



19 February 2020

Committee Secretary
Senate Standing Committee on Economics
Department of the Senate, Parliament House, CANBERRA ACT 2600
By email: [REDACTED]

Dear Sir/Madam

Inquiry into Australian Business Growth Fund Bill 2019 ("BGF bill") – Ombudsman letter

We refer to the Ombudsman's letter to the Senate Standing Committee on Economics dated 17 February 2020 (and lodged on the Senate Committee website yesterday afternoon).
In that submission, the Ombudsman claims that:

"Notably, growth funds hold only \$2.0bn of assets under management"

If that is the case*, it is not reasonable for the Ombudsman to claim that there will be no market impact on the existing private-sector ecosystem from the Government intervention by providing a \$540 million Australian Business Growth Fund with \$100 million of taxpayer funding and concessional prudential treatment for its bank shareholders.

Using the Ombudsman's numbers:

- the currently committed of the BGF will be 25% of the entire market.
- If the banks utilise the full APRA concession up to its \$5billion permitted limit, the BGF would be 2.5x the entire existing market of institutional growth funds.

=> To suggest that Government intervention of this size will not have a market impact is not reasonable.

We note that the Ombudsman is attempting to simultaneously maintain the following contradictory positions:

Position 1	Position 2 (contradicting position 1)
When describing the current market...	
<i>"it really doesn't exist" ... "Long-term patient capital in the Australian market—there are a few; there are a couple; but you could count them on one hand"</i> (evidence to Senate Committee 13/2/19)	<i>There are \$2 billion of growth funds in Australia.</i> (letter dated 17 February 2020)

* As previously noted, some other statistics quoted by the Ombudsman have been proven to be incorrect. We have not had time to verify this figure against other sources

On the increase of access to equity for SMEs as a result of the UKBGF & Australian BGF ...	
<p>In the UK: <i>the total number of companies invested in was 231. It's not a lot in a country like the UK, which is really large..</i></p> <p><i>I struggle to see how a fund aiming at about eight per cent of businesses</i></p> <p>(evidence to Senate Committee 13/2/19)</p>	<p>In Australia:</p> <p><i>You've got about 200,000 that are in the more than \$2 million space.</i></p>
When discussing impact of £3 billion UK BGF and if it crowds out private-sector investment...	
<p><i>It's not exactly going to impact upon a market</i></p> <p><i>This is not a fund that is aimed at taking over <u>lending</u> to small businesses; that has simply never been the point.</i></p>	<p><i>Two of those [investments by BGF] already are billion-dollar companies, so in this space there are two what I suppose would be called unicorns. We are seeing serious success.</i></p>
On understanding the Australian market...	
<p><i>I think we understand where the market gap is in terms of access to capital.</i></p>	<p><i>We can't measure it [the market need/gap]</i></p> <p><i>I don't believe anybody will be able to give a defined figure on how many of those businesses are looking for equity rather than other forms of capital.</i></p>
When discussing motivation of the parties	
<p>[by contributing \$100 million of taxpayer's money, (i.e. 'other people's money') and giving banks concessional treatment on equity, so they can borrow 72.75% - outcompeting all existing private sector participants] ...</p> <p><i>"The National Australia Bank stepped up"</i></p> <p><i>"the federal government took a leadership position"</i></p>	<p>In response to OnMarket describing:</p> <ul style="list-style-type: none"> - the lack of any analysis by any Govt department - how BGF will fail to increase access to equity for SMEs because it will crowd-out private capital of - how this will be detrimental to "BGF-rejects", and - proposing a BGF model that addresses all of these concerns and so that all Australians can participate equally: <p><i>This shows "serious self-interest".</i></p> <p>SMH 14/2/20</p>

On governance/political interference in the BGF	
<i>In our report, we give a particular example of a company to represent the sorts of companies that struggle in this space, and that was the Gundagai abattoir. That was a long-term business, it had been solid for a long time. It had long-term overseas contracts, it had long-term contracts with a major supermarket.</i>	<i>...the government won't be involved in directing this new entity....It would be a very bad mistake.</i>
On who should fund the BGF:	
<i>Recommendation 1: Business Growth Fund The <u>private sector</u> to establish an investment fund...</i> <i>[my <u>underlining</u>] Ombudsman's report</i>	<i>At the end of the day the federal government took a leadership position. I think that was a great idea... I think that's exactly what government should do: take leadership positions when there's obviously a market gap.</i>
On what the BGF should do:	
<i>The fund will offer <u>both debt (loans)</u> and equity (investment) to support SME growth. SMEs can apply for amounts between \$250,000 and \$5 million, with <u>terms up to seven years</u>, secured against the business.</i> <i>[my <u>underlining</u>] Ombudsman's report</i> <i>I don't think it is useful to separate equity from loans</i> (evidence to Senate Committee 13/2/19)	<i>Kate Carnell has welcomed new legislation introduced today by the federal government to establish the Australian Business Growth Fund, [which will invest equity only, not loans]</i>
ASBE OF Press Release	

I trust that this demonstrates the hopelessly confused and contradictory positions of the Ombudsman by recommending a fund which does not follow the recommendation of her report, which requires a \$100 million investment by the Government, and prudential concessions of \$5 billion to the banks, without any data, evidence or studies into access to equity for SMEs that have revenue of \$3 million to \$100 million, or the negative impact that the BGF will have on the existing ecosystem that finances SMEs, the cherry-picking of SMEs that already have access, and the creation of a class of “BGF rejects”, with the expectation that the private-sector will continue to finance the losers, without participating in the winners.

Yours sincerely

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