



10 February 2023

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Re: National Reconstruction Fund Corporation Bill 2022

Thank you for the opportunity to provide a submission on the inquiry into the *National Reconstruction Fund Corporation Bill (2022)* ('NRF Bill'). The NRF is a landmark investment in our nation's industrial and technological capabilities which has significant potential to help drive Australia's future prosperity and security. Given the scale, complexity and significance of establishing the NRF, we welcome the careful oversight from the Committee and the time taken to consult widely.

The tech sector wants to play a constructive role in helping to shape the NRF to ensure it successfully achieves its goals and helps grow Australia's strategic tech capabilities. We have formed an expert group comprised of venture capital firms and tech companies to identify the key design and implementation features that will ensure the NRF complements private capital markets, attracts co-investment and fills important funding gaps.

About the Tech Council of Australia

The Tech Council of Australia (TCA) is Australia's peak industry body for the tech sector. The tech sector is a key pillar of the Australian economy, contributing \$167 billion per annum to GDP (or 8.5%) and employing over 860,000 people. The sector includes workers in direct tech industries such as Computer System Design and indirect industries like Retail or Agriculture. Overall, the tech sector is equivalent to Australia's third largest industry, after mining and banking, and Australia's seventh largest employing sector.

1. The NRF can play an important role in growing Australia's critical technology and enabling capabilities

Australia's tech sector has grown rapidly over the last two decades, with domestic and foreign venture capital investment helping to launch a vibrant start-up ecosystem that has now scaled over 100 globally successful companies valued at \$100 million or more, including over 20 unicorns valued at over \$1 billion.

Despite recent rapid growth, our tech sector is still considerably smaller than those in peer economies such as Canada¹. While we have been successful at encouraging venture capital investment into areas such as Business Software and Fintech, which are major areas of strength in our tech ecosystem, we under-index considerably in

¹ Tech Council of Australia, [The economic contribution of Australia's tech sector](#)



investing in more sensitive critical technology areas such as AI and cyber security compared to global peers².

Start-ups developing the next critical technologies and enabling capabilities face difficult conditions, including tight talent pools, scarce scale-up funding, limited infrastructure, and sparse networks of people with expertise in commercialising critical technologies. To ensure that Australia can be competitive in these areas, we need to address barriers to growth, with our research identifying funding gaps (particularly at the scale-up stage, or the “second valley of death”) as a priority.

The gap in scale-up funding for critical technologies and enabling capabilities stems from differences between development timelines and those of commercial investors. Commercial investors typically expect a return within approximately 5 years, which is much shorter than the 10+ year development cycles for many new technologies.

Given the long-term and strategic nature of these investments, governments are often the best-placed actors in an economy to address this gap by being patient funders of strategic investments and crowding-in further private investment. That is why the Tech Council supports the Government’s commitment to invest at least \$1 billion in critical technologies, and commit to ‘Enabling Capabilities’ as a priority investment area within the broader \$15 billion NRF.

Government-backed VC-style funds, like the NRF, have the potential to be transformative and play a complementary role to the broader market. CSIRO’s innovation fund Main Sequence Ventures is a good example³. However, if designed and targeted poorly, they can also present financial risks and be ineffective at achieving their outcomes. It is important in the design process to review and learn from the successes and shortcomings of similar initiatives.

2. TCA supports the NRF Bill

The NRF Bill establishes the broad framework and overarching governance structure for the NRF. We support the decision to use the Clean Energy Finance Corporation (CEFC) as a model for the NRF enabling legislation, particularly given the independence and flexibility this offers in how the Fund is operated at arm’s length from the Government.

We have no major concerns with the legislation and recommend that the Bill be passed in its current form. The key issues the Tech Council would want to see covered in the enabling legislation have largely been accounted for in the Bill, and our major design recommendations will be reserved for the Investment Mandate. Our key reasons for supporting the current Bill are as follows.

² Source: Tech Council of Australia, [Turning Australia into a regional tech hub](#)

³ An overview of Main Sequence Ventures’ economic impact and extensive list of co-investors can be found [here](#).



a. Clear governance structures and sufficient flexibility for the Board and CEO in how the NRF is operated.

We believe that flexibility in how the Board and CEO discharge their responsibilities will be important for two reasons.

- i. Flexibility allows the Board and CEO to tailor approaches across the diversity of investment areas covered by the NRF
This includes the option to create and delegate decisions to investment committees in line with private sector norms.
- ii. Flexibility allows the Board and CEO to adapt to market changes over time. For the NRF to have enduring value and secure sufficient returns, it must have this kind of flexibility amid changing external conditions.

Providing the Board and CEO the flexibility to adopt private sector operating practices will enable the NRF to crowd-in greater co-investment. Particularly for areas of the economy, such as the tech sector, in which investment decisions are made relatively quickly, the ability to work effectively with co-investors is crucial to the NRF's success.

While flexibility is critical, it also reinforces the importance of ensuring the Board and the organisation are staffed with people with the appropriate industry, finance and investment skills. This will be one of the most important factors in determining whether the NRF is able to deliver on its objectives. We support the flexibility that will be offered to the Corporation to provide competitive remuneration packages to hire appropriately qualified staff (Division 4, Section 49).

This flexibility is provided in Division 4 which enables the Board to establish committees and options for delegation in Sections 89 and 89.

b. Focus on crowding in private co-investment.

We support the clear focus on crowding in private co-investment, as set out in Clause 3 of the Explanatory Memorandum. We believe securing co-investment is important for the NRF because research has found it is one of the key factors that predicts the success of publicly-funded VC funds⁴.

The governance structure, discussed in the previous point, established by the NRF Bill supports the objective to crowd-in private investment.

c. Not overly prescriptive in defining key terms.

The NRF Bill will create an organisation that is anticipated to operate over many years, possibly decades. Over that time our conception of many key terms, such as 'critical technologies', will change and the NRF will need to adapt.

⁴ Boulevard of Broken Dreams, Josh Lerner



The NRF Bill allows the NRF to adapt to these changes by not specifying these terms in the legislation, and enabling the responsible Minister to provide directions on these matters through the Investment Mandate, through Section 71.

Finally, we wish to highlight the importance of complementary reforms. Complementary reforms will shape the success of the NRF by improving the environment for growing critical technologies and enabling capabilities in Australia. We believe there are two priority areas for complementary reforms: foreign investment regulation and skilled migration policy. In both areas, we recommend the Government ensure administration of these policy areas is internationally competitive, relative to countries like Canada, Israel and the UK. This ensures Australia-based firms are able to compete in global markets for capital and talent which are crucial to our ability to grow our critical technology and enabling capabilities.

Specific recommendations for reforms in these areas are included in our submission to the Department of industry, Science and Resource's consultation on the National Reconstruction Fund.

Thank you for the opportunity to make this submission. We would be pleased to discuss the comments in our submission with the Committee.

Yours sincerely,

Tom McMahan
Deputy CEO, Tech Council of Australia

