

30 March 2010

Dear Sir/Madam

### **Inquiry into Access of Small Business to Finance**

The Queensland Tourism Industry Council (QTIC) welcomes the opportunity to provide input into the Senate Economics Committee's 'Inquiry into Access of Small Business to Finance'. With the majority of tourism business in Queensland being small to medium sized enterprises, QTIC is well positioned to provide feedback into this inquiry.

The information provided in this submission reflects the views of Queensland's small to medium sized tourism operators and can be considered a united industry response to this inquiry.

#### **The Queensland Tourism Industry Council**

The Queensland Tourism Industry Council (QTIC) is a private sector, membership-based tourism industry organisation. QTIC represents the interests of the tourism industry - including business operators, Regional Tourism Organisations (RTOs) and sector associations.

All of Queensland's RTOs are members of QTIC, as are 17 of the industry's sector associations and in excess of 3,000 regional members, operating in all sectors of the tourism industry.

QTIC is owned and governed by its members through member based councils, boards and committees and truly reflects the views of the industry at all levels throughout Queensland.

#### **Feedback**

With the majority of tourism businesses being small to medium sized enterprises, any impediments to small business growth – such as restrictions in accessing finance - have a significant impact on both Queensland's and Australia's tourism and hospitality industry.

Consequently, in such a labour intensive industry as tourism (which employs over 850,000 Australians or 8.3% of the workforce<sup>1</sup>) any impediments to tourism growth will impede the industry's ability to create vital employment opportunities – particularly in regional areas.

<sup>1</sup> Tourism Research Australia 2008

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In addition to this feedback, QTIC wishes to make the following additional points:

1. When addressing the National Business Summit last year, Kevin Rudd acknowledged that 'small businesses are the engine of the Australian economy' and based this statement 'on the quantifiable contribution of small business to our country'<sup>2</sup>.

The importance of small businesses to the Australian economy becomes clear when recent data is taken into consideration. Small businesses contribute around 35 per cent of Australia's total GDP and employ 3.8 million people (accounting for around 46 per cent of total private sector employment)<sup>3</sup>. In addition, more than 17,000 small businesses (including tourism operations) are exporters of goods and services. In 2008 these exports totalled \$1.2 billion<sup>4</sup>. Despite their contribution to the state and national economies, however, small businesses generally run on small profit margins and are very susceptible to changes in the business environment.

2. Recent media has suggested that small businesses pay higher interest rates than home buyers and experience greater difficulty in accessing funds<sup>5</sup>. There is no doubt that the cost of finance is seen as a significant issue for small business, although commentators have suggested that a more substantive issue is that many small businesses are over-gearred. Clearly, when cash flow is volatile or at best variable, then small business operators will struggle to service debt.

This situation is exacerbated in the tourism sector in Queensland as small business operators are occasionally exposed to single incident 'shocks', such as cyclones and flu epidemics. To date, government tourism bodies have responded to such crisis by implementing targeted marketing campaigns aimed at attracting tourists back to specific markets. While such measures are to be applauded, these 'demand-side' initiatives do not appear to be matched by 'supply side' measures – with the exception of natural disaster assistance for small businesses.

In contrast to the agricultural sector, there does not appear to be a comprehensive government safety net for tourism businesses – with tourism operators unlikely to meet the eligibility criteria for exceptional circumstances interest subsidies. This is despite the tourism industry being as important to the Queensland economy as the agriculture sector.

3. Small businesses also continue to face difficulties in accessing finance on favourable terms due to banks displaying greater caution in their lending policies. As an example, the loan to value ratio for financing on rural properties remains low. This means that, despite values in land remaining relatively stable, the amount of debt which banks are prepared to secure over rural properties has decreased. A number of QTIC's members have observed that some banks have changed their lending policies to obtain a more

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<sup>2</sup> PM Kevin Rudd speech to the 2009 National Small Business Summit

<sup>3</sup> PM Kevin Rudd speech to the 2009 National Small Business Summit

<sup>4</sup> PM Kevin Rudd speech to the 2009 National Small Business Summit

<sup>5</sup> See, for example, articles in the Sydney Morning Herald, 26 March 2010, (Big Banks Squeeze Small Business) and 9 November 2009 (Small Firms Squeezed by Banks).

varied portfolio, which has meant that rural financing is no longer as easy to access through some of the larger banks.

4. In feedback from its members, QTIC has also identified that the internal costs associated with obtaining finance have also increased as banks are requiring more documentation and information in relation to lending. This has meant that increased preparation is required by small businesses prior to applying for finance.
5. As the economy slowly recovers from the recent economic downturn, small businesses will play an important role in returning Australia to economic prosperity. This is due to the fact that most small businesses have been able to cut their overheads while continuing to supply their products or services. This is in comparison to larger businesses, which have experienced a more significant financial impact from the recent economic conditions.

With this in mind, QTIC proposes that banks adopt a more flexible approach to their lending in relation to small businesses. This may involve banks looking outside usual indicators and acknowledge that small businesses are generally innovative and adapt to market conditions more readily than larger businesses.

6. QTIC is aware that it remains extremely difficult for small businesses to obtain equity to start their operations. This is due to potential small business operators having limited assets and no financial records to demonstrate their capacity to service a debt. Private lending provides some options to potential small business owners but usually on terms no better - and in some cases worse - than those offered by banks.
7. With regard to the state of competition in small business lending, QTIC proposes that banking, like all industries, needs to be competitive. Customers need to have choices in relation to lending services so that they can tailor lending services to their specific needs and requirements.
8. QTIC understands that Australia is well behind the USA and the United Kingdom in government support for small business. As an example of their progress, for many years small businesses in the USA have benefited from having a single federal government agency with specific responsibility for small business. This agency provides financial assistance, training, counselling and disaster relief. While this agency does not provide funds directly, it does provide certain guarantees to lenders about the repayment of loans to small business.

The Senate Economics Committee may also be aware of the grants available in the UK for business investment and for businesses in specific regions – such as rates relief for small businesses in Scotland. QTIC proposes that Australia would benefit from adopting this and other supportive models.

QTIC welcomes the opportunity to provide input in to the Senate Economics Committee's 'Inquiry into Access of Small Business to Finance'. Credit is the lifeblood of the economy and small business operators know this better than most. Without access to appropriate and affordable finance, many small businesses do not have the resources to maintain their

operations, grow their business and support governments to achieve their economic growth and job creation objectives.

For further information, please feel free to contact me on (07) 3236 1445.

Kind Regards

A handwritten signature in blue ink, consisting of a stylized 'D' followed by a wavy line and a sharp peak.

**Daniel Gschwind**  
**Chief Executive**