⁴

Since FY21, the gap between small and larger businesses' fill rates has widened, largely due to tight labour conditions.

These factors could drive up wage expectations and benefits, adding financial strain to smaller enterprises.

“

We were unable to fill our roles domestically due to limited local talent pools, so we've had to sponsor overseas workers to boost our workforce.”

– REGIONAL CONSTRUCTION BUSINESS OWNER⁵

Notes: (a) These figures are seasonally adjusted; (b) The fill rate is the ratio of successful hires to the total open vacancies; (c) Job and Skills Australia's report defines small businesses as those with fewer than 20 employees (excluding sole traders), medium businesses as having between 20 and 99 employees, and large businesses as those with 100 or more employees. These definitions differ from those of the ABS and are used due to limitations in the Survey of Employers who have Recently Advertised (SERA) data on which the graph is based.

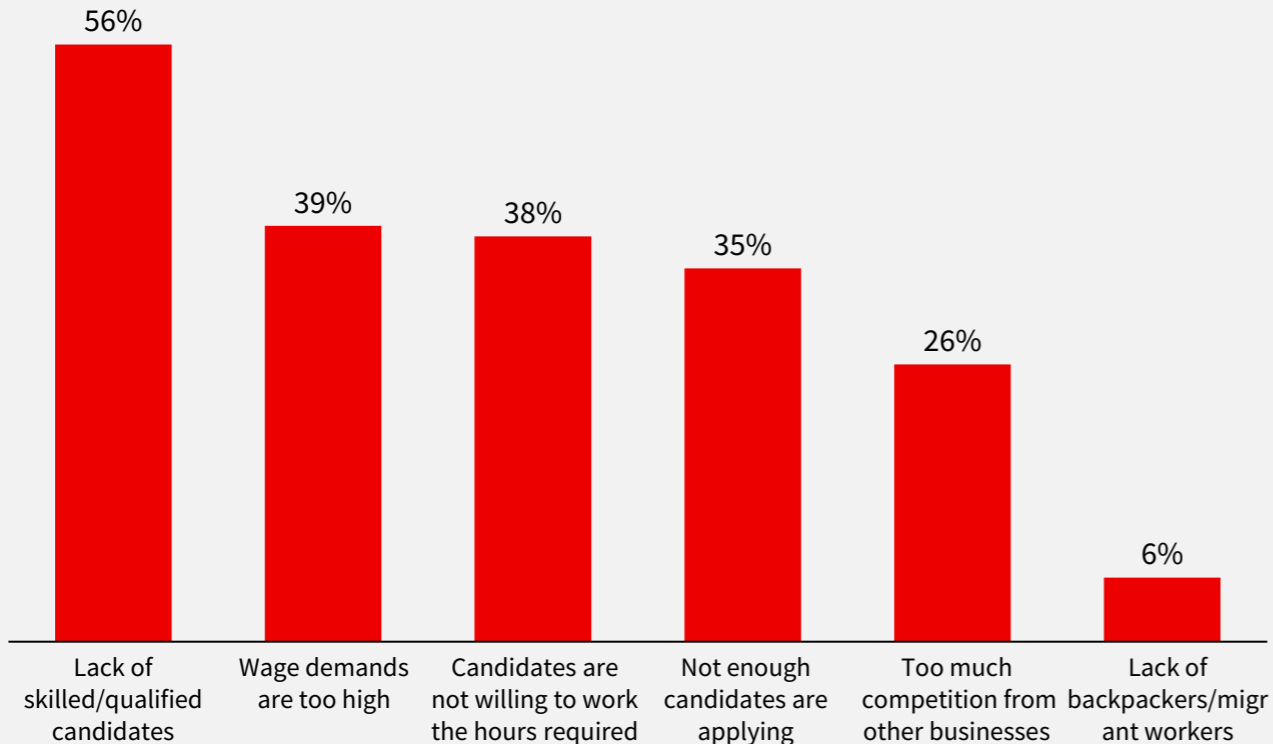
Source: (1) ABS, *Labour force status, seasonally adjusted and original - Monthly*, 2024; (2) NAB, *The Forward View Australia - September 2024*, 2024; (3) ABS, *Job Vacancies Australia - Quarterly*, 2024; (4) Jobs and Skills Australia, *Skills Shortage Quarterly - March 2024*, 2024; (5) NAB, *Roundtable Discussion with Small Business Owners*, 2024



Skilled candidates and wage demands are major obstacles

Reasons SMEs think it is difficult to fill job roles¹

June 2024, Fifth Quadrant^(a)



Talent shortages, wage pressures, and limited candidates are the key reasons preventing SMEs from filling job vacancies

Finding suitable candidates with the right mix of skills and qualifications (56%) is the primary challenge for SMEs. This is driving many SMEs to consider looking overseas to hire and sponsor talent, which comes at an additional cost to their business.³ Moreover, **upskilling also poses a problem** as SMEs often lack the required resources.

High wage demands (39%) also hinder SMEs' ability to fill roles. With Australia's Wage Price Index (WPI) at 4.1-4.2%, signalling wage growth, SMEs struggle to match compensation offered by large businesses.

A lack of candidates (35%) and those unwilling to work required hours (38%) are additional challenges. This may be the product of several reasons, including lower visibility in the market and the requirement of staff to don multiple roles.³

“

Navigating salary expectations can be challenging, particularly for regional businesses. This is especially true when hiring individuals who have relocated from urban areas, where salary benchmarks tend to be significantly higher.”

– REGIONAL CONSTRUCTION BUSINESS OWNER³

Note: (a) This survey was conducted with 400+ respondents. Businesses with between 1-500 employees were included in the sample. Of the sample, 51% comprised businesses with 0-4 employees, 18% had 5-19 employees, 22% employed 20-99 employees, and 8% had 100-500 employees. Further information on the survey's respondents can be found on page 29 of Fifth Quadrant's report.

Source: (1) Fifth Quadrant, *SME Sentiment Tracker*, 2024; (2) ABS, *Wage Price Index*, 2024; (3) Michael Page, *Employment in small companies vs large companies: What's the difference?*, 2024; (4) NAB, *Roundtable Discussion with Small Business Owners*, 2024

Case Study:

NSW-based pool and spa business aims to swim past talent shortages



Charmagne and Colin have run their pool and spa business, Country Rubber and Foam, out of Tamworth, NSW, for over 20 years. Their business has expanded across North-West NSW, with a team of 14 employees to meet the growing demand.

However, maintaining their workforce has become challenging, particularly due to the need for qualified pool technicians. “You can’t just send someone out; they need both theoretical and practical skills,” Colin said. This requires a significant investment in training, with financial risks if employees leave before breaking even. “It takes 18 months to recoup training costs, but we often lose staff to competitors before then.”

Over the years, Colin and Charmagne have also noticed a decline in the number of people applying for jobs, making it even more difficult to staff their expanding operations. “Competing for talent has only gotten harder,” Colin remarked. In recent years, they've lost valuable staff not just to other pool companies, but to entirely different industries such as law firms and mining companies. “Post-COVID, there’s just so much work available in our area. If someone is reliable and has good organisational skills, they get snapped up quickly. We've been looking for a store manager for more than two years and still haven't found one.”

This workforce shortage has had a direct impact on their business growth. Two years ago, they expanded their shop from 350 to 1,000 square meters, making it one of the largest pool shops in Australia. The expansion required doubling their staff, but they were only able to hire two new employees.

As a result, Charmagne and Colin have had to dedicate nearly all of their time to running day-to-day operations, leaving little room for further scaling or growth. Despite strong demand, they are unable to meet the full potential of their business due to staffing shortages.

To address these workforce challenges, Charmagne and Colin advocate for more targeted government assistance. “Instead of just providing funding, policies should focus on skilling people and directing the unemployed to industries that need them most,” Charmagne suggested.

They also call for better protections for businesses that invest in training. “Losing trained staff to competitors is a serious financial hit. Compensation or support programs for small businesses would be invaluable.”

Skills development, flexibility in awards, and regulatory assistance can make it easier



Policy Recommendations

Improve transparency and accessibility of Australia's skilled migration program for small business

- As suggested by the Australian Small Business and Family Enterprise Ombudsman, consider establishing a small employer concierge within the immigration system to assist SMEs in navigating processes and requirements and ensuring they are 'right-sized' for SMEs.²
- Consider greater prioritisation of construction workers within the existing mix of skilled migration to further support labour supply and productivity in housing construction. The NSW Productivity Commissioner recently found that between 2012 and 2021, only 44,000 of the around 700,000 new skilled migrants during that time had construction skills.³

Increase flexibility in modern awards for SMEs

- Consider options to improve SMEs' ability to attract skilled workers, such as by allowing the Fair Work Commission to create greater flexibility in modern awards, encouraging and rewarding businesses that meet their objectives.

Provide assistance to SMEs hiring their first worker

- To help alleviate the costs of hiring the first worker, the Federal Government could continue to develop targeted guidance for SMEs and invest in 'regtech' tools and platforms, such as the Hiring Employees Checklist and the Employment Contract Tool.



Existing support for SMEs

For SMEs looking to hire their first worker, the Federal Government's [Hiring employees checklist](#) can help employers meet Australian laws, providing clear steps through the employment process. This checklist is supported by the Federal Government's [Employment contract tool](#), which helps small business employers to create basic employment contracts for employees under the Fair Work System, including pay and conditions.

For SMEs looking to hire workers into ongoing jobs, the Federal Government offers [wage subsidies ranging up to \\$10,000](#) to support SMEs with the initial costs of hiring a new employee. SMEs can contact a provider to determine their eligibility and how wage subsidies may apply to their business.



Recent reforms

The National Skills Agreement¹

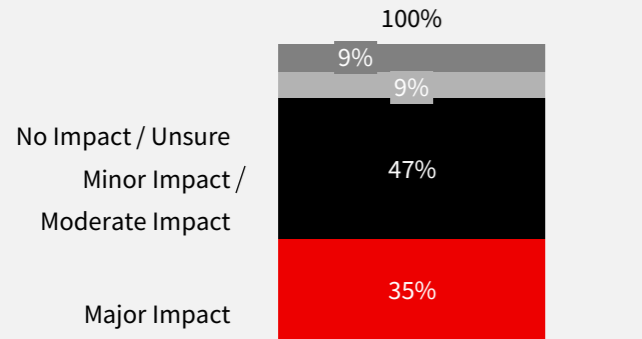
The National Skills Agreement (the Agreement) is a joint agreement between the Federal Government, states and territories to strengthen the VET sector. The Agreement commenced 1 January 2024 and will provide a total of up to \$12.6 billion in funding for VET training systems across Australia over five years. The Agreement is expected to prioritise critical skills and workforce shortages across a series of national priorities and will enable overall local skills uplift in Australia. This may enable SMEs to access a wider and stronger skilled talent pool in the future.



Rising compliance costs and regulatory demands are adding more pressure

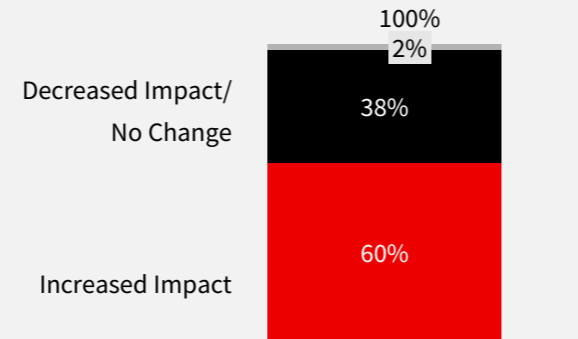
Regulations impacting small businesses¹

June 2024, ACCI^(a)



% of small businesses reporting changes in regulatory impact over the past 12 months¹

June 2024, ACCI^(a)



SMEs have reported an increased impact of government policies and regulations in the last 12 months

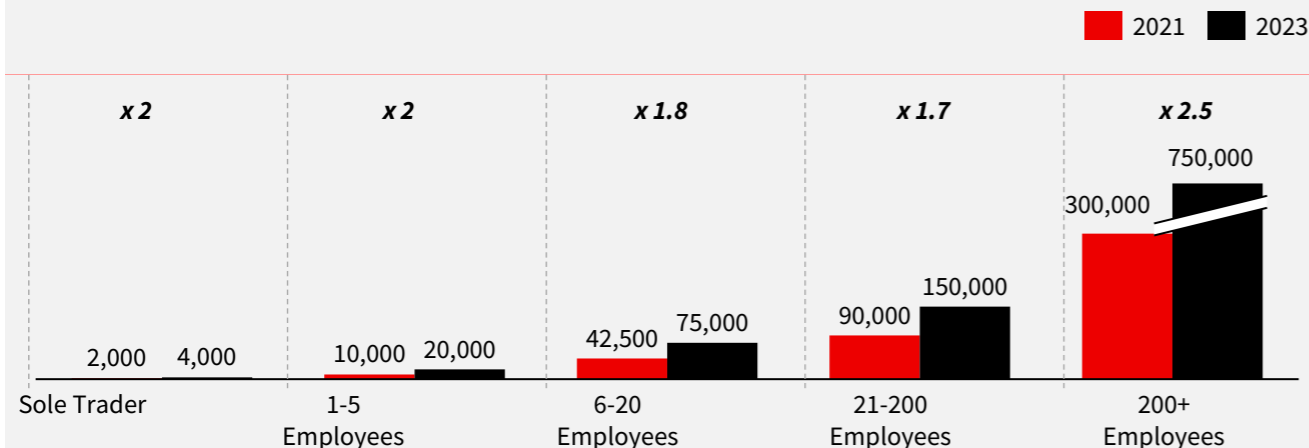
A recent survey conducted by the Australian Chamber of Commerce and Industry (ACCI)¹ revealed that over 90% of small businesses are affected by regulations, with 82% experiencing a major (35%) or moderate (47%) impact on their operations.

Most businesses (60%) noted that the impact of red tape has increased over the past 12 months¹, which not only affects their bottom line but also contributes to considerable stress among business owners.

The growing regulatory burden has also led to increased compliance costs. A 2023 survey of 329 Queensland businesses found that 80% of participants spent more time on regulatory compliance, and 82% saw rising compliance costs over the last two years². Many small businesses are unable to pass these increased costs onto their customers, impacting their profitability and viability.

Estimated median monetary costs of regulatory compliance for Queensland Business²

\$ '000s, 2021 -2023, Business Chamber Queensland^(b)



“

The agricultural industry is heavily regulated. We lost four months of income due to compliance, but the personal fines of non-compliance can be in excess of a million dollars.”

– AGRICULTURAL BUSINESS OWNER³

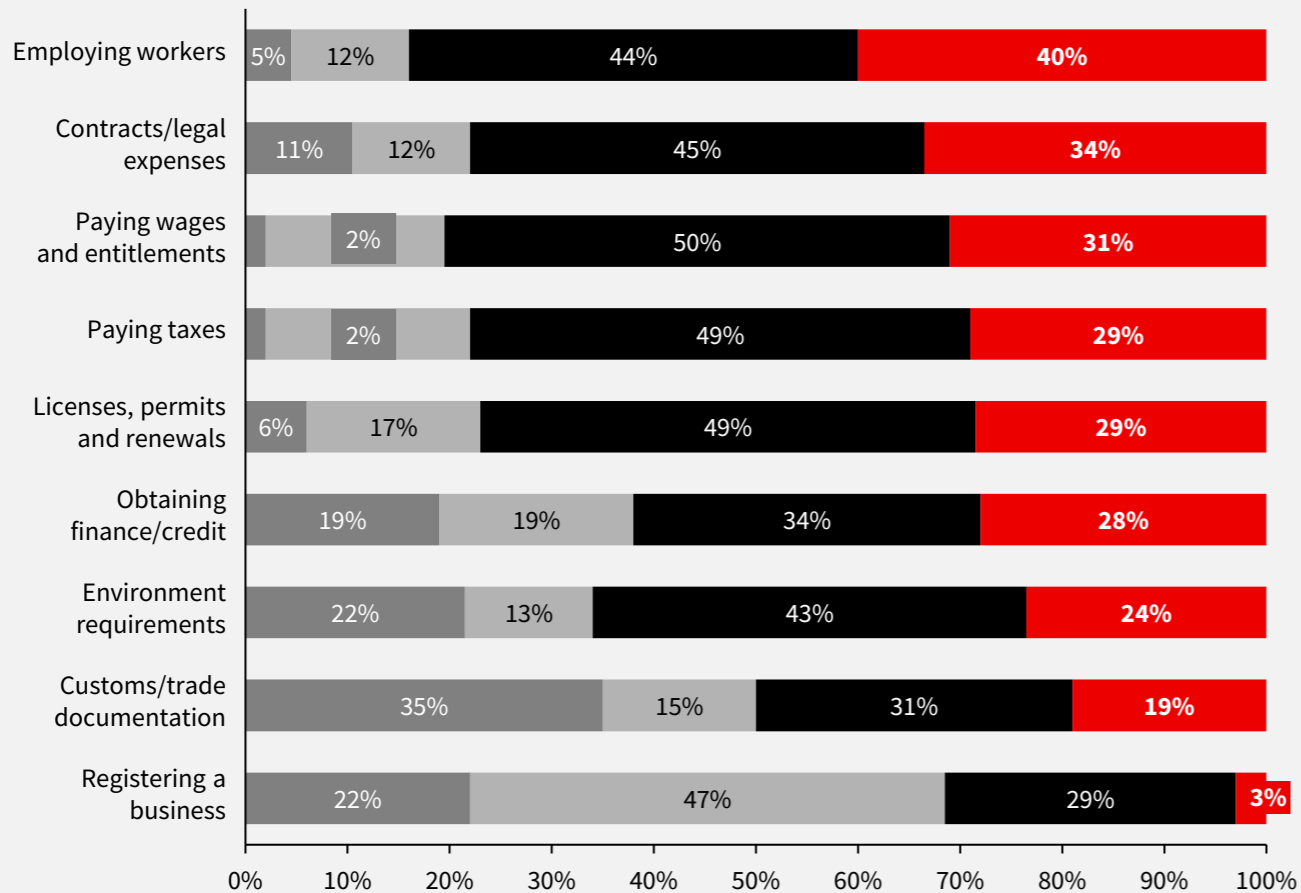


Labour-related compliance is the top challenge, closely followed by contracts and legal expenses

Difficulty of compliance of various business activities¹

2024, ACCI

Unsure Easy Moderate Difficult



Employing workers, contracts/legal and paying wages related compliance are the top three regulatory pain points for SMEs

Regulations related to employing workers was considered 'difficult' by 40% of respondents in ACCI's latest business conditions survey, while compliance around paying wages and entitlements was deemed challenging by 31% respondents.

Contracts and legal expenses related compliance were also viewed as burdensome, as shared by about one-third of SMEs.

Other problematic areas included **paying taxes, handling licenses, permits, renewals, and obtaining finance or credit**, each flagged as difficult by close to 30% of respondents.



Case Study:

A Brisbane-based biltong maker seeks to slice through red tape



Riaan de Beer, owner of a Brisbane-based biltong business, has been crafting the traditional South African dried meat for 13 years. Over this time, he has seen a steady rise in regulatory requirements that have become a major challenge for his small business.

“The goalposts are constantly moving,” Riaan remarks. “New rules are introduced without simplifying or removing old ones.” One such regulation involves allergen labelling, requiring allergens to be listed in bold. “The model I use for labelling doesn’t print in bold,” he explains, “and upgrading to a new machine would cost \$30,000—a cost most small businesses simply can’t afford.”

Riaan estimates the cost of keeping up with paperwork and regulatory compliance to be between \$60,000 and \$90,000 annually—a figure that has nearly doubled over the last five years.

On top of that, he recently invested \$50,000 in specialised software to manage documentation more effectively. While these measures have helped him to meet compliance standards, Riaan acknowledges that many small businesses face difficulties in affording such solutions, exposing the broader issue of rising operational costs.

Another major hurdle is the lack of continuity in the auditing process. “Every year, I get a different compliance officer auditing my business,” Riaan explains.

Given the complexities of food safety in the biltong industry, the frequent turnover means auditors often lack familiarity with his operations, leading to longer approval times and more paperwork.

“Greater continuity would significantly improve the compliance experience,” Riaan emphasises, highlighting the need for more consistent auditing standards that take into account the unique aspects of businesses like his.

Streamlining compliance processes and developing ‘right-sized’ regulation can make it easier for SMEs to do business



Policy Recommendations

Continue investing in and scaling Single Touch Payroll and other technologies to streamline regulatory compliance processes

- We welcome the expansion and continued use of STP and other initiatives to improve tax and superannuation compliance. Building on the success of STP, governments could consider further investments in technology to streamline and enhance their interactions with SMEs. For example, governments could align their data collection and reporting processes with the existing accounting processes and natural systems of SMEs to limit their compliance burden.

Ensure that tax collection supports both compliance and ongoing business viability

- Initiatives to support improved tax compliance by SMEs are welcome. We encourage the ATO to work closely with SMEs to improve their understanding of the benefits of engaging early where they may be encountering difficulties meeting tax liabilities and, where appropriate, help SMEs put in place flexible payment arrangements that support their ongoing viability.

Develop ‘right-sized’ regulation that recognises the challenges faced in meeting regulatory obligations

- The Federal Government could consider undertaking a national stocktake of the regulatory burdens on SMEs, with a view to developing a set of principles that should be applied to ensure regulation is ‘right-sized’ and recognises the challenges faced by SMEs in meeting regulatory obligations.



Existing support for SMEs

Businesses previously have had to make a declaration every time their tax agent lodges their STP data on their behalf. The [Treasury Laws Amendment \(2024 Tax and Other Measures No. 1\) Bill 2024](#) now allows a business to make a standing declaration to their agent that covers multiple STEP lodgements, for up to 12 months, on the employer’s behalf.



Recent reforms

Victorian Government – The Better Approvals for Business Program¹

The Better Approvals for Business Program (the Program) aims to improve the regulatory and associate approvals processes for businesses and support economic recovery and job creation. The Program is being delivered over two years, and is co-designed with businesses, industry, regulators, and local and state government. To date, two reviews have been delivered with the two remaining having completed public consultation.

The approach and findings of the Program reviews may provide a foundation for the recommended national stocktake of regulatory burden on SMEs.



Cyber-attacks are a constant threat to all businesses, particularly SMEs, who often lack the scale and resources to effectively defend against them

Experienced a cyber-attack over the following time frames¹

2023, NAB^(a)



Cyber-attacks are a constant threat for SMEs, which often lack the security protocols and IT capabilities of larger firms

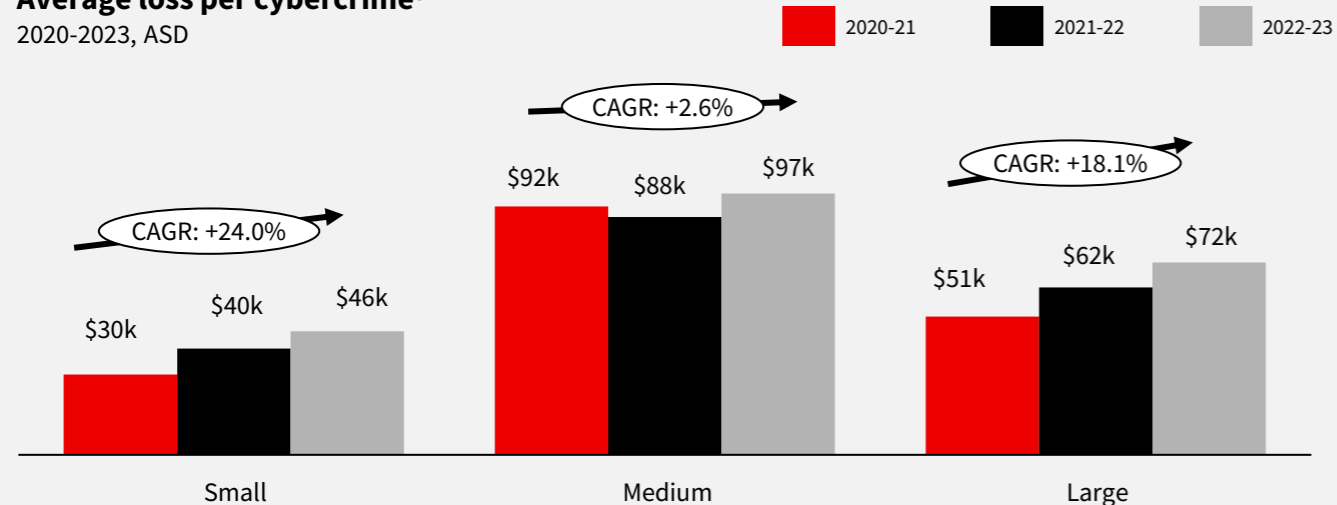
Nearly 3 in 10 SMEs have experienced a cyber-attack or data breach in their lifetime, with 1 in 10 reporting an attack in the past 12 months.¹

The ABS survey for the year ending June 2022 showed that 22% of businesses faced internet security incidents, up from 8% in 2020.² Recent NAB data also showed two-thirds of Australians reported falling victim to a cyber-attack or data breach, with half hit on multiple occasions.³

The financial impact is severe, with small businesses losing an average of \$46k and medium-sized businesses \$97k per incident.⁴

Average loss per cybercrime³

2020-2023, ASD



The financial impact is exacerbated by the lack of insurance protection.

According to the Insurance Council of Australia, fewer than a quarter of small businesses have standalone cyber insurance (20%), compared to 35-70% of larger businesses.⁵



Notes: (a) Based on survey conducted by NAB on 800 Australian SMEs in Q1 2023

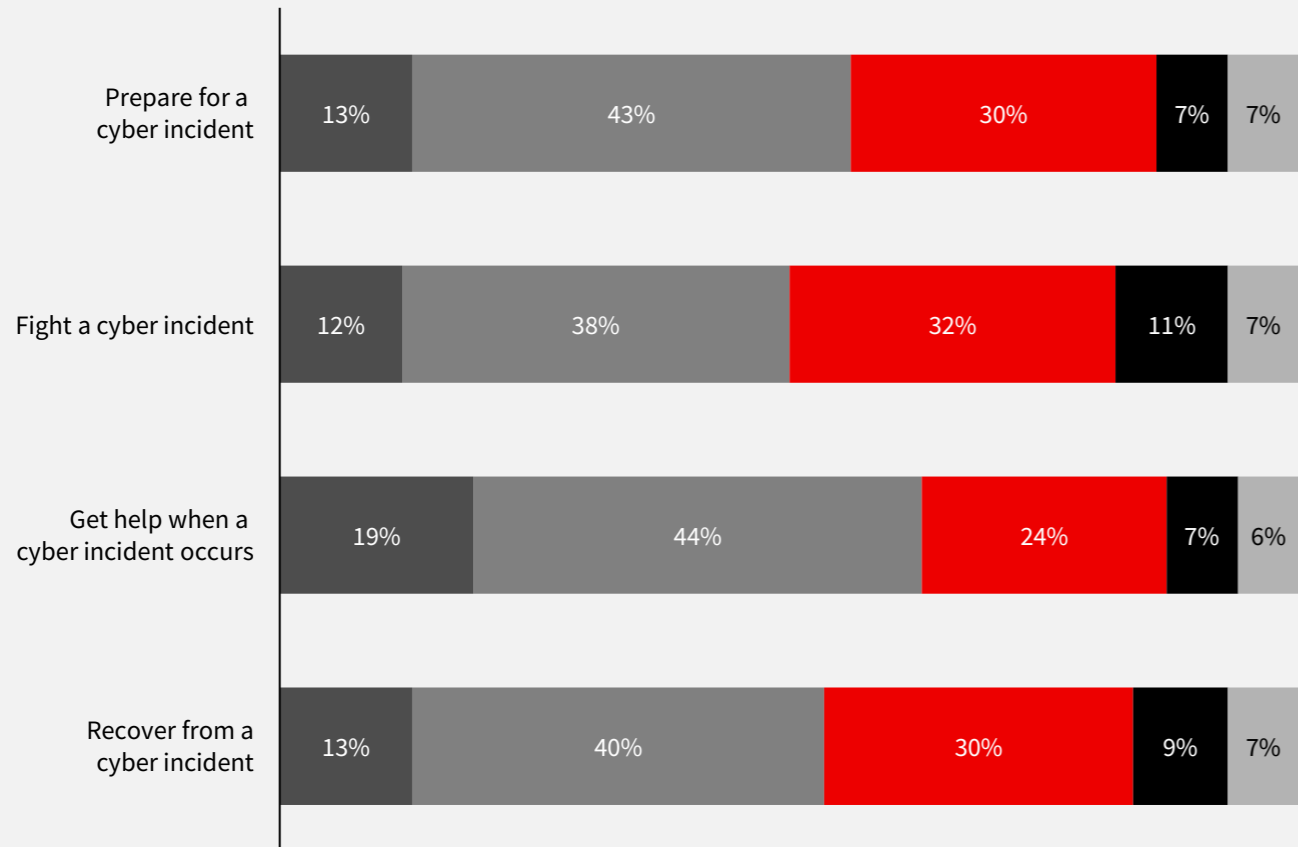
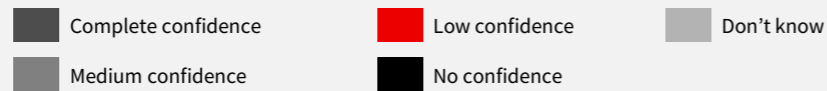
Source: (1) NAB, Consumer & Business Insights April 2023 Cyber Security Attacks and Scams, Q1 2023; (2) ABS, Characteristics of Australian Business, 2021-2022 Financial Year, 2023; (3) NAB, Consumer Insights -October 2024 Cyber Security: Understanding Australians' experience - and how consumers are responding; (4) Australian Signals Directorate (ASD), Cyber threat report 2022-23, 2023; (5) Insurance Council of Australia, Cyber Risk, 2021;



Budget constraints, lack of trained professionals and low awareness are undermining SMEs' confidence in cyber security

Small business confidence in navigating various aspects of cyber incidents¹

% of small businesses, 2024, Cyber Wardens



SMEs have exhibited a lack of confidence related to cyber incidents, especially in fighting against and recovering from attacks

Many small businesses report feeling unprepared for cyber-related challenges. Approximately 37% of small businesses express low or no confidence in their ability to prepare for cyber incidents, and 43% lack confidence in responding effectively if an incident occurs.

Although **relatively fewer small businesses exhibit a lack of confidence** related to getting assistance with cyber incidents (31%), **39% of small businesses still believe they would have low or no confidence in their ability to recover from such events.**

Budget constraints and a lack of trained professionals hinder SMEs' ability to implement strong cyber security policies. Low awareness of cyber risks among SMEs, such as phishing and malware, are further dampening their confidence.²

Policies that aim to mitigate these factors may go a long way in decreasing the magnitude of the impact that cyber-attacks have on SMEs.



There are easy and practical things that you can do that is just about good governance. Having good cyber security does not have to be expensive.”

– IT BUSINESS OWNER²

Note: (a) Cyber Wardens research involved a national survey of 2,098 people (small business owners and employees). The survey covered sole traders and businesses with 1-19 employees. For more information on the survey's methodology, see page 4 of [Cyber Warden's report](#). Source: (1) Cyber Wardens, *Building a culture of cyber safety in Australian small businesses*, 2024; (2) NAB, *Roundtable Discussion with Small Business Owners*, 2024

Case Study:

Brisbane-based firm urges SMEs to patch up cyber defences



David Webb, owner of Brisbane-based technology company WINBASIC, has been helping small and medium-sized businesses bolster their cyber security since 1996. Over the years, David has seen firsthand how vulnerable small business owners can be to cyber-attacks.

“Cyber attackers prey on busy people,” David explains. “Small business owners are often stretched thin, and that’s when they’re most exposed.” His experience with clients has shown that the lack of awareness around cyber security is a major issue. “We’ve seen cases where staff click on phishing links, and with high access levels, ransomware can lock down entire systems.”

David acknowledges a growing willingness among small businesses to invest in cyber security, but many are still hesitant to take the first step. A key challenge, according to David, is that business owners often view cyber security as too complex or costly. “People put it in the ‘too hard’ basket,” he says, “but it doesn’t have to be. Simple measures like using strong passwords and enabling multi-factor authentication can go a long way, and they don’t have to break the bank.”

Despite the growing risk of cyber-attacks, awareness and cost remain significant barriers for many small businesses. “Business owners ask, ‘Do I really need this? Is it worth the investment?’ They simply don’t have the awareness around cyber security and what they can do to protect themselves,” David observes. He believes the government could do more to encourage proactive cyber security practices. “There’s no real incentive for businesses to do the right thing. The government should be enforcing a minimum level of awareness.”

David highlights that valuable resources exist, such as those from Australian Cyber Security Centre (ACSC) and Australian Signals Directorate (ASD), but they’re not being promoted enough. “The information is out there, but it’s not reaching businesses effectively.” To bridge this gap, David suggests that policies incentivising good cyber security practices would make a real difference. “We have grants for setting up websites, but nothing to help businesses implement cyber security. Offering tax offsets for companies that invest in cyber protection would be a game-changer.”

David’s call to action is clear: as cyber threats continue to rise, businesses need to step up their defences, and more government support could drive a significant shift in the right direction.

Policy to ease cost barriers to cyber security technology, increase awareness of existing support and programs, and simplify reporting obligations can strengthen the cyber security posture of Australian SMEs



Policy Recommendations

Ease cost barriers of adopting up-to-date cyber security technology

- Support the continuation of the instant asset write-off, or in its absence, a more targeted tax relief issued by the Federal Government to support SME adoption of up-to-date cyber security software and hardware. This may help ease cost barriers often faced by SMEs around tech adoption.

Expand cyber security support from governments, encouraging involvement from industry and the education sector

- Governments could encourage involvement of industry leaders and the education sector to support the improved cyber resilience of SMEs, such as through NAB's free small business cyber assessment tool.

Introduce minimum cyber security standards and simplify cyber incident reporting

- We welcome the proposed *Cyber Security Bill 2024*, which addresses issues around ransomware, private data protection, and minimum cyber security standards. In the implementation of the Bill, the Federal Government could consider involving SMEs in the co-design of an industry code of practice for incident response.¹

Minimise the threat of scams to the Australian community

- We support the ongoing work to address the threat of scams through the development of Scams Prevention Framework announced by the Federal Government. It will be important that these Codes take into account the particular needs of SMEs.



Existing support for SMEs

Governments have developed multiple avenues of cyber security support, with further programs expected to begin development within the next five years. The [Cyber Wardens Program](#) is an Australian Government supported initiative which supports small businesses to bolster in-house cyber capabilities by training 'cyber wardens'. This hopes to make it easier for small business to increase their cyber posture to increase prevention and resilience to attacks.

The Federal Government has also developed a [Small Business Cyber Resilience Service](#). This provides free, tailored, person-to-person support for small businesses to improve their cyber security and recover from a cyber incident.

For SMEs located in NSW, the NSW Government offers the [Cyber Health Clinic Program](#), which offers free cyber health checks for SMEs to identify security vulnerabilities. SME participants will need to complete a 10-minute survey. Upon completion, SMEs will receive a one-hour consultation on advice for uplifting their cyber security posture.



Recent initiatives

NAB's security toolkit and partner offers

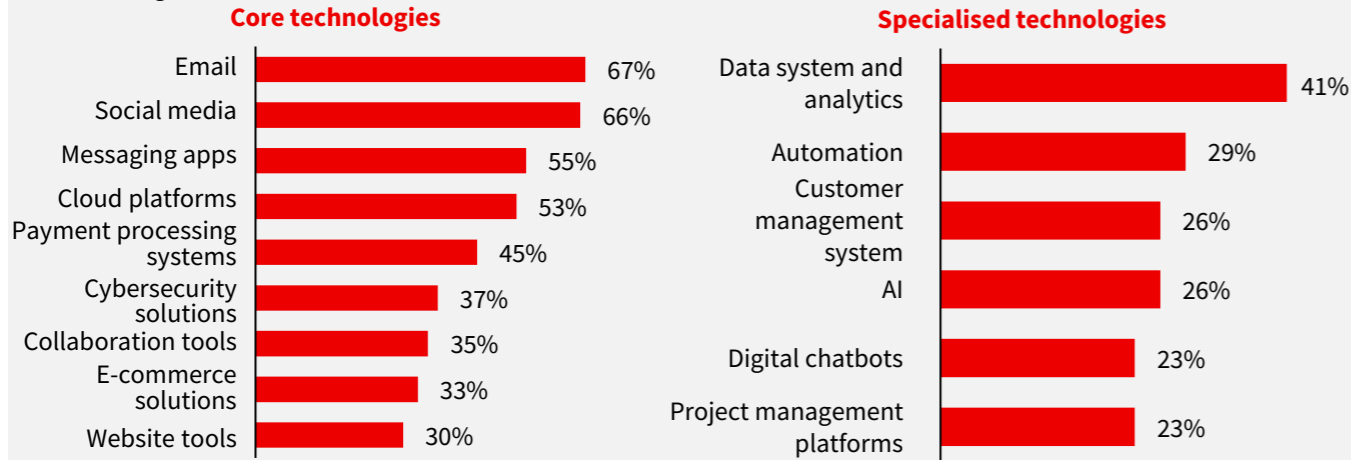
NAB offers a security toolkit for small businesses and has partnered with Microsoft to provide a free, tailored self-assessment. The self-assessment takes under two hours and asks participants a series of questions about their security, data, and IT environment. Once complete, small businesses are provided with tailored, fact-based advice on how to improve cyber security for their business. [NAB's Security Hub](#) houses all of the bank's advice, discounts and offers.



Many SMEs are yet to adopt basic technologies, limiting potential growth

Use of digital technologies by SMEs²

2023, ThoughtLab^(a)



SMEs lag in adoption of basic technology, presenting a potentially missed opportunity to improve productivity and customer reach

Digital adoption for many SMEs is confined to basic services¹, limiting their ability to improve productivity and expand their customer base.

According to ThoughtLab research, 67% of SMEs use email, 66% use social media, and only 30% have adopted website tools. This underuse of basic technology indicates that many SMEs are missing out on opportunities to streamline operations and increase their online presence.

The gap becomes even more pronounced with specialised technologies.²

Only 41% of SMEs use data systems and analytics, 29% use automation, and a mere 26% have adopted customer management systems or AI. These tools could significantly enhance business efficiency and decision-making, yet adoption remains low. This reluctance suggests a broader issue: many SMEs are not leveraging digital advancements to remain competitive in an increasingly digital economy.

CPA research supports this underutilisation in Australia, showing that Australian SMEs are less likely to sell online compared to other Asia-Pacific economies.³

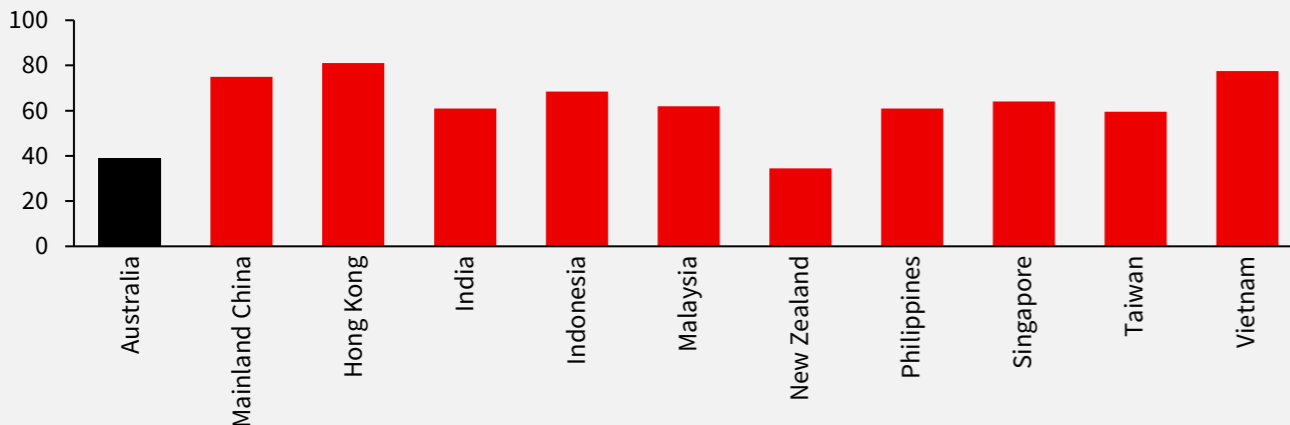


We must remain vigilant, engaged, and innovative with our technology, as we've seen competitors become obsolete for failing to adopt the latest advancements.”

– CONSTRUCTION BUSINESS OWNER⁴

% age of small business earning more than 10% of revenue online – by market and time³

2023, CPA Australia^(b)



Notes: (a) ThoughtLab's research excluded sole traders and defined small businesses as those with 1-19 employees, and medium as those with 20 to 250 employees. For more information on the SMEs in ThoughtLab's survey sample, see page 59 of the [ThoughtLab report](#); (b) CPA Australia's report was based on a survey conducted with 4,222 small businesses across 11 different markets. The survey classified small businesses as those with fewer than 20 employees. For more information on the small businesses in CPA Australia's survey sample, see page 4 of [CPA Australia's report](#).

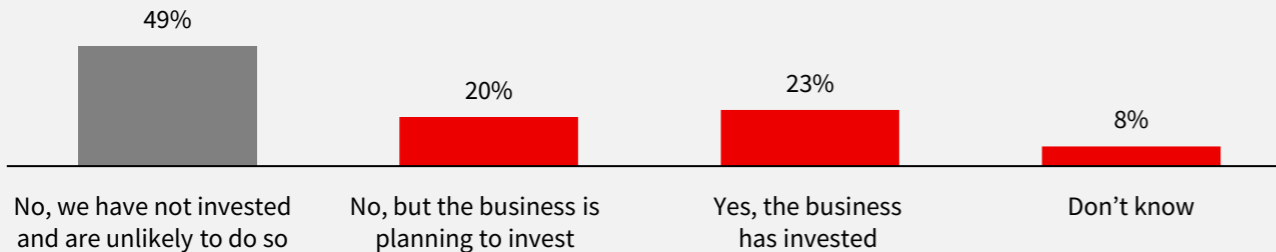
Source: (1) OECD, [SMEs Going Digital: Policy challenges and recommendations](#), 2021; (2) ThoughtLab, [The Digital Journey of SMEs in Australia](#), 2023; (3) CPA Australia, [Asia-Pacific Small Business Survey 2023-2024](#), 2024; (4) NAB, [Roundtable Discussion with Small Business Owners](#), 2024

While most are aware of the benefits of emerging technologies, only a quarter have invested



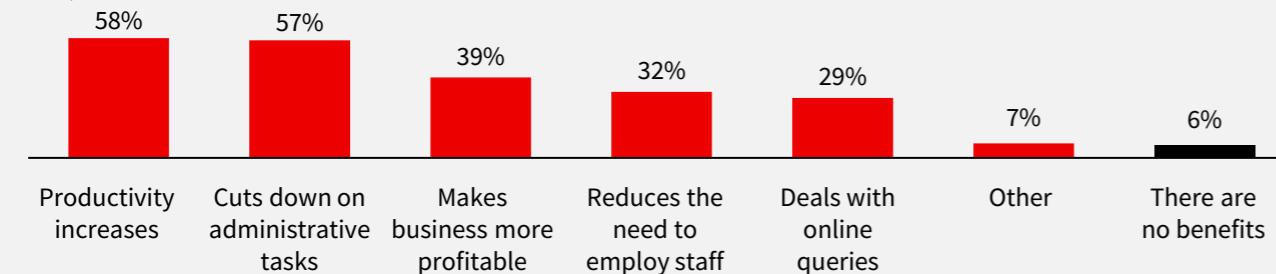
% of SMEs who have invested/plan to invest in emerging technology solutions¹

2024, NAB^(a)



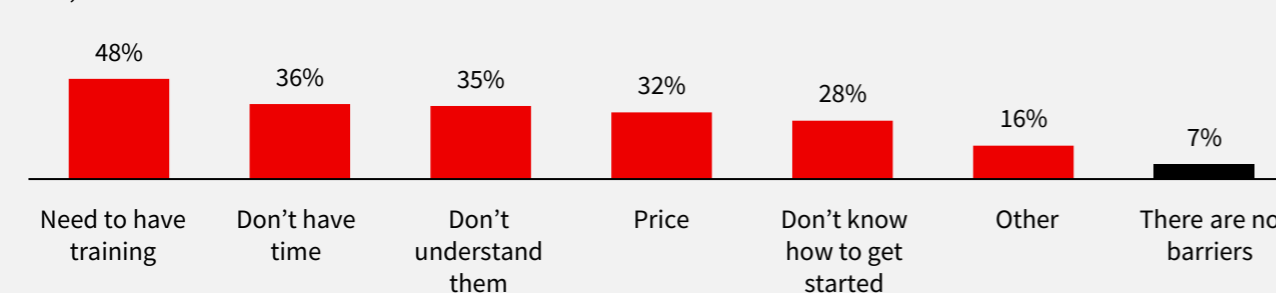
Main benefits of using emerging technology solutions to businesses¹

2024, NAB^(a)



Main barriers to using emerging technology solutions to businesses¹

2024, NAB^(b)



AI presents an untapped opportunity for Australian SMEs

AI adoption among SMEs is lagging. Only a quarter of SMEs have invested in AI or other emerging technologies, while 20% plan to do so. However, nearly half (49%) have neither invested nor intend to.¹ This hesitation persists despite clear benefits – one MYOB survey shows that 88% of SMEs using AI report time savings and 81% cite increased productivity.²

Several factors prevent SMEs from adopting AI and other advanced technologies. While 60% recognise the benefits, such as increased productivity (58%) and reduced administrative tasks (57%), the integration process remains a significant challenge. Barriers include the need for training (48%), lack of time (36%), and a limited understanding of emerging technologies (35%). Additionally, 32% of SMEs cite the cost of AI as a major concern.¹

However, accessible and effective AI tools do exist. For instance, NAB's 'Bookkeeper' tool can significantly reduce administrative tasks for business owners by up to five hours each week. To encourage adoption, NAB is offering a six-month free trial of this tool, allowing SMEs to experience its benefits without upfront investment. This initiative can help bridge the gap and pave the way for more widespread use of AI in small and medium-sized enterprises.³



Artificial Intelligence opens doors to new customers. It helps us communicate with more people and enables us to use industry-specific language that connects us to more specialised businesses and professionals.”

– OWNER OF IT BUSINESS⁴



Notes: (a) The NAB SME Business Insights paper is based on the survey responses from over 700 Australian SMEs across states and industries; (b) These barriers were reported by all SMEs, including those who have adopted emerging technologies; (c) The MYOB Small Business Survey report was based on responses from 1012 SME owners and operators.

Source: (1) NAB, *SME Business Insights, Artificial Intelligence*, 2024; (2) MYOB, *Small Business Survey*, 2023; (3) NAB, *Small businesses use bookkeeping tool to reduce paperwork and increase profits*, 2024; (4) NAB, *Roundtable Discussion with Small Business Owners*, 2024



Policy around regional connectivity, skills development, and responsible AI adoption will make things easier



Policy Recommendations

Involve SMEs in the delivery of the Digital Government Strategy

- We welcome the initiatives under the Digital Government Strategy, including Digital ID, which will enhance how SMEs engage their customers and save time and money. The Federal Government could also consider increasing SME involvement in the delivery of the Strategy, ensuring that more business owners can realise the benefits of a digital Australia.

Improve regional internet connectivity

- Reliable internet connectivity is crucial to the operations and growth of SMEs in regional and remote Australia. The Federal Government should continue to improve regional internet connectivity to enable SMEs to increase their uptake of digital services.

Support digital and data skills learning and development

- Support new initiatives from governments that target SMEs' preferred learning methods through VET and tertiary providers, including short courses, unaccredited or micro-credential training.
- Further promotion by governments of the Digital Solutions and Free AI programs could drive SMEs to increase their uptake of digital and data skills.

Encourage responsible AI adoption

- The Federal Government could enable SMEs to adopt AI responsibly and make the most of the AI opportunity by reducing added regulatory compliance, if existing regulations are adequate.



Existing support for SMEs

The Federal Government offers programs around digital, data, and AI literacy to uplift SMEs and their owners. The [Digital Solutions](#) program is available to small businesses with fewer than 20 FTE employees and sole traders. The program provides access to up to four hours of one-on-one expert digital advice for a small fee, and unlimited access to workshops, webinar presentations, and self-directed tutorials.

For SMEs interested in AI, the Federal Government is offering a Microskills course: the [Introduction to Artificial Intelligence](#). The course is being delivered free through TAFE NSW online and can support business owners looking to familiarise themselves with and adopt AI in their business operations.



Recent recommendations

Productivity Commission – Making the most of the AI opportunity: The challenges of regulating AI¹

The rapid development of AI models and use has enabled significant business and economic acceleration over the past year for Australia's community and industry.

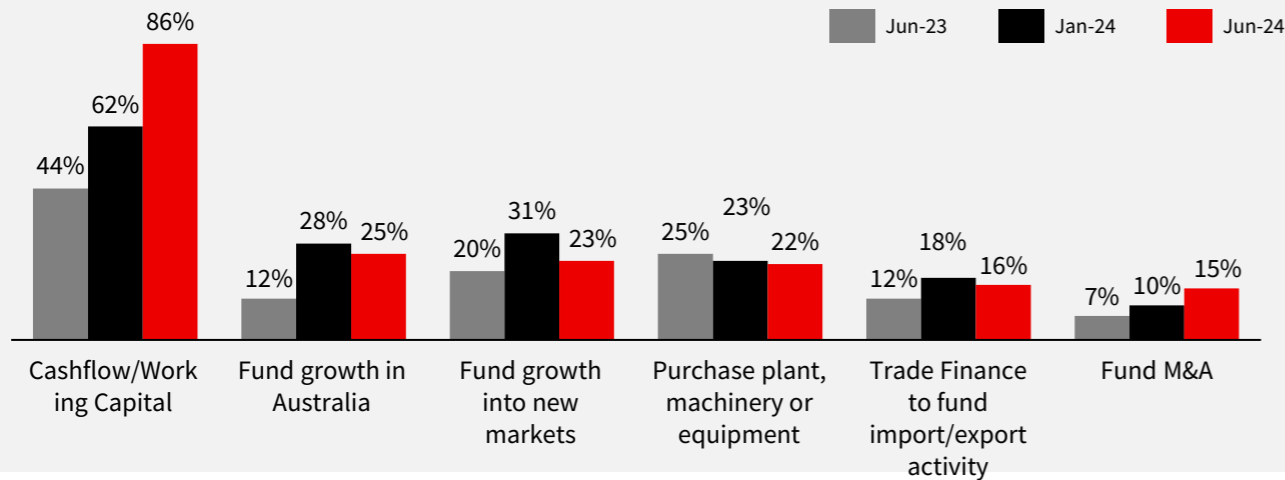
The Productivity Commission's research paper provides strong guidance for governments looking to develop appropriate and effective regulation that will allow industry – including SMEs – to maximise productivity gains from AI while providing a strong safety net against potential for harm.



Cashflow challenges remain, increasing the importance of external financing

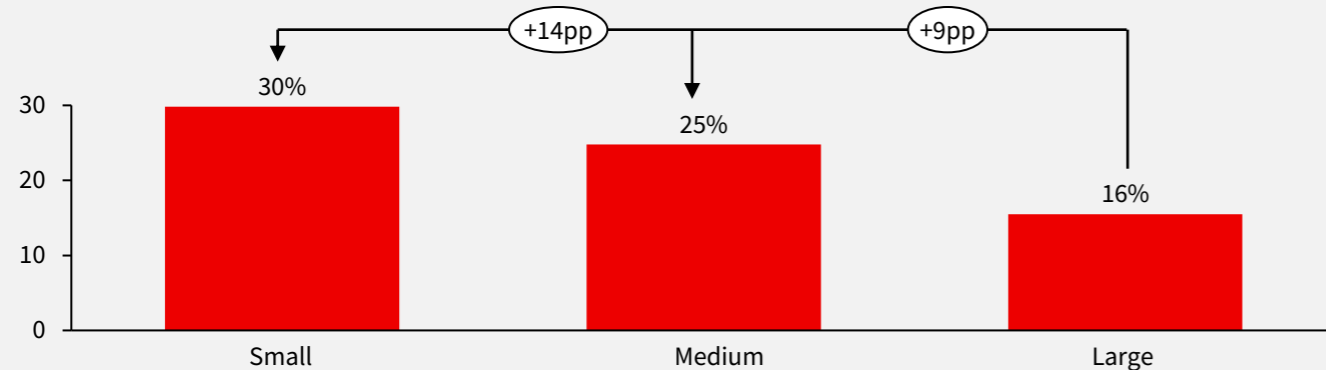
Purpose of additional finance needs for SMEs¹

Fifth Quadrant^(a), 2023-2024



Firms reporting access to finance as a barrier to innovation⁵

RBA^(b), 2019-2021



Cost pressures are limiting the ability of SMEs to innovate and grow

Cash flow and working capital issues are now primary reasons for SMEs to seek additional finance, with the proportion nearly doubling from June 2023 to June 2024, per recent surveys.¹ Additionally, the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) reports a rise in payment disputes^(c), accounting for 42% of the cases they handled in 2023-24, up from 36% in 2022-23 and 29% in 2021-22², highlighting increasing challenges for SMEs in cash flow and working capital management. For many SMEs, the seasonality of cash flow pressures, particularly during peak business periods and slower seasons, further exacerbates these challenges.³

Rising tax arrears, now totalling \$52 billion (with \$34 billion owed by SMEs), may worsen cash flow issues. The ATO is intensifying its debt pursuits to recover this debt.⁴ This pressure could force more SMEs to prioritise liquidity over growth, emphasising the urgent need for access to additional capital.

With limited internal cash flow, **external financing is vital for SME growth.** However, **SMEs reportedly face greater difficulty in accessing funds than larger firms**, with 30% of small and 25% of medium-sized businesses citing finance as a barrier to innovation, compared to 15% of larger businesses.⁵ **For women-owned SMEs, this issue is even more challenging**, with 43% seeing access to capital as a central barrier to growth.^{6(d)}

Notes: (a) Fifth Quadrant SME tracker data is collected monthly. It targets SMEs of all sizes and industry sectors. Data is weighted to reflect the actual distribution by industry, number of employees and state; (b) RBA data only reflects innovation-active businesses; (c) Note that 'payment disputes' refer to a dispute where a small or family business is trying to recover money they are owed. For example, a small business contacting the ASBFEO for assistance to obtain payment from a large business; (d) See Appendix 4 for more detail on the structural issues impacting women-owned SMEs' ability to raise capital.

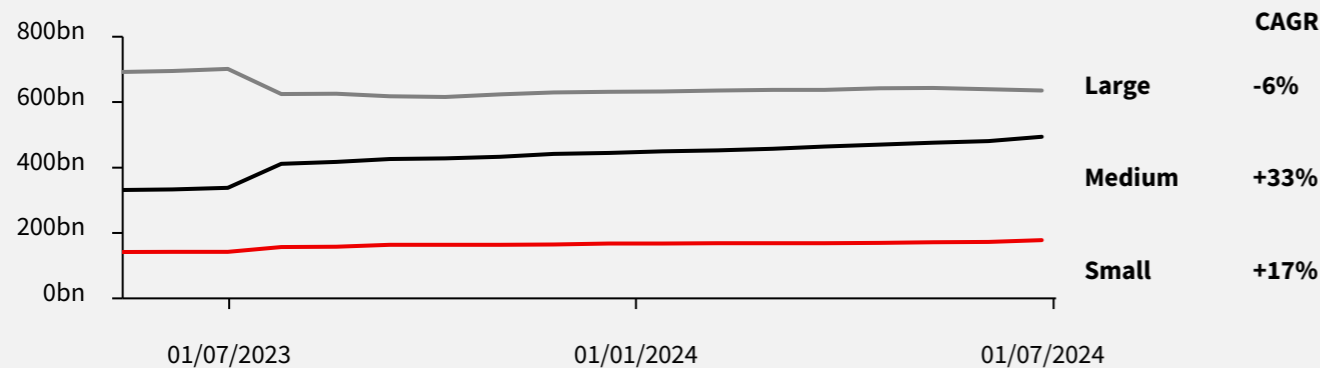
Source: (1) Fifth Quadrant, *SME Sentiment Tracker*, June 2023-June 2024; (2) ASBFEO, *Quarterly Report*, Q2 2024; (3) Bonerath and Co., *Managing Cash Flow in a Seasonal Business*, 2024; (4) Creditor Watch, *Thousands of businesses close after racking up massive tax debts*, 2024; (5) RBA, *Financing SME Innovation in Australia – Challenges and Opportunities*, 2024; (6) ASBFEO, *Access to capital still a barrier for women-led small businesses*, 2022



Despite increased lending, stringent criteria and capital costs are major obstacles

Lending to business – business finance outstanding by business size¹

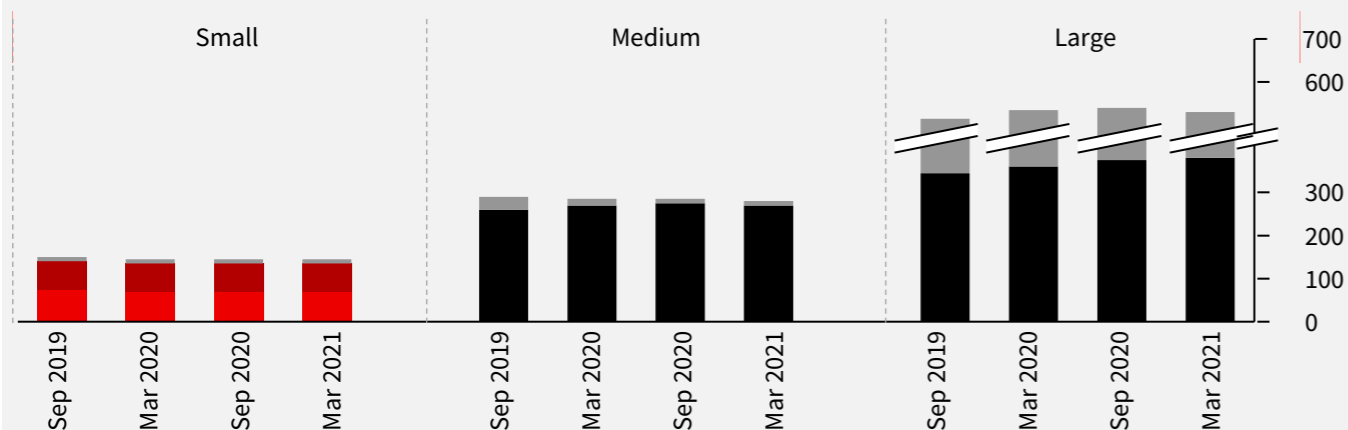
July 2019 – June 2024, RBA



Lending to businesses – type of lending by business size⁶

AUDbn, 2019-2021, APRA; RBA

Unsecured (grey), Secured (black), Secured (other) (red), Secured (Residential Property) (orange)



Lending criteria, long approval times and high capital costs are key barriers for SMEs seeking external financing

Total credit outstanding for SMEs has steadily increased compared to large businesses, reflecting ongoing support from capital providers. However, **some SMEs continue to encounter challenges** in accessing finance.

SMEs also face stringent collateral demands that limit their funding options. The Reserve Bank of Australia (RBA) notes that about 95% of SME loans are secured, compared to 70% for larger businesses, with nearly half of small business loans backed by residential property.

The loan approval process can also present challenges, as SMEs often navigate complex and time-consuming procedures. This process can require asset valuation and additional documentation⁴, which can strain limited resources and divert attention from core business operations. In response, lenders are developing products like NAB's 'QuickBiz' to expedite this process. QuickBiz's online application offers quick approval to an unsecured loan of up to \$250,000, with no upfront fees and flexible terms.⁵

Rising interest rates are further increasing borrowing costs, which can be particularly difficult for SMEs. While businesses of all sizes face this challenge, SMEs may experience higher capital costs relative to their larger counterparts.⁶

Alternative funding instruments are available to help SME owners access growth capital. For example, the Australian Business Growth Fund (ABGF), a public-private venture between the Federal Government and leading banks (including NAB), offers tailored growth capital designed specifically for SMEs. They support businesses by taking a minority equity stake and connecting them with a wide network of experienced directors and experts to facilitate their growth.⁷

Case Study:

NSW honey producer seeks sweeter access to finance



Katelyn and Justin Wall, founders of Walls Honey Co. in Nemingha, NSW, have seen their business flourish since starting in 2016. As they've expanded into new markets and taken control of their product's processing from hive to jar, access to finance has played a crucial role in their growth.

Like many small business owners, securing their first loan was a daunting challenge. “The amount of effort we put into getting our first loan was disproportionate to what we were asking for,” Katelyn explains. “The process felt overly invasive, with the amount of personal and business information they needed.” Their limited business history further complicated the process, requiring a significant amount of time and effort just to be considered.

The seasonal nature of their business adds another layer of complexity. “Honey harvesting only happens a few months each year,” Katelyn notes. “Securing a line of credit to carry us through the off-season has been a priority, but we’ve struggled to get approvals.” Without the line of credit, managing cash flow has become a significant challenge. “Instead of being able to invest in growing the business, we’re forced to hold onto funds just to tide us over during the lean months,” she adds.

Despite multiple credit applications, the couple hasn’t had much success, and Katelyn believes clearer feedback would be invaluable in understanding what’s holding them back.

While government grants have helped Walls Honey Co. manage cash flow, Katelyn also pointed out the challenges with navigating these programs. “The communication around government grants could be better, especially when it comes to setting clear expectations.”

For small businesses like Walls Honey Co., access to finance remains a critical hurdle, and improving both the application process and the communication surrounding government support could help them achieve even greater success. “Ideally, we’d want things to be simple and quick when it comes to securing finance,” Katelyn noted.

Improving payment times and increasing access to Commonwealth initiatives can improve access to growth finance



Policy Recommendations

Support initiatives to enhance payment times and cash flow for SMEs

- We welcome the Federal Government reforms to the Payment Times Reporting Act and the increased support for e-invoicing adoption, which will enable SMEs to improve their cashflow and boost productivity. We support any further initiatives that encourage large businesses to pay SMEs on time, including through the voluntary Supplier Payment Code, which NAB is a signatory of.

Increase accessibility to key Commonwealth initiatives

- Ensure SMEs have equal opportunities to access the potential benefits of flagship Federal Government initiatives, such as the Future Made in Australia, and the National Reconstruction Fund. Governments could also consider further initiatives that assist SMEs in growing and commercialising innovative ideas or products.

Advocate for better access to low-cost finance for First Nations businesses

- Shape an effective policy environment that enables First Nations peoples to establish businesses and attract low-cost finance so that they can grow and compete with larger businesses. Industry should be encouraged to continue to develop and report on clear, accountable plans for uplift of First Nations businesses.

Enable SME acceleration through the loan process

- Improve SME access to finance while providing lenders with more information about borrower capacity to service their debts by including monthly loan repayment amounts and credit limits in credit reporting requirements.
- Consider incentivising the uptake of accountancy software to enable SMEs to more easily produce evidence of their financial performance and improve access to small business finance.



What support currently exists for SMEs?

The [Australian Business Growth Fund \(ABGF\)](#) is a growth capital fund supported by the Federal Government and six leading banks. The ABGF may inject between \$5 to \$15 million of capital into eligible SMEs for a minority stake of up to 49%. The eligibility criteria for businesses includes three years of profitable operations, a turnover of at least \$2 million, and a clear growth strategy. NAB has a strong track record of successfully assisting our customers in securing funding from the ABGF – key examples include [Modra Technology](#), [INSKIN COSMEDICS](#), [Derwent Industries Group](#). The Federal Government also directly offers grants such as the [Industry Growth Program](#), which supports early-stage and innovative SMEs to take advantage of opportunities to commercialise in National Reconstruction Fund priority areas. State governments also offer similar grants for innovation, such as the following:

- Queensland's [Backing Female Founders Program](#)
- Northern Territory's [Business Innovation Program](#)
- New South Wales' [Small Business Innovation & Research Program](#)
- Western Australia's [Innovation Booster Grant](#)
- Victoria's [Innovation Grants Program](#)
- South Australia's [Research and Innovation Fund](#)



Recent initiatives

NAB's Stretch Reconciliation Action Plan August 2024 – August 2027

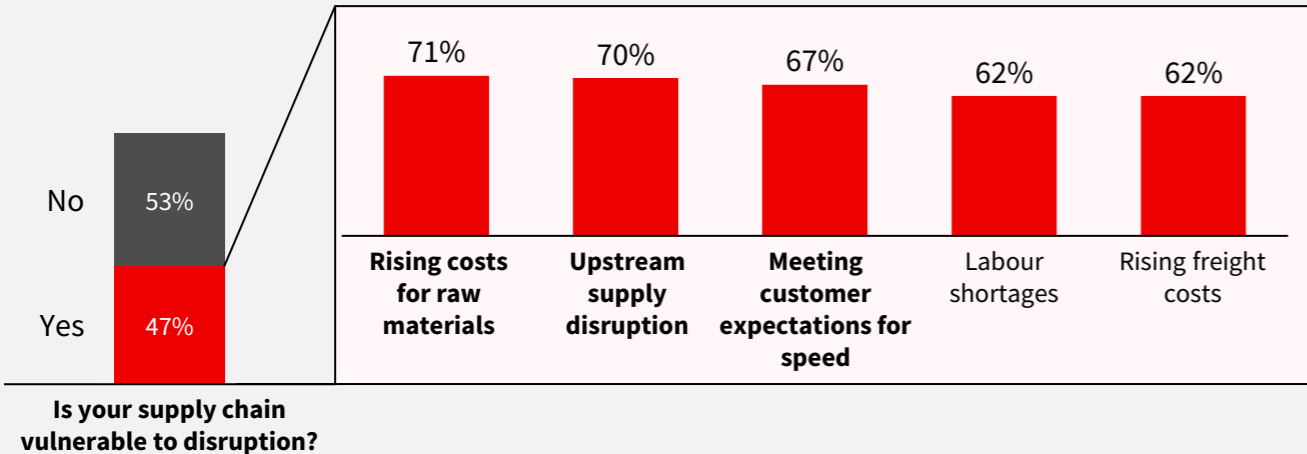
Financial institutions can play a leading industry role in uplifting First Nations businesses, especially in enabling access to finance. NAB's [Stretch Reconciliation Action Plan](#) has set a goal to lend at least \$1 billion to First Nations businesses and community organisations over three years.

Under an initiative launched in 2023, NAB entered into a [partnership with Indigenous Business Australia](#) to enhance the economic development opportunities of First Nations businesses through the development of an Indigenous Business Guarantee.



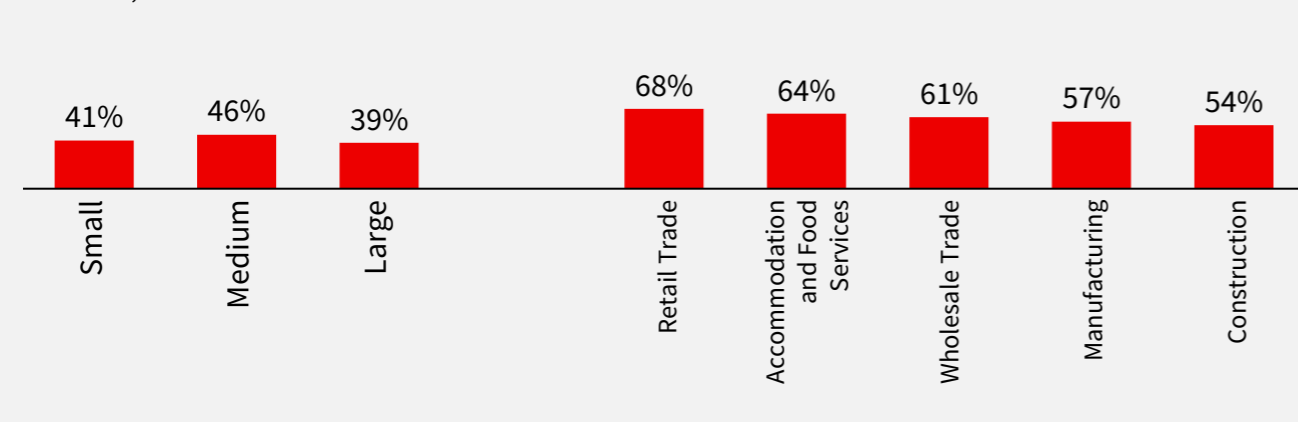
Economic shocks have highlighted the need to strengthen supply chains

Most pressing supply-chain related challenges facing Australian businesses in the next 12-18 months³ 2023, KPMG



Australian businesses experiencing supply chain disruptions, by business size and top 5 industries⁴

June 2022, ABS



Recent supply chain shocks have exposed the vulnerability of SMEs

Australia's dependence on exports and imported manufactured goods increases its exposure to supply chain disruptions.¹ The effects of significant global events in recent years, such as the Russo-Ukrainian war and COVID-19, have made supply chain issues a key topic in business discussions in 2024.² A 2023 survey found that 47% of Australian businesses see themselves as vulnerable to these disruptions, with rising raw material costs (71%), upstream supply issues (70%), and the need to meet customer expectations quickly (67%) being key challenges.³

This vulnerability is heightened for SMEs, particularly medium-sized businesses. ABS survey data from 2022 showed that medium-sized businesses experienced supply chain disruptions more acutely than larger enterprises.⁴

“

Rising freight costs in recent years have doubled or even tripled the price of many of our products, and that's just to get our products into the store!”

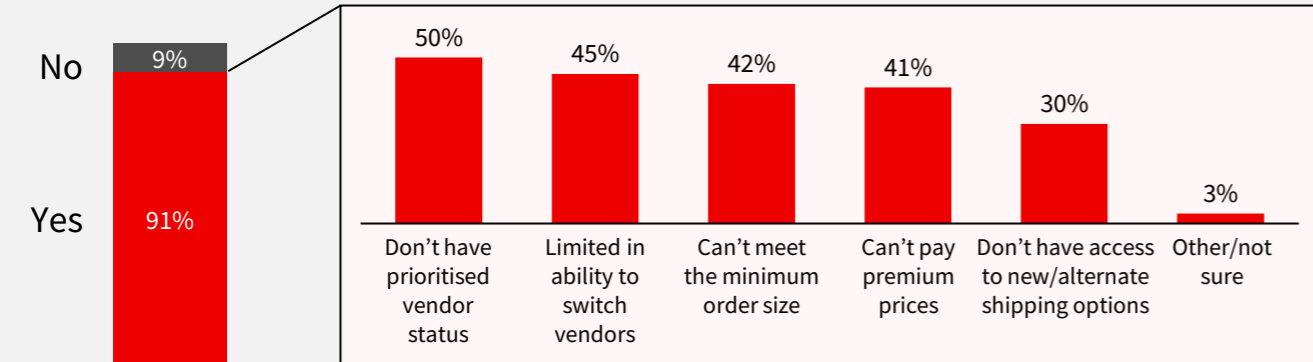
– MARINE BOAT COMPANY OWNER⁵





Diversification and local manufacturing are vital to navigate disruptions

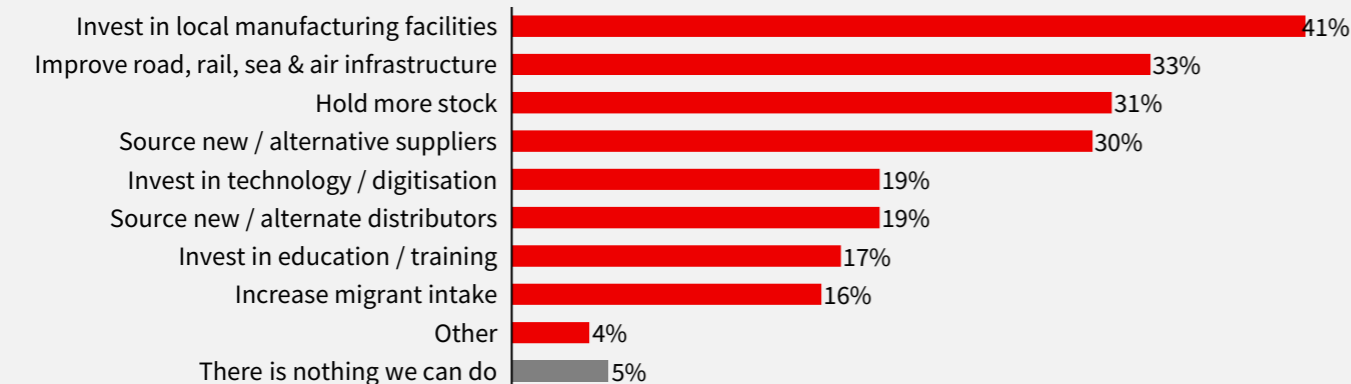
Factors affecting SME retailers' ability to compete for inventory when compared to larger retailers² 2022, Software Advice^{(a)(b)}



Do larger companies have an advantage over you?

Solutions proposed by SMEs to solve supply chain issues³

July 2022, NAB



Supply chain diversification and domestic solutions have been key concerns for SMEs during periods of disruption

SMEs struggle to absorb supply shocks due to variable supply and demand fluctuations, caused by factors such as tighter lending, limited resources, and a smaller customer base.¹ The challenge is exacerbated by their lack of competitiveness against larger firms, a concern acknowledged in other markets. For instance, a US-survey found that 91% of SMEs that procure inventory feel disadvantaged compared to larger competitors, citing key issues such as lack of prioritised vendor status (50%) and inflexibility in switching vendors (45%).²

The pandemic and recent global conflicts exposed significant vulnerabilities in SME supply chains, prompting a push for diversification and strengthened domestic capabilities. In 2022, 41% of SMEs recognised that investing in manufacturing could help mitigate these challenges, while 31% advocated for maintaining stock as a buffer. Additionally, 30% favoured diversifying their vendor base.³

Although a relative easing of global supply chain pressure has lessened the urgency to explore these avenues⁴, they **remain critical areas of concern** for SMEs during times of disruption.



We are still seeing issues. Large industry players are now very quick to overreact to shortages and buy big loads of supply - putting further pressure on supply chains.” – **MEDICAL FINANCING BUSINESS OWNER⁵**



Notes: (a) Software Advice's SME survey was conducted with 305 logistics and inventory professionals. Respondents came from a range business sizes (1-1,000 employees) and are U.S based; (b) This particular data point only comes from ~278 of that sample (91%), who previously noted they feel disadvantaged compared to larger competitors. Source: (1) Miklian et al., *SMEs and exogenous shocks*, 2021; (2) Software Advice, *SMB Retail Supply Chain survey*, 2023 (3) NAB, *NAB Business Insights*, July 2022; (4) NAB, *NAB Business Insights*, January 2023; (5) NAB, *Roundtable Discussion with Small Business Owners*, 2024

Increasing procurement targets will make it easier to access government contracts



Policy Recommendations

Encourage further action to meet the Federal Government's SME procurement targets

- We welcome the decisions to increase the Federal Government's procurement target for SMEs. The Federal Government could ensure it meets its targets for SME contracts by creating a small business procurement panel for any government contract under \$10m. In parallel to procurement target expansions, we also encourage the Federal Government to explore the introduction of transparent processes that reduce late payments and improves sustainability for small business.

Ensure adequate consultation in the delivery of the Buy Australia Plan

- Ensure that SMEs, First Nations businesses, and regional and remote businesses are adequately consulted in the delivery of the Buy Australia Plan.

Strengthen partnerships and procurement programs for First Nations SMEs

- Welcome the strengthening of Indigenous preferential procurement programs, supporting First Nations businesses by enabling greater access to data. Governments could also consider increasing Indigenous SME targets for government procurement. Big business can similarly support the stimulation of sustainable growth in First Nations business.

Adopt a SME lens in a Future Made in Australia's procurement and investment process

- We encourage the Federal Government to consider the needs of SMEs in the eventual procurement and investment process of a Future Made in Australia. This could include potential requirements for a guarantee of priority vendor status for SMEs, which may increase SMEs' confidence in resilient domestic supply chains and minimise exposure to supply shocks.



Existing support for SMEs

Small business suppliers often operate under large businesses in the supply chains of Federal Government procurement contracts. The [Payment Times Procurement Connected Policy](#) provides strong protections to small business suppliers against late payments of invoices, with interest penalties incurred after 20 calendar days.

For SMEs located in NSW hoping to become an independent NSW Government supplier, the NSW Government offers [training and guidance](#) around its procurement processes. This includes a guide and factsheet, additional resources developed by the NSW Small Business Commissioner, as well as a free Microskills course delivered through TAFE NSW.



Recent initiatives

NAB's Stretch Reconciliation Action Plan August 2024 – August 2027

NAB is committed to supporting First Nations business beyond our lending goals. In our Stretch Reconciliation Action Plan, we are providing pro-bono support to First Nations Social Enterprises to address challenges and grow their business and reach. We are also maturing our business approach to First Nations procurement.

Since April 2023, NAB has partnered with the Indigenous Defence and Infrastructure Consortium (iDiC), an Indigenous Supply Nation certified business which brings together a consortium of more than 140 First Nations businesses. NAB is currently looking to rapidly increase our First Nations business supply base and increase spend to help mature supplier capabilities and success in commercial tenders.

Thank you

