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20 February 2020

Senate Standing Committee on Economics
PO BOX 6100
Parliament House
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Via email: economics.sen@aph.gov.au

Dear Committee secretary,

RE: Australian Business Growth Fund Bill 2019 [Provisions]

The Australian Chamber of Commerce and Industry (ACCI) supports the objectives of the Australian Business Growth Fund Bill 2019. The establishment of the Australian Business Growth Fund (ABGF) will support economic growth and employment by providing to SMEs the patient capital they are currently having difficulty gaining access to.

There is wide-spread evidence that high-growth potential SMEs lack sufficient sources of patient capital.¹ In a survey undertaken by Scottish Pacific for their growth index, 'The Index found that 59% of growth SMEs are seeking additional finance or capital to fund their projected growth, with one in three looking to borrow \$50,000 - \$250,000 and a similar proportion seeking \$500,000 - \$2million.'²

The unmet demand for patient capital, the patient capital financing gap, is being driven by a range of factors including:

- a reluctance of banks to lend to SMEs given the comparatively higher risk profile of these business loans;
- a reluctance of banks to extend finance to SMEs without real estate as collateral;
- the extended period of time and potential uncertainty associated with a return on investment (ROI) of patient capital loans;
- the high cost and lack of competition in patient capital funding generally; and
- the size, profile and risk appetite of the Australian venture capital industry.

These factors are not exclusive to Australia. The international experience suggests that financial regulatory reforms have added pressure to banks and financial

¹ Australian Small Business and Family Enterprise Ombudsman (ASBFEO), Affordable capital for SME growth, ASBFEO, Canberra, June 2018; ASBFEO, Business growth fund, Research paper, ASBFEO, Canberra, August 2018; E Connolly and J Bank, Access to small business finance, Reserve Bank of Australia (RBA) Bulletin, 20 September 2018

² Scottish Pacific Business Finance, SME Growth Index, September 2018

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intermediaries to de-risk their lending. This has created a financing gap in higher-risk loans in the market, such as patient capital.³

The lack of access to patient capital funding is holding back high growth potential SMEs. In the current lending environment, Government has an important role to play in establishing the collective investment undertaking to enable banks to develop their patient capital business. The OECD has found that banks that invest in equities through a diversified collective investment undertaking, such as the proposed ABGF, take a long-term view on returns, which allows them to develop their patient capital business⁴. This is demonstrated by the success of the UK Business Growth Fund and the equivalent Canadian Growth Fund.

Return on Investment

Concerns have been raised regarding the lack of detail on the ROI to taxpayers of the \$100 million establishment funding and the justification for Government involvement. ACCI understands that the ABGF is targeted towards high growth potential firms that require longer-term capital funding. A study by the former Department of Industry, Innovation and Science shows that while high-growth firms (HGFs) represent approximately 10% of all firms they contribute to 46% of employment growth.⁵ HGFs also contribute to 66% of all sales growth and almost 70% of value-added growth.⁶ HGFs are also more likely to invest in R&D. A general evaluation would suggest that the benefits of supporting the growth of these types of firms far outweighs the costs of establishing the ABGF. It is ACCI's view that it is in the broader public interest to support the growth of SMEs with high-growth potential and that this can be readily done through the establishment of the ABGF.

Supply of credit and competition of capital funding to SMEs

Recent evidence from the Australian Banking Association shows a decline in small business approvals at a time of record low borrowing costs⁷. The Business and Industry Advisory Committee (BIAC) to the OECD warns that Governments need to consider the economic consequences of the extremely high risk weights applied to venture capital investment and similar forms of more speculative financing that emerging businesses rely upon for growth.⁸ BIAC also warns on the risks associated with the rise of shadow banking that is weakly regulated. Businesses that lack patient capital funding may pursue informal sources of funding that increase the cumulative

³ OECD, The effects of financial regulatory reforms on SME financing, 2019

⁴ ibid

⁵ https://www.industry.gov.au/sites/default/files/industry_and_innovation_workshop_2017_-_high-growth-firms-in-the-australian-economy_presentation.pdf p7

⁶ ibid

⁷ <https://www.ausbanking.org.au/wp-content/uploads/2019/09/190919-Bank-lending-to-Business-June-Qtr-2019.pdf>

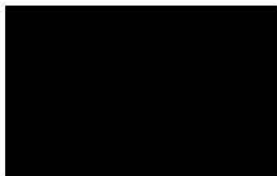
⁸ OECD, The effects of financial regulatory reforms on SME financing, 2019



risk to the broader economy. Alternative sources of funding such as through digital banks, angel investing and venture capital have an inadequate market share in Australia to meet the needs of high growth firms requiring patient capital funding.

Thank you for the opportunity to comment. Please contact our office if you wish to discuss further.

Yours sincerely,



DR ROSS LAMBIE
Chief Economist