



Questions on Notice

Questions on Notice sent through email

1. In your submission to Departmental consultation, you note that, “ABA broadly supports the intention of the fund, but has some concerns in relation to the Fund’s design and implementation”. Can you elaborate on these concerns?
2. You also note that “banks already invest in many of the priority areas identified in the consultation paper”. Are there any unintended consequences you could see as a result of that overlap?
3. Given that banks already invest in many of the priority areas, could this be a case of successful manufacturers winning the majority of government manufacturers, as opposed to small and medium sized businesses?
4. Does the exclusion of a grants system potentially harm the ability of smaller to medium sized enterprises from becoming investment ready?
5. If businesses were able to show a business case which outlined a likely positive rate of return, wouldn’t private finance already have provided the investment necessary?
6. You also make further comments about the operation of the Investment Mandate, noting that “the Fund should breakeven, rather than return a profit” to target sectors that “cannot otherwise be funded by the private sector”. Why do you believe that the Corporation should not make a return on investment?
7. Do you believe that changing the longstanding priority areas of government investment affect investment confidence?
8. Does Australia have a lack of investment in these priority areas? Why?
9. Are the priority areas identified by the government considered profitable? Why haven’t capital markets invested in transport or forestry for example?
10. What are the key barriers for attracting investment?

Questions on Notice asked during the Australian Banking Association’s appearance

11. How many employees are in the banking industry?
12. How many employees are in the financial services industry?

Answers

Questions 1 and 2.

Australian lenders currently support businesses in the priority areas proposed by Government by providing access to credit, which allows them to invest and expand.

The Australian Banking Association (ABA) has submitted that appropriate care should be taken in the development of the investment mandate for the National Reconstruction Fund (Fund) to ensure it strikes the appropriate balance on the rate of return, timeframe and risk tolerance of the Fund.

The ABA recommends it being a requirement of the investment mandate to consult with traditional private sector participants before making an investment by the Fund, such as via a panel of financiers. Government should assess the commerciality of each prospective investment and refer it to the private sector where it is sensible to do so from the perspective of risk and return.

Once emerging investments by the Fund have reached maturity, the Fund can enable private financiers to carry forward the investments, allowing the Government to ‘recycle capital’ and make new investments.

We encourage the Government to carry out further consultation with industry as key principles of the Fund’s investment mandate are considered and developed.



Questions 3 and 4.

Investments by the Fund to small and medium sized businesses will depend on the final design of the investment mandate and policies of the Fund.

We note similar funds that target emerging industries, projects or technologies during the beginning of their lifecycle, such as the Victorian Government's Breakthrough Victoria Fund, support smaller sized businesses, including start-ups.

We encourage the Government to consider policies that include and support small and medium sized businesses in Australia.

Question 5 and 10.

Private financiers consider whether to invest in a business on a case-by-case basis, based on a broad range of factors, such as risk and return and regulatory and economic considerations. These factors and their weighting may vary between financiers.

Question 6.

A lower rate of return enables the Government to invest in promising emerging industries, projects or technologies where private investors may not invest due to risk. These types of investments can deliver a suite of positive benefits to the Australian economy and public beyond profit and support other government priorities.

Questions 7.

The ABA supports the proposed priority areas for investment but considers the Government should target investment in these areas to the earlier stages of a project's lifecycle, such as during the phases of research and development or commercialisation, rather than broadly, to generate the greatest impact and alleviate the risk of government competing with private finance for projects.

Question 8 and 9.

Australian lenders currently lend to businesses that operate in the priority areas proposed by the Government. For example, as of 31 December 2022, lending to agriculture, forestry and fishing businesses in Australia by these lenders exceeded \$100 billion.¹

However, we see that the Fund could be the mechanism by which Government could invest in emerging industries, projects or technologies within these or other priority areas. This approach would provide government funding towards the build out of 'proofs-of-concept' to spur growth and innovation in our market, which will generate greater private sector investment and economic diversification over time.

Profitability of investments in the priority areas proposed by the Government is dependent on a number of factors, including the duration, type and purpose of the investment.

Question 11.

The ABA estimates there are approximately 168,958 full-time equivalent² employees in our six largest member banks.³ This estimate is based on the 2022 Annual Reports of these members.

Question 12.

Based on labour force statistics compiled by the Australian Bureau of Statistics, in November 2022, there were 559,000 Australians employed in the financial services and insurance industry and 222,000 people employed in the sub-sector of finance.⁴

¹ Reserve Bank of Australia, Lending to Business – Business Finance Outstanding by Business Size and Industry, <https://www.rba.gov.au/statistics/tables/xls/d14-1-hist.xls>.

² Full-time equivalent includes full-time, part-time, job share employees, employees on extended leave and contractors.

³ ANZ, Bendigo Bank, Bank of Queensland, Commonwealth Bank of Australia, National Australia Bank and Westpac.

⁴ Australian Bureau of Statistics, Labour Force, Australia, Detailed, November 2022, <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release>.