



RESERVE BANK OF AUSTRALIA

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Christopher Kent
ASSISTANT GOVERNOR (FINANCIAL MARKETS)



17 February 2020

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

By Email – 

Dear Mr Fitt

Inquiry into Australian Business Growth Fund Bill 2019

Thank you for your letter dated 14 February 2020, seeking clarification as to the Bank's views on the availability of equity finance to SMEs, and on any research that the Bank may have conducted into this matter.

The Reserve Bank has a long standing interest in the availability of finance for small businesses. Over recent years, the Bank has undertaken research and analysis relating to small businesses' access to finance, including studies based on firm level data. The Bank also obtains information directly from small businesses and small business groups through its annual Small Business Finance Advisory Panel and its liaison program. In addition, the Bank co-hosted two roundtable events in 2018 with representatives from financial institutions, government and the financial regulators to discuss small business finance.

A consistent theme of these discussions and the Bank's research over recent years has been that small businesses find it challenging to obtain finance for expansion. Many small businesses looking to grow find it challenging to access finance, particularly without providing real estate as security. The Bank's research has found that smaller and riskier companies face high borrowing rates, which constrains their investment. Overall, our liaison with small businesses and financial institutions suggests that there is a funding gap for established small businesses that cannot obtain additional debt finance or attract the limited supply of venture capital finance. The small business entrepreneurs on the Bank's Advisory Panel report that the cost of equity financing is high: they are often reluctant to sell equity to professional investors because this usually involves a loss of control over their businesses; they are also concerned about the short investment horizons of many venture capitalists. The small business entrepreneurs also report that interest from private equity varies significantly by industry; for instance, technology and health businesses appear more likely to be approached than retail and rural businesses.

For further information, here is a list of Reserve Bank publications over recent years that include analysis of small business financing conditions.

Reserve Bank of Australia (2020), 'Domestic Financial Conditions', *Statement on Monetary Policy*, February 2020. Available at:

<https://www.rba.gov.au/publications/smp/2020/feb/domestic-financial-conditions.html>

Araujo and Hambur (2018), 'Which Firms Get Credit? Evidence from Firm-level Data', *RBA Bulletin*, December 2018, Available at:

<https://www.rba.gov.au/publications/bulletin/2018/dec/which-firms-get-credit-evidence-from-firm-level-data.html>

Connolly and Bank (2018), 'Access to Small Business Finance', *RBA Bulletin*, September 2018,

Available at: <https://www.rba.gov.au/publications/bulletin/2018/sep/access-to-small-business-finance.html>

Hambur and La Cava (2018), 'Do Interest Rates Affect Business Investment? Evidence from Australian Company-level Data', *RBA RDP* 2018-05. Available at:

<https://www.rba.gov.au/publications/rdp/2018/2018-05.html>

Connolly and Jackman (2018), 'The Availability of Business Finance', *RBA Bulletin*, December 2017. Available at:

<https://www.rba.gov.au/publications/bulletin/2017/dec/7.html>

Connolly, La Cava and Read (2018), 'Housing Prices and Entrepreneurship: Evidence for the Housing Collateral Channel in Australia', *RBA Conference* 2015. Available at:

<https://www.rba.gov.au/publications/confs/2015/connolly-lacava-read.html>

Yours sincerely

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