Supply Nation

Supply Nation Research Report No. 2

State of Indigenous Business

A quantitative analysis of the impact of COVID-19 on the Indigenous business sector

December 2020

ISSN here

Supply Nation

Supply Nation is the Australian leader in supplier diversity, and since 2009 has worked with Aboriginal and Torres Strait Islander businesses along with procurement teams from government and corporate Australia to help shape today's rapidly evolving Indigenous business sector. Supply Nation's world-leading 5-step verification process provides peace of mind by ensuring that all businesses listed on Australia's largest national directory of Indigenous and Torres Strait Islander businesses, Indigenous Business Direct, are not only Indigenous owned but are also regularly audited for changes in company structure and ownership. Supply Nation partners with its members from the government, corporate and not-for-profit sectors to include supplier diversity in procurement policies and develop and support supplier diversity practices, based on world's best practice, that can enable the greater participation of the Indigenous business sector.

More recently, Supply Nation also established an internal research capacity to deliver evidence-based programs – providing a stronger platform to advocate for the needs and benefits of Indigenous business and Indigenous procurement. As custodian of Australia's largest and most respected database of Indigenous businesses, a focus of our research is understanding the contours, trends and contributions the Indigenous business sector makes to the broader national economy, as well as its contribution to Indigenous well-being and self-determination.

Our research is the product of collaboration with a range of university centres, government and independent research agencies on projects of relevance to Indigenous Australians and Indigenous business, and primarily disseminated through:

- Supply Nation Research Reports: Substantial and original pieces of research on topics of relevance to Supply Nation's mission and Indigenous business;
- Supply Nation Research and Policy Briefs: Concise papers that summarise key areas of research or policy of relevance to the Indigenous Business sector and key stakeholders.

For further information, contact:

Dr Gianni Zappalà
Head of Research, Supply Nation
gianni.zappala@supplynation.org.au
1300 055 298

Contents

Foreword

This is the second of Supply Nation's Research Reports, based on our Indigenous Business Direct database to provide insights into the state of play of the Indigenous business sector. Our first report, State of Indigenous Business - Driving growth across the Indigenous business sector, commissioned before the pandemic, showed the important role that Indigenous procurement facilitated by Supply Nation plays in driving the growth of Indigenous businesses. A key headline of that report was that bringing Indigenous procurement levels to 1% of spend in sectors that have had less traction to date, represents an $8 billion opportunity for the Indigenous business sector, translating into an increase of circa 90% in Indigenous business sector revenue and an extra 19,000 jobs for Indigenous Australians. The findings from that report suggested that Indigenous businesses can play an important role in the process of post-pandemic economic recovery.

As the pandemic intensified during 2020, our own internal consultations with our suppliers revealed that the impact of COVID-19, like for businesses generally, meant a move to remote work, people being stood down and made redundant, the immediate loss of a pipeline of work, problems maintaining cashflow, and concern about their ability to deliver on existing projects and win new business into the future. As part of our initial response to support the Indigenous business sector during the COVID-19 crisis, together with the EY Indigenous Sector Practice (ISP), we produced and delivered a webcast series to provide Indigenous businesses with practical advice and guidance on how they may navigate through the challenges posed by COVID-19. This co-hosted webinar series also provided Supply Nation with a range of insights and understanding of the concerns and challenges Indigenous businesses faced.

We were also aware, as highlighted by our first Supply Nation Research and Policy brief by ANU researchers, Implications of COVID-19 for the Indigenous labour market, that Indigenous business disproportionately employ Indigenous workers, and that Indigenous businesses are primarily small to medium (SME) enterprises. As we enter our first recession in 30 years, Australia has a significant economic challenge to overcome and we know that recessions are likely to have greater adverse effects on Indigenous Australians given the sectoral concentration of Indigenous employment, the relatively high levels of casual employment and the relatively young age profile of the Indigenous population.

We knew that a stronger response was therefore required to assist with the recovery process, namely, targeted programs aimed at re-engaging individuals and businesses displaced due to COVID-19. As part of the pre-program design process, and in order to test some of our initial anecdotal insights, we engaged the ISP team at EY to undertake an analysis of the impact of COVID-19 on Indigenous business using the Supply Nation Indigenous business dataset.

While the analysis also included qualitative and desk-based research to inform our pilot programs, this report highlights the quantitative analysis undertaken using EY's Computational General Equilibrium model. Forthcoming Supply Nation Research papers will include the findings from the qualitative research.

The report shows that the pandemic most severely affected the accommodation and food services industry, followed by air transport, recreation, trade and education. In part, this is because Indigenous employees are more concentrated in these industries. Indigenous employees, however, have experienced greater job losses compared to all employees within Indigenous businesses. In terms of occupational effects, the categories of technicians and trade workers experienced the greatest loss due to COVID-19, with the arts, hospitality and food preparation workers also negatively affected.

While the analysis was based on Supply Nation data, our suppliers represent more than half of the employment in the Australian Indigenous business sector. Extrapolating the findings to the broader Indigenous sector, the report estimates that nation-wide, almost 2,500 employees will have lost their jobs in 2020, including almost 1,000 Indigenous people. Thankfully, a strong recovery is predicted for 2021, and Supply Nation intends to work collaboratively with a range of government and corporate partners to assist the recovery process through the design and delivery of a range of Indigenous support programs aimed at re-engaging individuals and businesses displaced as a result of COVID-19.

Laura Berry
Chief Executive Officer
Supply Nation

Executive summary

Key findings – quantitative and economic analysis

Affected industries: the pandemic hit the accommodation and food services industry the hardest, followed by air transport, recreation, trade and education. This largely reflects industries where Indigenous employees are more concentrated. By comparison, industries with higher concentrations of non-Indigenous employees (e.g. government services) remained largely unaffected.

Indigenous impacts: across the board Indigenous employees have experienced greater impacts when compared to all employees within Indigenous businesses. The mid-case scenario forecasts a total reduction in employees of 4.07% (1,187), with a 4.53% job loss rate for Indigenous employees (478 lost jobs) in 2020. This is primarily due to Indigenous employees being more concentrated in affected industries.

Occupation impacts: the occupational categories of technicians and trade workers experienced the greatest loss due to COVID-19, however the arts, hospitality and food preparation workers were also affected occupations. These occupations are encompassed within the community and personal service workers and labourer's occupation categories, which are the second and third most affected sectors.

Skill impacts: Indigenous people experienced greater losses across almost all occupations, again reflective of having a higher concentration of employees in vulnerable sectors. In particular they experienced a large loss for the 'higher skilled' occupations of managers and professionals. This likely reflects the decline in demand for specialty positions such as cultural advisory services.

Whole sector impacts: nation-wide it was estimated that in 2020, 2,327 employees will have lost their jobs, including 938 Indigenous people across the sector. Due to a strong predicted recovery in 2021 as the economy returns to its initial trajectory, these numbers reduce to a loss of 323 Indigenous workers and 840 in total (mid-case scenario) in 2021 compared to pre-COVID-19 levels. This estimate was based on the fact that Supply Nation businesses represent 51% of employment in the Australian Indigenous business sector.

1. Background

COVID-19 has profoundly affected individuals, communities and businesses alike. The pandemic has placed unprecedented pressure on the economy and the businesses that collectively contribute to our nation's success. There is a need for government, industry, corporates and peak bodies to support businesses through COVID-19 and beyond, including the impact of COVID-19 on Indigenous Australian businesses.

Through the application of EY's Computable General Equilibrium Model (GEM), quantitative and economic analysis was undertaken to explore the impact of COVID-19 on Indigenous businesses and people. The analysis explored the impact of COVID-19 at an industry level and the Indigenous businesses sector in Australia. The analysis produces an estimate of the employment reduction caused by COVID-19 and provides insights into the skills lost in the workforce as a result of these impacts.

The study's methodology and results are presented in the following subsections:

- The methodology utilised in this research
- Pre-COVID-19, scenario impact analysis
- Estimated employee impacts, regional impacts and occupational impacts results
- Estimated Indigenous businesses sector impact results

2. Methodology

The quantitative analysis utilised Supply Nation data to assess the impact at an industry level. Each businesses' employees were distributed evenly among the corresponding top 5 industries in which each business operates.

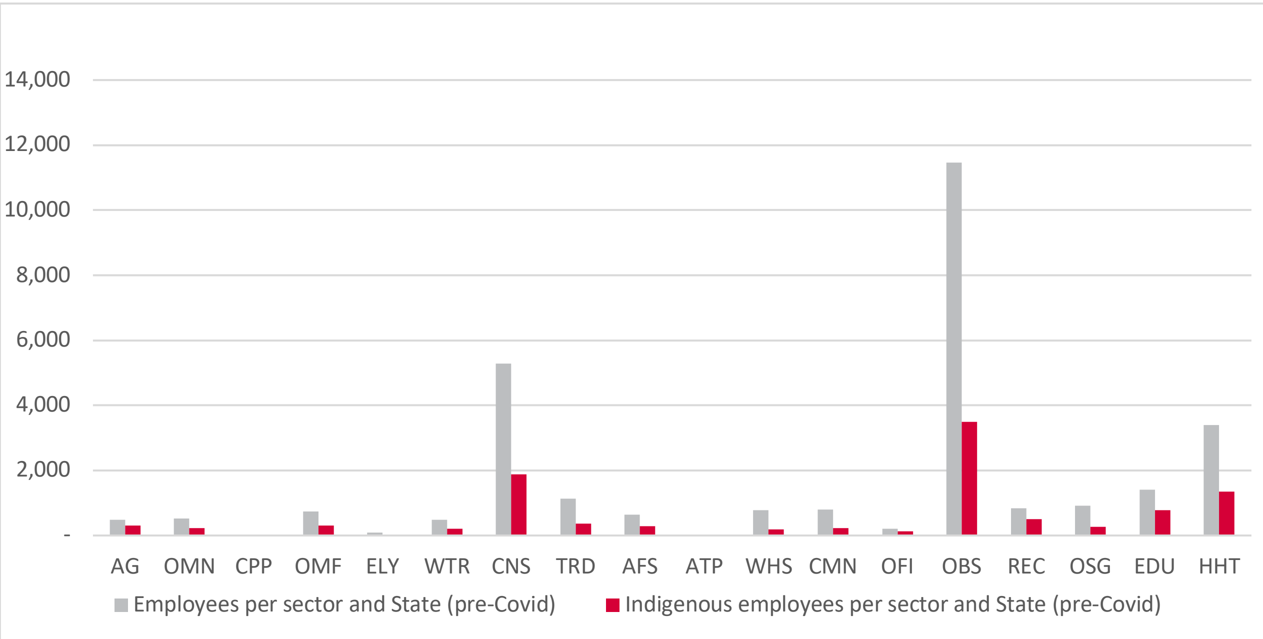
- To apply COVID-19 regional impacts the industry breakdown was matched to an industry within the EY GEM (see Appendix C for a list of these industries). To analyse the impacts at a regional level each business was matched to a location based on their operating region. Those which operated at a national level were allocated 'AUS' and those at state or local levels allocated the corresponding region (highlighted in Appendix B);
- To produce the estimated employment reduction the associated weighting in the model dependent on the scenario and business location was applied to these employee distributions for both 2020 and 2021;
- To provide insights into the skills lost, we incorporated occupation data at a national level from the ABS, differentiating between Indigenous Australians and all other Australians;
- To provide an estimate of the impact on the whole Indigenous businesses sector in Australia we applied Supply Nation's employment representation factor of 51% to the results;
- The analysis was completed for both all employees and only Indigenous employees to further asses these impacts.

3. Pre-COVID-19 analysis

In order to conceptualise the impact of COVID-19 on Indigenous businesses, an analysis of the situation pre-COVID-19 was undertaken. Prior to the shock caused by the COVID-19 pandemic, Australia had a healthy and wide range of Indigenous businesses. Based on Supply Nation data, Indigenous businesses employed over 29,000 people in total, over a third of which (10,000) were Indigenous.

Most of these businesses, as well as their Indigenous employees, were concentrated in the construction, human health services, education, recreation, trade and other business services industries. Indigenous employees were more concentrated in the recreation, education, other mining, agriculture, human health services and accommodation and food services industries and less concentrated in government services, communications, warehousing and construction compared to all employees.

Figure 3.1 Pre-COVID-19 Indigenous business employee industry distribution



Notes:

Refer to Appendix A for sector abbreviations key.

Industries with no employees from the Supply Nation sample were excluded.

4. COVID-19 scenario impacts

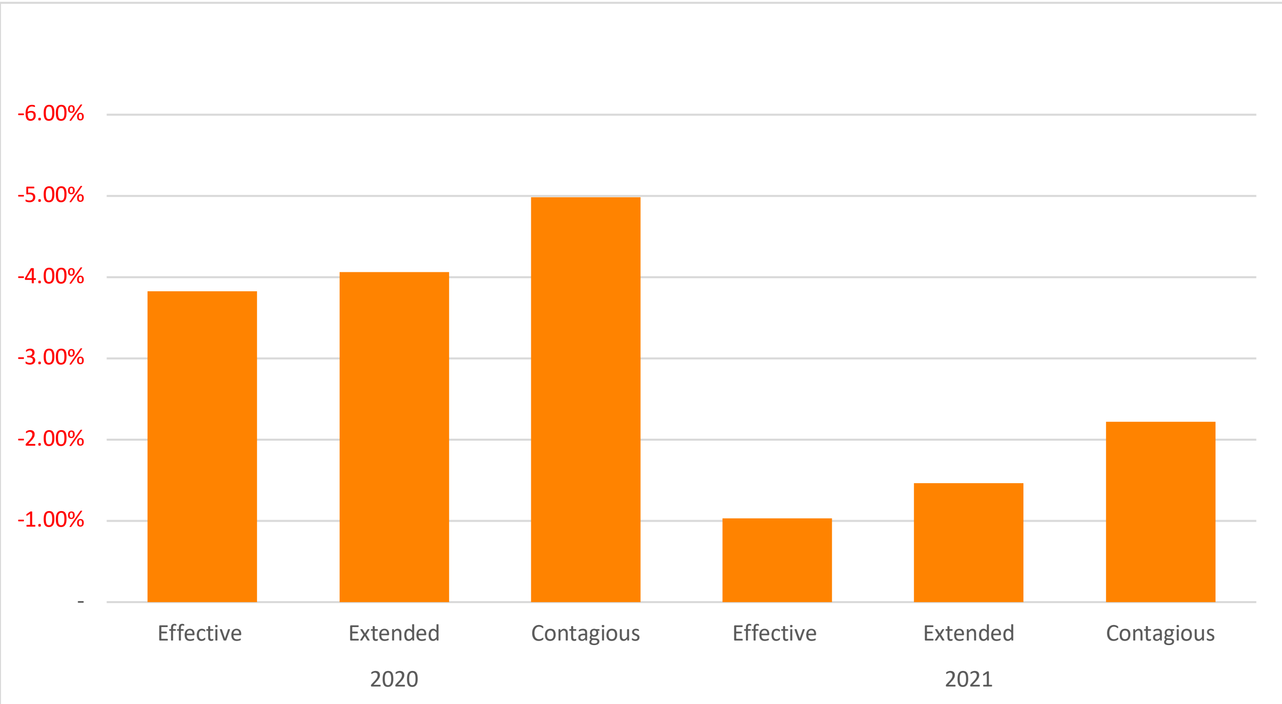
4.1. Three possible scenarios

Our model contained consideration for three scenarios:

1. Effective lockdown – the best case scenario which assumes Victoria is out of lockdown in November
2. Extended lockdown – the mid case scenario which assumes Victoria has recovered by December
3. Contagious lockdown – the worst case scenario where following a second wave all States are required to remain in lockdown with Victoria until December

The three scenarios were analysed across both 2020 and 2021 to gain a more representative picture of possible impacts as well as any recovery.

Figure 4.1 Change for all employees, scenario differences by year



- Different impacts are observed under each of the three scenarios. Examining changes in total employees in 2020, the best case 'Effective lockdown' impacts employment at just under -4%, in the mid case 'Extended lockdown' the employment impact is slightly above -4%, and the worst case 'Contagious lockdown' results in employment reductions of 5%;
- In 2021 as the whole of Australia is anticipated to move into recovery, these changes drop significantly seeing impacts of 1%, 1.5% and 2.2% for the best, mid and worst cases respectively.

  In order to fully explore the likely impacts of COVID-19 at an industry level, we examined mid case, 'Extended lockdown' findings in more detail below.

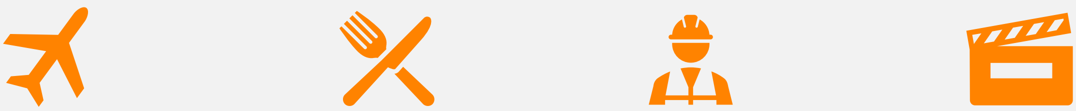
4.2 Estimated employee impacts

The relative impacts felt across industries were consistent for all the scenarios. For analysis purposes, the findings below are based on the 'Extended lockdown' or mid-case scenario. As expected, the industries which the pandemic affected most, experienced the greatest employment reductions. Indignous employees as a whole, however, experienced greater job losses, as they were more concentrated in the hardest hit sectors.

For the mid-case scenario displayed, we see a total reduction in employees of 4.07% (1,187), with a 4.53% job loss rate for Indigenous employees (478 lost jobs) in 2020. These numbers fall to around the 1.5% mark in 2021 as the recovery phase begins.

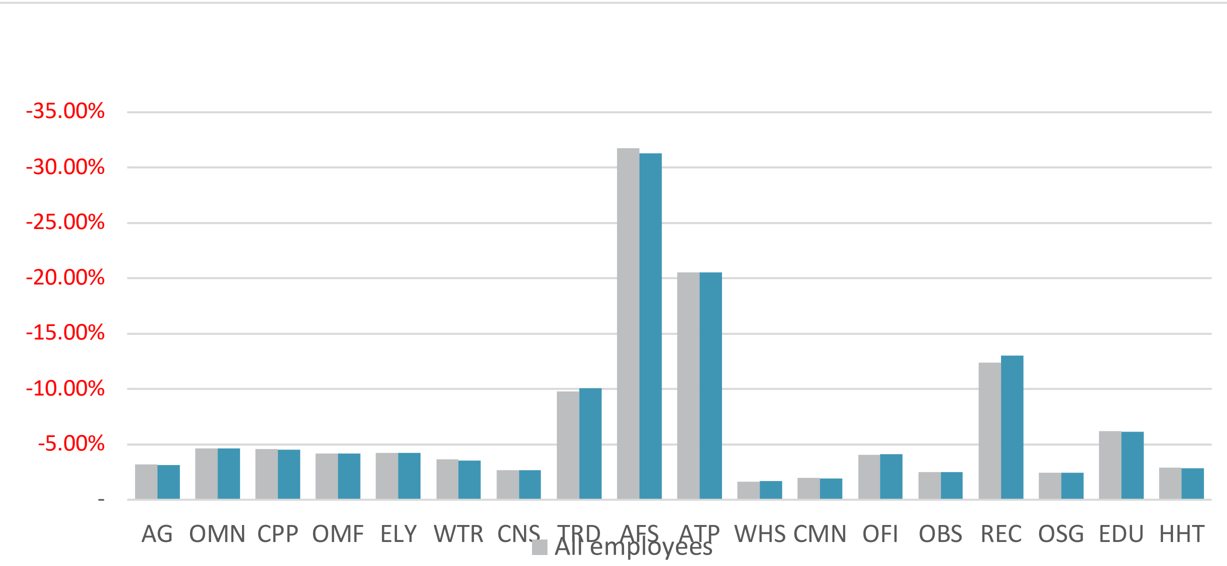
Indigenous employees have experienced greater impacts when compared to all employees, generally experiencing around 0.5% higher job losses compared to non-Indigenous employees.

This is primarily due to the higher concentration of Indigenous businesses and employees in industries that are more highly affected by COVID-19.



The pandemic hit the accommodation and food services industry the hardest, followed by air transport, recreation, trade and education. These are all industries with a higher concentration of Indigenous employees, in contrast, industries with a higher concentration of non-Indigenous employees experienced very little impact in comparison.

Figure 4.2 Change in employees by industry 2020



Note: The industries with no employees from the Supply Nation sample were excluded.

4.3 Regional impacts

The previous analysis looked at the national impact on the Indigenous business sector. As the States and Territories have different pandemic environments and hence different restrictions, we also analysed how the impact differs across Australia.

Figure 4.3 Change in all employees across regions 2020

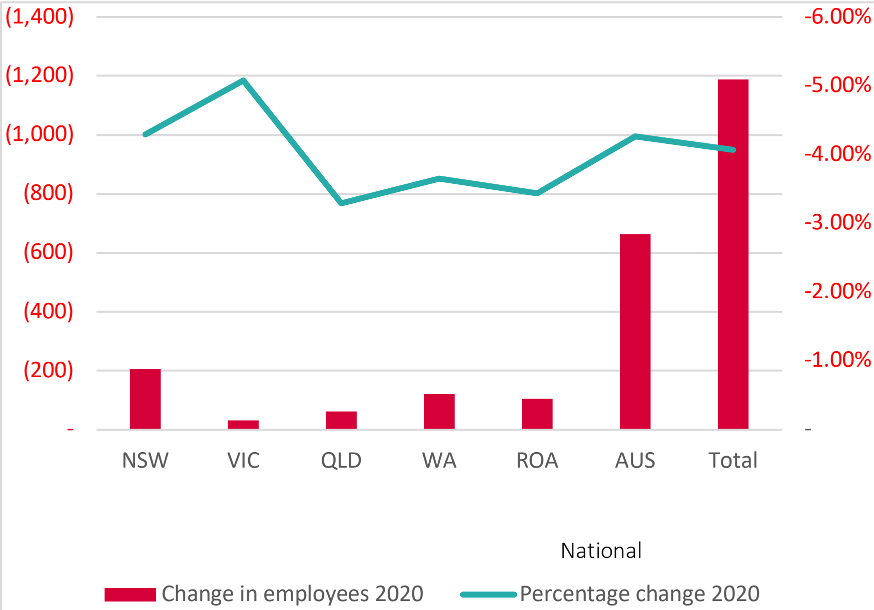


Figure 4.4 Change in Indigenous employees across regions: 2020

Key findings:

These figures reflect the mid-case scenario but the distribution for all scenarios take on the same characteristics.

Indigenous businesses largely operate nationally, but those that do not are concentrated in NSW, followed by WA and ROA. There are significantly less in QLD and only 624 employees working directly in VIC.

Victoria experiences the greatest negative shock in percentage terms.

NSW (which includes ACT) is the second most affected region, and ROA (encompassing SA, TAS and NT) is the least affected region.

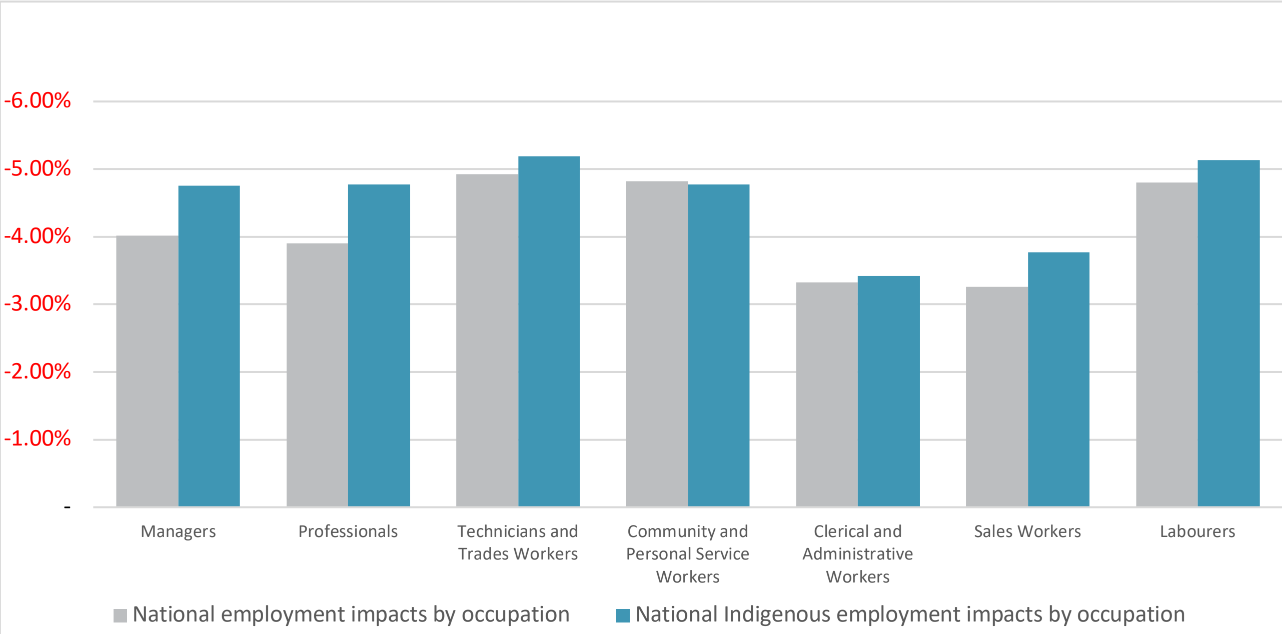
Indigenous employees experience deeper negative impacts than all employees.

Note: The 'National' impacts reflect the employment loss felt by businesses operating across the whole of Australia whereas the 'Total' takes all State impacts into account.

4.4 Occupational impacts

The occupational impact of COVID-19 was also examined to gauge any likely effects on Indigenous employees.

Figure 4.4 2020 occupation impacts



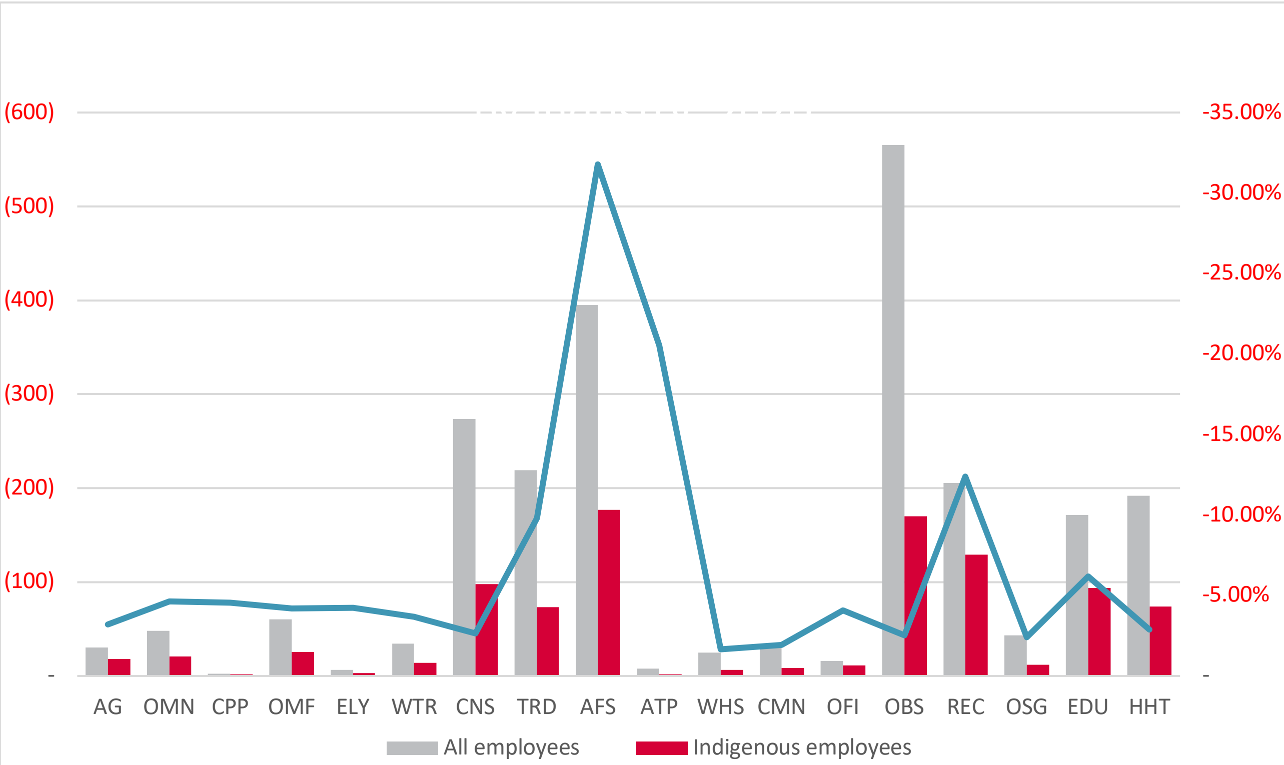
- Our model suggests that the largest portion of jobs lost are technicians and trades workers;
- Indigenous people experience greater losses across almost all occupations, including their second most affected occupation category, labourers, than what was felt by all employees in their most affected occupation. This is due to the higher concentration of Indigenous employees in vulnerable sectors;
- There is also a larger differentiation in losses for 'higher skilled' occupations, managers and professionals. Business in the cultural advisory area, for instance, were severely affected.
- Occupations within the arts, hospitality and food preparation were also severely affected. These positions are encompassed within the community and personal service workers and labourer's occupation categories.

4.5 Estimated Indigenous business sector impact

Supply Nation represents 51% of the Indigenous business sector employment in Australia.[1] Applying this fact to our model enabled us to estimate the impact of COVID-19 on the total population of the Indigenous business sector (Figure 4.5).

- Initially there were over 57,000 employees in the Indigenous business sector, of whom almost 21,000 are Indigenous. Applying the same distribution and losses in percentage terms as the businesses represented in the Supply Nation data, the magnitude of the loss on the total sector is greater than solely for Supply Nation businesses. In 2020, for instance, an estimated 2,327 total employees have lost their jobs of which 938 are Indigenous. In 2021, the estimates suggest that while many jobs will have been recovered as the economy improves, there is still a total employment reduction of 840 employees across the Indigenous business sector of which 323 are Indigenous compared to pre-COVID-19 levels.

Figure 4.5 Indigenous business sector change in employees by industry 2020



5. Conclusion

The analysis suggests that the Indigenous business sector experienced major employment reductions in industries most affected by COVID-19 related restrictions such as accommodation and food services, air transport and recreation. It was also observed that Indigenous employees were more concentrated in industries that have been affected most by COVID-19, and as a result, Indigenous employees have experienced greater job losses compared to all employees.

[1] Provide reference to AB report

With respect to the occupational impacts of COVID-19, the categories of technicians and trade workers experienced the greatest impact. These were closely followed by community and personal service workers and labourers which encompassed industry sectors in which Indigenous people were disproportionately employed such as arts, hospitality and food preparation.

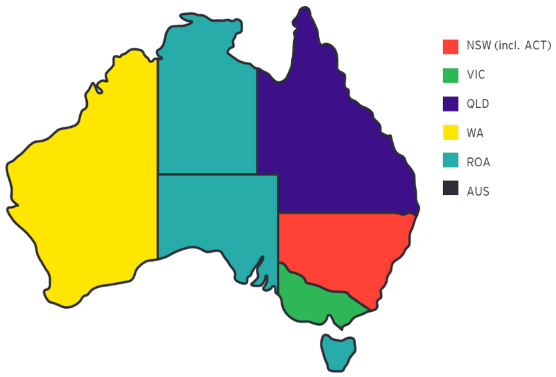
The findings indicate the relatively greater impact of COVID-19 on Indigenous people across Australia and highlights the need for tailored support offerings for both Indigenous businesses and employees, especially in those industries more severely affected.

Appendix A: Quantitative assumptions

- Sample: of the Supply Nation database used for the analysis, 95% (2,211) had industry-specific information. There was not sufficient industry-specific information for the remaining 5% (112 businesses) and these were excluded from the analysis. It should also be noted that the sample of businesses used is not a full list of all Indigenous businesses operating in Australia. Supply Nation businesses, however, represent 51% of employment in the sector, and in some cases this was used to extrapolate to the entire Indigenous business sector population, although this may still not be an accurate representation of the total population.
- Supply Nation representation: it is estimated that Supply Nation suppliers represents about 20% of all businesses in the Indigenous business sector. The businesses registered and certified with Supply Nation are larger than those in the broader Indigenous business sector in terms of average revenue and employment, and are estimated to represent 44% of revenue and 51% of employment in the Indigenous business sector.
- Industry matching: for each business, there is an assumption that there is an even proportion of workers in each of the noted top five industries, ignoring the additional industries that each business operates in. However, for businesses which did not note top industries, employees were allocated across all their listed industries. For example, if a business is listed in five unique main industries and has five workers, one worker was allocated to each industry. Where they are not unique, they have been proportioned in the same way, for example a business noting three unique industries (two listed twice) as its top five industries will have its employees distributed to each industry with 20% to the industry listed once and 40% to each of the two industries listed twice i.e. five employees would be split into one, two and two. We have also allowed decimal places (e.g. 0.5 of a person) to be allocated to an industry.
- Potential industry definition differences: the industries listed in the Supply Nation dataset were matched to the industries in the General Equilibrium Model (GEM). See Appendix B for a complete list of Computable General Equilibrium (CGE) industries.
- Scenario options: while the model allows for impacts under three different scenarios, the actual recovery from COVID-19 may differ from the predicted trajectories in the analysis.
- Indigenous specific impacts: based on stakeholder engagement and desktop research, an assumption was made that Indigenous businesses are impacted by COVID-19 by the same scale as all businesses.
- Occupation skills breakdown: the proportion of occupations within each industry follows the breakdown detailed by the ABS Australian and New Zealand Standard Industrial Classification (ANZSIC) four-digit industries and Australian and New Zealand Standard Classification of Occupations Australian and New Zealand Standard Classification of Occupations (ANZCO) one-digit occupations. For Indigenous employees this was calculated by summing the Aboriginal, Torres Strait Islander and both Aboriginal and Torres Strait Islander flags within the data. For the data that captured all employees the breakdown encompassing all people was used.
- Regional matching: each business was matched to a CGE region based on a multicriteria. If the location coverage was listed as 'All Australia' the business was matched to 'AUS'. If the location coverage was listed as 'local area' or 'State/Territories' the business was matched to the corresponding States (provided in the updated data). For many this was simply a direct match as only one State or Territory was listed. For those whose listed States were not equal to one (138 businesses or 14% of the Local Area and States/Territory data) the following was applied:
  - > 7 (i.e. only excluding one State or Territory) they were matched to 'AUS', with the assumption that this business is comparable to a nationally operating business;
  - < 7 (but >1) they were matched to the listed billing State, if the billing State was excluded from the States list then it was matched to the State which captured the greatest regional proportion;
  - If no States were listed, they were matched to the listed billing State (this was only for one case).

- The allocated region was then matched to a CGE region as outlined in the table and map below:

Allocated Region	Mapped EYGEM State Category
NSW	NSW
VIC	VIC
QLD	QLD
SA	ROA
WA	WA
TAS	ROA
ACT	NSW
NT	ROA
AUS	AUS



Appendix B: CGE Industry abbreviations

Abbreviation	Industry
AG	Agriculture
COL	Coal
OIL	Oil
GAS	Gas
OMN	Other Mining
PFOOD	Processed Foods
TCF	Textiles, Clothing and Fabric
LIGHTMAN	Light Manufacturing
PC	Petroleum and Coal Product Manufacturing
CPP	Chemicals, Rubber, Plastics
BPH	Basic Pharmaceuticals
NMM	Non-Metallic Minerals
FM	Ferrous Metals
NFM	Non-ferrous Metals
OMF	Other Manufacturing
MAN	Manufacturing
ELY	Electricity
WTR	Water and Waste
CNS	Construction
TRD	Trade
AFS	Accommodation and Food Services
OTP	Other Transport
WTP	Water Transport
ATP	Air Transport
WHS	Warehousing
CMN	Communications
OFI	Finance and Insurance
RSA	Real Estate Activities
OBS	Other Business Services
REC	Recreational Services
EDU	Education
OSG	Government Services
HHT	Human Health Services
DWE	Returns to Dwellings