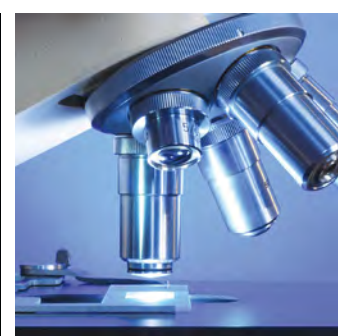


# **REVIEW OF FINANCIAL ASSISTANCE TO SME EXPORTERS**

**Report from Anna Fisher to  
the Minister for Trade, Tourism and Investment,  
Senator the Hon Simon Birmingham**

**JULY 2020**



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July 2020

The Hon Simon Birmingham  
Minister for Trade, Tourism and Investment  
Parliament House  
CANBERRA ACT 2600

Dear Minister,

Thank you for the opportunity to review the Export Market Development Grants (EMDG) scheme and the financial assistance provided to Small and Medium Enterprises (SMEs) who are beginning to export or are already exporting as detailed in the Terms of Reference.

At the time of accepting the appointment my focus was achieving a positive outcome for the SME exporters that the program supports. The world is now a very different place. It is now even more important that a program to support new exporters and the growth of export activity targets the right point of the export journey and helps to drive outcomes for the business and its investor (the government).

### **SMALL BUSINESS IS CHALLENGING**

Small business owners are a motivated, hard working and driven group of people who are challenged daily by factors outside their control. In 2020, we are experiencing unprecedented change and ambiguity and whether it is government response to COVID-19, the impact of trade restrictions, exchange rate instability, political uncertainty, or pending global recession, the future is unknown.

My small wine business is experiencing the perfect storm with international trade movements providing uncertainty and slowing of orders, closure of restaurants shutting down our on-premise domestic and international sales overnight, drought reducing vintage yields and the need to adapt, act and respond to factors that are constantly changing around us. We deal with all of this while also balancing the known future of water access issues, container deposit scheme changes, climate change, pregnancy health labelling and ongoing industrial relations changes.

SMEs that have spread their risk by expanding into multiple export markets are more likely to be innovative, adaptable, flexible, to have implemented best practice and to survive than those who have not.

Government support can be a way to assist businesses at a critical time in their journey – helping them to grow with a lowered sense of risk. I have experienced firsthand the significant impact of government support being given, and taken away. My own business has been a beneficiary of EMDG, the cash flow boost, business growth grants and other support mechanisms from federal, state and local government. We have been able to survive as a result of this assistance, as well as work with supply chain improvements, expand into China, review cyber security and implement marketing

ideas. However, we have also experienced the cost of adapting our business as a result of changes to government policy.

### **EMDG MATTERS**

So, I am motivated by the chance to make a difference for SMEs in helping ensure we support their export journey. It has been heartening to find, from the research, the significant role EMDG has played for these businesses over many years and the positive impact it can have on outcomes.

The consultations, conversations and significant research I have conducted as part of this Review have reinforced that the principles of EMDG are sound and continue to be relevant today. A review of other international and domestic programs highlights it is time to simplify, streamline, give certainty and make more timely payments to the beneficiaries of EMDG. It is important to recognise that the export journey varies for each business, and that the program needs to align to the strategic shift points for SMEs. It is vital to help SMEs become export ready, including recognising the value of training.

It is also important to recognise the need of micro businesses and the support of industry groups in

helping them to be export ready. This support ensures the businesses maximise the benefits of EMDG, as well as ensuring they are ready for export success.

## A REWARDING EXPERIENCE

Perhaps the most treasured outcome of my Review has been the inspiration gifted to the process by the incredible people and businesses that we have here in Australia who are leading the way for our country's exporting growth. The tireless energy of these businesses and the reflection in the stories and case studies should give the government assurance that these programs have an impact.

## THANK YOU

It would be remiss of me not to recognise the support of the many involved in this Review.

To the individuals and businesses who donated their time and passion to help me understand the impact of EMDG for them – for attending the consultations, providing written submissions, helping with case studies, attending a workshop or simply having a coffee – thank you.

Thank you to the Australian Government, state and territory representatives of the National Trade Working Group, TradeStart, Export Finance Australia, industry groups, approved bodies and other individuals who engaged with the process and provided insights into the importance of the support for exporters.

I must also thank Christine Holgate and Bruce Armstrong, my advisors, for taking my calls, reviewing

my correspondence, and for their counsel. I would also like to thank the team at Austrade who commissioned research and analysed the EMDG administrative data for me, provided me with secretariat support and shared their many years of experience in working with Australian exporters.

## CONCLUSION

This Review was asked to examine the most effective and efficient way for Government to provide assistance to SMEs that supports them to generate additional export sales that will deliver strong economic outcomes for Australia. The Review found that the existing principles of EMDG are helping generate strong economic outcomes. However, there is opportunity to deliver the program more effectively through targeting the funding in a tiered program; one that reflects the needs of new and expanding exporters and encourages the strategic shift that businesses need in order to expand.

The Review also provides some guidance on the export journey, an understanding of how financial assistance is currently provided and what other services are already available to exporting companies. While research found that there is a significant breadth of existing assistance already available, information about these programs isn't always reaching SMEs. The work that Austrade is undertaking to assist with this is important and applauded.

Finally, there is a need to redesign the program around the existing core principles, so that it will provide efficiency and certainty, ensure the funds are used at growth points of the businesses, as well as leverage



other application systems. There are a number of existing international readiness tools that can be harnessed, and consideration should be given to simplifying and streamlining administration, minimising compliance, and ensuring timely payments to applicants. A program that enables the Government to provide additional support during times of crisis, as we are currently experiencing, is critical. As seen with the way it has been able to leverage systems such as the ATO Portal and Single Touch Payroll for JobKeeper, it would be fantastic to include similar levels of responsiveness and flexibility in a redesigned EMDG scheme.

It is with satisfaction that I present the following report and recommendations to you for your consideration.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Anna Fisher'. The signature is stylized and somewhat abstract.

Anna Fisher

# SUMMARY AND RECOMMENDATIONS

## BACKGROUND

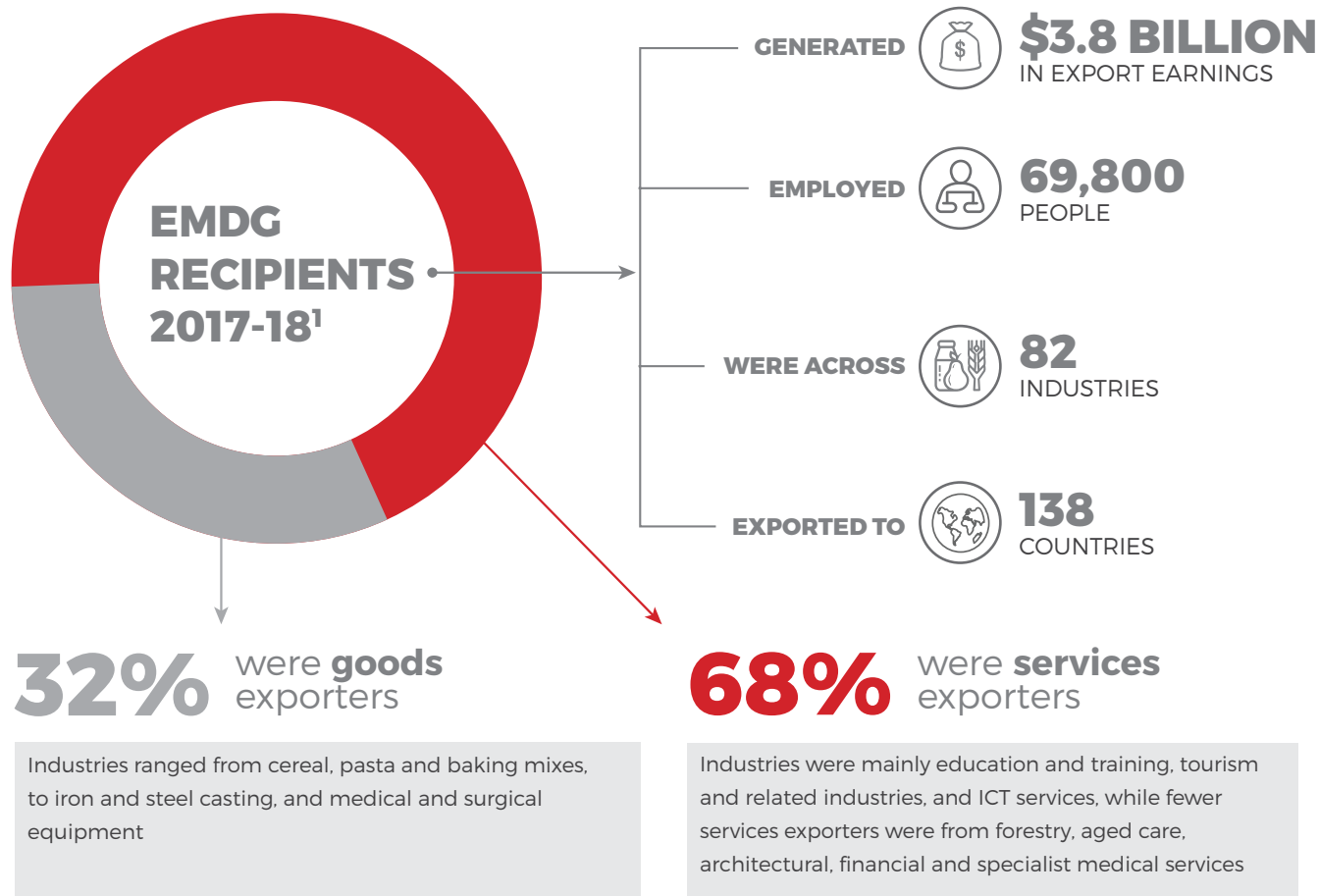
The Export Market Development Grants (EMDG) scheme provides financial assistance to Australian small and medium enterprises (SMEs) with a turnover of less than \$50 million. It aims to encourage them to create, develop and expand export markets for Australian goods, services, intellectual property and know-how.

The scheme:

- > reimburses up to 50% of eligible export promotion expenses above \$5,000, provided the total expenses are at least \$15,000
- > allows for a maximum of eight grants of up to \$150,000 (subject to available funds).

Industry associations and other groups can seek 'Approved Body status' to enable them to apply to be reimbursed for eligible export market development and promotion activities undertaken on behalf of their members.

More on the EMDG scheme can be found at [Appendix A](#).



<sup>1</sup> Export Market Development Grants (EMDG) data for the 2017-18 Grant Year, where the grants were paid to recipients in the following financial year. Industry counts are based on ANZSIC subdivision level.



## THE REVIEW

In October 2019, the Minister for Trade, Tourism and Investment, Senator the Hon Simon Birmingham called for a Review of the EMDG scheme, and of financial assistance to SME exporters under section 106A of the *Export Market Development Grants Act 1997*. The Terms of Reference for the Review is at **Appendix B**.

The following definitions are used in this report to describe the journey of an Australian exporter:

- > *New to Export* – export-ready SME with an established business, doing business overseas for the first time
- > *Expanding Exporter* – SME with established revenue from at least one export market, actively looking to grow their business (either within the current market or to new markets)
- > *Established Exporter* – SMEs well-established in multiple markets, with plans to continue to grow export market activity.

## EVIDENCE AND RESEARCH

Evidence for the Review was sought from exporters, individuals, industry associations, peak bodies and other interested parties in relation to the Terms of Reference. This included face-to-face sessions around Australia, workshops, online and written submissions. More information on the consultations is at **Appendix C**.

Research to support the Review included an analysis of EMDG administrative program data (**Appendix F**) and an analysis of the impact that financial assistance can have on an exporter using the Business Longitudinal Analysis Data Environment (BLADE). This research was commissioned from Swinburne University of Technology (see **Appendix D** for the methodology), with the evaluation concluding that EMDG assistance had a strongly positive impact on the performance of participating businesses, compared to receiving Austrade general services only.

A scan of international export assistance programs was conducted and a summary of government export assistance for SMEs – discussed later in this report – was produced in collaboration with state and territory governments. This journey map details the experience of a *New to Export* SME.

## UNDERSTANDING THE MOTIVATIONS AND CHALLENGES OF EXPORTERS

The Review explored the reasons why SMEs decide to export and the challenges they face. While there are many motivations for starting to export – which vary between businesses and industries – the dominant reasons were to grow their business and reduce dependence on the domestic market. However, some businesses make a strategic decision to export, while others enter export accidentally.

SMEs reported facing a number of challenges when exporting, including the costs of doing business overseas (for example, access to capital, market-based compliance and distribution costs), and with building their knowledge and developing relationships.

Exports are aligned with higher company performance, as global competition can drive businesses to be more innovative and use modern technology and management practices. Research undertaken by the Department of Industry, Innovation and Science found continuous or persistent exporters outperform non-exporters.

## BUSINESSES ARE POSITIVE ABOUT THE SCHEME

Many businesses were overwhelmingly positive about the EMDG scheme and receiving government financial assistance to assist them with export promotion. They were also supportive of the scheme continuing. Comments on the benefits of EMDG fell into the following themes:

- > provides a business with certainty and confidence to try exporting with the backing of government
- > works because it suits the majority of business types and covers a broad range of industries
- > helps to offset the high costs of export promotion and can accelerate their internationalisation.

However, businesses also felt that:

- > Some recipients of EMDG were too inexperienced to make best use of the money, or were too large for the payment to act as an incentive to undertake additional export promotion activity.
- > A lack of certainty of the amount of the reimbursement and the time it takes to receive the money acts as a disincentive.
- > The legislation and the application and assessment processes are complex and technical – particularly for small businesses.
- > Promotion of the scheme – and of government export assistance more broadly – can be increased to improve awareness among SMEs.

## FINDINGS

These findings and high level themes emerged from the consultations and research.

They give insight into what exporters need from government financial assistance to support and encourage them to become successful and sustainable exporters.

The overarching findings from the consultations and research were that:

Providing financial assistance to SME exporters has a strongly positive impact on their performance.

The principles of the EMDG scheme remain relevant.

Each SME's export journey is unique, and assistance needs to reflect this.

The administration process needs to be simplified and streamlined.



Financial assistance makes a difference



The principles of EMDG are valued



SMEs are not always 'export ready' when they access financial assistance



Financial assistance needs to change along the export journey



Businesses want certainty



The timing of a payment is important



EMDG scheme administration is too complex



Non-financial assistance is just as important as financial assistance – for all exporters



Many SMEs do not know about the government export assistance that is available



Industry bodies have an important role to play



## RECOMMENDATIONS

The recommendations are based on the findings and outline how the scheme can be simplified and streamlined to deliver financial assistance to SME exporters in the most effective and efficient way.

**1** The government should continue to provide financial assistance to SMEs to encourage them to enter and grow export markets (page 14).

**2** The principles underpinning the EMDG scheme are valued by exporters and should be retained in a simplified and streamlined scheme (page 15).

**3** An SME should be 'export ready' before it receives financial assistance.  
The International Readiness Indicator Tool (on Austrade's website) provides key points that could be used to shape eligibility criteria for receiving financial assistance. There's an opportunity for Austrade to work with jurisdictions to refine the Tool and collect user data to monitor export-readiness. This could help governments to respond to changing exporter needs (page 15).

**4** Austrade should increase awareness of existing export readiness programs, rather than develop additional ones. There are many programs already on offer by Australian and state and territory governments, industry bodies and private providers (page 20).

**5** Financial assistance should be aligned to the stages of an SME's exporter journey. The program should be re-targeted and have two tiers (page 16).

**Tier One – New to Export:** For SMEs that are export-ready with an established business, doing business overseas for the first time. Criteria for this tier should include:

- > Meeting an Export Readiness Test (see Recommendation 3)
- > Access to a once-only entitlement, payable over two years
- > Minimum eligible export marketing and promotion expenditure at a similar level to the current EMDG scheme
- > Focused on SMEs with a turnover of less than \$20 million.

SMEs that have received two EMDG payments should not be eligible for this assistance.

**Tier Two – Expanding Exporters:** For SMEs with established revenue from at least one market, and actively seeking to grow their business (either within the market or to new markets). The entitlements for this tier should be administered in the following way:

1. SMEs will have access to **two** entitlements, each payable over three years
2. The second entitlement will be contingent on the SME making a strategic shift in its export business.

Other criteria for this tier should include:

- > Minimum eligible export marketing and promotion expenditure at a similar or slightly higher level to the current EMDG scheme
- > For businesses with a turnover of less than \$20 million.

In designing Tier Two of the new program, government should consider appropriate cut-off points for eligibility based on an SME's EMDG grant history.

Research and EMDG administrative data shows some correlation between export revenue and the sustainability of an SME in the program, which could be included as another element in a detailed program design.

## RECOMMENDATIONS

The recommendations are based on the findings and outline how the scheme can be simplified and streamlined to deliver financial assistance to SME exporters in the most effective and efficient way.

**6** A re-targeted program should focus on simplifying the way financial assistance is provided to SME exporters by:

- > removing complexity
- > streamlining
- > providing more certainty (page 19).

This could be achieved through:

- a. Amending the *Export Market Development Grants Act 1997* and introducing simplified legislation that incorporates the key principles detailed in Recommendation 2.
- b. Adopting an entitlement-based payment and a simplified funding agreement to establish the value of the payment before the SME incurs any expenditure.
- c. Taking advantage of the Streamlining Government Grants Administration policy to deliver assistance through a Grants Hub, provided it is cost effective to do so.

Consultations should inform the detailed program design (for example, on eligibility criteria and expenditure items). To provide SMEs with reasonable notice of the changes, the new arrangements should commence from 1 July 2021.

**7** Include training as an eligible expenditure item in the *New to Export* stream to encourage businesses to build their in-house export marketing capabilities early in their export journey (page 17).

**8** Work is underway across government to improve business awareness and use of all forms of export assistance, and the Australian and state and territory governments should maintain momentum to ensure gaps in awareness and use of these resources are addressed (page 20).

**9** The Exporter Journey Map is a valuable resource that needs to be updated regularly (page 20).

**10** The government should continue to fund export-focused industry bodies or alliances promoting on behalf of members (Approved Bodies).

Their role and funding should be expanded to include facilitating education and training for members to increase the number of SMEs that are 'export ready'. As noted in Recommendation 6, this program should have simplified and streamlined administrative arrangements (page 21).

# THE REVIEW

On 3 October 2019, the Minister for Trade, Tourism and Investment, Senator the Hon Simon Birmingham (the Minister) announced a Review to examine the most effective and efficient way for the Australian Government to provide financial assistance to SMEs to support them to generate additional export development and promotion activities. The Minister called for this Review under section 106A of the *Export Market Development Grants Act 1997* (the EMDG Act).

Anna Fisher (Co-owner, Zonte's Footstep) was appointed as the Reviewer, with Christine Holgate (Group Chief Executive Officer and Managing Director, Australia Post) and Bruce Armstrong (Chief Executive Officer, Aspen Medical Group) appointed as advisors to the Reviewer.

## SCOPE

The EMDG scheme has been reviewed 15 times in its long history, with the last review in 2015. **Appendix A** summarises these reviews.

While some reviews have concentrated on the operation of the EMDG scheme, the Terms of Reference for this Review (see **Appendix B**) are broader and consider the most effective and efficient way to provide financial assistance to exporters. They also provide the scope to consider whether EMDG in its current form is the most effective and efficient way to generate additional export activity among SMEs.

Evidence for this Review was compiled from feedback and comment from a range of sources, including:

- > Face-to-face meetings with businesses, individuals, and peak and industry bodies around Australia. These meetings provided insights into the issues and challenges Australian SMEs face on their export journeys, while also highlighting the many inspiring stories and achievements of Australian exporters.
- > Online submissions via the *Citizen Space* consultation hub, using a hybrid survey/consultation model to provide quantitative and qualitative feedback to a range of questions around program design and effectiveness (see **Appendix C**).
- > Written submissions from peak bodies and individuals, providing an industry or national perspective on how financial assistance can be best delivered to encourage more businesses to export.
- > A collaborative project between Austrade and BizLab (the Department of Industry, Science, Energy and Resources' innovation laboratory) that applied a user-centred design methodology to focus on identifying the core needs of users. Twenty in-depth ethnographic interviews were conducted in 2018 to help understand how the government might best deliver support to encourage businesses to create and build overseas markets in order to benefit Australia. The outputs of this project identified areas of opportunity to improve the impact of government support to potential and existing export businesses.

- > Exporter personas and journey maps developed by Austrade in 2019 through user research with 93 businesses in Australia and in overseas markets. This was part of a broader Austrade project to place the client at the centre of everything it does by listening to what clients value, and designing and implementing services that maximise their experience and Austrade's value-add (see **Appendix E**).
- > Research commissioned from Swinburne University of Technology (**Appendix D**) using the Business Longitudinal Analysis Data Environment (BLADE). EMDG program data spanning 2012–13 to 2016–17, and Austrade tailored and general services data was used to assess the business performance of EMDG recipients compared to businesses that have sought an Austrade general service and have not received an EMDG grant. The project helped to quantify the difference in financial performance between these two cohorts.
- > An extensive literature review, including an environmental scan of domestic and international export assistance programs, previous reviews of the EMDG scheme (including the 2015 Lee Review and the 2008 Mortimer Review of Export Policies and Programs), outcomes from the annual EMDG and Austrade Service Improvements Studies, and Australia's International Business Survey (AIBS) 2014–18.
- > In-depth interrogation of data from the EMDG administrative database (with a focus on post-2010 recipients) to help understand the profile of EMDG recipients and their export performance. Further information is at **Appendix F**.
- > A workshop with exporters and experts to generate tangible ideas to improve the effectiveness and efficiency of financial assistance for Australian exporters. The workshop sought ideas to assist exporters who are *New to Export*, and *Expanding Exporters*, as well as how industry bodies can better work with exporters to improve capability, and be more effective in promoting their industry.

# WHY EXPORTS ARE IMPORTANT FOR AUSTRALIA

## AUSTRALIA HAS BENEFITED FROM A STRONG PERFORMING EXPORT SECTOR IN RECENT TIMES

Exports make an important contribution to the Australian economy. Thirty years ago, Australian exports represented 12% of Australia's GDP. By 2018–19, that share had nearly doubled to over 22%, contributing \$419 billion of Australia's \$1.9 trillion economy.<sup>1,2</sup>

In recent times, exports have bolstered below-trend growth of the Australian economy. Over the past five years to 2018–19, exports have grown at 5.4% per annum, double the rate of the Australian economy. In that period, growth in goods exports was mainly from the rapid growth in coal and natural gas, while education-related personal travel and tourism fuelled growth in services exports.

This growth was achieved against the backdrop of an Australian dollar trading at rates below its 20-year average, and well below levels seen early in the 2010s.<sup>3</sup> Correspondingly, growth in the number of Australian merchandise exporting companies (and EMDG applications) increased strongly in that same period.<sup>4</sup>

While growth in Australian export volumes slowed to 3.9% during the latest fiscal year (2018–19), the growth rate was still almost double that of Australia's GDP (2.0%).

## EXPORTING IS ALIGNED WITH HIGHER COMPANY PERFORMANCE

By exporting overseas, Australian businesses compete with companies around the world and are, therefore, driven to be innovative and use the most modern technology and management practices. These businesses are more likely to be influenced by international trends such as developing technology, product design and changing consumer behaviour.

Working in new offshore environments often requires exporters to explore new sales channels, and adapt and improve product and service offerings. Exporters in effect 'learn by doing', benefiting from global insight and access to technology 'spill-overs'.

International studies suggest that exporters are about 40% more productive than non-internationalised businesses<sup>5</sup>, and have an increased chance of survival.<sup>6</sup> This is attributed to faster and more sustained sales and employment growth.

Evidence points to continuous (or persistent) exporting Australian businesses being better performers compared to those businesses that do not export or switch. According to research undertaken by the Department of Industry, Innovation and Science, Australian exporters on average employ more staff, pay higher wages and achieve higher labour productivity compared to non-exporters (see Box 1).<sup>7,8</sup>

<sup>1</sup> In Chain Volume Measure, original terms, refer ABS cat. no. 5206, Australian National Accounts, National Income, Expenditure and Product, June 2019, Table 2.

<sup>2</sup> In original, current price terms, Australia's exports are valued at \$470 billion, and the export share of GDP is a much higher (and still a record) 24.1%.

<sup>3</sup> Australia's Trade Weighted Index (TWI) averaged 60.0 in calendar year 2019, well below its 20-year average of 64.0. The TWI is also 22% below its recent peak of 77.1 in 2012.

<sup>4</sup> According to ABS cat. no. 5368.0.55.006 Characteristics of Australian Exporters, 2017–18, the number of merchandise exporters has increased 19% in the period from 2013–14 to 2017–18, with higher growth evidence for small exporters (24%). Correspondingly, the number of EMDG applications rose 26% over the 2014–18 period.

<sup>5</sup> Wooldridge, 2009 cited in Békés et al, 2018.

<sup>6</sup> Richardson, J. D., "Exports Matter ... And So Does Trade Finance", Institute for International Economics, (2000) Washington D.C.

<sup>7</sup> Tuhin R and Swanepoel, J. A., 2017, Export behaviour and business performance: Evidence from Australian microdata, Department of Industry, Innovation and Science, Canberra.

<sup>8</sup> Turin and Swanepoel defined continuous exporters as businesses that exported every year of the period under observation; non-exporters as businesses that do not export in any year; and switchers as businesses that changed their export status within an interval.

**BOX 1: *Export behaviour and business performance: Evidence from Australian microdata*; Department of Industry, Innovation and Science 2017**

This research suggests that in some aspects of business performance, differences between future exporters and non-exporters are substantial. For example, businesses that entered the export market in 2008–09 were already 10.4% larger in employment in 2004–05 than businesses who did not go on to export. Relative to non-exporters, exporters also had higher levels of output and investment four years before beginning to export. It appears larger employment is a persistent feature of exporting or potentially exporting businesses.

Compared over a five-year period between 2008–09 and 2013–14, businesses who went on to export saw labour productivity around 2.0% higher, and average wages 2.6% higher than non-exporters. Over one-year horizons, exporters also grew faster than non-exporters in terms of employment growth.

In terms of average growth during the intervals, exporters outperformed non-exporters in labour productivity and average wage (but not value-add or capital expenditure). Within a few years after foreign market entry, exporters show slower (or no faster) growth than non-exporters in terms of jobs, output and investment.

Results suggest continuous exporters perform significantly better than both non-exporters and switchers. The employment growth rate in continuous exporters is 0.5 percentage points higher than that of non-exporters or switchers and sustained over time. Only continuous exporters outperform non-exporters consistently. Therefore, it appears the competitive pressure that exporting creates is particularly valuable for businesses who remain in the export market.

While this research focused on exporters and non-exporters of all sizes, the additional analysis from Swinburne University of Technology used in this Review focused on SME exporters.

This analysis involved counterfactual evaluation of the impacts of the EMDG scheme on export activity, employment, business survival rates, and productivity. The study followed businesses for more than four years (2012–13 to 2016–17). The evaluation concluded Austrade's EMDG assistance had a strongly positive impact on the performance of participating businesses, relative to receiving Austrade general services only.

## WHY DO SMES EXPORT?

There are many motivations for an Australian SME to export, and these vary widely between businesses and industries. The literature and submissions from industry bodies confirm the following as motivations for export:

- > **Reducing domestic dependence:** Exporting offers a way to achieve larger economies of scale more quickly. The global market is much larger than Australia's small domestic market, and is important particularly for higher value product.
- > **Lowering risk:** Starting to export can be a risky time for SMEs. However, risks diminish with time and experience. Exporters diversifying into international markets expose their product to more customers, which can allow them to reduce the seasonality of demand and potentially spread production out over more of the year.<sup>9</sup> Businesses that also source inputs from overseas can be exposed to cost fluctuations associated with exchange rate movements. Exporting can somewhat offset this exchange rate risk. For example, a low value of the Australian dollar may raise the cost of importing inputs, but would also boost the price competitiveness of the exported good.
- > **Increasing productivity through global competition and knowledge transfer that drives innovation:** International trade can lead to receiving more value for goods and services. It also allows a business to source cheaper inputs from overseas – a recipe for fuelling competitiveness of the business in that industry.
- > **Increasing access:** Trade agreements (including FTAs) are making it easier to access global markets, and the stable Australian economy makes it easier for global players to trade with Australian businesses.

### BOX 2: The reasons SMEs export

While there was an acknowledgement that not every SME is suited to export, two dominant reasons for exporting were that exporting was a way to **grow the business** (75%) and **lower their risk** by reducing dependence on the domestic market (40%).

Some SMEs felt their product lent itself naturally to export, and just over 20% of respondents said they started their business as an exporter – they were **'born global'**.

While many SMEs made a strategic decision to export, some were also **'accidental exporters'**. Connections and existing relationships were often cited as a driver for export – noted as a key factor for over two-thirds of respondent businesses. Other SMEs were simply approached by overseas companies wanting that product.

Only a small number of SME respondents (8%) rated favourable exchange rates as a reason to export. This may reflect that many of the respondents were established exporters and continuous exporters.

Only 5% of respondents said **Free Trade Agreements (FTAs)** were a factor motivating them to export. This may reflect SMEs not appreciating the potential of FTAs and how to take advantage of them. Work is underway to boost awareness of FTAs, with information and case studies available on the Austrade and DFAT websites, along with a national program of FTA information seminars.

<sup>9</sup> Benefits of delivering a more diverse range of exports are summarised by McIntyre et al, 2018. This article notes the benefits of export diversification, including assisting "countries to hedge against adverse terms of trade shocks by stabilizing export earnings and domestic output". The article also notes the role of diverse exports in boosting product innovation.

# WHY SMES FIND EXPORTING HARD

## A LOW PERCENTAGE OF AUSTRALIAN COMPANIES EXPORT

The number of Australian businesses exporting is relatively small. According to the Australian Bureau of Statistics (ABS), around 2% of the 2.2 million businesses in Australia are goods exporters. In comparison, the equivalent share for UK and US companies is higher at 4.8% and 4.9% respectively.<sup>10 11</sup>

Not all Australian businesses are in a position to export. They may produce goods or provide services that are not tradeable overseas (such as small grocery retailers and hairdressers) or they may have no desire to export as they can achieve their business goals domestically. There may be constraints internal to a business that may also prevent it from exporting, including inadequate knowledge, insufficient finance, currency risk, trade offset and a lack of capability.

A large share of Australian exports are carried out by a small number of mega-exporters (companies that source at least \$50 million from exports), with many of these exporters delivering bulk commodities such as coal, iron ore, natural gas and agricultural products. Just 1% of exporters are from the mining industry and they contribute over half (57%) of the total export value.<sup>12</sup>

According to Austrade analysis using Customs data and ABS statistics, 296 businesses exported merchandise worth \$100 million or more, which accounted for 85% of the total export value (\$266 billion) in 2017–18. In the same period, SMEs comprised 87% of the 53,015 Australian exporting businesses, but only contributed 4% in terms of export value.<sup>13</sup>

The challenges and risks associated with exporting are significant, particularly for SMEs at the start of the export journey.

Ideally, SMEs need to identify markets with potential and a reasonable likelihood of success.

Like most investment decisions, an important factor when considering export is that many of the costs need to be incurred early in the process. This includes allocating internal resources or sourcing external expertise to undertake research, investigating access and entry models, and marketing and promotion. SMEs need to absorb most of these costs if their export venture fails.

Along with a lack of overseas networks and contacts, high start-up costs are a key consideration for an SME when deciding whether to export. Companies often offset this risk by reducing investment in marketing and promotion which, unfortunately, then inhibits the sustainability of their growth trajectory.

<sup>10</sup> According to the Australian Bureau of Statistics (ABS) cat. no. 8165 *Count of Australian Businesses*, in 2016–17 there were 2,238,299 actively trading Australian businesses. Using 2016–17 export business number figures, 2% of these were goods exporters.

In comparison, according to the UK's Office of National Statistics there were 233,900 goods and services exporters in 2018, representing 9.6% of total registered businesses (2,424,700). There was 116,500 goods exporters in the UK that year, representing 4.8% of total businesses that year. In the US, according to the 2016 Census there were estimated to be 287,314 goods exporters or 4.9% from 5.9 million businesses in 2015.

<sup>11</sup> The ABS only publishes estimates of merchandise exporters. Austrade estimates that there were over 3,500 non-travel services exporters, with most of these (90%) exporting services valued at less than \$10 million and contributing less than 7% of export value. However, these estimates relate only to **non-travel services exporters, and does not take into account exporting from tourism, international education and government services.**

<sup>12</sup> Thirlwell M., (2017), *Australian merchandise exporters: A profile of mega-exporters*, Austrade Canberra. Thirlwell said that there was 426 mega-exporters in 2015–16, and they exported goods to the value of \$209 billion.

<sup>13</sup> ABS cat. no. 5368.0.55.006 *Characteristics of Australian Exporters, 2017–18*, Tables 3.1 and 3.2.



## CHALLENGES EXPORTERS FACE

The Export Council of Australia (ECA 2018<sup>14</sup>) summarises the market access and information difficulties faced by Australian businesses when they consider exporting:

- > a lack of information about the international opportunities available to them
- > a lack of capability and capacity to engage with international trade
- > a lack of information on trade requirements, regulation and markets
- > relatively higher costs of compliance with regulation – not just those imposed by overseas governments, but also regulations in Australia
- > relatively high transaction costs for doing business internationally
- > inadequate access to trade finance for international opportunities.<sup>15</sup>

In its 2018 survey, AIBS asked non-exporting businesses why they did not export. The most highly ranked response at 32%, was the 'lack of international contacts'. Similarly, those who did export were asked what they valued as 'supports': 57% said 'introductions to potential buyers' and 38% 'insights into trends'.

The challenges identified during the Review consultations include the following themes:

### A) BUILDING KNOWLEDGE AND RELATIONSHIPS

Building knowledge and relationships was one of the major challenges that SMEs face when exporting, and are key inputs for gaining the confidence to export:

#### **BUILDING AND MAINTAINING KNOWLEDGE ABOUT MARKETS.**

Access to market intelligence is a critical factor in the decision to export, but so is being up-to-date with changing trends and market developments.

**'The hardest thing about exporting is making sure that you're on top of all markets that you're exporting to. As it's very easy to take your eye off one market to focus on another, and then you see a sales decline in**

**that market. You need to ensure that you're constantly servicing and supporting all markets that you export to.'**

A respondent noted the complexity of understanding different markets for each product:

**'Understanding each market and its unique business model and then working through this to assess the positioning and viability of our products for the market.'**

Another respondent simply stated the challenge as having a **'lack of help in how to start'**.

#### **BUILDING AND MAINTAINING RELATIONSHIPS**

A critical part of gaining the confidence to export is associated with building one-on-one relationships with overseas customers, suppliers, distributors and other intermediaries. These relationships need to be maintained and cultivated with frequent visits to customers in market. Respondents noted that 'set and forget' is not a recipe for success:

**'While we are better able than most to operate across time zones, there is no substitute for appearing on show floors, on trade missions and being able to sit down with partners and customers in market.'**

<sup>14</sup> Export Council of Australia (ECA), 2018, Trade Policy Recommendations, increasing SME participation in international trade, Sydney, page 6.

<sup>15</sup> Sources include Austrade, refer <https://www.austrade.gov.au/Australian/Export/Guide-to-exporting/Risk-management>

'Building knowledge about our brand is probably the hardest thing. Once we get people overseas buying they tend to keep on buying.'

'Getting bodies on the ground in the local market that you can trust. It's a hard initial cost to overcome...'

'Building relationships with new buyers and growing our business with existing buyers. Having face-to-face meetings and seeing their business helps immensely with growing our exports.'

Respondents also noted specific challenges in areas currently supported by the EMDG scheme, including the high cost of marketing and attending trade shows, and the significant costs associated with building and maintaining product recognition in market. One respondent detailed the high cost and other challenges to promote at trade shows:

'High costs of exhibiting at trade shows (space rental and stand construction and fit-out), along with travel and accommodation costs, and cost of freighting display goods to display at exhibitions. Production of display graphics and video presentations incurs high costs specific to various markets including translations, and interpreters.'

## COMMUNICATION AND CULTURAL DIFFICULTIES

Understanding how to work in overseas markets can be difficult and costly for SME exporters, particularly in non-English speaking markets. SME exporters tend to export to English speaking markets that have similar ways of doing business as Australia. For example, the EMDG administrative data shows successful grant recipients, in their first foray into exporting, favour markets such as the United States (US) and United Kingdom (UK). Note that New Zealand is not an eligible market for EMDG purposes.

One respondent confirmed this restricted the export markets they chose to target:

**'The higher costs associated with language translations, in-market representation, travel costs, trade shows in market are all prohibitive. We are also limited with the number of countries we can export to and market in due to these costs.'**

However, existing relationships, such as family or friends, often provide an incentive to export to a particular market. Some respondents noted that this was their main reason to enter a market.

## B) THE ECONOMICS OF EXPORTING

**Accessing capital:** Multiple surveys (DHL 2019, AIBS 2019) suggest some Australian SMEs do not have access to adequate capital to export.<sup>16</sup> For example, the DHL Export Barometer 2019<sup>17</sup> noted that a significant proportion of exporter respondents operating for less than five years 'experienced difficulties when approaching lenders', and that 'a lack of security is making borrowing difficult'. AIBS 2019 notes in its survey that most respondents (68%) had no need for additional debt to fund international business opportunities, but 9% 'expected that they would not be able to secure additional funding based on past experiences'.

One business said **'We would be more aggressive with our expansion if we have (sic) additional capital available to us.'**

**Tariffs, regulation and compliance:** This is not just the direct cost to trade such as tariff regimes, but also the additional (opportunity) cost associated with understanding and completing regulatory requirements.

Bank funding is often more expensive for SMEs due to banking rules, and more risky as personal guarantees are often required.

<sup>16</sup> DHL Export Barometer 2019, page 24. This survey noted that 45% of its respondents 'needed trade finance and 6% of respondents were experiencing difficulties in obtaining finance' and listed reasons such as banks not understanding the export business, cost of finance was too expensive and a lack of security.

<sup>17</sup> DHL Export Barometer 2019, page 24.

'Each country has its own unique method for conducting business and it appears that no two countries are the same along with the variety of different government (at all levels) regulations.'

Other examples included differences in patent registration and other intellectual property issues, occupational health and safety, taxation, laws around negligence and misrepresentation, and access to courts and dispute resolution mechanisms.

One respondent noted that a 'lack of clear guidelines around tax, business and other financial implications made it hard to do business internationally'. Another said the hardest thing was to 'understand the various laws, customs, languages, organisations, bureaucrats we need to deal with'.

Although not directly relevant to the scope of the Review, SMEs also faced challenges associated with payment default, confiscation of property or changes to government policies. Quarantine risk was of particular concern for those exporting agricultural goods.

### **C) SHORT-TERM ECONOMIC OUTLOOK – CHALLENGES AHEAD**

In its 2019–20 Mid-Year Economic and Fiscal Outlook (MYEFO), the Australian Government points to the challenges ahead for trade-exposed industries including exporters. It notes that similar to global growth, global trade weakened considerably in 2019, reflecting:

**'the direct impact of trade tensions on global trade flows and supply chains in East Asia. But it also increasingly comes from global uncertainty, which appears to be weighing on business confidence and investment intentions. Global growth is expected to be 3 per cent in 2019 – the weakest growth since the global financial crisis – and 3¼ per cent in 2020. Major trading partner growth is forecast to be 3½ per cent in 2019 and 3¼ per cent in 2020.'**

When MYEFO was released in late 2019, export performance remained affected by the ongoing trade tensions between the US and China, moderating growth in China, growth below expectations in India, weakness in a number of European countries and a slowdown in trade growth in ASEAN countries.

At the time of writing this report (early 2020), travel bans resulting from the Coronavirus outbreak are severely impacting on global people movement, and are likely to have a significant impact on Australia's tourism and international education sectors, as well as exporters with a high reliance on the China market. As a result of this outbreak, short-term forecasts for economic activity in Australia and its major trading partners (particularly China, the source of the outbreak) have been downgraded.

However, the long-term potential to access the still-growing Asian middle class remains significant, which balances out current events. As noted by the Department of Foreign Affairs and Trade, neighbouring Asia 'stands to deliver nearly two-thirds of global growth ... and provide numerous opportunities for Australia while our economy remains competitive, and agile'.

Furthermore, 'within the next 15 years, four of the world's five biggest economies in purchaser power parity are to be in Asia: China, India, Japan and Indonesia'. This will drive rapid growth in Asia's middle class. Two billion middle class Asian consumers are forecast by 2020<sup>18</sup> and are projected to expand further to 3.5 billion in 2030.

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<sup>18</sup> The Brookings Institution, as cited in DFAT's 2017 Foreign Policy White Paper, page 29: Middle class is defined as households with a per capita income between US\$11-\$110 per person per day, in 2011 Purchaser Power Parity terms.

# WHY GOVERNMENT SUPPORTS EXPORTERS

When entering an export market, businesses are presented with a number of barriers. One of the most significant relates to knowledge and information barriers, where businesses have to bear the significant costs of information gathering related to potential markets, demand characteristics, market entry procedures and marketing channels. The search for potential partners is complicated by geographic diversity and subject to free-riding due to information spill-overs.<sup>19</sup>

Information barrier problems are more significant for SMEs. Overseas markets are inherently riskier and SMEs are more resource constrained.<sup>20</sup>

Government export assistance helps Australian businesses with their overseas marketing and promotion. Helping businesses navigate complex overseas markets makes it easier for them to go global. The range of assistance that Austrade provides, along with state and territory governments, includes information, advice, contacts and support along the export journey, reducing the time, cost and risk of exporting. Jurisdictions also provide more specialised services including market research, customer identification, and assistance with market visits and promotions.

A number of programs provided by the Australian state, territory and federal governments provide assistance to SMEs looking to enter into and grow export markets. A summary of this assistance is provided at **Appendix E**.

## Box 3: A National Map of Government Export Services

When SMEs seek out information on government export assistance, they commonly experience issues such as information overload, confusion with the different levels of government, being overwhelmed by 'government-speak' and a lack of seamless end-to-end service offerings.

The Review commissioned research to map government export assistance against the exporter journey. This has provided valuable insights that can help guide future discussions and design of exporter assistance across all jurisdictions. Of particular interest was the wide range of export-readiness assistance already available to SMEs, and the importance of both financial and non-financial assistance along the export journey.

See **Appendix F** for more information on the Map.

<sup>19</sup> Volpe Martincus & Carballo (2008)

<sup>20</sup> Spence, 2003

# GOVERNMENT SUPPORT FOR SME EXPORTERS IS EFFECTIVE

Swinburne University of Technology undertook a counterfactual evaluation of the impacts of the EMDG scheme on export activity, employment, business survival rates, and productivity.

The study followed businesses for more than four years (2012-13 to 2016-17).

The evaluation (Box 4) has shown EMDG assistance had a strongly positive impact on the performance of participating businesses, compared to receiving Austrade general services only.

## BOX 4: The evaluation

The evaluation used the most comprehensive business-level database in Australia: the Business Longitudinal Analytical Data Environment (BLADE). BLADE draws together a range of ABS data sets to provide a comprehensive picture of business activity.

- > Austrade provided information on more than 7,600 businesses that received EMDG, as well as organisations that received Austrade's general services (more than 8,700) and tailored services (more than 3,000).

The counterfactual evaluation compared outcomes between businesses receiving different Austrade services, namely those that:

- > received EMDG assistance
- > received EMDG assistance as well as tailored services.

### AGAINST

- > businesses that received general services (but no other Austrade service or EMDG assistance)
- > businesses with similar characteristics in the Australian economy, who did not receive any Austrade services.

Austrade considered that the most suitable counterfactual group was businesses who received a general Austrade service. This helps to mitigate selection bias by comparing those businesses who are likely to seek government assistance from Austrade. Therefore, the study used the general services group as the primary control group (from here on referred to as the control group), with results presented as comparisons between the two groups.

## Results

The evaluation concluded EMDG assistance had a strongly positive impact on the performance of participating businesses, compared to the control group.

Businesses receiving EMDG saw an increase in annual exports of \$716,000 more than those receiving general services, on average, over the period of the study. Using the most conservative estimate, this represents a 157% increase, which equates to a total boost in annual export sales of more than \$3.4 billion for all businesses receiving EMDG (during this period).

Results suggest that the businesses receiving both EMDG and tailored services benefited more than those receiving EMDG only. This represented a 190% increase in export sales over the period, which was an increase in annual exports of \$2.2 million on average per business. This equates to a total boost in annual export sales of more than \$1.4 billion for all businesses that received EMDG and tailored services within this period.

Combined, the total value for all EMDG recipients translates into an additional \$4.8 billion in annual exports.

Employment was 8.6% higher for businesses receiving EMDG compared to those receiving a general service. This equates to 2.5 jobs per business. The employment figure doubles from 8.6% to 16.1% for businesses receiving both programs (EMDG and tailored services), supporting the theory that these programs are complementary.

Businesses receiving financial assistance from the EMDG scheme had 18 percentage points higher export participation than the control group. Businesses receiving both schemes (EMDG and tailored services) had 27 percentage points higher export participation than the control group.

**Table 1 Estimated cumulative impacts of EMDG on business performance compared to Austrade general services, 2012-13 to 2016-17**

Item	EMDG only	EMDG + tailored services
Export sales	\$716,000 (157%)	\$2.2 million (190%)
Labour productivity	2.3%*	2.6%*
Capital productivity	10.3%	25.9%
Employment	8.6%	16.1%
<b>Percentage points</b>		
Export participation	18ppt**	27ppt**
Survival probability	5.4ppt**	6.7ppt**
Export survival	11.6ppt**	12.3ppt**

\* Not statistically significant at 95%.

\*\* ppt - percentage points

All results are from the one nearest neighbour matching model.

The majority of EMDG recipients are concentrated in the services sector, which saw export sales increase by 133%. This is lower than the effect on the manufacturing (218%) or resource sectors (202%).

### Smaller businesses benefit comparatively more

Overall, small businesses derive a larger boost to export sales and employment from EMDG than businesses with higher turnover.

Figure 1 shows that a business with an annual turnover less than \$250,000 had a boost from the EMDG of more than 227% in export sales, while this figure is 138% for a business with a turnover larger than \$20 million. There is insufficient evidence to conclude whether EMDG has an impact on the \$10 million to \$20 million cohort; therefore, this result is not presented in Figure 1.

**Figure 1: Estimated cumulative impacts of EMDG only on business export sales by turnover band, 2012-13 to 2016-17**



\*The \$10m - \$20m band is not presented here because there is no statistical difference between groups at 95% confidence level. Please refer to Appendix D for the full results.

Figure 2 shows that a business with an annual turnover less than \$250,000 had an estimated increase of more than 15% in employment levels, when comparing to businesses in the control group. There is insufficient evidence to conclude whether EMDG has an impact on employment for the \$10 million to \$20 million cohort, further the results suggest a statistically significant and negative impact on employment for businesses with turnover \$20 million to \$50 million, which means larger businesses are less likely to increase employment as a result of receiving EMDG. We consider the reasons why a business receiving an EMDG grant who is exporting more but employing less persons than the control group may be because these businesses are becoming more capital intensive. Therefore, they require less employees.

**Figure 2: Estimated cumulative impacts of EMDG only on business employment by turnover band, 2012-13 to 2016-17**



\*The \$10m - \$20m band is not presented here because there is no statistical difference between groups at the 95% confidence level.

## REVIEW THEMES

A number of high level themes and findings emerged during the research and consultation about what exporters need from government financial assistance to support them on their export journey and to encourage them to become successful and sustainable exporters. These themes inform the Review's recommendations on how government could deliver a more effective and efficient financial assistance scheme for SME exporters.



### FINANCIAL ASSISTANCE MAKES A DIFFERENCE

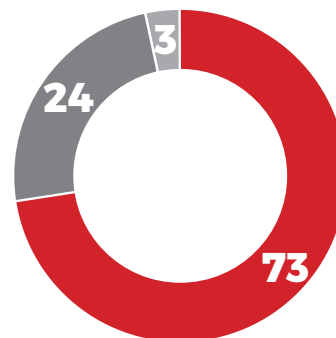
Many exporters reported that the receipt of an EMDG grant helped them to promote internationally. Ninety-six per cent of respondents to the 2019 EMDG Service Improvement Study said the receipt of EMDG helped their organisation to become a more sustainable exporter. This included expanding into international markets, growing international revenue, employing more staff, establishing an international presence and developing new products or services for international markets. These results were consistent across the four years of the study.

In the same study, 69% of respondents said the receipt of EMDG allowed them to increase their export promotion and marketing activity.

Furthermore, 73% of respondents expected to continue to increase this activity over the next two years as a result of receiving EMDG (Figure 3).<sup>21 22</sup>

**Figure 3: Responses to the EMDG Services Improvement Study**

Question: In the next two years, how do you expect your export promotion/marketing activity to change as a result of receiving the EMDG grant? (three-year average<sup>23</sup>)



■ Increase ■ Remain relatively constant ■ Decline

Source: EMDG Service Improvement Study, 2019

As reported in Box 4, research undertaken for the Review by the Centre for Transformative Innovation at Swinburne University of Technology showed Australian businesses receiving assistance from EMDG experience positive improvements to their business performance compared to a matched control group. Using the most conservative estimate, this represents a 157% increase, and equates to a boost in annual export sales of more than \$3 billion for all businesses receiving EMDG during the study period.

<sup>21</sup> Three-year average.

<sup>22</sup> In this survey, 83% respondents of respondents expected to increase exports in the next two years, with little difference by business turnover. In turn, 73% of respondents expected to increase their marketing/promotional activity over that same period. However, larger respondents (those with turnover of \$10 million or more) were markedly less likely (63%) than their smaller SME counterparts to increase their marketing/promotional expenditure.

<sup>23</sup> EMDG Service Improvement Study, 2019, sample n=1,524, 2017-2019 average.





## THE PRINCIPLES OF EMDG ARE VALUED

During consultations and from responses to the online survey, the following principles of the EMDG scheme were reported as being particularly important to SME exporters:

- > the Act establishes an entitlement – access is not merit-based
- > it does not favour an industry or export market
- > a wide range of expenditure is eligible, reflecting how businesses approach markets in different ways
- > SMEs have access to multi-year entitlements – reflecting the time it takes to build a presence in market.

The following are also important design features of EMDG, and should be preserved in any simplification and streamlining of financial assistance:

- > assistance is focused on export market development and promotion
- > SMEs have ‘skin in the game’ – they are reimbursed a proportion of their eligible expenditure
- > the scheme is subject to regular evaluation.



## SMES ARE NOT ALWAYS ‘EXPORT READY’ WHEN THEY ACCESS FINANCIAL ASSISTANCE

SMEs have a much higher chance of exporting success, as well as maximising the value of any financial assistance they receive if they build their skills and capability to become ‘export ready’ before starting their export journey, and before they receive financial assistance.

Because exporting requires a significant commitment of both time and money, SMEs should be encouraged to develop a good understanding of what exporting involves before they start the export journey. When they have this knowledge, an informed strategic approach can help them achieve export success<sup>24</sup>. This will require additional effort to identify SMEs with export potential and to test their export readiness before they access financial assistance.

Austrade shared its experience with aspiring exporters, who sometimes just ‘jump on a plane’ without thinking about their export readiness. Austrade considers the following factors as core aspects of an export ready business:

- > a specific product or service to sell
- > capacity to take on new customers
- > IP owned, or agreements in place
- > management is committed to an ongoing export business

- > sufficient cash flow to fund the strategy, risk and growth
- > marketing knowledge, including a good understanding of target markets
- > sufficient funds and ability to undertake any product modification that might be needed.

While there are SMEs that are ‘born global’ (established with the purpose of going international), these businesses often have significant management experience and funding from the start of their operation.

The online International Readiness Indicator Tool<sup>25</sup>, available from Austrade’s website, draws on Austrade’s experience in assisting Australian businesses to enter international markets. It focuses on the key aspects of what it takes to be ready for export and to compete successfully in overseas markets. Austrade is developing a range of other services for aspiring exporters including the Global Business Support Finder. These services, along with those provided by state and territory governments (refer **Appendix E**), can help to address this capability gap.

Industry bodies also play a role in developing and assessing the capability of their members, while private providers of export education programs could also help to build the capability of new exporters.

<sup>24</sup> <https://www.austrade.gov.au/Australian/Export/Guide-to-exporting/Getting-ready-for-export/Getting-ready-for-export>

<sup>25</sup> <https://www.austrade.gov.au/Australian/Export/Guide-to-exporting/International-Readiness-Indicator/International-Readiness-Indicator>



## FINANCIAL ASSISTANCE NEEDS TO CHANGE ALONG THE EXPORT JOURNEY

As an SME moves along its export journey, its needs change. Through the online survey and face-to-face consultations, SMEs reported their reasons for exporting, some of which are strategic (such as to diversify their domestic base or to grow their business), while others were less so (an accidental connection with someone in a market, or because they were following their competitors). Around one-fifth of respondents to the online survey started their business as an exporter – they were born global.

There are stages in an SME's export journey where financial assistance is most likely to encourage additional export promotion activity. At other times, SMEs benefit more from information and education or tailored support, equity funding or export loans. As noted previously, for some SMEs considering export for the first time, a stronger understanding of what it takes to be export ready can help to position them for export success.

Some smaller SMEs and those not yet export-ready acknowledged they did not have the capability to make full use of the grant when they received it. They reported that the money was useful to aid cash flow, but in hindsight, they wished they had not used their earlier grants, and had saved them for later in their export journey when they were ready to use the grant more strategically.

Some larger businesses found the money as 'nice to have' rather than it acting as an incentive to invest in more export promotion activity. These findings are consistent with those made in the 2018 research undertaken by Austrade and the Department of Industry, Innovation and Science (see **Appendix E**).

A tiered financial assistance program, tailored to meet the needs of the different stages in an SME's export journey would allow the government to respond to the different needs of new and expanding exporters. Creating two tiers can also allow for more simplified administration, considered particularly important by new exporters.

Another benefit of creating two tiers of assistance is the opportunity to design each to achieve a different policy outcome. The *New to Export* stream could contribute towards the government's election commitment to increase the number of exporters by 10,000. The *Expanding Exporter* stream could contribute to increases in exports and diversification of export markets.

The findings of research undertaken by the Department of Industry, Innovation and Science in 2016 found continuous, but not intermittent, exporters perform significantly better in all performance measures than non-exporters. This could be encouraged by providing exporters in both streams with a multi-year entitlement. An added benefit of this approach is a reduction in the number of applications SMEs would need to make.

## NEW TO EXPORT

The Review heard *New to Export* SMEs tend to focus on and benefit most from activities that allowed them to 'go out and meet their market' to establish international relationships and networks. These activities included participating in marketing visits and attending trade fairs and promotional events. This is an important first step in developing export markets.

The EMDG administrative data also shows over 80% of Year 1 recipients claimed for marketing visits and over 50% for trade shows. Despite the prevalence of technology that facilitates online engagement, investing in first developing personal connections in market sets an important foundation for success in the future, as international businesses want to know they are dealing with a 'real person'.

As this stream is focused on 'export ready' SMEs, these businesses should also be able to claim education and training expenses to build their in-house export marketing capabilities.

EMDG administrative data for year 1 and 2 claims shows these SMEs have a relatively small claim value. For example, in 2017–18, the average Year 1 EMDG grant (to an SME without exports) was \$27,000.<sup>26</sup> This could be used as a guide when considering an appropriate size of entitlement for the *New to Export* tier.

At present recipients must spend at least \$15,000 on eligible expenditure to receive EMDG assistance. Claim data suggests this does not deter smaller businesses from applying.

<sup>26</sup> Unadjusted for inflation.

## EXPANDING EXPORTERS

Expanding exporters were able to build on their experience to make more strategic decisions about export. While building relationships in markets remained important, they also found other activities, such as engaging marketing consultants and in-market representatives to be equally important. This was confirmed in the EMDG administrative data, which also showed a preference for claims containing overseas representatives as a business moved through years in the scheme.

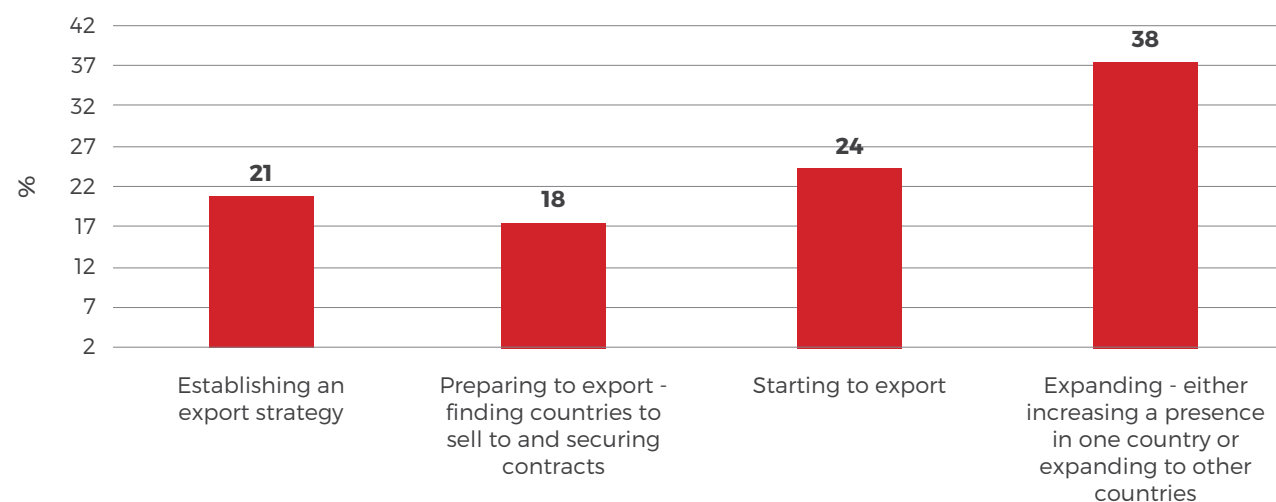
Respondents to the online survey showed a clear preference for receiving financial assistance when they are expanding exports. As shown in Figure 4, 38% of respondents rated the expansion phase as their

preferred time for financial support, while receiving financial assistance when preparing to export is least preferred.

Having heard a strong message from some SMEs who had received EMDG assistance when they were not ready to make the most out of it, a capability threshold was considered. This could be set to target high growth, high impact SMEs at the time in their export journey when the financial assistance would have the greatest effect on encouraging additional export promotion activity. This would most likely be when a business is actively looking to expand their export activity.

The EMDG scheme has Grants Entry provisions, which act as a way to test a business' export readiness. While this sets a low bar, it does provide a model upon

**Figure 4: Exporters' preferred timing for financial support**



Source: Austrade, online consultation, exporters (n=120)

which to base a strengthened test. The objective of a strengthened test should be to provide the government with assurance that a business has the capability to make full use of any grant funds they receive, and that these funds encourage them to undertake additional export promotion activity.

SME exporters also indicated that there have been circumstances when they would have welcomed continued government support to sustain or diversify their export activity after they had exhausted their allocated grant entitlement. Some exporters suggested that incentives to enter new export markets could be used to trigger export continuity and diversify risk.

Changing the program design to accommodate these circumstances can help the government to ensure the program remains contemporary and responsive to exporter needs.

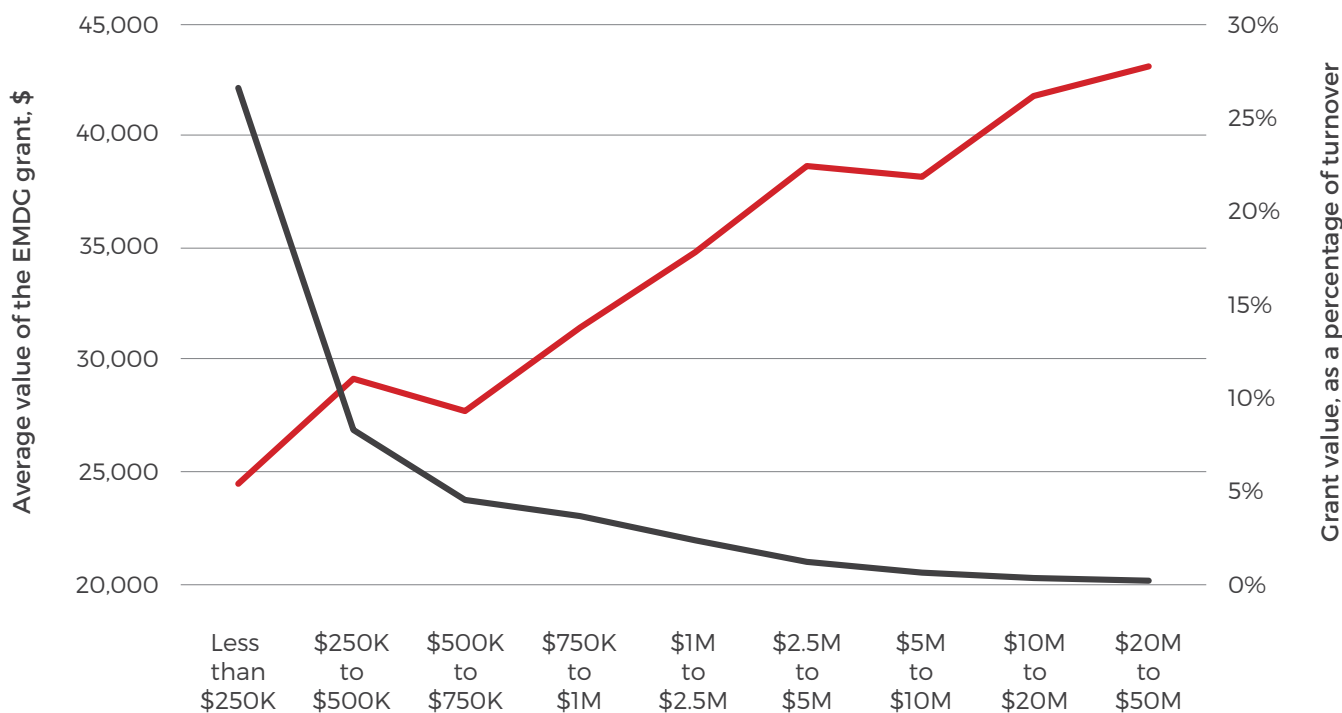
## ESTABLISHED EXPORTERS

There is a time in a SME's export journey where government financial assistance no longer incentivises more mature or *Established Exporters* to undertake additional export promotion activity. Due to their size and experience, these exporters have developed a good understanding of how to approach and adapt to different markets. These exporters consider the assistance 'nice to have', which is a poor return on the government's investment. This was also a conclusion of the study Austrade undertook in collaboration with the Department of Industry, Innovation and Science in 2018.

For this reason, other government services, such as the tailored services offered by Austrade, equity funding and export loans could provide a better return on the government's investment to encourage *Established Exporters* to continue to grow.

The EMDG administrative data shows that for nearly all recipients with a turnover of greater than \$20 million, the average grant of around \$43,000 represents less than 0.15% of business turnover (Figure 5). Businesses of this size are sufficiently resourced to be able to fund export market development activities.

**Figure 5: Average EMDG grant, and reliance, 2017-18 grant year<sup>1</sup>**



Source: EMDG administration data

<sup>1</sup> Grant reliance is calculated by the ratio of average grant, by average turnover for each turnover band.



## BUSINESSES WANT CERTAINTY

While SME exporters appreciate government support to help manage the risk of exporting, the current lack of certainty around the amount they will be reimbursed can reduce an exporter's future investment in additional export promotion activity.

Exporting is expensive and risky, and for SMEs, certainty and timing of cash flow is critical for business continuity. Exporters reported that certainty of the level of reimbursement they would receive would assist them to plan and manage cash flow. Around 72% of business respondents in the online survey said it was very important to receive the full payment.

Furthermore, one respondent commented on the impact of not receiving the full approved grant:

**'The lack of certainty on what the 2nd tranche payment would be meant we didn't take the same level of risk with overseas marketing'.**

Establishing the entitlement upfront using a grant-like arrangement could provide this certainty.



## THE TIMING OF A PAYMENT IS IMPORTANT

Due to the way the two-tranche payment system works, EMDG recipients can wait almost two years to receive their reimbursement (notwithstanding that it may not be the full entitlement they were expecting, as noted previously). Some SMEs said that the two-tranche payment system created a level of uncertainty, as at the time they were planning their export promotion activity, they had no idea of how much they would actually be reimbursed.

Instead of receiving a reimbursement, a payment provided closer to when an SME incurs the expenses would allow the business to confidently plan and execute export promotion activity. A very clear message from participants in a workshop for the review was that if eligibility was established 'up front' they could have commenced their activities more quickly. This could be achieved by using a more traditional grant delivery mechanism with milestone payments.



## EMDG SCHEME ADMINISTRATION IS TOO COMPLEX

The scheme's principles remain relevant to SMEs after 45 years, mainly because it doesn't discriminate between businesses, products, industries or export markets. The policy intent of EMDG also remains relevant – to encourage SMEs to enter into and grow export markets. However, the administration needs to be streamlined and simplified.

Exporters feel the administrative burden of EMDG grant applications is not proportional to the entitlement received, especially for smaller claims. Just under two-thirds of the online consultation respondents flagged 'rules that are easily understood' and a 'simple application process' as very important components of program design. This, combined with a faster application process will reduce compliance costs for businesses and deliver on the government's agenda to improve service delivery. However, changes must be balanced with eligibility criteria and appropriate assessment procedures to maintain program integrity.

Design and delivery options include loans and tax offsets, but these are complex arrangements for delivery of financial assistance to SMEs. Simpler mechanisms, such as entitlement-based grants are a better option. In a changing and increasingly unpredictable global trading environment, the scheme needs to remain relevant and fit for purpose.



## NON-FINANCIAL ASSISTANCE IS JUST AS IMPORTANT AS FINANCIAL ASSISTANCE – FOR ALL EXPORTERS

Regardless of the stage of an export journey, non-financial assistance is important. Exporters commented that:

- > You need to be a ‘worldly’ business and be well-prepared for export – government can help people by educating them about what you need to do to be ready for export.
- > Finding the right people to work with overseas is challenging. SMEs appreciate assistance in meeting like-minded/similar companies in their industries to understand how they went about finding the right people with which to do business.
- > Some things are really important in the early stages of exporting, such as education of staff and the people running the business, as well as face-to-face interaction.

Exporting success relies heavily on relationships and networks. SMEs look to government to provide qualified connections and opportunities in market to help them internationalise. Marketing Australia’s brand also plays a key role in export success, more so in some markets and for many Australian premium products and services. For *Experienced Exporters*, other forms of assistance, such as Austrade’s tailored services, equity funding and export loans would be more helpful to sustain export activity or boost export growth.



## MANY SMES DO NOT KNOW ABOUT THE GOVERNMENT EXPORT ASSISTANCE THAT IS AVAILABLE

Continuous (or persistent) exporters have been identified as better performers than non-exporters. They grow faster, with higher levels of employment, capital expenditure, labour productivity and wages. Exporting is associated with a higher probability of business survival, translating to improved business competitiveness and economic growth. Exporting delivers benefits at the business level, while also having broader economic benefits for Australia.

As SMEs find exporting risky and challenging, government financial assistance for market development and promotion activities can help to mitigate some of these risks and incentivise SMEs to start exporting, and then to diversify the markets to which they export.

Businesses receiving EMDG value the scheme; a sentiment echoed in the Austrade client-centred design research, the Australian International Business Survey (AIBS 2014–2018) and Austrade’s EMDG Service Improvement Study.

Twenty-one per cent of respondents who had received an EMDG grant indicated they did not access other government programs, despite the wide range of government support available, which may indicate that SMEs are unaware of what assistance is available. Increasing the awareness of other government export assistance can help increase the number of SMEs that are export-ready.

The national maps of export assistance – developed for the Review in collaboration with the states and territories – detail the range of government assistance (both financial and non-financial) available to SMEs.

Word-of-mouth and trusted networks have an important role to play in raising the awareness of SMEs in regard to government assistance, as highlighted in the EMDG Service Improvement Study. Over three-quarters (76%) of respondents from the survey became aware of EMDG from a source other than government.



## INDUSTRY BODIES HAVE AN IMPORTANT ROLE TO PLAY

The EMDG scheme also provides funding to export-focused, not-for-profit industry bodies that promote on behalf of their members at a regional, state/territory or national level. The 77 approved bodies currently in the EMDG scheme represent a range of industries, including 24 from Tourism, 21 from Agriculture, Forestry and Fishing and eight from Education and Training.

The average grant paid to an approved body in 2018–19 was \$42,700, with promotional events and advertising being the main expenditure items. While some approved bodies have accessed EMDG for almost as long as the scheme has been operating, the majority have received up to ten grants.

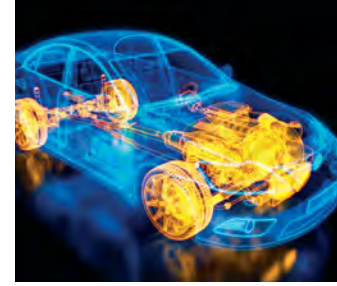
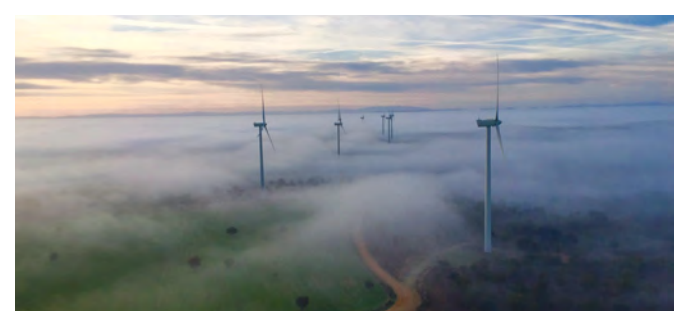
These groups play an important role, particularly for industries dominated by a large number of microbusinesses who do not engage in international promotion in their own right (such as the tourism industry), or for whom there is value in promoting the capability of an industry as a whole (such as premium food products). Approved bodies extend the value of a grant beyond a single entity to across their membership.

Industry bodies reported that they play a role in helping their members to get export ready, and could also advise government on which of their members were export ready. Industry bodies should continue to have access to financial assistance, and enhance their role to assist SMEs to build capability and become export ready before they start receiving financial assistance to export.

Industry bodies also have an important role to play in seeking out SMEs with export potential, who are not yet exporting, which could contribute towards the government's target of an additional 10,000 exporters. Another important role for industry bodies is that of presenting a nationally consistent message overseas.







# CASE STUDIES



## CASE STUDY

### AUSTRALIAN TOURISM EXPORT COUNCIL (ATEC)

#### We are ATEC.

We are the national non-profit industry body representing the thousands of companies around Australia that provide tourism services to foreign visitors. We were formed in 1972. Our membership represents the depth and breadth of our industry and includes both large companies and small- and medium-sized enterprises (SMEs), many of whom are based in regional and remote parts of Australia. In addition to our national office, we have nine branches across the country.

#### We provide a range of services to our members.

We have a solid connection to the 'grass-roots' of our industry so that we can understand their business and work alongside them to alleviate pressures and provide them with support. We connect buyers and sellers of tourism services and experiences, and work with our members to develop their skills and knowledge to best position them for export success. The success of the industry relies on having businesses that are capable exporters.

#### We understand SMEs face unique challenges when exporting.

Smaller tourism businesses need to understand how to infiltrate, establish and sustain their presence in both established and emerging export markets. Product innovation and distribution are essential if they are to

be visible overseas and convince people to buy their product. SME exporters face the added challenges of economic headwinds, trade tensions and geopolitical uncertainties, which can dampen consumer demand. And then there are national and global events, like those we have experienced over the summer of 2019–20 that have had a significant impact on the industry, but are totally out of its control to influence.

#### We value the EMDG scheme.

ATEC has EMDG Approved Body status and we use the scheme to represent the interests of our members in overseas trade marketing activities. Each year we represent our members at the Australian Tourism Exchange – an international tradeshow that attracts over 600 international buyers and 800 Australian travel sellers. We also attend a range of trade shows and participate in trade missions to promote Australia's tourism industry. In the last two years we have participated in and represented our members' export interests at a number of trade events, including Tourism Australia's 'Australia Marketplace China' (previously known as the Greater China Travel Mission), the South Africa Tourism Services Association conference and Tourism Export Council New Zealand's trade workshops. This includes sharing our insights and initiatives on international readiness and capability building.



#### The three things we tell first-time exporters are:



**Understand tourism distribution.**



**Know your target market:** you don't need to be active in every export market.



**Build strong, commercially focused trade partnerships.**

## CASE STUDY ARDEXA

### We are Ardexa.

We are an *Internet of Things* company that excels in remote control and monitoring of machines and plants across all sectors. We offer software and cloud services to securely connect remote machines. Ardexa employs 20 people. We have offices in Canberra (global head office), Vienna (our European head office), Barcelona (Spain), Karlsruhe (Germany) and Denver (US).

### We started exporting in 2016.

Overseas markets are significantly bigger than Australia and have more industries where our technology is particularly useful, such as machine manufacturing and energy. Over 90 per cent of our business is driven by exports.

### The hardest thing about starting to export was raising awareness of our brand.

Funding the marketing effort in each new territory was financially draining and a stretch for small organisations such as ours. Making people aware of our brand in the early days, finding skills, understanding the prospects – it all takes a big effort.

### We have used government financial assistance to undertake marketing.

We used the EMDG scheme for export marketing activities as we had limited funding at the time. The grant allowed us to establish a full-time representative in Europe, as well as make specific appointments in the US, Spain and Germany. It also allowed us to showcase our products at major trade shows in these markets in the early years. We would not have started entering these markets without the EMDG program.

### When we started exporting, we wish we had known other like-minded companies.

I wish we had identified companies at the same stage of development as Ardexa so we could share offices, marketing services and suppliers, and avoid costly and time-intensive research in each territory.

### Exporting has enabled Ardexa to build a strong, viable business.

Exporting has allowed us to grow revenue to build a core business that's close to critical mass, having stabilised the product with customers primarily in strong export markets, such as Europe.



### The three things we would tell first-time exporters are:



**Don't hesitate to export early** with the right mindset, processes and people. The export arena is many times bigger than the Australian market.



**Find excellent local resources** in each of the markets you are targeting. This will ensure you spend your limited investment wisely. Don't underestimate the importance of having a local person represent your products in each market.



**Ensure all your business processes are developed with the capability to expand globally** into export markets. For example, design financial processes, contract structures and products that will rapidly adapt to each global market. This will help you roll efficiently into each new export market, with minor investment or headache.

## CASE STUDY

### FIOMARINE INDUSTRIES

#### **We are Fiomarine Industries.**

We invented and manufacture the Fiobuoy, a subsea retrieval system used in the marine research, oil and gas, defence, and fishing and aquaculture industries. Our customers include the Royal Australian Navy and the United States Navy. Based in Hobart, we have six staff members, and 18 agents and representatives around the world. Our current focus is on addressing the serious problem of whale entanglement in fishing equipment, and we have engaged a US consultant to work with us specifically on that project.

#### **We started exporting in 2000.**

Our export journey started when we received a sales enquiry from the US Department of Defense. Today we export to New Zealand, Canada, Singapore, the UK and others. Exports are a significant part of our business: in FY2016, they comprised 42 per cent of our total revenue; last year, exports were 84 per cent of our revenue.

#### **The hardest thing about starting to export was ... not much, actually!**

We were quite lucky as our first overseas sales were relatively easy as the client specifically wanted what we had. Since then, though, we realised the cost of being present on the ground was prohibitive, so we turned towards using agents.

#### **We have used government financial assistance to grow our export business.**

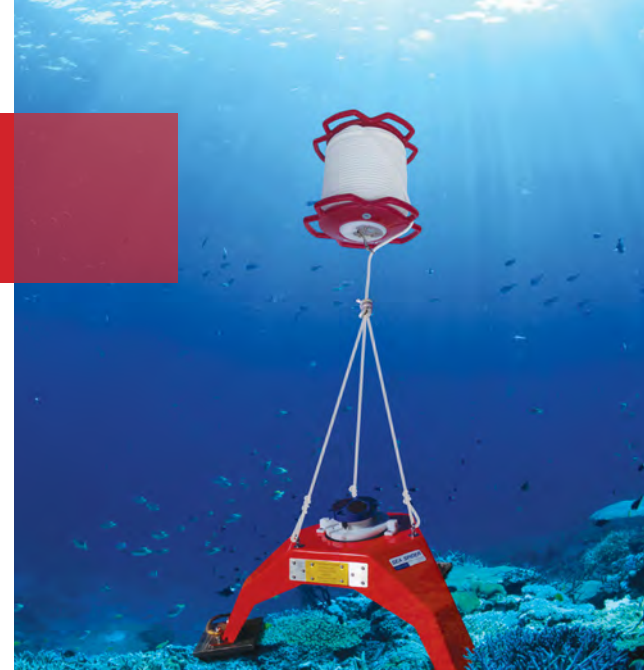
We have received the EMDG three times. The grants have been a great help, giving us confidence to continue investing further in our overseas marketing efforts.

#### **When we started exporting, we wish we had known about selecting agents.**

Selecting a good agent is very difficult and takes a lot of work. You need to be sure they fully understand your products, and why their clients would want to purchase them – what is the benefit to the client? Ensure they do not represent companies with competing products. Stay in touch with them as much as possible, develop the relationship and above all, make sure selling your products is worth their while.

#### **Exporting has enabled us to enhance our products.**

Exporting has enabled us to look into new market sectors and geographic regions, and undertake R&D towards enhancing our products as well as developing new ones.



#### **The three things we would tell first-time exporters are:**



Make absolutely sure **you genuinely have a product or service that someone wants.**



**Don't neglect your Australian customers:** a steady domestic business while you're developing overseas markets provides a solid foundation for growth.



**Be bold,** persevere and make the most of every bit of luck that comes your way.

## CASE STUDY

### MEAT TENDER AUSTRALIA

#### **We are Meat Tender Australia.**

We are meat exporters based in Victoria. We have six employees, with one office in Australia and a consultant based in Asia who looks after the Asian region. We export premium-quality chilled and freshly frozen meat to more than 20 countries.

#### **We started exporting in 2009.**

We registered as a business in October 2008 and started exporting the year after. Our team have four decades of experience in export gained from previous jobs. We help Australian producers connect to importers in specific markets. Exports make up 100 per cent of our business.

#### **The hardest thing about starting to export was cash flow.**

It was very difficult getting funding from banks and we had to put up our homes and investment properties as collateral to start the business, so EMDG was very helpful in the first few years.

#### **We have used government financial assistance to kickstart the business.**

We started the business using our personal wealth and assistance from EMDG. For five years, we kept all profit in the business so that we were able to grow using our own funds.

#### **When we started exporting, we wish we had known we could choose when to use EMDG.**

We didn't know it was possible to space out the EMDG so that we could use the grants in the first four years when it was so desperately needed, and then leave the last four for now when we need to make the next big step into larger markets like the US, the UK and the EU to keep our turnover rising.

#### **Exporting has enabled our business to share our knowledge with the world.**

Exporting has enabled us to share knowledge about an industry that we are passionate about, help others get what they want on time every time and meet like-minded customers across the world. It's why we do what we do and still enjoy it, 10 years on.



#### **The three things we would tell first-time exporters are:**



**Keep an open mind.** People in other parts of the world work differently to us in some ways that can affect business.



**Always be respectful of other cultures.** Being different does not have to be 'better' or 'worse' than us. Work on developing a solution that is mutually beneficial for both parties.



**Know 'why' you are in business.** That will be the best guide in keeping you there for the long haul.

## CASE STUDY MICROBIOGEN

### We are Microbiogen.

We are a biotechnology company specialising in improving the industrial use of the world's most utilised microorganism – *Saccharomyces cerevisiae*. This organism underpins more than US\$1 trillion of products every year. We have 18 employees and will soon be expanding our scientific workforce. Our facility in Lane Cove, New South Wales has approximately 1,000 square metres of lab and office space. All of our international activities are carried out through our global partners.

### We started exporting in 2016.

The Australian market is too small at this time to be meaningful to our business, so exports are absolutely vital to Microbiogen. We derive 100 per cent of our income from exports, and over the long term expect the vast majority of our income to continue coming from around the globe.

### The hardest thing about starting to export was finding the right partners.

The biggest challenge was finding the best companies with which to work and collaborate. The fit must be highly compatible. Technology, business culture, path to market and aligned interests must all match up. As our business model requires our business partner to commercialise the products, it was critical to work with companies that understood and believed in our products.

### We have used government financial assistance to build our business.

We have had extensive financial assistance from the government, including R&D tax concessions and several Australian Government grants such as EMDG and those from the Australian Renewable Energy Agency (ARENA). Without the assistance it is likely we would not have survived. It is vital in industrial biotechnology that assistance be consistent and over a long period of time. It took us 17 years in total and 12 years after private equity funding to achieve self-sustaining export success.

### When we started exporting, we wish we had known the importance of partnering.

The most important thing we learnt was the knowledge that unless we partnered with a large global corporate, there was little chance of commercial success. In the 12 years to first product, we partnered or collaborated with at least 20 companies, but it was only the large, well-aligned corporate that allowed us to achieve meaningful sales.

### Exporting has enabled us to exist.

Without exporting there would be no Microbiogen. We are 100 per cent export-oriented and will be for the foreseeable future. Exporting has allowed us to increase the size and quality of the science team, and has opened opportunities in other fields.



### The three things we would tell first-time exporters are:



**Do your homework.** Make sure you understand which countries you can reasonably work in and the most appropriate collaborator or partner with which to work.



**Exporting will take longer than you think.** Even though we were aware it would take longer than we initially thought, it actually took longer than our most conservative estimates.



**Take advantage of being an Aussie.** Most people overseas see Australians as reasonable to deal with, we follow the rule of law and generally speak directly and make clear what we think. This is advantageous in negotiations.

## CASE STUDY

### RISING SUN PICTURES

#### We are Rising Sun Pictures.

Rising Sun Pictures creates digital visual effects for movies – we use 3D computer animation, simulations and 2D techniques to create memorable moments in film and series that our clients can't go out and film for themselves. We have 165 staff, and have reached as high as 200 in peak times. Our main office is in Adelaide and we have a smaller facility in Sydney. We make up to eight international trips each year to our main markets to build and sustain our key relationships.

#### We started exporting in 1999.

When we started the business in 1995, we believed we could deliver our services to the global marketplace and leverage technology to make that happen. Our first chance came when a US-based film production that had been shooting in Australia contacted us and we did our first work on a major movie. It snowballed from there! We work on large projects usually initiated out of the US or UK. Exports make up 95 per cent of our annual revenue. [Rising Sun Pictures won the Creative Services award at the 2019 Australian Export Awards.]

#### The hardest thing about starting to export was building relationships with the right people.

In our industry, your ability to get work is very dependent on relationships with the decision makers. In the beginning, the work was very patchy, but we invested heavily in relationship building and making regular contact with those key decision makers. This built up over time and has sustained us throughout the life of the company.

#### We have used government financial assistance to fund outbound marketing.

EMDG was an incredibly valuable resource that gave us confidence to invest in sustained relationship building and outbound marketing when we didn't have the internal resources to do it. We wish it was still available to us – you can always do more outbound marketing as you should be selling your business at a level you want to be perceived at, which might be ahead of where you are presently.

#### When we started exporting, we wish we had known the importance of relationships and trust in a business-to-business environment.

We'd come from a craft perspective rather than a business one, so we learnt this lesson the hard way. Our clients tell us they want to know the key members inside the business who can make a difference to their projects. That is why travel as an aspect of marketing is so important in exporting, which is how the EMDG can help establish exporters in service-based industries.

#### Exporting has enabled our business to take Australian ingenuity to the world.

Exporting has allowed us to do amazing things at an international level from a place that provides a great quality of life for our people. The Australian film industry makes wonderful films but doesn't have the resources to do large Hollywood-scale digital productions. Through our technological innovations, we've contributed to changing the way the world works on these projects, making it possible to collaborate with filmmakers half a world away.



I'm proud that we've built an amazing team of people from over 30 countries that come together to make incredible images for our clients and continue to grow the company's capability and reputation by pushing the boundaries of what's possible to the highest levels.

#### The three things we would tell first-time exporters are:



##### Invest time in building relationships.

Spend time getting to know your clients and don't expect too much too soon. Success will be when your customers care about your success.



**Be genuine, be yourself.** Lasting relationships come from sustained and real trust between you and your customers.



**Know your business and your client's business.** Customers want to buy from people who can solve their problems and understand and empathise with their needs.

## CASE STUDY

### SEALINK TRAVEL GROUP

#### **We are SeaLink Travel Group.**

We are an ASX-listed company that provides tourism and travel experiences around Australia. Our brands include Captain Cook Cruises, Kangaroo Island Adventure Tours, Kingfisher Bay Resort and SeaLink ferries. We have over 1,600 employees and 18 offices in Australia. We also have one office in the UK, two in Europe and one in New Zealand.

#### **We started exporting in 1976.**

We had a healthy domestic business and decided to start exporting to grow revenue from overseas markets. Exports contribute up to 50 per cent of our revenue at certain times of the year and depending on the destination.

#### **The hardest thing about starting to export was brand building.**

Educating the market about our company and tourism products and services every time we entered a new country was probably the most time-consuming task. Brand building takes a lot of time and resources. Another challenge was managing key stakeholder expectations around return on investment.

#### **We have used government financial assistance to manage risk.**

We have used the EMDG scheme and received support from State Tourism Organisations. The financial assistance helped us balance the commercial risk that we were investing in.

#### **When we started exporting, we wish we had put in a performance measurement system.**

We recommend exporters set the right indicators and have a reporting system in place to measure success and return on investment.

#### **Exporting has enabled our business to grow.**

Taking our business global has enabled us to grow revenue significantly. It's also enabled us to provide employment and skills training for many Australians across the country. Finally, the revenue from exports, along with a strong domestic base, has allowed us to invest in training and development to increase the skills of our staff.



#### **The three things we would tell first-time exporters are:**



##### **Be aware of distribution costs.**

You should set aside budget to pay commissions to distribution partners.



**Be patient.** Lead times for tourism providers can be up to 18 months.



**Value your customers.** Build strong relationships and be consistent with service delivery.



## CASE STUDY

### SEAPA

#### **We are Seapa.**

We manufacture and sell plastic injection-moulded oyster growing equipment and systems. Our head office is in Edwardstown, South Australia, and we have offices in France, Japan and the US. We employ 25 people in Australia and overseas, including through our parent company Garon Plastics.

#### **We started exporting in 2000.**

We started exporting in response to requests from overseas customers. Exporting also allowed us to offset risk by diversifying our markets, as well as grow our business. Today, exports comprise 60 per cent of Seapa's business.

#### **The hardest thing about starting to export was overcoming the tyranny of distance.**

Giving customers the confidence in our products and offering support from so far away was challenging. We also had to resolve time zone and cultural issues. Connecting to the right people overseas and getting the right advice was difficult but critical in helping us address these challenges.

#### **We have used government financial assistance to grow relationships.**

We have received many government grants, including EMDG, Commercial Ready grant, Innovation Grant, R&D tax incentive and Export Partnership grant. We've used these grants to travel overseas and visit customers face-to-face to develop relationships, explain how our products work and share our farming knowledge.

EMDG has been fantastic – that assistance has been fundamental in our thinking when looking to export and gave us the confidence to take the risk. The Commercial Ready grant went towards developing a new product range. The Export Partnership Grant and Innovation Grant have also been useful in helping us grow our business.

#### **When we started exporting, we wish we had used our own people instead of agents.**

We found it challenging to work with agents and distributors as it was hard for them to understand how our products worked. As sales increased, they also wanted higher commissions, robbing us of profits. What worked for us was setting up our own people and offices. This enabled us to cut out the middleman and get unfiltered feedback so we could understand specific market needs and then develop better products for those markets.

We also had to adapt the product sold in Australia for overseas markets as one size does not fit all. Another major issue was the rise and fall of the Australian dollar. At the height of the mining boom when the dollar topped \$1.09 to the US dollar, it made things extremely difficult and this was out of our control.

#### **Exporting has enabled our business to expand locally and globally.**

Exporting has given us the means to increase revenue and profitability, employ and offer employees exciting opportunities, open overseas offices and investigate new products. Our local profile was boosted after we won the 2018 Australian Exporter of the Year Award.



#### **The three things we would tell first-time exporters are:**



**Validate your product.** Check that your products are relevant in the markets you wish to enter.



**Build strong, trustworthy relationships** with your customers.



**Don't be in a rush to grow.** Invest small to start and apply what you've learnt along the way.

## CASE STUDY

### SUBSEA ENGINEERING ASSOCIATES

#### We are Subsea Engineering Associates.

We are a Perth-based company providing engineering, consulting and project management support to the offshore energy sector, in particular the offshore oil and gas industry. Our 50-plus employees support clients in Australia, Europe and the US. We have an award-winning automated engineering and data platform, the ICE Platform, which complements our engineering team.

#### We started exporting in 2015.

We started exporting in response to the downturn in the local industry. Export earnings now account for nearly half of our annual turnover, and continue to increase year on year. Exporting allows us to take Australian experience and new technology developed on the back of many years of offshore project activity to the world. Our delivery model is different to the majority of engineering service providers; we use technology to be cost competitive, retaining experience in Perth and bringing work back to Australia.

#### The hardest thing about starting to export was getting a foot in the door.

Gaining that first foothold in a new region or industry is difficult. Overseas clients really need to see a strong value proposition to change from the existing supply chain or see the results from comparable projects.

#### We have used government financial assistance to offset business development costs.

The EMDG offset close to half of our expenditure on export business development for the last five years. The payoff is clear, with a significant increase in export earnings over this period. We rely on the EMDG when deciding whether or not to pursue new markets and opportunities.

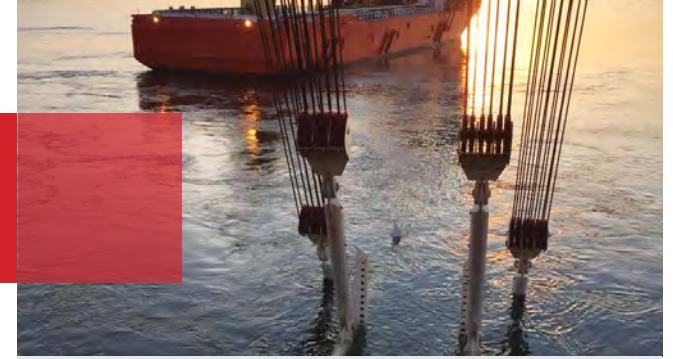
We have also been pre-approved for financial assistance from Export Finance Australia to cover project bid and performance bonds. Without this support we would not have been able to submit competitive proposals for certain overseas projects.

#### When we started exporting, we wish we had known that hunting alone is not the way to go.

Engaging in partnerships with overseas companies to provide an attractive joint capability offering has been a key learning for us. Attendance at trade shows, with industry-led delegations, is the best way to form these partnerships and connections.

Exporting has enabled our business to grow, retain and develop Australian-based engineering talent.

Exposure to overseas projects and the combination of our proprietary engineering automation tools will ensure our team is well placed to grow and survive industry fluctuations.



#### The three things we would tell first-time exporters are:



##### Engage early with Export Finance

**Australia** to determine how much project cash flow funding and bond support is potentially available. This may broaden the scope of projects and tenders you can chase.



##### Speak with Austrade

to find contacts at the export location, information on trade delegations, shows and other support. Reach out to those contacts and make them aware of your products, services and differentiation.



##### Travel to your target export destination

as often as you can. In-person contact is far more valuable than phone or videoconferencing. The EMDG scheme helps fund market visits, but set aside a certain amount of business development expenditure in proportion to the potential export earnings and stay committed to the process. It can take many months, if not longer, to make that first breakthrough.



## APPENDICES



## APPENDIX A: BACKGROUND TO THE EXPORT MARKET DEVELOPMENT GRANTS (EMDG) SCHEME

The EMDG scheme provides financial assistance to Australian small and medium-sized aspiring and current exporters to encourage them to increase their international promotion activity and to develop and expand their presence in overseas markets. Eligible applicants are reimbursed part of the expenses they incur in promoting their products.

Although the scheme uses the term 'grant' to describe the payments made to eligible applicants, the EMDG scheme is not a traditional grants program. Instead it is an entitlement established by the *Export Market Development Grants Act 1997* (the EMDG Act). An applicant's eligibility is assessed against the EMDG Act.

The EMDG scheme was established in its current form in the mid-1970s, with the Act being revised in 1997. Since then, changes have been made to help manage scheme demand (to either stimulate or dampen), to reflect changes in business practice, and to simplify administration. The most recent amendment in 2016 incorporated changes from the 2015 scheme review, as well as measures to improve risk management and control expenditure.

The EMDG Act requires the Minister to cause an independent review of the scheme, with a written report provided no later than 31 December 2021. This report must be tabled in the Parliament.

The EMDG scheme does not favour a particular industry or sector, and an Australian individual, partnership, company, association, co-operative, statutory corporation or trust is eligible to apply for assistance (up to eight grants) as long as the businesses meet the following conditions:

- > their income must not exceed \$50 million
- > they must have spent and paid for at least \$15,000 of eligible expenses
- > they must have undertaken eligible export promotion activities for their product during the grant year of their application.

Eligible promotional activities include:

- > overseas representatives
- > marketing consultants
- > marketing visits
- > free samples
- > trade fairs, seminars and in-store promotions
- > promotional literature and advertising
- > overseas buyers
- > registration and/or insurance of eligible intellectual property.

Eligible products include:

- > a good made in Australia
- > a good made outside Australia where Australia will derive a significant net benefit from its sale overseas
- > all services except those specified as ineligible in the EMDG Regulations
- > a tourism service (including accommodation, passenger transport or tours)
- > a conference or event held in Australia
- > an intellectual property right that mainly resulted from work done in Australia
- > a trademark that was owned, assigned or first used in Australia
- > know-how that mainly resulted from work done in Australia.

Organisations or groups who promote on behalf of their industry (approved bodies) can also access the scheme, as can a group of businesses cooperating in a joint venture marketing arrangement (approved joint ventures). An approved body can receive an uncapped number of grants, while approved joint ventures can receive up to five grants.

Profile of approved bodies in 2017–18:

- > There were 77 approved bodies that represented a range of industries, including Tourism (24), Agriculture, Forestry and Fishing (21) and Education and Training (8) industries.
- > The average grant received by an approved body was \$42,700, \$9,600 higher than the average for all EMDG recipients in the same period.
- > The types of export market development activities was different to that of other claimant groups. The average expenditure claimed for promotional events was almost four times that of other claimant groups, while they also spent almost twice as much as other claimant groups on advertising. They are more likely to attend trade shows and other similar events on behalf of their membership.

## RECIPIENT PROFILE – 2017-18 GRANT YEAR

In 2018–19, 4,019 applicants applied for an EMDG, and 3,779 were successful. Six per cent were unsuccessful.

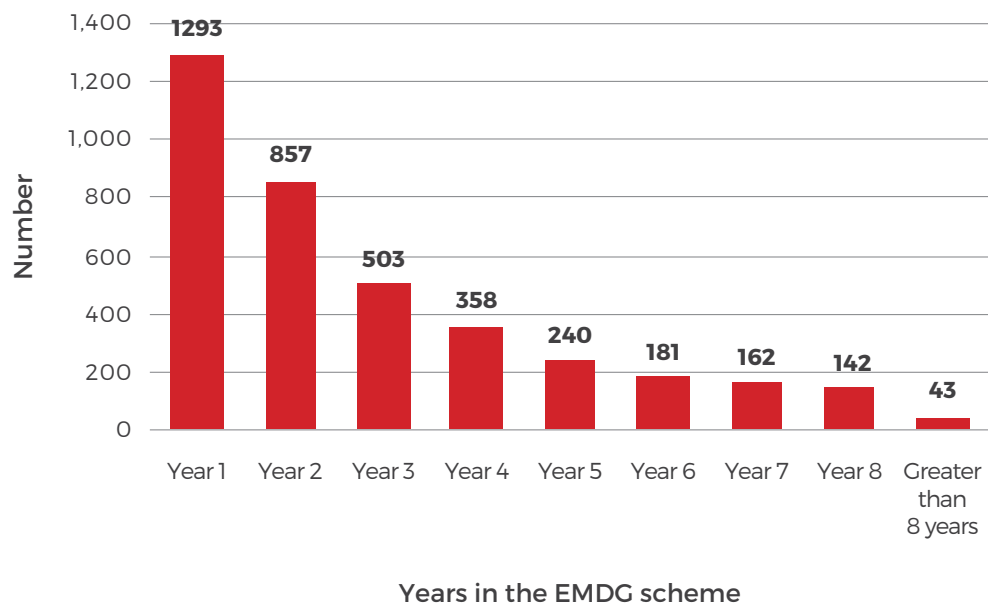
Most (75%) applied for their EMDG with assistance using consultants. Consultants have a slightly higher success rate than businesses that lodge their own claims (95% compared to 91%).

Of those who received a grant, just over one-third were first year recipients, while 22% were second year recipients. The Export Performance Test commences at year 3 and this distribution gradually declines. By year 8, these recipients were 4% of the recipients in that year<sup>1</sup> (Figure A1).

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<sup>1</sup> The scheme is capped at eight grants for businesses. Note the 43 recipients that have received more than eight grants are approved bodies.

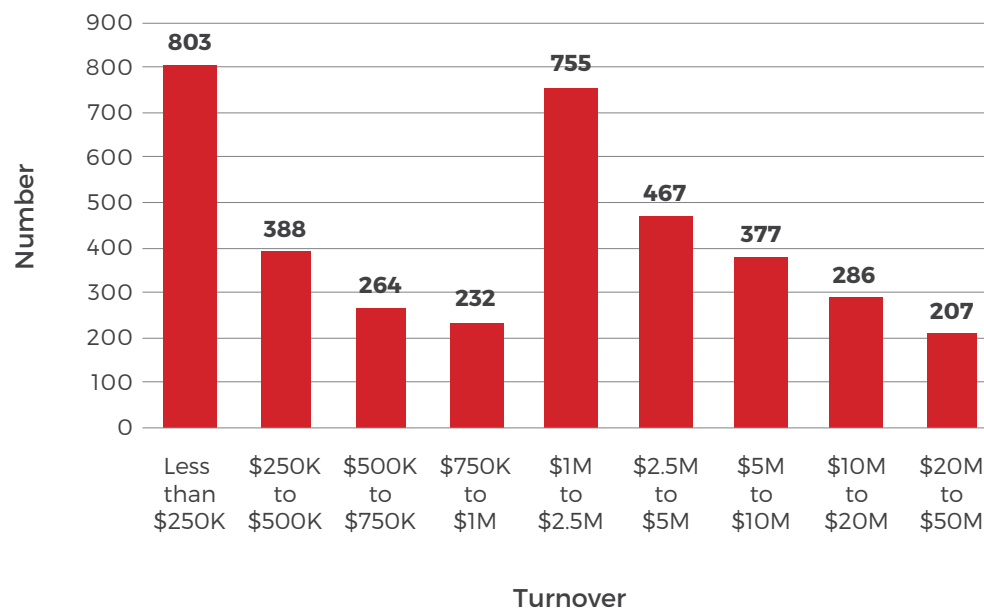
**Figure A1: Profile of EMDG recipients by years in scheme, 2017-18**



Source: EMDG administration database

EMDG recipients have a very different profile when viewed by turnover. Around one-fifth (21%) of EMDG recipients have turnover of less than \$250,000, and nearly half less than \$1 million. At the other end, just under 500 recipients (or 13%) have turnover of \$10 million or more.

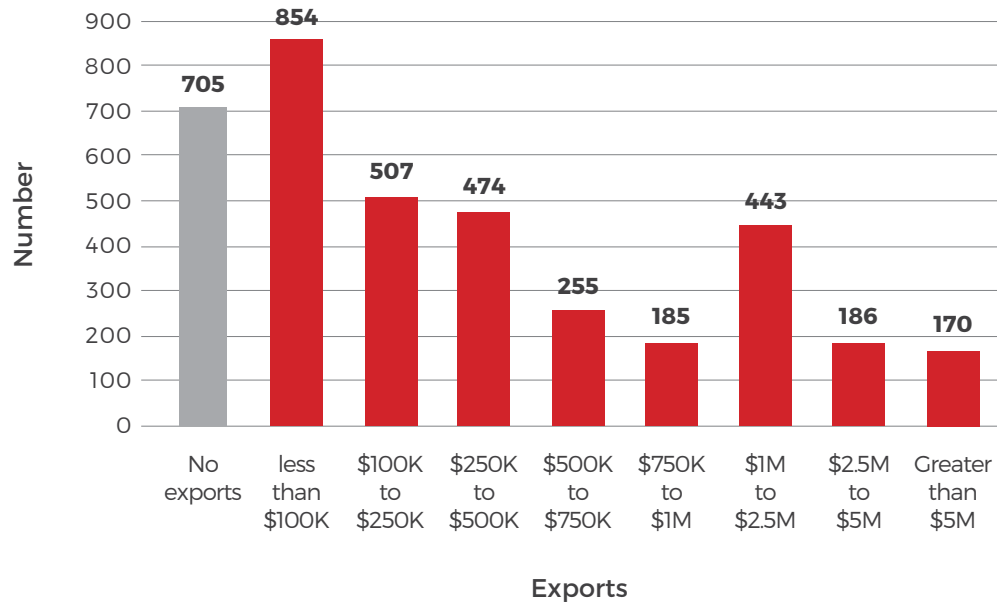
**Figure A2: Profile of EMDG recipients by business turnover, 2017-18**



Source: EMDG administration database

In terms of exporting, around 19% of recipients do not report their exports. Most of these recipients are first or second grant recipients, and reporting exports is not a mandatory requirement. Of those that report exports, 60% have exports valued less than \$500,000, while just over one-quarter have exports of \$1 million or more.

**Figure A3: Profile of EMDG recipients by size of exports, 2017-18**



Source: EMDG administration database

**ELIGIBLE EXPENDITURE PROFILE - 2017-18 GRANT YEAR**

EMDG applicants can claim against eight expenditure categories. On average, recipients claimed in three categories, with marketing visits, advertising and promotional events the most common categories.

**Table A1: Eligible expenditure items**

		Marketing visits	Advertising expenses	Trade fairs and promotional events	Marketing consultants	Overseas representatives	Free samples	Registration and/or insurance of eligible intellectual property (IP)	Overseas buyers
1	Year 1	1,063	948	679	386	219	300	329	29
2	Year 2	703	623	422	269	216	201	202	37
3	Year 3	418	360	286	172	184	114	102	25
4	Year 4	293	258	199	107	128	90	81	12
5	Year 5	191	172	131	62	96	67	56	10
6	Year 6	140	116	99	37	75	40	34	9
7	Year 7	125	109	101	37	65	36	27	10
8	Year 8	121	104	86	29	55	38	28	8
Greater than 8	Greater than 8	40	34	34	17	14	0	0	10
	<b>Total</b>	<b>3,094</b>	<b>2,724</b>	<b>2,037</b>	<b>1,116</b>	<b>1,052</b>	<b>886</b>	<b>859</b>	<b>150</b>
	Share of recipients	82%	72%	54%	30%	28%	23%	23%	4%
	Share of year 1 recipients	82%	73%	53%	30%	17%	23%	25%	2%

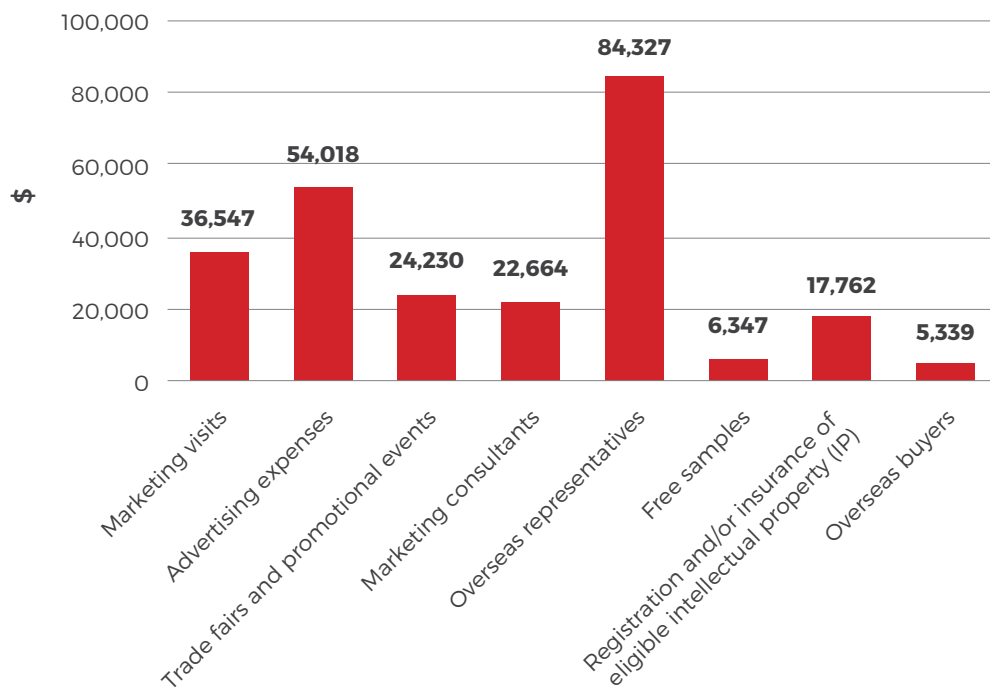
Source: EMDG administration database

Most of these categories have an expenditure cap: overseas representatives (\$200,000), marketing consultants (\$50,000), free samples (\$50,000), overseas buyers (\$45,000) and registration and/or insurance of eligible Intellectual Property (IP) (\$50,000). The daily allowance for marketing visits is capped at \$350 per day for a maximum 21 days.



Average claims for overseas representatives were the highest expenditure item, followed by advertising and marketing visits (Figure A4).

**Figure A4: EMDG eligible expenditure items, average claimed**



Source: EMDG administration database

Overall, the average grant sought by recipients in 2017–18 was \$49,300, while the average grant received by recipients was \$33,000. Adjustment to the final payment is in two steps with Austrade approving the expenditure, before payment is made in two tranches.

## TWO TRANCHE PAYMENTS: MANY RECIPIENTS DO NOT RECEIVE THE FULL APPROVED GRANT

In the last five years, recipients have received less than their full entitlement, as demand has exceeded available funds. All recipients receive up to the Initial Payment Ceiling Amount (\$40,000 since 2015–16) when their claim is assessed. The remaining funds are distributed to recipients with an entitlement above \$40,000 in June each year on a pro-rata basis. In 2018–19, the second tranche payment was 24.6 cents in the dollar for entitlements above \$40,000. This was the second-lowest payment level in the history of the scheme. Nearly 1,600 recipients (or 42% of all recipients) were affected, and payments were adjusted on average by around \$33,300. As a result, payments made to recipients after the second tranche payment can be substantially lower than the approved payment. Overall, average payments to larger businesses are more likely to be reduced due the second tranche threshold (before approvals, Table A2).

**Table A2: EMDG summary, including the impact of lower second tranche payments**

Financial year	Scheme budget (including administration)	Initial payment	Second tranche payment	Affected recipients	Percentage of recipients impacted	Average impact per affected recipient
	\$ million	\$	%	No.	%	\$
2011-12	\$150.4	\$50,000	100	0	0	0
2012-13	\$125.4	\$60,000	100	0	0	0
2013-14	\$137.9	\$60,000	100	0	0	0
2014-15	\$137.9	\$60,000	65.3	858	28.31	16,191
2015-16	\$137.9	\$40,000	72.7	1,330	42.46	12,679
2016-17	\$137.9	\$40,000	64.5	1,447	43.49	16,434
2017-18	\$137.9	\$40,000	29.2	1,506	42.26	32,669
2018-19	\$137.9	\$40,000	24.6	1,574	41.65	33,293
2019-20	\$157.9	\$40,000	n.a.	n.a.	n.a.	n.a.

Source: EMDG administration database

The EMDG administration data show as the size of a business increases, the value of the grant paid also increases (Table A3).

**Table A3: Grants paid to recipients, 2017-18**

For businesses with turnover:	Grant paid	
	Average \$	Median \$
Less than \$250,000	24,463	20,417
\$250,000 to \$500,000	29,109	26,546
\$500,000 to \$750,000	27,645	24,613
\$750,000 to \$1.0m	31,437	31,537
\$1.0m to \$2.5m	34,767	36,673
\$2.5m to \$5.0m	38,596	41,637
\$5.0m to \$10m	38,173	40,425
\$10m to \$20m	41,742	43,092
\$20m to \$50m	42,522	44,720
<b>All recipients</b>	<b>33,089</b>	<b>32,043</b>

## PAST REVIEWS OF THE EMDG SCHEME

A requirement of the *Export Market Development Grants Act 1997* is periodic, independent review. While there have been a number of reviews of the EMDG scheme since it commenced in 1974, it has not seen significant reform in over 40 years (Table A4).

**Table A4: EMDG scheme reviews**

Year	EMDG scheme review
1977	Industries Assistance Commission – Export incentives report
1982	Industries Assistance Commission – Export incentives report
1984	Department of Trade – Evaluation of EMDG scheme
1985	Report of the National Marketing Strategy Panel (the Ferris Report)
1988	Bureau of Industry Economics – Review of the EMDG Scheme
1989	Committee for Review of Export Market Development Assistance (the Hughes Report)
1994	Helping to meet the export challenge (Austrade review with analysis by PricewaterhouseCoopers and Professor Ron Bewley) Australian National Audit Office efficiency audit Review of Commonwealth enterprise improvement programs (I.G. Burgess)
1996	Australian National Audit Office (follow-up) performance audit
1997	Going for growth review of business programs for investment, innovation and export (David Mortimer)
2000	Review of the EMDG scheme (with analysis by Professor Ron Bewley)
2005	Review of the EMDG scheme (with analysis by Centre of International Economics)
2008	Review of Export Policies and Programs (David Mortimer AO) Review of the Export Market Development Grants Scheme 2008 – A report by Lateral Economics for the Review of Export Policies and Programs
2009	2009 Update of Review of the Export Market Development Grants Scheme 2008 – A supplementary report by Lateral Economics Economic Impacts of the Austrade Export Market Development Grant – A Report by KPMG Econtech
2014	Australian National Audit Office Administration of the Export Market Development Grants Scheme
2015	Review of the EMDG scheme (Michael Lee)

Michael Lee's review of the EMDG scheme: *Certainty and Confidence: Exports and jobs for a changing global economy* was provided to the then Minister for Trade and Investment, the Hon Andrew Robb AO MP in June 2015. This Review considered whether the EMDG scheme, as currently structured, was effective in:

- > increasing the number of exporters
- > increasing the sustainability and growth of export markets
- > further developing an export culture in Australia.

The Lee Review concluded that the EMDG scheme was effective in meeting its objective to encourage the creation, development and expansion of overseas markets for Australian goods, services, intellectual property and know-how.

The report's recommendations were mainly centred on operational improvements to add certainty and confidence to long-term planning for exporting business and Austrade, and the scheme remained largely unchanged.

In 2008, the EMDG scheme was reviewed as part of the Government's *Review of Export Policies and Programs*, undertaken by Mr David Mortimer AO and Dr John Edwards. This review examined the impact of the EMDG scheme in stimulating export growth. The report: *Winning in World Markets: Meeting the Competitive Challenge of the New Global Economy* found that the scheme should continue as it was helpful in assisting smaller Australian businesses to internationalise.

The report noted the need to preserve the real value of funding or risk compromising longstanding good reputation of the scheme in supporting exporters. Recommendation 8.2 has resonated with this current Review: 'Continue the Export Market Development Grants scheme as a capped program, with either the cap adjusted to match demand against current eligibility criteria or eligibility criteria adjusted to meet the current cap'.

# APPENDIX B – TERMS OF REFERENCE

## REVIEW OF FINANCIAL ASSISTANCE TO AUSTRALIAN SME EXPORTERS

The Minister for Trade, Tourism and Investment, Senator the Hon Simon Birmingham, has appointed Ms Anna Fisher of Zonte's Footstep to undertake a review to examine the most effective and efficient way to deliver financial assistance to Australian small to medium-sized exporters to encourage additional export development and promotion activities. Minister Birmingham has also asked Christine Holgate of Australia Post and Bruce Armstrong of the Aspen Medical Group to be advisors to Ms Fisher, given their significant business experience as successful Australian exporters.

The Minister has called for the review under section 106A of the *Export Market Development Grants Act 1997*. The reviewer is asked to take a broad view of the most effective and efficient way to provide financial assistance to exporters, and to consider whether EMDG in its current form is the most effective and efficient way to generate additional export activity among the SME cohort. The reviewer is also asked to consider alternative options to provide assistance to SMEs to generate additional activity among the cohort.

## BACKGROUND

Exporters play an important role in the Australian economy. On average, exporters grow faster, with higher levels of employment, capital expenditure, labour productivity, and wages. Exporting is associated with a higher probability of business survival.

EMDG is the Government's primary financial assistance program, and has supported over 50,000 small and medium-sized (SME) exporters to enter and grow export markets for their goods, services, intellectual property and know-how since 1975. While the Government provided an additional \$60 million to the scheme in the 2019–20 Budget, it has not seen significant reform in its 40-year history. The Government has committed to increase Australia's exporting population by over 10,000 in the next three years, helping to create an additional 250,000 trade-related jobs over the next five years. In this context, the scheme's effectiveness and efficiency in generating additional export activity and employment opportunities for Australians should be considered.

This includes looking at how Government can make it easier and simpler for businesses to access support whilst maintaining transparency and value for taxpayer money to encourage additional market development and promotion activities. The outcomes of the review must be consistent with the Government's prudent fiscal strategy and World Trade Organization obligations.

## TERMS OF REFERENCE

This Review will examine the most effective and efficient way for Government to provide assistance to SMEs that supports them to generate additional export sales delivering strong economic outcomes for Australia. A final report must be provided to the Minister by March 2020<sup>2</sup> that considers:

1. How assistance to Australian SMEs can be delivered in the most **effective** way to encourage more businesses to begin exporting, to develop new export markets or to expand existing export markets. The Review shall, among other matters, consider:
  - > factors that determine a business' decision to choose to export or increase exports beyond usual business activity
  - > the best time in an export journey to target the financial assistance to change exporter behaviour
  - > the different types of assistance for businesses along their export journey
  - > how this assistance can complement other export advisory services or other export market development incentives.

<sup>2</sup> The Reviewer's report was delayed due to the impacts of COVID-19.

2. How to design and administer any assistance in the most **efficient** way to:

- > provide certainty of assistance to eligible applicants
- > deliver optimal results from the use of taxpayer funds
- > ensure integration of service delivery across Government where appropriate
- > minimise compliance and application costs for applicants
- > simplify and streamline administration to reduce administration costs.

The Review will also consider the findings of Austrade's client services design projects, and take into account government policy, including the Digital Transformation Agenda and Streamlining Government Grants Administration program.

To support the Review, Austrade will commission research on Australian businesses to help to understand the export impact that financial assistance can have, the characteristics of successful exporters, and how to best activate additional export activity.

## APPENDIX C – REVIEW CONSULTATIONS

Wide consultations were undertaken to seek the views of exporters (aspiring, new and established), individuals, and interested parties (e.g. peak bodies, industry associations and EMDG consultants) in response to the Review's Terms of Reference.

Following a media release by the Minister, consultations were promoted to over 5,000 subscribers to Austrade external newsletters (Export Update, EMDG Update, Tourism Matters) and through internal messages to Austrade's client-facing teams.

A total of 12 face-to-face consultations were held around Australia in Adelaide, Brisbane, Melbourne, Perth and Sydney, with webinars used for regional attendees. The Reviewer also held a round table with peak bodies and met with the Board of Export Consultants Association Incorporated on two occasions.

These sessions were future focused, rather than looking back at issues with the current EMDG scheme, and concluded with workshopping ideas on:

- > How do we encourage businesses to start exporting and build export markets?
- > What kind of support should government provide to create and build overseas markets?

The Reviewer met with a number of state and territory government representatives, including the National Trade Working Group and TradeStart officers in several locations. She also met with individuals and businesses in a number of locations.

The Review received 158 online submissions through the Citizen Space online consultation hub. Respondents included exporting and non-exporting businesses, consultants and approved bodies. The biggest cohort of respondents was *Businesses/exporters* (120 responses), with 98 of those being EMDG recipients. Twelve respondents flagged that they were non-exporters but intended to export in the next two to five years. Of the 26 EMDG professional services respondents, most indicated they were EMDG consultants.

The questionnaire used for this survey was framed around the Terms of Reference to understand:

- > what businesses value about the EMDG scheme and how they use it
- > the most effective and efficient way the Government can provide financial assistance to SME exporters to promote their products and services overseas and encourage them to enter new export markets.

Key findings from the online consultation are at **Attachment A**.

Twelve **written submissions** were received from peak bodies, industry associations and current EMDG recipient SMEs.

## ATTACHMENT A

### ONLINE CONSULTATION (SURVEY)

The online consultation was launched on 15 October 2019, and remained open for 27 days.

#### WHAT INFORMATION DID THE SURVEY SEEK?

The online consultation provided separate questions for the businesses/exporters cohort, EMDG approved bodies and other stakeholders (professional services providers/consultants, government industries and peak bodies).

Each cohort were asked questions on factors driving export activity; factors that may stop or prevent exporting; important promotion activities; timing of financial assistance; and ranking what they consider are important features for financial support. Businesses/exporters were also asked to provide key characteristics of their business, such as age; turnover; export turnover; number of employees; the number of EMDG grants; and use of consultants to engage with EMDG. The non-businesses/exporter cohort were also asked the optimum size of business that best encourages them to export.

In most cases, the questionnaire allowed free text responses for each of the main questions, encouraging respondents to expand on the issue being discussed.

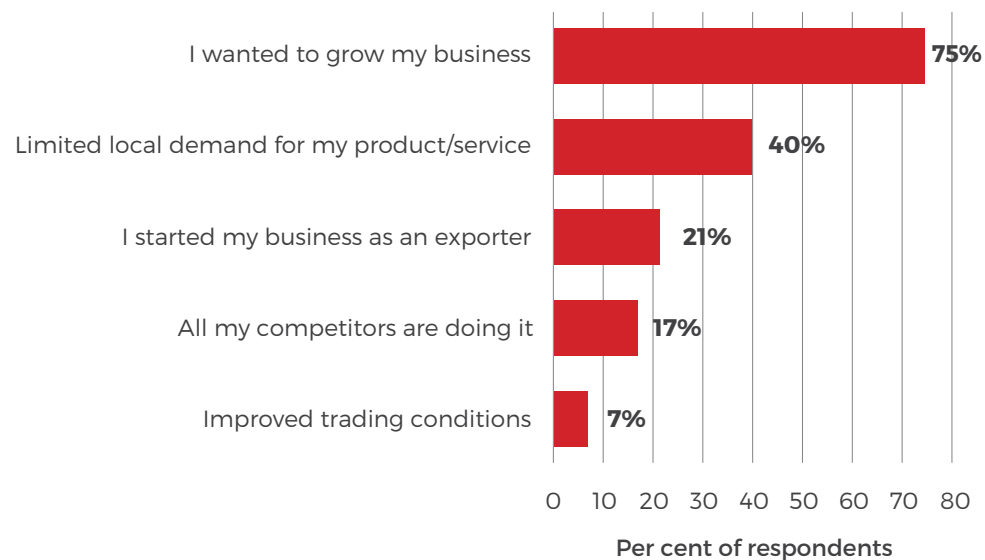
On the whole, responses to most 'business characteristic' questions could be compared to results from the EMDG administration database. For the most part, results were similar.

The online consultation provided useful information on why SMEs export and the features of the EMDG scheme that businesses value. It also highlighted that there is demand from SMEs to simplify the way the assistance is administered.

Key conclusions from the online consultation were:

1. Respondents suggested that they began exporting primarily 'to grow the business' followed by 'limited local demand for my product/service'. This ranking was consistent irrespective of the age of the business (Figure C1).

Figure C1: Why did you start exporting?



Source: Austrade's Review of Financial Assistance to SME Exporters, online consultation



2. Respondents clearly highlighted that ‘*natural fit for product*’ and ‘*connections and existing relationships*’ are the main reasons that exporters choose an export market (Figure C2).

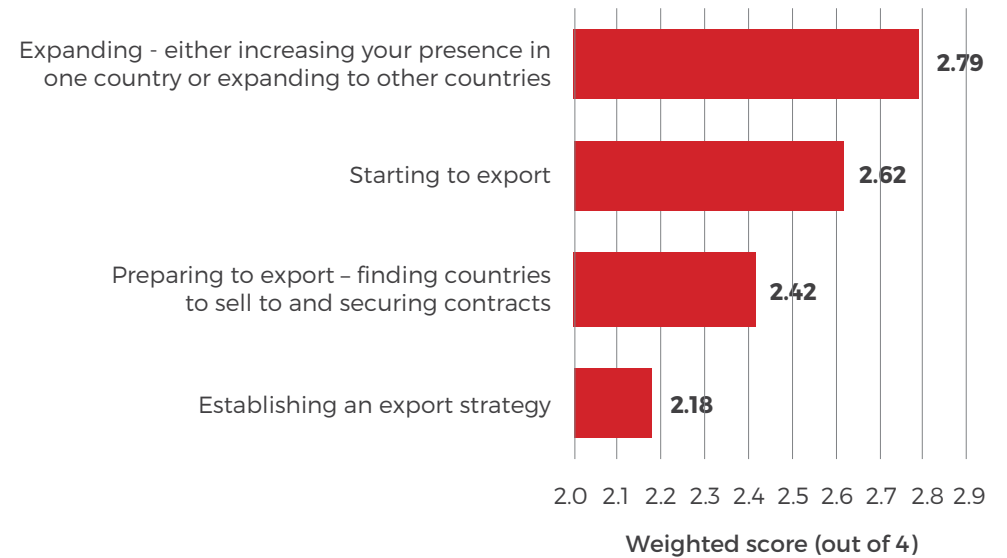
**Figure C2: Main reasons to choose export markets**



Source: Austrade’s Review of Financial Assistance to SME Exporters, online consultation

3. Exporters preferred to receive support when starting to export or expanding their exports (to new markets or expanding in existing markets, see Figure C3). These are periods of higher risk in their export journey when finances are committed with unknown outcomes.

**Figure C3: At what stage would financial assistance increase the likelihood of you achieving export success?**

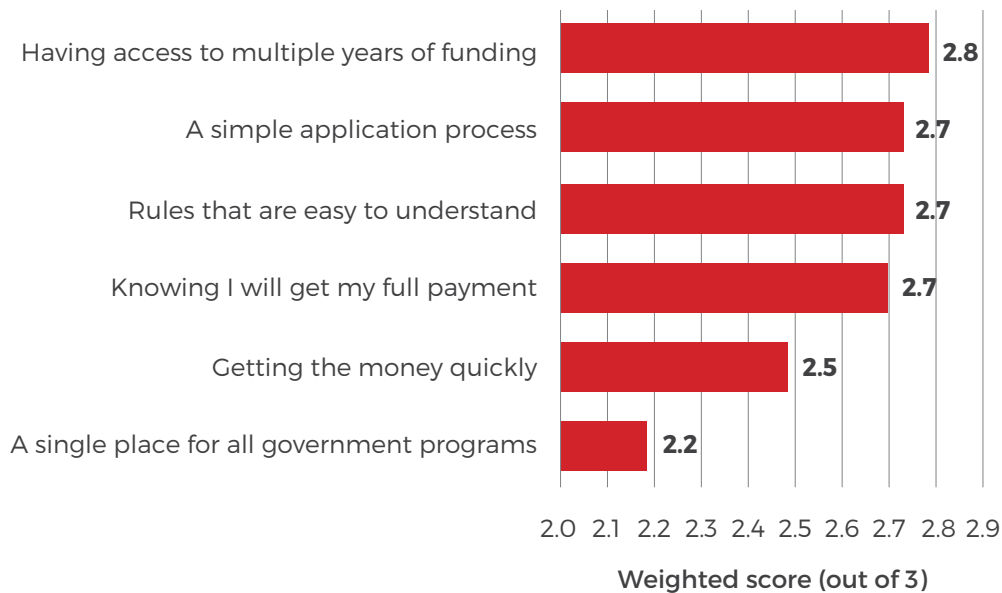


Source: Austrade’s Review of Financial Assistance to SME Exporters, online consultation

4. 'Having access to multiple years of funding' was the design feature favoured by most respondents. (Figure C4). On the other hand, exporters rated 'a single place for all government programs' the lowest. This feedback was similar to that from the consultant respondents.

Simplicity, in terms of having 'easy to understand rules and a simple application process' featured prominently as a core design feature of a government financial assistance program. Exporter respondents also ranked receiving full payment slightly above receiving the money quickly. 'Certainty of a payment' ranked the highest with consultants.

**Figure C4: Importance of features in a government financial assistance program designed to encourage export promotion activity**



Source: Austrade's Review of Financial Assistance to SME Exporters, online consultation

5. 'Travel overseas (to meet new and current clients)' and 'travel to attend trade shows' are clearly the activities for which exporters prefer to receive financial support. 'Free samples and business planning' were the least preferred areas for support (Figure C5).

**Figure C5: How important is it that you receive financial assistance for the following activities?**



Source: Austrade's Review of Financial Assistance to SME Exporters, online consultation

## APPENDIX D – DIFFERENCE-IN-DIFFERENCES METHODOLOGY

The primary focus of this analysis was how businesses performed after receiving EMDG; establishing whether businesses have changed their staffing levels after receiving a grant; annual turnover in years after the grant; and their survival over the period. These are all broadly related to productivity (i.e. how many resources – labour and capital – are used to produce a good or service), which we consider to be the biggest net contributor to the economy from exporting.

The model uses a difference-in-differences methodology. This, at its most basic uses statistical techniques to estimate the effect of EMDG on business-level variables tied to performance. It estimates the average change over time in the treatment group (EMDG recipients) when compared to the control group (Austrade general services clients).

The model also provided findings on the additional benefits of businesses that received Austrade tailored services in addition to an EMDG (note that this cohort is relatively small).

Difference-in-differences (DID) methodology is a quasi-experimental econometric method that compares a treatment group against a control group – in this case comparing EMDG recipients to businesses who didn't receive grants but received general services (but not other Austrade services). It is assumed that both of these groups will have the same (linear) growth trajectory across the metrics used, which can then be used as a baseline from which to observe differences. In the case of this work, Swinburne was asked to use this methodology to show changes as a result of EMDG in the following metrics:

- > export sales
- > export participation

- > export intensity (share of sales)
- > employment
- > labour and capital productivity
- > survival probability
- > export survival hazard.

These match like businesses using nearest neighbour and five nearest neighbour techniques based on the characteristics of those businesses. These are found using a probability-based technique – propensity score matching – which identifies businesses that are most likely to participate in the scheme based on a set of metrics. For this model, the variable identified and matched for were:

- > total sales revenue
- > exporter status
- > state of headquarters
- > estimated age since ABN registration
- > imports
- > industry.

This is used to form the control and treatment groups, which are used to estimate the difference from year one of receiving a grant. In this case, while the BLADE dataset was used across a longer timeframe to match businesses, the methodology itself was only used to assess changes between grants year 2012–13 to 2017–18.

### LIMITATIONS

Business survival and export survival are estimations based on an extended statistical mean. These estimations, while valid, are indicative rather than directly observed.

The matching process reduces selection bias by comparing like businesses where data is available. While matching is undertaken on an average basis from 2001–02 to 2012–13, it is difficult to eliminate spurious matching entirely. Selection bias has been partially mitigated by Austrade general services recipients as a control to proxy for willingness to export, and to seek government assistance.

**Table D1: Estimated cumulative impacts of EMDG only on business performance by turnover band, 1NN**

Export sales (%)	Average	Confidence interval	Export intensity (share sales)	Average	Confidence interval
\$0 - \$250k	226.7	(204.1 to 249.4)	\$0 - \$250k	1.9	(-60.2 to 64)
\$250k - \$500k	175.6	(144.4 to 206.7)	\$250k - \$500k	28.2	(-26.1 to 82.5)
\$500k - \$750k	197.7	(159.7 to 235.7)	\$500k - \$750k	308.2	(-487.7 to 1104)
\$750k - \$1m	180.1	(137.1 to 223)	\$750k - \$1m	203.3	(-127.8 to 534.4)
\$1m - \$2.5m	159.3	(135.4 to 183.3)	\$1m - \$2.5m	3.0	(0.1 to 5.8)
\$2.5m - \$5m	90.4	(58.7 to 122)	\$2.5m - \$5m	2.6	(0.3 to 4.9)
\$5m - \$10m	113.4	(73.7 to 153.1)	\$5m - \$10m	-3.5	(-16.6 to 9.6)
\$10m - \$20m	31.2	(-14.4 to 76.9)	\$10m - \$20m	1.6	(0.2 to 3.1)
\$20m - \$50m	138.1	(61.7 to 214.6)	\$20m - \$50m	6.0	(3.8 to 8.3)
Export participation (% points)	Average	Confidence interval	Employment (%)	Average	Confidence interval
\$0 - \$250k	19.7	(14.5 to 25)	\$0 - \$250k	15.4	(11.6 to 19.2)
\$250k - \$500k	14.8	(10.1 to 19.5)	\$250k - \$500k	8.1	(3.2 to 12.9)
\$500k - \$750k	22.0	(15.1 to 29)	\$500k - \$750k	10.6	(4.8 to 16.5)
\$750k - \$1m	13.3	(7.2 to 19.5)	\$750k - \$1m	16.0	(9.9 to 22.1)
\$1m - \$2.5m	17.8	(13.8 to 21.9)	\$1m - \$2.5m	11.9	(8.2 to 15.6)
\$2.5m - \$5m	10.5	(5.3 to 15.7)	\$2.5m - \$5m	9.0	(4.2 to 13.9)
\$5m - \$10m	16.6	(10.0 to 23.3)	\$5m - \$10m	9.2	(3.6 to 14.7)
\$10m - \$20m	3.4	(-5.6 to 12.4)	\$10m - \$20m	2.9	(-4.0 to 9.8)
\$20m - \$50m	26.1	(7.6 to 44.6)	\$20m - \$50m	-12.5	(-24.0 to -1.1)

Notes: Estimates are based on difference-in-differences analysis of participating businesses compared to organisations receiving general services, but no other Austrade service. 'No Matching' uses all businesses seeking general services, excluding those also receiving any other Austrade service. '1NN Matching' uses one nearest neighbour propensity score matched general service businesses as a control for each business receiving an EMDG. A business in the control group can be matched to multiple treatment businesses. Lower and upper bounds (Lower 95%-CI and Upper 95%-CI) are estimated 95% confidence intervals. Bands are based on average pre-treatment real turnover in 2002 dollars.

**Table D2: Estimated cumulative impacts of EMDG only on business performance by turnover band, 1NN**

Labour productivity (%)	Average	Confidence interval	Survival probability (% points)	Average	Confidence interval
\$0 - \$250k	-1.4	(-15.6 to 12.7)	\$0 - \$250k	9.5	(6.8 to 12.1)
\$250k - \$500k	-5.0	(-17.4 to 7.4)	\$250k - \$500k	5.3	(2.0 to 8.5)
\$500k - \$750k	2.9	(-9.0 to 14.8)	\$500k - \$750k	5.0	(1.4 to 8.5)
\$750k - \$1m	0.6	(-13.3 to 14.5)	\$750k - \$1m	0.2	(-2.6 to 3)
\$1m - \$2.5m	3.7	(-3.1 to 10.5)	\$1m - \$2.5m	4.3	(2.0 to 6.5)
\$2.5m - \$5m	2.1	(-6.1 to 10.3)	\$2.5m - \$5m	4.4	(1.6 to 7.2)
\$5m - \$10m	3.9	(-5.5 to 13.2)	\$5m - \$10m	5.2	(1.5 to 9)
\$10m - \$20m	-8.0	(-20.1 to 4.2)	\$10m - \$20m	1.8	(-1.9 to 5.5)
\$20m - \$50m	-13.7	(-32.5 to 5.1)	\$20m - \$50m	0.0	(-9.5 to 9.5)
Capital productivity (%)	Average	Confidence interval	Export survival hazard (% points)	Average	Confidence interval
\$0 - \$250k	-10.8	(-33.3 to 11.8)	\$0 - \$250k	14.0	(11.5 to 16.5)
\$250k - \$500k	18.7	(-2.3 to 39.7)	\$250k - \$500k	10.3	(7.9 to 12.6)
\$500k - \$750k	-12.6	(-37.3 to 12.2)	\$500k - \$750k	18.7	(14.4 to 23)
\$750k - \$1m	21.8	(-3.2 to 46.8)	\$750k - \$1m	9.1	(6.5 to 11.7)
\$1m - \$2.5m	-0.5	(-14.5 to 13.4)	\$1m - \$2.5m	17.1	(15.4 to 18.9)
\$2.5m - \$5m	7.7	(-10.2 to 25.6)	\$2.5m - \$5m	4.9	(3.2 to 6.7)
\$5m - \$10m	3.6	(-17.9 to 25.2)	\$5m - \$10m	15.2	(13.2 to 17.2)
\$10m - \$20m	27.0	(-2.9 to 56.8)	\$10m - \$20m	10.1	(8.8 to 11.4)
\$20m - \$50m	-17.4	(-65.6 to 30.7)	\$20m - \$50m	-10.4	(-12.1 to -8.7)

Notes: Estimates are based on difference-in-differences analysis of participating businesses compared to organisations receiving general services, but no other Austrade service. 'No Matching' uses all businesses seeking general services, excluding those also receiving any other Austrade service. '1NN Matching' uses one nearest neighbour propensity score matched general service businesses as a control for each business receiving an EMDG. A business in the control group can be matched to multiple treatment businesses. Lower and upper bounds (Lower 95%-CI and Upper 95%-CI) are estimated 95% confidence intervals. Bands are based on average pre-treatment real turnover in 2002 dollars.

## APPENDIX E – AUSTRADE HUMAN-CENTRED DESIGN PROJECTS

### BIZLAB PROJECT – DEPARTMENT OF INDUSTRY, INNOVATION AND SCIENCE AND AUSTRADE (2018)

In 2018, Austrade partnered with the Department of Industry, Innovation and Science on a human-centred design based project to:

- > better understand the needs and experience of businesses who are exporting or looking to export, including where they turn to for assistance
- > identify areas of opportunity to improve the impact of government support to potential and existing exporters.

A total of 20 in-depth interviews were conducted with a cross-section of SME exporters and EMDG consultants. Key findings from this project include:

- > Most of the barriers to export faced by businesses are outside of their control. These include economic factors, foreign legal and regulatory systems, and time zone differences.

- > Business-to-business and personal networks are the key source of information and market access for exporters. Businesses use professional services providers to support their business development, and rely on them as a source of information.
  - > These are valuable networks and should be used by government when sharing information with businesses.
- > On-the-ground presence is crucial to businesses building trusted relationships, as technology can't replace face-to-face interactions.
  - > Government programs should support the development of on-the-ground relationships.
- > While businesses value EMDG, when interacting with government, money isn't the only important thing for business – they also value information and connections.
  - > Financial support needs to be positioned in the suite of services that government provides to businesses, at the stage of the export journey when it is most valuable to exporters and most likely to maximise the government's investment.
- > Some businesses do not need financial assistance – 'young' exporters need more business fundamentals assistance (this is the *Casual Exporter* persona in Exhibit 1 below) and more mature businesses see EMDG as a 'nice to have' but would more likely benefit from more tailored Austrade services and information (this is the *Experienced Exporter* and *Agile Exporter* personas in Exhibit 1 below).
- > There is a point in the exporter journey where financial assistance is most valuable and valued (this is the *Accidental Exporter*, *Ambitious Exporter* and *Agile Exporter* personas below).
- > There are also some exporters who do not rely on any form of government assistance, but prefer to use their own networks and contacts (this is the *Cautious Exporter* in Exhibit 1 below).
- > Businesses in the early stages of their export journey learn through trial and error and struggle to make informed decisions.
  - > They need more targeted support and information to help improve their export capability.

- > Mature exporters have developed a good understanding of how to approach and adapt to different markets.
- > Government can leverage this expertise to support businesses new to export (particularly given businesses use networks as key sources of information).

- > Businesses will apply for any government financial support they know is available – however, often the time spent applying was not commensurate with the return.
- > Application and assessment processes need to be more in line with the value of the payment.

A set of exporter personas were developed for this project, summarised in the following:

Exhibit 1

## Key Actions by Persona

### ① EMDG Focus

The types of businesses who would benefit most from EMDG funding were those with mid range business acumen and export experience. These businesses are savvy enough to get the most out of funding, but still early enough in their journey that they require financial assistance.

### ② Other Austrade Services

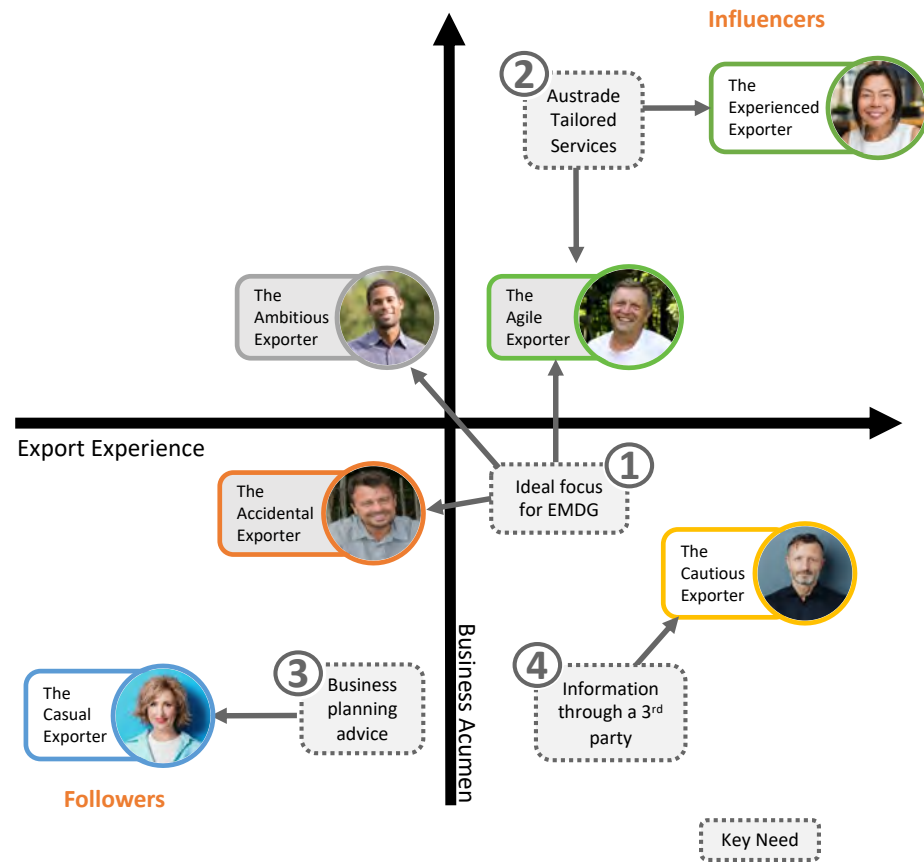
The more experienced businesses with high business acumen require highly specific information. They would benefit the most from tailored services.

### ③ AusIndustry Support

The most inexperienced businesses require more general support, for example business planning and scale up. These businesses would benefit most from AusIndustry support programs to help understand the fundamentals before investing in their export journey.

### ④ Third Party Information

Businesses with lower levels of business acumen but high export experience are more likely to benefit from information provided through a third party than directly from government.



## CLIENT SERVICE DESIGN – AUSTRADE (2019)

As part of Austrade’s transformation strategy in 2018, a priority project was undertaken to understand what clients value. This laid the foundation for Austrade to redesign its services to create a fit-for-purpose service model that would assist clients and anticipate future needs.

A human-centered design approach was used to enable a client-led transformation. This involved conducting user research, developing personas and creating journey maps. This approach provided Austrade with a common and shared understanding of client experiences. It highlighted what is front-of-mind for clients and is being used to inform Austrade’s service redesign in the areas that matter most.

The project conducted user research with a total of 93 businesses, 55 of which were Australian exporters (with 25 being non-Austrade clients). The other client groups were investors and customers. Businesses spoke about how they accessed government services across jurisdictions, as well as their experiences and issues. The insights from the research were synthesised into the following seven key themes:

- > **Information overload:** clients suffer from information overload and government language doesn’t resonate
- > **End-to-end services with effective partnerships:** clients are seeking an end-to-end service, including aftercare. Austrade doesn’t need to deliver everything but rather provide a seamless service through effective partnerships

- > **Personalised services:** clients need a personalised service offering that meets their specific individual and business needs
- > **Fear of making the wrong decision:** clients often seek advice because they fear making the wrong decision. They want information, data and advice they trust to determine what might influence a good outcome
- > **Clear value proposition:** clients need clarity on the value they are going to receive from investing their time or money in a service. Clients need their expectations to be met
- > **Productive connections:** clients value making and growing productive connections with valuable contacts
- > **Economic and market realities:** Clients globally are impacted by economic and market realities. In some cases this positions Australia favorably, in others it can be a disadvantage.

The research was distilled to create 12 personas, each with their unique journey map highlighting pain points, opportunities and positive experiences.

The research team also compiled a summary of feedback it received relating to the EMDG scheme. This included:

- > lack of awareness and understanding of EMDG, whether they are eligible for the scheme, as well as what is involved in the application process.

- > the EMDG process is too difficult – this is both real and presumed, and there is a high administrative burden, with consultants used frequently.
- > clients question if the benefit of EMDG is worth the effort, needing clarity on what they will gain through the process.
- > people who have accessed EMDG find the financial assistance valuable.

## NATIONAL MAP OF EXPORT SERVICES

The Client Service Design research above included valuable insights into what businesses value. While accessing services across government, businesses experienced issues like information overload; confusion with the levels of government and government language; and lack of seamless end-to-end services offerings.

The Review commissioned research to map government export assistance against the exporter journey, and to help understand the government export services available across all jurisdictions. The research also sought to identify opportunities to collaborate in designing and developing future services to deliver better client experiences.



## PROJECT METHODOLOGY

A human-centred design approach – using consultations supplemented with desktop research – was used to map the wide range of government export services against the Rebecca ‘new exporter’ client journey. A document detailing the grant and funding programs available to exporters was also produced.

## PROJECT ARTEFACTS

This project created a point-in-time artefact showing the government export services available for new exporter SMEs – the ‘Rebecca Journey Map’.

### REBECCA JOURNEY MAP

**Rebecca - Established Australian whisky company leader looking to transform to export quickly.**

Rebecca’s persona represents businesses who are theoretically reasonably export ready. Rebecca is a new exporter who has never exported before and her journey presents an opportunity to map a wide range of government export services ranging from establishing locally and considering internationalisation, through to staying connected with government. Consequently, Rebecca’s persona was used to map the full range of government export services across all jurisdictions.

Rebecca’s export services journey map contains horizontal segments mapped against high level export journey phases. These can be divided into three broad areas:

- > Rebecca’s experience, including positive and negative sentiments, as she progresses through her export journey
- > Australian Government services available to all exporters
- > a summary of state and territory services available to all exporters.

Due to the size of this journey map, it has not been included in the printed version of this report. It is available on the Austrade website (<https://www.austrade.gov.au/australian/export/export-grants/review>).

## EXPORT GRANTS AND PROGRAMS IN THE REBECCA MAP AS AT JANUARY 2020

To provide further context for this Review, a document containing details of export grants and programs outlined in the Rebecca map was created. The document draws upon information from the bilateral meetings as well as desktop research to outline available grants and programs relevant to exporters; and compare the service offerings across the different jurisdictions. The document includes:

- > an overview of grants and funded programs across all jurisdictions
- > a high level comparison of grants and funded programs against type such as sector/market
- > additional detail for selected grants and programs.



## Export Grants / Programs - Overview

Category	Australian Government	ACT	NSW	NT	QLD	SA	TAS	VIC	WA
SMEs (sector agnostic) and Start-ups	<p><a href="#">EMDG</a> support to aspiring and current exporters. (Max: \$150,000 per entity).</p> <p><a href="#">Landing Pads</a> 90 day international residency for start-ups</p> <p><a href="#">Entrepreneur Programme grants</a> and <a href="#">Boosting Female Founders program</a></p>	<p>TBD: <i>Funding being repositioned to complement the ACT's International Engagement Strategy</i></p>	<p>TBD: <i>Due to recent strategy announcement</i></p>	<p><a href="#">Trade Support Scheme</a> international marketing activities support (Max: est. ~\$40,000 per entity)</p>	<p><a href="#">Ignite Ideas Fund &amp; Go Global Program</a> start-ups &amp; SMEs</p> <p><a href="#">Global Entrepreneur Prg</a> Bris. start-ups (Max: \$5000 per entity)</p>	<p><a href="#">Export Accelerator Grant</a> export support for emerging to mature exporters (Max: \$30,000 per entity or \$15,000 per new market)</p>			
Sector Focused	<p><a href="#">Industry Growth Centres</a></p> <p>International market development activities allocated to 6 Growth Centres:</p> <ul style="list-style-type: none"> <li>- Adv. Manufacturing</li> <li>- Cyber Security</li> <li>- Food &amp; Agribusiness</li> <li>- Medical Tech. &amp; Pharmaceuticals</li> <li>- Mining Equipment, Technology &amp; Services</li> <li>- Oil, Gas and Energy Resources</li> </ul> <p><a href="#">SME Export Hub</a> grants to develop local, regional &amp; Ind. Bus. aligned to Growth Centres (Max \$1.5m per entity – further initiative funding TBC)</p> <p><a href="#">Export &amp; Regional Wine Support Package</a> To promote exports &amp; tourism. (Total allocated: \$50m over 4 years – to 2020)</p>				<p><a href="#">Regional Export Distribution Centre Pilot</a> export support for QLD agriculture producers (Total allocated: \$10m)</p> <p><a href="#">Made in QLD</a> – export support to increase international competitiveness for SME Manufacturers (Max: \$2.5m per entity)</p>	<p><a href="#">Global Expansion Accelerator</a> export support for successful domestically established business and may operate in SA's 9 <a href="#">growth sectors</a>:</p> <ul style="list-style-type: none"> <li>- Tourism</li> <li>- International Education</li> <li>- Defence Industry</li> <li>- Food, wine and agribusiness</li> <li>- Hi-tech</li> <li>- Health &amp; medical industries</li> <li>- Energy &amp; Mining</li> <li>- Space Industry</li> <li>- Creative Industries</li> </ul> <p>(Total allocated: \$2.3m over 4 years)</p>	<p><a href="#">Accelerating Trade Grant Program</a> export support for business under key sectors:</p> <ul style="list-style-type: none"> <li>- Adv. Manufacturing</li> <li>- Food &amp; agribusiness</li> <li>- International Education</li> <li>- Resources &amp; Energy</li> <li>- Science and Tech.</li> <li>- Tourism (Max: \$10,000 per entity)</li> </ul> <p><a href="#">Cluster Support</a> export and industry alliance support for businesses in key sectors (Total: Allocation TBC)</p>	<p><a href="#">Voucher Program</a> export &amp; business support within 6 program themes:</p> <ul style="list-style-type: none"> <li>- Advanced Manufacturing</li> <li>- Victoria Israel Innovation</li> <li>- Defence, Aerospace, Cyber and Security</li> <li>- Food Innovation</li> </ul> <p>- <b>Asia Gateway</b> (Max: \$50,000 per entity per voucher)</p>	<p><a href="#">ECG</a> for agrifood sector (Max: \$250,000 per project)</p> <p><a href="#">Games Industry Growth Pilot</a> travel grant (Max: \$5000 per individual)</p> <p><a href="#">Grants for Asian Market Export</a> for agrifood sector (Max: \$50,000 per entity)</p> <p><a href="#">Access to Asia Business Grants</a> export support within 6 priority sectors:</p> <ul style="list-style-type: none"> <li>- Energy</li> <li>- International Education</li> <li>- METS</li> <li>- Primary Industries</li> <li>- Tech &amp; Adv. Manufacturing</li> <li>- Tourism, events, creative industries (Max: \$10,000) per entity)</li> </ul>
Other	<p><a href="#">Export Finance Australia:</a> Export credit agency</p>	<p><a href="#">ANU International Business Plan Competition</a></p> <p><a href="#">Aspen Medical International Business Mentoring Program</a></p>			<p><a href="#">Exporter Market Engagement Program</a> SME's &amp; graduates overseas placements (Total: \$7000 per part.)</p>		<p><a href="#">Logistics Advisory Service and Market Access Coordinator</a> support to assist TAS businesses access new markets</p>	<p><a href="#">Global Intellect</a> 2 week virtual program to gain market research advice from VIC based international &amp; domestic students</p>	

KEY   Market specific grant

As at January 2020



## Export Grants / Programs – Comparison

Focus Areas	Australian Government	ACT (TBD)	NSW (TBD)	NT	QLD	SA	TAS	VIC	WA
SMEs (Sector agnostic)	✓			✓		✓			
Start-ups / Innovation	✓				✓			✓	
Food, wine, agribusiness	✓				✓	✓	✓	✓	✓
Advanced Manufacturing	✓				✓		✓	✓	✓ Asian Market
Resources, oil, gas, energy	✓					✓	✓		✓ Asian Market
METS / mining	✓					✓			✓ Asian Market
Tourism						✓	✓		✓ Asian Market
International Education						✓	✓		✓ Asian Market
Science & Tech						✓	✓		✓ Asian Market
Creative Industries						✓			✓ Asian Market
Health & medical technology	✓					✓			
Space / Aerospace						✓		✓	
Cyber security	✓							✓	
Defence						✓		✓	
Gaming									✓
Market specific								✓	✓
Export Hub / Industry Alliance	✓				✓		✓		
Placement / Market Assessment		✓			✓			✓	

KEY  Sector focus grant  Market specific grant  Export hub / industry alliance grant or other funded program

As at January 2020



## Export Grants / Programs Detail SMEs (sector agnostic) and Start-ups

Category	Australian Government	Australian Government	Australian Government	Australian Government	NT
Grant / Funded Program	<a href="#">EMDG</a> Encourages Australian SMEs to develop export markets	<a href="#">Landing Pads Program</a> Helps market-ready start-ups and scale-ups take their business global	<a href="#">Entrepreneur Programme grants</a> Support Entrepreneur Programme participants execute business plans that can include export activities.	<a href="#">Boosting Female Founders Initiative:</a> The program will contribute to removing barriers for women's economic participation in the workforce by providing access to finance for startups led by women	<a href="#">Trade Support Scheme</a> Supports NT SMEs offset the costs of international marketing activities
Target Recipient	- Australian based SMEs - Aspiring or current exporters - Special approvals for Industry Ass. & Joint Ventures	- Australian start-ups	- Australian Entrepreneurs	- Australian female entrepreneurs / start-up founders	- NT based SMEs - Industry groups / other organisations with a substantial presence in NT
Key Eligibility Criteria	- Income <\$50m - Incurred at least \$15,000 of eligible expenses - Principal status for the export business - Undertaken relevant promotional activities	Australian start-ups that are ready to go global and have: - Vision - Scalability - Traction - Differentiation - Market relevance	- Businesses that have received a plan under the Entrepreneurs programme's Business Management Services - Have at least \$5000 of eligible project costs - Have not started activities	TBC	- Must be ready to export - Show export plan that will likely to be successful - Show trade and economic benefits to the NT - Made less than 8 successful EMDG applications
Sector / Market focus	Sector agnostic		Start-ups / Innovation	Start-ups / Innovation	Sector agnostic
Coverage	50% payment of eligible expenses \$5000 minimum grant Average grant was \$34,086 in 2016/17	90 day residency at an established co-working space at 5 locations	50% payment of eligible expenses \$2,500 minimum grant	TBC	50% payment of eligible expenses
Maximum total payment amount	\$150,000 per application Max 8 annual applications per entity	Not specified Free access to your own operational base in an established co-working space for up to 90 days Access all services and facilities on offer such as coaching; introductions to mentors, investors and customers; training; and networking events. Ongoing support from Austrade post landing pad	\$20,000 per entity per Business Management Plan	TBC	Not specified (est. ~\$40,000 per application)
Total budget	Total budget of \$137.9 million, with an additional \$20 million per year for three years from 2019-20				

As at January 2020



## Export Grants / Programs Detail SMEs (sector agnostic) and Start-ups

Category	SA	QLD	QLD	QLD
Grant / Funded Program	<a href="#">Export Accelerator Grant</a> Support SA SMEs access international markets & create domestic jobs	<a href="#">Ignite Ideas Fund</a> QLD Start-ups and SMEs to commercialise innovative products, processes and services and create new jobs	<a href="#">Go Global Program</a> provides Queensland's export-ready small and medium-sized businesses (SMEs) with financial support to enter a new international market	<a href="#">Global Entrepreneur Program</a> Assists Brisbane based early stage start-ups connect to international markets, customers and investors and grow their start-up beyond Australia
Target Recipient	- SA based SMEs - Emerging, current or mature exporters	- QLD based start-ups or SMEs	- QLD based export ready SMEs	- Brisbane based start-ups
Key Eligibility Criteria	<ul style="list-style-type: none"> <li>- <b>Emerging Exporter:</b> annual turnover \$50,000 - \$1m; export ready; export plan; actively trading for at least 12m; made in SA.</li> <li>- <b>Export Accelerator:</b> annual turnover \$100,000 - \$15m; export ready; export plan; actively trading for at least 24m; made in SA.</li> <li>- <b>New Market Entry:</b> annual turnover \$250,000 - \$20m; entering a new international market; export ready; export plan; made in SA.</li> </ul>	Have no more than 50 FTE  <b>Tier 1:</b> have not received, or currently receiving an Ignite grant or gov. funding; able to make a cash contribution  <b>Tier 2:</b> have not received, or currently receiving an Ignite Tier 2 grant or gov. funding; successfully completed a Tier 1 project; able to make a cash contribution	<ul style="list-style-type: none"> <li>- QLD headquartered business</li> <li>- No more than 200 FTE</li> <li>- Be pre-qualified as export ready</li> <li>- Be pre-qualified as having a buyer</li> <li>- Have documented proof of proposed sale for the export of goods and services</li> <li>- Must not be receiving any other government funding</li> </ul>	<ul style="list-style-type: none"> <li>- Brisbane based</li> <li>- Key product/service in market with solid customer base</li> <li>- Consistently generating revenue</li> <li>- Business model is highly scalable that appeals to a global market and enable rapid growth</li> </ul>
Sector / Market focus	Sector agnostic	Start-ups / Innovation	Start-ups / Innovation	Start-ups / Innovation
Coverage	50% payment of eligible expenses 1:1 Co-contribution requirement	<ul style="list-style-type: none"> <li>- Tier 1 – 20% co-contribution requirement</li> <li>- Tier 2 – At least 50% co-contribution requirement</li> </ul>	1:1 Co-contribution requirement	Not specified, determined on an individual case-by-case basis
Maximum total payment amount	<ul style="list-style-type: none"> <li>- Emerging Exporter: \$5,000 per application</li> <li>- Export Accelerator: \$30,000 per application</li> <li>- New Market Entry: \$15,000 per new international expansion</li> </ul>	<ul style="list-style-type: none"> <li>- Tier 1 – \$100,000 per entity</li> <li>- Tier 2 – \$200,000 per entity</li> </ul>	Two levels of project funding will be available: <ul style="list-style-type: none"> <li>- Micro Export Grants up to \$5,000 (excluding GST)</li> <li>- Macro Export Grants up to \$25,000 (excluding GST)</li> </ul>	GEP: \$5000 per entity
Total budget				

As at January 2020



## Export Grants / Programs Detail

### Sector / Market focused (selected grants/programs)

Category	Australian Government	Australian Government	Australian Government
Grant / Funded Program	<a href="#">Industry Growth Centres</a> Through an industry-led process the Industry Growth Centres Initiative aims to drive innovation, productivity and competitiveness. Focus areas include, among others, improving international opportunities and market access.	<a href="#">SME Export Hub</a> Grants to assistance with the set up and/or running of export hubs in growth industry sectors. Hubs work with growth centres in each sector to take advantage of export opportunities.	<a href="#">Export &amp; Regional Wine Support Package</a> Investment by the Australian Government to grow Australia's wine exports and showcase the nation's wine tourism offering in key markets. Administered by Wine Australi.
Target Recipient	- Australian based businesses / organisations aligned to growth centres	- Organisations seeking to establish a SME export hub developing local, regional and indigenous brands, aligned to 6 specific growth centres	- <a href="#">The Wine Export Grants</a> as part of the package were designed to support SMEs export to China and USA. (now closed)
Key Eligibility Criteria	Engaged in business activity aligned to a growth centre	- Australian based - Incorporated NFP - Have at least \$300,000 in eligible expenditure - Support the establishment / operation of an export hub - Support participating SMEs to increase exports and create jobs - Develop and implement an export strategy	- TBC – based on whether more export grants will be available under the package
Sector / Market focus	Business development activities allocated to 6 Growth Centres: - Advanced Manufacturing (Advanced Manufacturing Growth Centre or AMGC) - Cyber Security (Australian Cyber Security Growth Network or AustCyber) - Food and Agribusiness (Food Innovation Australia Limited or FIAL) - Medical Technologies and Pharmaceuticals (MTPConnect) - Mining Equipment, Technology and Services (METS Ignited) - Oil, Gas and Energy Resources (National Energy Resources Australia or NERA).	Aligned to the Australian Government's 6 Industry Growth Centres.	Food, wine, agribusiness
Coverage	Aligned to growth centre budget and initiatives	\$150,000 - \$1.5m Matched funding	TBC
Maximum total payment amount		\$1.5m	TBC
Total budget		Further initiative funding TBC	\$50m allocated over 4 years from 2017 to 2020

As at January 2020



## Export Grants / Programs Detail

Sector / Market focused (selected grants/programs)

Category	QLD	QLD	SA	TAS	TAS
Grant / Funded Program	<a href="#">Made in QLD</a> Support to increase international competitiveness, productivity and innovation via new technologies for SME Manufacturers and generate high skilled jobs	<a href="#">Regional Export Distribution Centre Pilot</a> Initiative designed to boost access to overseas markets for agriculture producers, stimulate high-value farming and processing, and create jobs in regional QLD	<a href="#">Global Expansion Accelerator</a> Export program that will target businesses with the most potential to become South Australia's next global leaders and assist them build export capacity (announced Nov '19)	<a href="#">Accelerating Trade Grant Program</a> Support TAS businesses to collaborate, expand their presence and introduce TAS products & services to the world	<a href="#">Cluster Support</a> export and industry alliance support for businesses in key sectors
Target Recipient	- QLD based SME Manufacturers	- QLD based businesses able to support export ready regional agriculture	- Successful domestically established SA business	- TAS based business	- Business, public agencies, researchers and educational institutions in similar sectors/regions
Key Eligibility Criteria	- QLD based business, majority of turnover derived from manufacturing - SME with 5 – 200 FTE - Eligible project: aligns to MIQ Program objectives and facilitate innovation or advanced technologies - Have not received the max grant amount or other gov. funding	- Recipient must be capable of developing, constructing and operating the distribution centre pilot at, or near, an export ready airport	- Businesses experiencing high growth - Have realised product or service market fit - Positioned to embark on 'growth through export' or expand to additional markets; or operating in one or more of the State's growth sectors	- Annual turnover \$150,000 - \$20m - Products/services must be produced, transformed or value-added in Tasmania - Demonstrate ability to undertake trade development activity - Must not have, or plan to make a claim for, gov./industry market development schemes including EMDG	TBC
Sector / Market focus	Manufacturing	Agribusiness	Business in SA's 9 <a href="#">growth sectors</a> : - Tourism - International Education - Defence Industry - Food, wine and agribusiness - Hi-tech - Health & medical industries - Energy & Mining - Space Industry - Creative Industries	Businesses in Tasmania's <a href="#">key sectors</a> : - Advanced Manufacturing - Food and agribusiness - International Education - Resources and Energy - Science and Technology - Tourism	Businesses in Tasmania's <a href="#">key sectors</a> : - Advanced Manufacturing - Food and agribusiness - International Education - Resources and Energy - Science and Technology - Tourism
Coverage	\$50,000 - \$2.5m 1:1 co-contribution requirement	Not specified, determined on an individual case-by-case basis	TBC	50% payment of eligible expenses Co-contribution requirement	TBC
Maximum total payment amount	\$2.5m per entity across all rounds		TBC	\$10,000 per entity per financial year	TBC
Total budget		\$10m total funding allocated for pilot	\$2.3m total funding allocated over 4 years		

As at January 2020



## Export Grants / Programs Detail

Sector / Market focused (selected grants/programs)

Category	VIC	WA	WA	WA	WA
Grant / Funded Program	<a href="#">Voucher Program</a> Objectives include increasing the number of VIC businesses entering new export markets and securing supply chain opportunities	<a href="#">Export Competitiveness Grants</a> Generate improvements in agricultural productivity and competitiveness required for long-term profitability, sustainability and economic growth of the Western Australian agrifood sector	<a href="#">Games Industry Growth Pilot</a> Includes an International Access Pass program that is providing grants to individuals to travel to major games industry conferences and will also be offered commercialisation skilling designed to help them make the most of the travel opportunity.	<a href="#">Grants for Asian Market Export</a> Aims to better equip WA agrifood exporting businesses to develop and implement strategies to capture export market opportunities and attract investment.	<a href="#">Access to Asia Business Grants</a> Aims to support WA SMEs, industry associations and bilateral business councils advance their international business efforts in Asian Markets
Target Recipient	- VIC business undertaking growth orientated projects to assist the business be more productive, employ more people, create market access & increase scale and profitability	- WA projects capable of driving growth and competitiveness at enterprise, value chain level or whole of industry level.	- WA based individuals in the games industry	- WA based agrifood exporting businesses	- WA SMEs, industry associations and bilateral business councils
Key Eligibility Criteria	Engaged in business activity aligned to a voucher stream	- WA based business - Main source of income derived from agrifood grown or manufactured in WA - Operating for at least 12m - Already undertaking some export activity	- Individual lives in WA - Have experience working in the games industry (paid or unpaid) - Are not requesting funding for activities supported through another funding program	- WA based agrifood business - SME <200 staff and turnover <\$250m - Demonstrate direct economic benefit to WA - Operation for >3 years and have undertaken export related activities - Exporting or seeking to export WA based goods/services to Asia / Middle East - Relationship with at least 1 in-market business partner	Either or: - WA SMEs <200 staff - NFP Bilateral business org. i.e. Asian Business Council or Asian Business Association - NFP Industry Association  And - Operate for the benefit of WA - Demonstrate strategic economic benefit and contribute to WA jobs - Have evidence of a net co-investment of matched funds - Have not received, or likely to receive, other state funding
Sector / Market focus	Export & business support within 6 program themes: - Asia Gateway - Advanced Manufacturing - Victoria Israel Innovation - Defence, Aerospace, Cyber and Security - Food Innovation	Agrifood	Creative Industries / Gaming	Agribusiness <i>Asia Specific</i>	Businesses and organisations working within 6 priority sectors: - Energy - International Education - METS - Primary Industries - Tech & Adv. Manufacturing - Tourism, events, creative industries <i>Asia Specific</i>
Coverage	Not specified, determined on an individual case-by-case basis 1:1 co-contribution requirement	Not specified, determined on an individual case-by-case basis 1:1 co-contribution requirement	Not specified, determined on an individual case-by-case basis	\$20,000 - \$50,000 1:1 co-contribution requirement	Not specified, determined on an individual case-by-case basis
Maximum total payment amount	\$50,000 per entity per voucher Multiple vouchers per stream may be available in some cases	\$50,000 - \$250,000 per project	\$5000 per individual	\$50,000 per entity	\$10,000 per entity
Total budget		Up to \$1m funded allocated		A total investment of \$500,000 was available in round 3	

As at January 2020



# APPENDIX F – SUMMARY OF EVIDENCE USED TO INFORM THE REVIEW OF FINANCIAL ASSISTANCE TO SME EXPORTERS

## INTRODUCTION

Some of the Review's recommendations have been formed as a result of face-to-face conversations with stakeholders. Evidence from data and academic research presented in this report supports these stakeholder claims. This Appendix expands on the evidence listed in the footnotes in the main body of the report. It also provides more detail on evidence drawn from the EMDG administration database, the online consultation<sup>3</sup> and data from the Australian Bureau of Statistics.

## RATIONALE FOR GOVERNMENT TO SUPPORT EXPORTING

Academic research suggests the economy strongly benefits from export. Endogenous growth theory underpins the rationale for government supporting exporters and the development of knowledge drives modern economies. Exporters compete with the best companies in the world and are driven to be innovative and use the most modern technology and management practices.

Hardcourt (1999) summarises the benefits of exporting from a macroeconomic point of view:

- > Comparative advantage: Specialise in what a nation is good at and trade with another nation for what they are good at, then both nations benefit – mutual gains from trade
- > Competitiveness: Exporting exposes businesses to world's best practice
- > Assist in long-term survival/allocative efficiency and knowledge transfer

At the business level, exporters are more likely to be exposed to international trends in technology, product design, and consumer behaviour. As exporters benefit from 'learning by doing' their knowledge and access to technology 'spills-over' to the rest of the economy (Rauch, 1996; Aitken et al 1997). This can lift the competitive performance of all businesses and improve the efficiency of the Australian micro-economy (Feenstra et al, 1999; Clerides, et al, 1998).

## EXPORTERS ARE SIGNIFICANT CONTRIBUTORS TO PRODUCTIVITY AND OTHER MEASURES

Australian and international studies quantify the productivity impact derived from exporting. For example, Wooldridge, 2009 notes (cited in Békés et al, 2018):

- > International studies suggest that direct exporters are about 40% more productive than non-internationalised businesses
- > Businesses conducting foreign direct investment have are more than 100% higher total factor productivity than non-internationalised businesses.

The Australia Industry Report (Department of Industry, 2016) reaffirms this point, noting Australian exporters perform more strongly in comparison to non-exporters in terms of employment, output, productivity and wages. McKinsey Australia Research shows that businesses with international exposure have more than double the rate of productivity growth, and those businesses are more innovative (2015 EMDG Review).

<sup>3</sup> The online consultation provided key information on the preferred timing of assistance, preferred types of assistance and what is important in future policy design. A summary of results of the online consultation is provided at Attachment A.

Apart from the Swinburne analysis commissioned for this Review, there is also other evidence that EMDG 'exporter' recipients contribute positively to the Australian economy. In its whole economy modelling approach as part of the 2015 EMDG review, KPMG (2015) modelling quantified that the EMDG scheme increased economic activity and enhanced community welfare, and in turn led to increased tax receipts that almost offset the budgetary cost of the scheme. It also estimated that when spillover and productivity effects were taken into account, each EMDG dollar generated an economic benefit of \$7.03, a ratio much higher than other forms of government assistance, including the Research and Development Tax Incentive.

## **WHY DO GOVERNMENT PROVIDE FINANCIAL ASSISTANCE SUPPORT TO EXPORTERS FOR MARKETING AND PROMOTION-RELATED ACTIVITIES?**

The EMDG scheme is designed to encourage exporting by reducing some of the financial barriers attached to information seeking, marketing and promotion. More direct assistance (subsidies aligned to production) may not be compliant with World Trade Organization rules.

Many other factors underpin the economic viability of exporting. Many respondents highlighted factors such as the tyranny of distance, exchange rates and high production cost, all of which cannot and should not be addressed by government financial assistance.

This Review noted that there are many other factors that make exporting hard for SMEs, and that government has a role to bridge this gap. By providing financial assistance to exporters for marketing and promotion, the Review acknowledges the potential high cost (and risk) to SMEs to promote their goods and services overseas, to develop relationships with trading partners, demonstrate product to overseas clients and to develop viable information networks. It also acknowledges that SMEs are less resourced than larger businesses to develop export markets.

Academic research acknowledge these points. Volpe Martincus & Carballo (2008) argue that businesses are presented with significant costs of information gathering related to potential markets, demand characteristics, market entry procedures and marketing channels. Spence (2003) notes that information barriers are more significant to small and medium-sized businesses (SMEs), while acknowledging that overseas markets are inherently riskier and SMEs are more resource constrained.

Kollman et al (2020) note that 'export promotion programs are common across many countries as a mode in which to provide support services to businesses looking to begin exporting', but literature on export programs in developed economies, until recently 'has been scarce'.

In their research on the Trade Council of Denmark's export promotion services, Munch and Schaur (2018) found that two years after receiving trade support, businesses were 6 percentage points more likely to export, experienced 6% increase in exports, but saw no change in employment levels.<sup>4</sup>

Research by the International Trade Centre (ITC) finds that export promotion spending can generate significant benefits, concluding that a 1% increase in export promotion budgets generates US\$87 of additional exports for the median country. They found on average that TPO interventions contribute to increases in GDP per capita of 5% to 6% and an average increase in exports of around 7% to 8% (ITC 2016).

A World Bank (Cruz et al, 2018) database provides results of two worldwide surveys (2005 and 2010) on export promotion agencies (EPAs). The 2010 survey includes data on 96 EPAs (93 with budget data), of which 24 are OECD members, and includes Austrade/Australia. The research found that, overall, the aggregate level of evidence is consistent with the proposition that EPAs boost export outcomes.

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<sup>4</sup> As referenced in Kollman et al (2020, 20).

## ALSO CLEAR BENEFITS FOR A BUSINESS IN DIVERSIFYING ITS EXPORT BASE

Academic research also notes the tension of the relationship between economic growth and diversification through exporting.

Encouraging SMEs to export provides a potential benefit of diversifying its export base. For example, Richardson (2000) notes that diversification of sales across international borders spreads risk, especially if demand patterns differ across borders.

Benefits of delivering a more diverse range of exports are also summarised by McIntyre et al, 2018. In their research examining the benefits of diversification for 'open, small state economies', the benefits of export diversification include helping 'countries to hedge against adverse terms of trade shocks by stabilizing export earnings and domestic output'. Diversification also provides a great learning opportunity through the introduction of new products to the export and production basket, which usually embodies productivity improvement, leading to higher long-run growth. For these reasons, many countries have pursued export diversification as a deliberate growth strategy.

McIntyre et al also caution that 'because diversification essentially requires that resources be channelled away from sectors that have a comparative advantage, a clear assessment of costs and benefits is warranted'.

## ...BUT AUSTRALIA HAS A VERY HIGH RELIANCE ON MEGA-EXPORTERS FOR ITS EXPORT INCOME

Australia's recent strong export performance mainly reflects exports from very large 'mega-exporters', that is exporters whose value of exports is greater than \$50 million. Thirlwell (2018) estimated that in 2014–15, 88% of Australian goods exports were mainly sourced from 445 mega-exporters, representing around 0.9% of the 49,300 exporters that year. Most of these businesses exported mining-related bulk commodities (iron ore, coal, natural gas, gold), with over two-thirds exporting to six countries or more. However, 45% of the value of these exports went to China (28%) and Japan (17%).

According to the Department of Foreign Affairs and Trade (DFAT 2019), these two markets still dominated Australia's export markets in 2018: China (31%) and Japan (13%). The Republic of Korea (6% share), with the US and India (each with 5%) make up the top five markets.

There is no definitive statistical database on SME exports by industry or product or export destination. ABS<sup>5</sup> estimate there were 46,300 small and medium exporters in Australia in 2017–18, with exports valued at \$13.5 billion, or 4% of total goods exports (worth \$314.5 billion that year). These exporters on average exported around \$292,000 of merchandise goods in 2017–18.

The equivalent average value of exports made by EMDG recipients (including businesses exporting services as well as goods) was significantly higher at \$784,100.

In contrast, the EMDG scheme promotes exports diversification. In its Asia-Pacific Small Business Survey 2018, CPA Australia notes the potential of SME businesses to diversify revenue beyond Australia in difficult times. Australian small business 'remain much less likely to expect to be focused on growing their revenue from exporting than their peers in Asia. With small business confidence in the Australian economy relatively low, seeking alternative markets is one way of growing business in difficult "domestic" conditions'.

EMDG recipients from 82 industries exported a diverse array of products and services to 138 countries in 2017–18. The most common markets targeted by EMDG recipients were the US, UK, China, Singapore, Germany and Canada.

<sup>5</sup> Sources: ABS cat. no. 5368.0.55.066, Characteristics of Australian Exporters, 2017–18.

## AUSTRADE SURVEYS SHOW RECIPIENTS INCREASE THEIR MARKETING AND PROMOTION ACTIVITY TO EXPORT

Evidence points to EMDG recipients increasing exports. Austrade's Service Improvement Study – an annual survey of EMDG recipients – shows most respondents (83%) have increased exports, and intend to continue this over the next two years. These results are based on a large sample (1,524) over several years.<sup>6</sup>

The Study also shows that receiving a grant has prompted an increase in export promotion/marketing activity in around 69% of respondents, with a slightly higher percentage (73%) intending to increase their export promotion activity 'in the next two years'. Overall, the share of recipients intending to increase export promotion/marketing activity reduces for larger business (63% for businesses with \$10 million or more) compared to smaller businesses (77% for businesses with \$1 million or less).

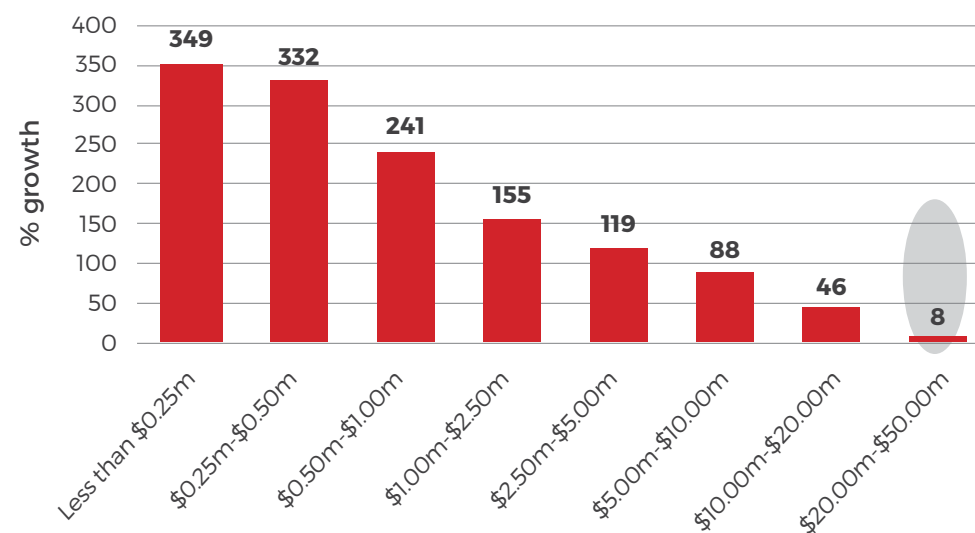
## BLADE DATA PREFERRED TO DEMONSTRATE THE PERFORMANCE OF EMDG RECIPIENTS

The BLADE data used by Swinburne in its analysis is preferable to EMDG's internal administrative data. First it can be used to indicate a business's export status – that is, if a business had exported before receiving EMDG. It can also track the 'true' export performance of businesses over time to the last year they have exported, not just the last time they have received a grant.

As the Swinburne results reflect measurement of the counterfactual, the Review also looked at the EMDG administration data to validate these results. In doing so, it looked at the performance of recipient businesses, by business size when they seek their first grant, compared to when they received their last grant.<sup>7</sup>

Overall, results were broadly consistent with that from the Swinburne research. As reported in Figure F1, when looking at the export performance of businesses when they received their last grant – compared to their first – high growth is evident for smaller exporters (particularly for those businesses that commence the scheme with less than \$500,000 in turnover). However, growth – in percentage terms – decreases when business size increases (refer Figure F1).

**Figure F1: Exports by turnover (in bands), percentage difference between the first and last year the recipient received a grant in the period 2011/12 to 2015/16, in CPI adjusted terms**



Source: EMDG administration database

<sup>6</sup> Austrade attempted to seek evidence on 'additionality' from its online consultation, but there was a low response to this question. Of the 20% that did respond, nearly all indicated that it did assist to 'fund activities that otherwise, would not have occurred', with around half indicating that it assisted to do more in existing markets or to target new markets.

<sup>7</sup> Swinburne uses slightly different bases for turnover bands – that is, by pre-treatment turnover or the year before the reference period. That means at that point, EMDG recipients could have received a number of grants through the scheme.

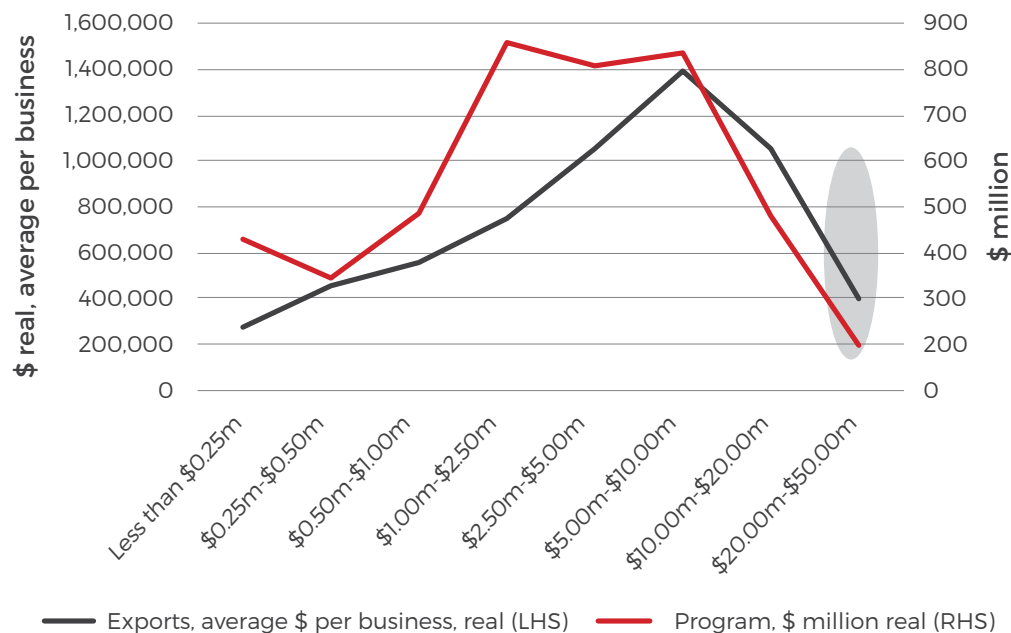
## BUT RESULTS WERE UNCLEAR FOR THE LARGER \$20M-\$50M COHORT

However, the Swinburne findings were different for larger businesses with turnover of between \$20 million and \$50 million. The Swinburne results showed that this cohort performed strongly (up 138%) in terms of export growth, but jobs decreased, and results were insignificant for the productivity and survival modelling. In contrast, EMDG administrative data suggests that export sales growth for this larger cohort was much lower (8%, see Figure F1 ).

This low growth in turn is reflected by an average increase of around \$400,000 per recipient, and was only a minor contributor to the scheme's growth in export turnover (Figure F2).

This finding, while it is not primary evidence of recipient export performance, supports the Reviewer's recommendation that this cohort should be excluded from future financial assistance, as it has a very low reliance on the grant (0.15% of turnover in the 2017-18 grant year).

**Figure F2: Average exports by turnover (in bands) and contribution to program growth, percentage difference between the first and last year the recipient has received a grant in the period 2011/12 to 2015/16, in CPI adjusted terms**



Source: EMDG administration database

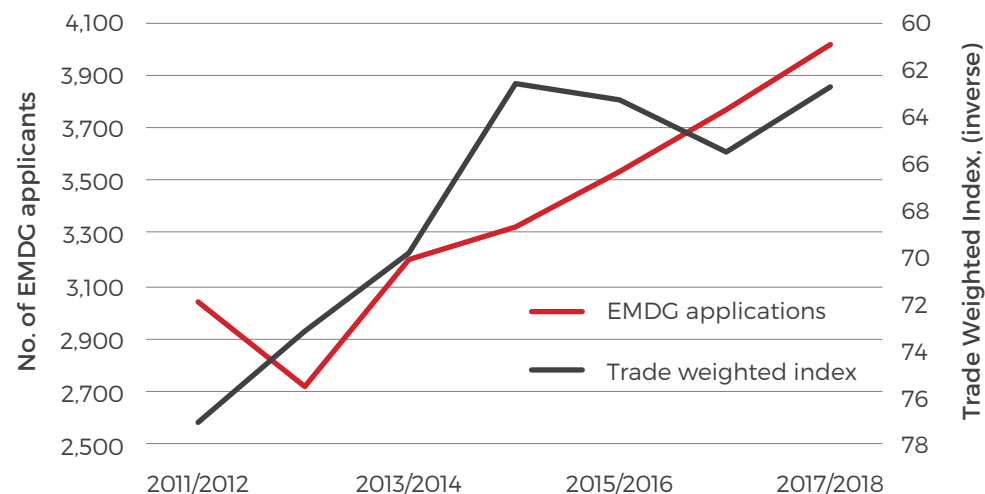
## ADDITIONAL EVIDENCE PROVIDED BY THE EMDG ADMINISTRATIVE DATA

The EMDG administration database provided information on EMDG applicants, their marketing and promotion expenditure and the size of grants that businesses receive. It provides primary evidence about how the EMDG scheme is used. This data was analysed by a range of parameters including business turnover, export turnover, age of business and the number of grants received.

The major impact derived from the rapid growth in SME exporters is a decreasing second tranche payment

- > There has been rapid growth in the scheme in the past five years to 2017–18, with EMDG applicants up 26%. This compares with a still strong 24% increase in the number of smaller merchandise exporters, which is correlated with the 10% decline of Australia's Trade Weighted Index (Figure F3).
- > In the 2017–18 grant year, the low second tranche payment impacted on a significant proportion (42%) of recipients. These recipients had an approved grant in excess of the first tranche threshold of \$40,000. In that year, recipients received 24.6% of their expected second tranche payment. This was the fifth successive year the second tranche payment has not been paid in full due to demand on the scheme exceeding available funds. While the additional funding (of \$20 million a year for three years) will increase the second tranche payout factor, it is still not sufficient to provide the full entitlement.

Figure F3: Relationship between Australia's Trade Weighted Index and EMDG applications



Source: EMDG administration database, Reserve Bank of Australia

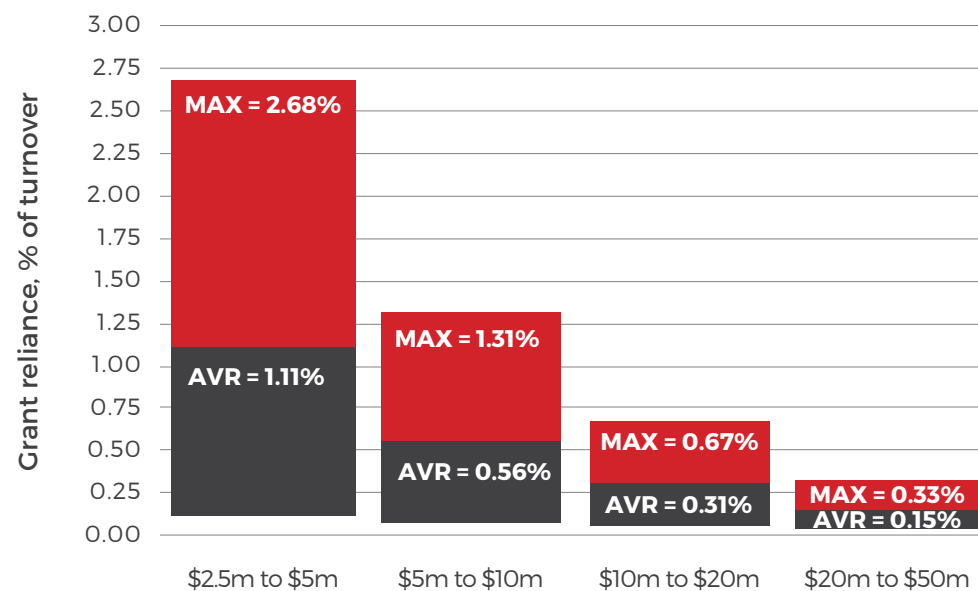
Larger businesses and those in later years of the scheme receive larger grants

- > The average value of the EMDG grant in 2017–18 was \$33,100. However, the value of the grant increases tends to rise as exporters progress through the scheme. Year 1 recipients received an average grant of \$29,800, while a year 8 recipient received an average grant of \$38,400.
- > A similar pattern exists by business size. The average grant received by smaller businesses (for example, \$24,500 on average for year 1 EMDG recipients) is substantially lower compared to that received by larger businesses (\$42,500 when receiving its eighth grant).

### Reliance on an EMDG grant diminishes greatly as business size increases

- > As stated earlier, the Review noted that reliance on an EMDG grant for businesses with a turnover of more than \$20 million is very low – 0.15% on average. This was an important consideration in recommending this cohort be excluded under a new program.
- > Note that the reliance on the grant (i.e. the grant value as a percentage of business turnover) increases as the size of business decreases. For businesses with turnover of between \$10 million and \$20 million turnover, the average reliance is higher at 0.31%, 0.56% for businesses with \$5 million to \$10 million turnover and over 1% for businesses with turnover of between \$2.5 million to \$5 million (Figure F4). Smaller SMEs with turnover of \$250,000 or less have a much greater reliance on the grant (over 26%), with many businesses highly reliant on financial assistance.

**Figure F4: Maximum and average reliance on EMDG, smaller business cohorts, 2017-18**



Source: EMDG administration data

The drop-out rate in the scheme is more pronounced when recipients seek their second and third grant

- > There is a significant drop out rate (around 65%) in the third year of the EMDG scheme. Of interest is the large proportion (79%) of these businesses with turnover of less than \$250,000.

It is not clear why these smaller businesses do not continue in the scheme, but there are several possibilities:

- > Smaller SMEs may not have spent enough on eligible items (minimum of \$15,000) to apply for EMDG. This is supported by ABS statistics that estimates smaller SME exporters make fewer export transactions.
- > 61% of merchandise exporters with turnover less than \$250,000 made fewer than three export transactions in 2017–18, averaging just under \$20,000 per transaction.
- > Another reason could be the complexity of the rules and application process for the scheme. The online consultation shows respondents with turnover of less than \$1 million rated highly an easy to understand program design and rules, along with a simple application process.

> There is a generally higher churn rate for smaller SMEs. The ABS<sup>8</sup> provides data on the churn rate – or the number of businesses that exit – relative to the average number of businesses. In 2016–17:

- > SMEs with a turnover of less than \$200,000 had an average churn rate of around 12.3%.
- > SMEs with a turnover of between \$200,000 and \$2.0 million had an average churn rate of 7.7%.
- > Larger SMEs had a much lower churn rate of between 3% and 4%.

Even so, modelling by Kollman (2020) also show that smaller businesses have a higher probability of continuing to trade and to export. Measured against the control group of those businesses receiving general services, EMDG recipients have a 9.5% higher chance of survival and a 14% higher chance of continuing to export.

Many EMDG recipients who use the scheme apply for it in successive years, which translates to little change in the mix of eligible expenditure items and number of markets to which recipients export.

> Many EMDG recipients (85%) use the scheme in successive years, leading to the view that the scheme has not been used strategically. For example, it would likely be more useful for recipients to use the scheme when additional marketing/promotion is required for expansion into current markets or developing new markets.

- > This view is reinforced as most recipients are not increasing the number of markets in the scheme (but maybe changing the composition of the export market). Although there are limitations in the way data on country/market is collected (limited fields, up to 6 markets), only around 20% of recipients have increased the number of markets.
- > In addition, around 40% of recipients receiving their eighth and last grant, did so in successive years, with most achieving the maximum number of grants in thirteen years.
- > The mix of eligible expenditure does not change substantially as recipients progress through the scheme – expenditure on marketing visits was used by 82% of recipients, advertising expenses by 72%, trade fairs and promotion by 54%, while only 4% of recipients used overseas buyers in 2017–18.

<sup>8</sup> Source: ABS cat. no. 8165.0, Counts of Australian Businesses, including Entries and Exits, June 2014 to June 2018



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