

National Australia Bank

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Mr Mark Fitt
Committee Secretary
Senate Economics Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: economics.sen@aph.gov.au

Dear Mr Fitt

National Australia Bank (NAB) welcomes the opportunity to provide a submission to the Senate Economics Legislation Committee inquiry into *Australian Business Growth Fund Bill 2019*. This legislation would allow the Commonwealth Government to invest \$100 million in a Business Growth Fund (BGF).

As Australia's largest business bank, NAB is pleased to support the establishment of a BGF in Australia as a new and innovative way for Australian small and medium businesses to access long-term patient equity capital to grow their business.

BGFs have existed in the United Kingdom (UK) since 2011, and in Canada since 2017, supported by leading banks in both countries. In Australia, the BGF is proposed to make long-term equity capital investments of between \$5 million and \$15 million in eligible businesses, being businesses with an annual revenue of between \$2 million and \$100 million and three years of revenue growth and profitability. The BGF will make minority equity investments of between 10 per cent and 40 per cent in individual businesses. The BGF will be a commercial entity with investments expected to deliver a market competitive commercial rate of return.

As announced by the Government in November 2019, NAB has provided in-principle approval to contribute \$100 million towards the BGF's establishment. The Commonwealth Government and three other major banks have also each committed the same amount. HSBC Australia and Macquarie have each committed \$20m, taking the proposed initial BGF size to \$540 million.

Why the BGF is needed

As the Explanatory Memorandum acknowledges, 2018 reports from the Reserve Bank of Australia (RBA) and the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) identifies challenges that small businesses can face in accessing finance.

NAB's observation of the Australia market, supported by feedback from customers, is that small and medium enterprises (SMEs) find it difficult to attract patient equity investment to enable growth without taking on additional debt or relinquishing control of their business. NAB believes that the BGF will fill a current gap in the Australian market by offering long-term equity finance to established SMEs but importantly still allowing these SMEs to retain control of their business.

How it will help

NAB sees the BGF as an opportunity to drive economic development and innovation within the SME segment in Australia. The BGF will support economic growth and employment by giving SMEs greater access to long-term equity capital that will help them grow, invest in new technology and create more jobs. In only making minority investments of up to 40 per cent, the BGF will also do this and still allow SMEs to retain control of their business.

NAB also believes that the BGF will offer an opportunity for NAB to deepen its support for existing SME customers by providing the option to refer NAB customers who are looking to grow and expand with equity financing to the BGF.

Governance

The Australian BGF will be run independently, with an independent Chair and management team with oversight from a Board of Directors. NAB will be an equal shareholder with the other major shareholders being the Federal Government, Commonwealth Bank of Australia, ANZ and Westpac. It is planned that each major shareholder will have a representative on the Board, along with three independent directors (one of whom will be the Chair). Having a combination of shareholder and independent directors is the governance structure adopted by the UK BGF.¹

NAB leadership

NAB has supported the establishment of an Australian BGF for some time. NAB publicly welcomed the announcement in November 2018 by the Treasurer, the Hon Josh Frydenberg MP, that the Government was in discussions with financial institutions to establish a BGF.² From December 2018 to February 2019, NAB led and chaired an industry working group of interested participants to further develop the proposal.³

Following the May 2019 federal election, a working group was re-formed with additional participants to fast track the establishment of a BGF. NAB has continued to play a leading role in this working group as part of NAB's ongoing commitment to establishing an Australian BGF.

Experience with the UK and Canada

NAB has engaged extensively with the UK BGF, and with the Canadian BGF, over the past 18 months to understand how the BGF has operated in each of those countries. NAB would particularly like to thank the UK BGF for their support and insights provided to NAB and other participating banks and appreciates their ongoing support.

NAB take great confidence in the success of the BGFs in the UK and Canada. With the UK BGF having been operational for almost a decade, NAB believes the BGF is an established model which can be successfully implemented in Australia using the UK experience and approach as a starting point.

Conclusion

NAB believes that establishment of a BGF is an important development to support established Australian SMEs and is pleased to be involved. NAB looks forward to continuing work with other banks and the Commonwealth Government on establishing the BGF.

If you have any questions about this submission then please contact Chris Venus, Senior Manager Public Policy on [REDACTED] or [REDACTED]

Your sincerely

[REDACTED]

Anthony Healy
National Australia Bank
Chief Customer Officer
Business & Private Banking

¹ See UK BGF Board, available at <https://www.bgf.co.uk/our-team/>.

² 'NAB continues to back Small Business', 14 November 2018, see <https://news.nab.com.au/nab-continues-to-back-small-business>.

³ Statement from NAB on the Business Growth Fund, 6 December 2018, see <https://news.nab.com.au/statement-from-nab-on-the-business-growth-fund/>.