

Access to Finance

Access to finance will be broadly discussed in terms of the current economic and financing climate. Some of topics that would be covered would include but not limited to:

- Start up capital that is available to small and medium size business. This would include women owners and operators;
- Superannuation – levels of employer and employer funded; proportion of self-funded retirees; availability of funds from superannuation or pension funds;
- Access to funds and support for expansion into international markets (e.g. Austrade, Export Finance Insurance Corporation, Department of Foreign Affairs);
- Availability of debt and/or equity source of finance;
- Access to international sources of funds by Australian businesses;

Programs to support innovation and entrepreneurs, such as Women in Business Grants Australia and Innovation Grants in Australia at the national, state or territory levels.

Small and medium size businesses

There are multiple definitions used across the finance sector and other regulatory sector for small and medium size enterprises (SMEs). They are generally based on the size of a business's annual turnover, number of employees, the size of its borrowings, or a combination of these factorsⁱⁱⁱ.

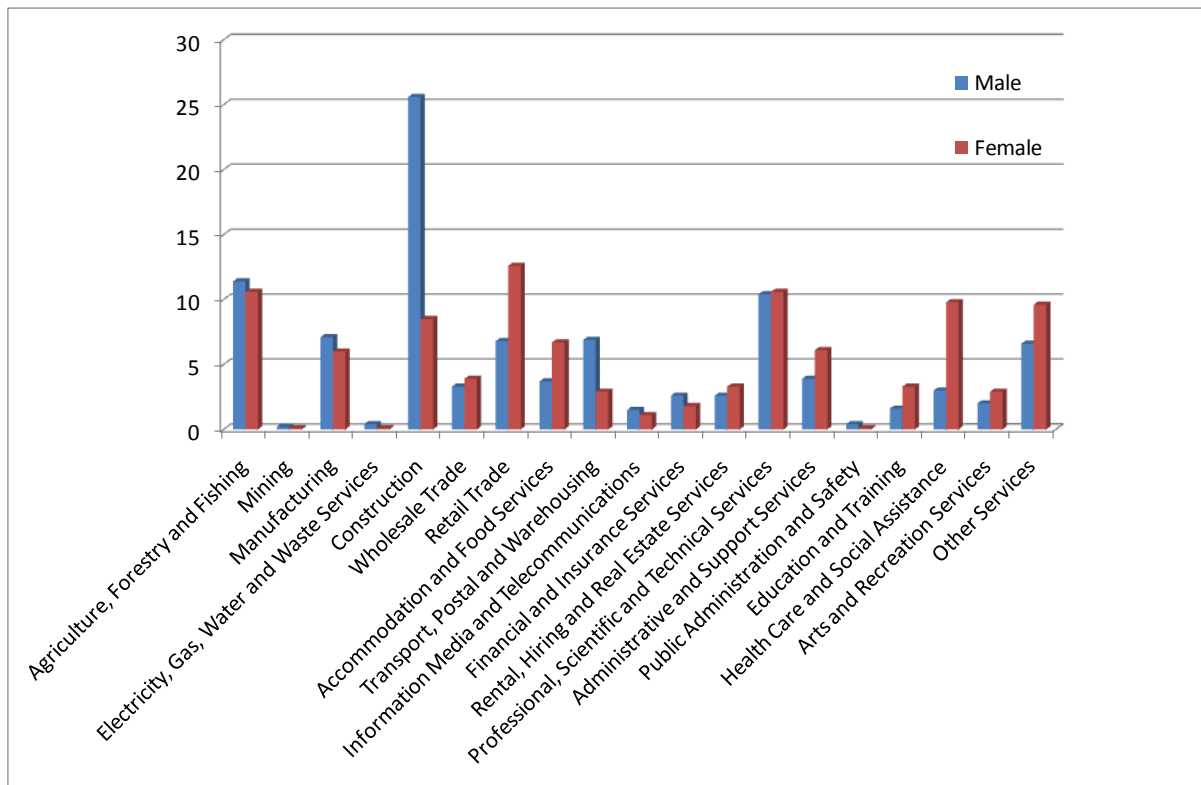
The National Australian Bank defines micro-business customers as business with turnover under \$1 million; 'small business customers' turnover of \$1million - \$5million; medium as between \$5 million to \$50 million. The Commonwealth Bank of Australia uses Australian Prudential Regulatory Authority's definition of client's loan balance of less than \$2 million. The ABS definition of small business is those employing less than 20 employees. Lender's procedures have been suggested by the Australian Chamber of Commerce and Industry can differ depending on whether the applicant is considered a small business.

At 30 June 2009, SMEs provided employment for approximately 7.1 million people and they have also provided for 58% of industry value added, contribution to GDP.

Business Owners

According to the ABS, in 2007 there were 1.9 million business operators in Australia, of whom one-third were femaleⁱⁱⁱ and, on average, had been in business for less than 4 years. Compared to their male counterparts, women are more concentrated in the industries of retail trade, health care and social assistance, accommodation and food services. Men, on the other hand dominate the construction, transport, postal and warehousing and manufacturing.

Figure 1: Business Operator Status by sex and industry 2007



Comparing women to men business operators the following needs to be noted:

- 14% of women state that they are managers and administrators compared to 22% for men.
- 54% of women state that they work part-time compared to 17% for men.
- 46% of women state they work full-time of whom 20% stating they work over 49 hours a week compared to men 83% stated that they work full-time in the business and of those 44% state that they work 49 hours or more compared. This was supported by Victoria University's study of small business that found that female entrepreneurs tend to work part-time and tend to have lower growth aspirations than males.
- 6% of women who are lone parents, with and without dependent children, are business operators compared to 2% for men.
- 62% of women had education level at Diploma level and higher compared to 40% for men.
- 75% of women earned less than \$1000 per week compared 60% for men.
- 36% of women worked from home compared to 14% for men.
- Women tend have less business support from their partners, as they are more likely to be involved in their own carers, than men whose partners will provide substantial business support in administration of the business (placing orders, following up on debtors, banking and so on).
- 31% of indigenous women compared to 69% of men are business operators^{iv}.

Table 1: Business Operator Status, by sex and Occupation: 2007

	Male (%)	Female (%)	Total (Number)
Managers and administrators	22.2	14.2	373 647
Professionals	15.6	17.5	308 151
Associate professionals	15.4	21.9	331 921
Tradespersons and related workers	25.3	5.4	361 691
Advanced clerical and service workers	0.5	14.8	95 435
Intermediate clerical, sales and service workers	2.8	13.9	119 397
Intermediate production and transport workers	9.5	1.6	133 330
Elementary clerical, sales and service workers	2.0	5.3	58 311
Labourers and related workers	6.8	5.4	120 360
Total	100.0	100.0	1 902 241

Definition of Access to finance

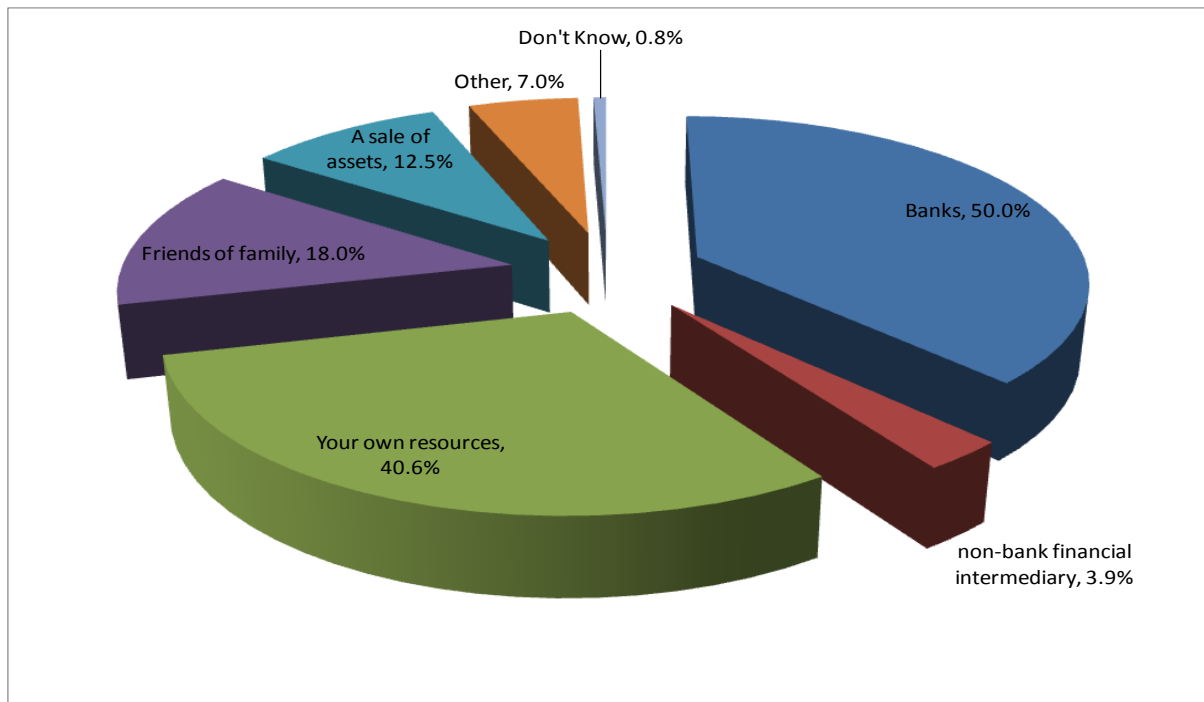
Access to finance is defined as “availability of a supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and non-pecuniary costs”^v. It can also be defined as the “absence of price and non-price barriers” (Demirguc-Kunt and Levine 2008).

Importance

Access to finance and an inclusive financial system which caters for all groups of people has been advocated as a means to reduce inequalities and poverty in developing countries (Arora, 2010)^{vi}. Beck, Demirguc-Kunt et al. (2009) observed that, “without inclusive financial systems, poor individuals and small enterprises need to rely on their personal wealth or internal resources to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities”.

SMEs have limited funding options and are highly reliance on debt funding. “Compared with large companies, smaller businesses tend to make greater use of debt funding and less use of equity funding; the latter is generally limited to the personal capital of the owners. Small businesses rely mainly on loans from banks and other financial institutions for their debt funding and it is difficult and costly for them to raise funds directly from debt capital markets. Most lending to small businesses is secured against residential property” (RBA, 2011)^{vii}. This was supported by CPA Australia’s report that for the Australian business surveyed for the Asia Pacific Small Business Survey (2010), the most important source of finance was from a bank. The main reasons that SMEs in Australia seek finance are increasing business expenses (30.5%); business growth (28.1%) and business survival (27.3%)^{viii}. “Australian businesses have indicated a high tendency to use personal credit cards for business purposes” (CPA, 2010: 10).

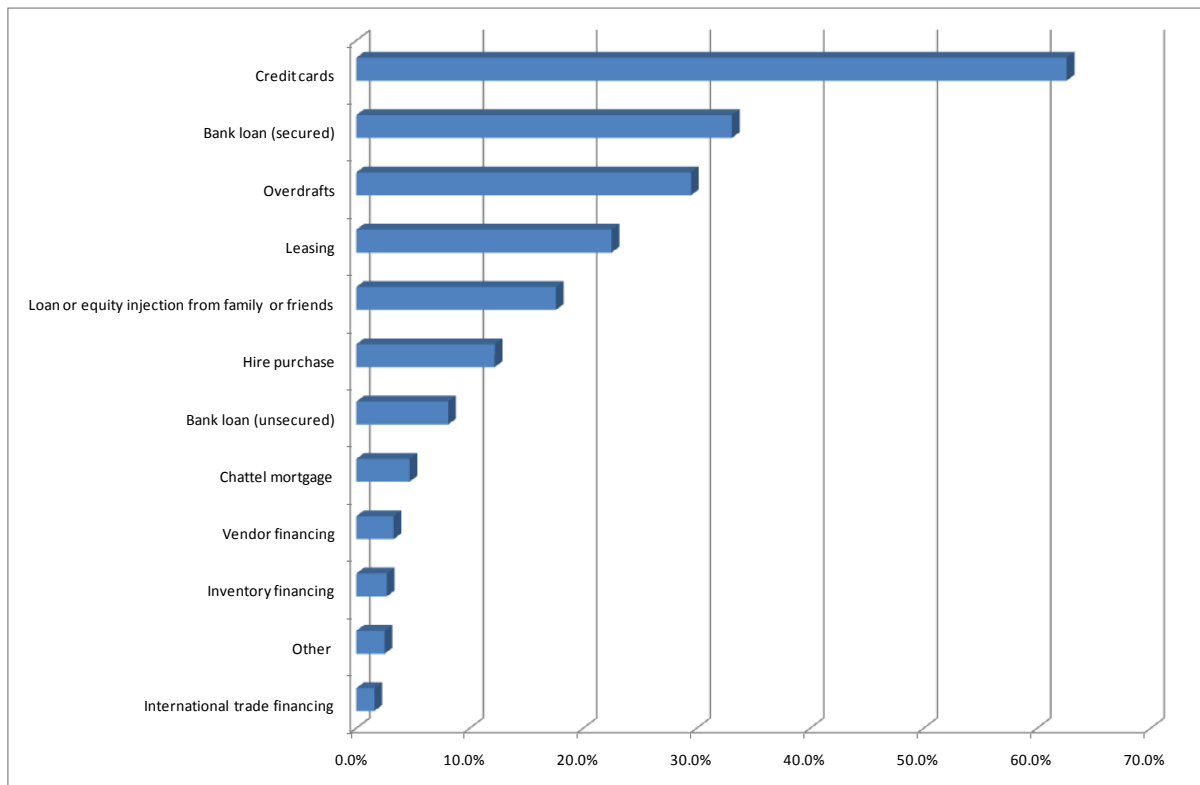
Figure 2: Sources of Additional Funds, CPA Australia, Asia Pacific Small Business Survey 2010



In Australia, the CPA survey suggests that the reasons for businesses refraining from accessing finance were not due to lending conditions, loan procedures or the cost of finance. The main reasons given were that the business did not need additional funds or that the business had sufficient funds under its existing arrangements. However, “anecdotal evidence certainly suggests they were issues. It may be that because of the lack of alternative sources of finance, Australian small business accepted such lending conditions and costs” (CPA 2010: 17).

For small businesses, almost 50% indicated that they would feel confident that their main bank or financial institution would be flexible or accommodating to them if their business was under pressure. Increasingly there has been the introduction of small-to-medium-enterprises (SME) business banker, with Australian banks adopting a specific SME code of banking practice.

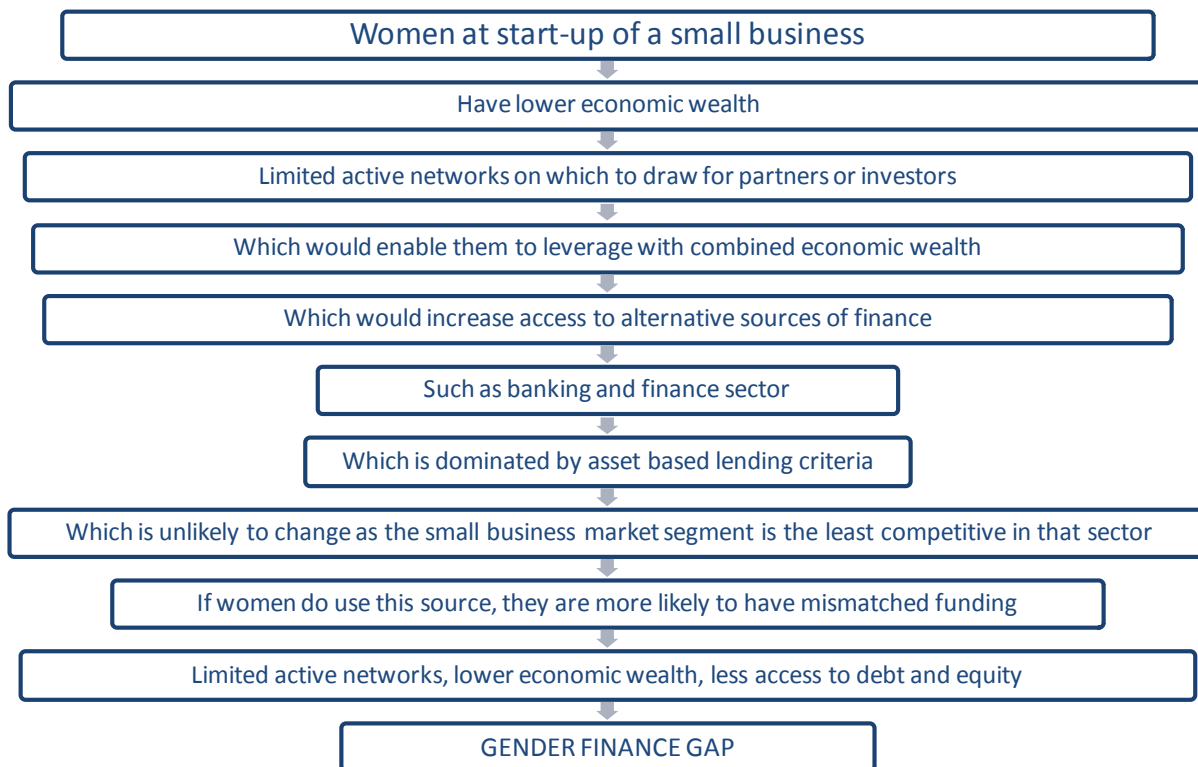
Figure 3: Types of business finance used in 2010 by Australian business, CPA Survey



Access to finance is a particular issue for women entrepreneurs at all stages of business development with more women than men fearing that a lack of finance and a fear of debt would prevent them from starting a business. As was noted earlier, sources of finance for SME are from bank debt, generally secured by their assets, followed by loan or equity injection from family or friends. In 1994 Borzi (1994) described the Gender Finance Gap for women operators of SMEs by the use of the diagram replicated below. The recent studies continue to support that small, young and home-based firms often face greater difficulties accessing finance. These types of firms are more likely to be started and owned by women. Given that previous studies indicate that gender has its strongest negative effects during the start-up phase, policymakers should still consider innovative ways of helping prospective female entrepreneurs secure access to business finance^{ix}.

Gender-based differences in access to finance may explain why female-owned firms tend to be smaller and concentrated in highly competitive sectors with low entry barriers (Carter and Marlow, 2006; Brush et al., 2010). If women are unable to access business finance on equitable terms, the growth of their firms may be constrained, with flow-on implications for economic growth. As well, the recent research on almost 1000 Australian SMEs concluded that their research

Figure 4: The Gender Finance Gap^x



Access to Funds and Support for expansion

The Australian government has a number of programs to fund small businesses by way of grants, low interest loans and equity finance (www.australiangovernmentgrants.org/index.php). Some of the programs are:

- **One-Time & Renewable** – There are 39 Federal and 59 State/Territory for amounts of \$1,500 - \$500,000. This Program provides grants to start-up Australian businesses who are interested in commercialising a new product or technology in Australian and international markets.
- **Conditional Repayable Contribution** – There are 8 Federal and 17 Regional for amounts of \$10,000 - \$500,000. It offers up various avenues of access to various funds for small businesses. Some programs take the form of interest-free, unsecured repayable loan, where all or part of the loan is repayable or conditionally repayable depending on the terms and conditions of the contribution agreement. On the other hand, some programs take care of up to 50 per cent of eligible cost for new enterprises, modernization or expansion projects. Such costs include expansion costs, working capital and capital costs. Furthermore, any related operational costs, involving activities such as job skills training, industry related courses, marketing, product innovation, productivity enhancement or quality assurance could meet the criteria for eligibility to receive up to 75 per cent financing or to a contribution limit of \$500,000.
- **Equity Financing** – There are 4 federal and 11 Regional for amounts of \$250,000 to \$10 million. The government invests in the company, much as a venture capitalist or angel might. An example of equity financing would be the Venture Capital Limited Partnerships Program

the Commonwealth Government. Funds are provided to private-sector investment managers to invest in small Australian companies with an innovative idea to commercialise. These private sector managers in turn invest these funds in individuals and companies with the innovation and ideas necessary to turn their idea into a profitable business.

- Low-Interest or Non-Interest Loans – There are 2 Federal and 8 Regional for amounts of \$1,500 - \$10 million. The loans may be interest-free, or may offer highly competitive rates. In some cases, the loan may even be considered "non-repayable", which is another way the government says "grant". These loans are typically unsecured; that is, collateral is not needed for the loan. There are loans under a variety of programs, directed at different industries, different geographical regions, and even loans directed specifically at women and young entrepreneurs.
- Government Guaranteed Loans – There are 6 Federal and 8 Regional for amounts of \$5,000 to \$250,000. The loans provided by a financial intermediary, example a bank, are guaranteed by the Federal government.
- Tax Refunds or Tax Credits – There are 11 Federal and 23 Regional for amounts of \$3,500 - \$2 million. Programs that decrease the company's tax burden, including programs that provide a lower tax rate for small businesses, award tax credits for hiring eligible apprentices, and provide investment tax credits for qualified expenditures in R&D. For example, the Research and Development Tax Concession program is a federal tax incentive program to encourage Australian businesses of all sizes and in all sectors to conduct research and development in Australia that will lead to new, improved, or technologically advanced products or processes.

Women in Business Mentoring Program - NSW

To harness the potential of emerging female entrepreneurs the NSW Government supports these businesswomen through its Women in Business Mentoring program.

"I would recommend the Women in Business Mentoring Program to anyone who is serious about growing their business. Having access to the specific training, the camaraderie between the other mentees and the wonderful support from your mentor cannot help but build your business awareness and inspire you to greater heights within the business community." Georgette Solyali, Magic Sugar Art - Holroyd Women in Business Program 2011

The Program offers an empowering environment where women feel comfortable to discuss their business issues and offer solutions to each other. The networking and peer support that is created during the Program often continues after the Program has completed.

- Program components - Workshops focussing on business growth are tailored to respond to current and real issues that affect your business. Topics include: Business Planning; Marketing; Finance and two optional business topics. Workshops are offered over 15 or more hours of interactive sessions. Business mentoring where participants are matched with an experienced volunteer business mentor who offers 10 hours of mentoring and an opportunity to discuss any business issues you may be facing. Mentoring may be face to face, group, or online.^{xi}

Exporters

Export Finance & Insurance Corporation (EFIC) provides finance and insurance solutions to help Australian exporters overcome the financial barriers they face when growing their business overseas.

“As the Australian Government's export credit agency, we help successful businesses to win, finance and protect export trade or overseas investments where their bank is unable to provide all the support they need.” (EFIC, 2011)^{xii}

Finance support provided by EFIC are:

- Working Capital Guarantee – EFIC provision of working capital guarantee to the financial intermediary (for example, banks) can help to finance particular export contracts or provide access to general working capital for export activities.
- Advance Payment Bonds - When competing for overseas contracts or entering international tenders, a potential buyer will often require that firms, particularly SMEs, provide a bond (also known as a guarantee). A bond can give your buyer assurance that if you don't meet your obligations under the contract, upfront funds they have paid will be returned or that there are funds they can call on to reduce their losses.
- Foreign Exchange Facility Guarantee - Adverse movements in exchange rates are an inherent risk of doing business in international markets. A foreign exchange facility can help firms protect their export profits from exchange rate fluctuations by locking in exchange rates and allowing you to hedge their currency exposure.
- Producer Offset Loan - a loan from EFIC to a production company to finance eligible Australian film, documentary and television productions with international distribution agreements
- Export Payment Insurance – provide if the export contract has a payment period of more than two years, this insurance from EFIC provides cover against the risk of non-payment due to defined commercial and political events.
- Political Risk Insurance - helps protect against financial losses caused by defined political events. It is provided to overseas investments, investors in overseas projects or contractors

Case Study – EFIC Headway Working Capital Guarantee

Tasmanian company Compact Designs, a designer and manufacturer of accessories for espresso machines, reached a new level of international success when it concluded an export contract with Whirlpool Corporation’s KitchenAid brand.

The company, established in 2002 by husband-and-wife team Manfred and Clare Jokuszies, needed additional working capital funds to fulfil the sizeable KitchenAid contract.

Export Finance and Insurance Corporation (EFIC), Australia’s export credit agency, provided an EFIC Headway working capital guarantee to Compact Designs’ bank, Bank of Queensland, to help the company fund its export growth.

EFIC Headway is a guarantee which enables eligible SME exporters to access additional working capital from their bank, without requiring further security.

Compact Designs’ innovative product, the ‘knock tube’, is the key to the company’s export success. The knock tube came about when Mr Jokuszies began to search for a more efficient way to dispose of spent coffee grinds.

It took a number of prototypes before he came up with the design for a self-standing knock tube that would make it easy for baristas—amateurs and professionals alike—to discard used coffee grinds.

“I spoke to people including coffee companies about the knock tube, but they claimed there was no demand for it because there was nothing like it on the market,” said Mr Jokuszies. “Austrade not only helped us to identify potential international customers, they also told us about EFIC Headway, which enabled us to access funds for our export expansion.”

The global passion for espresso coffee has helped make Compact Designs an export success. Its products are manufactured locally at George Town, near Launceston.

Indigenous

- Indigenous Business Australia (IBA), through its Business Development and Assistance Program, assists eligible Indigenous Australians to establish, acquire and grow small to medium businesses by providing business support services and business finance. Loans are generally provided on commercial lending terms similar to a bank, except at a discounted interested rate (subject to conditions)
- IBA has partnered with the National Australia Bank to deliver Indigenous Entrepreneur Microfinance Program. This program provides:
 - up to \$20,000 microfinance (through the NAB)
 - business advice, support and mentoring (through IBA)to assist Indigenous entrepreneurs who have a sound small business idea, but limited financial resources.

Superannuation

The Superannuation Guarantee Charge (SGC) scheme began on 1 July 1992 and requires all employers to provide a set, minimum level of superannuation each year for each employee. The minimum level of superannuation that an employer has to provide, called charge percentage, is currently 9% for all employees since 1 July 2002. Where an employer fails to provide the minimum level of support, the employer is liable to pay the SGC (like a tax). The superannuation scheme applies to all employers in respect of full-time, part-time and casual employees, with limited exceptions and additions. The terms 'employer' and 'employee' have their ordinary meaning^{xiii}.

Individuals can also choose to make voluntary contributions in addition to their compulsory contributions. This can be by way of regular member contributions deducted from their pay and/or lump sum contributions. If the person earns less than around \$61,920, the government will match their after-tax super contributions. If they are self-employed, they can claim a tax deduction when they make contributions to their super, up to a limit.

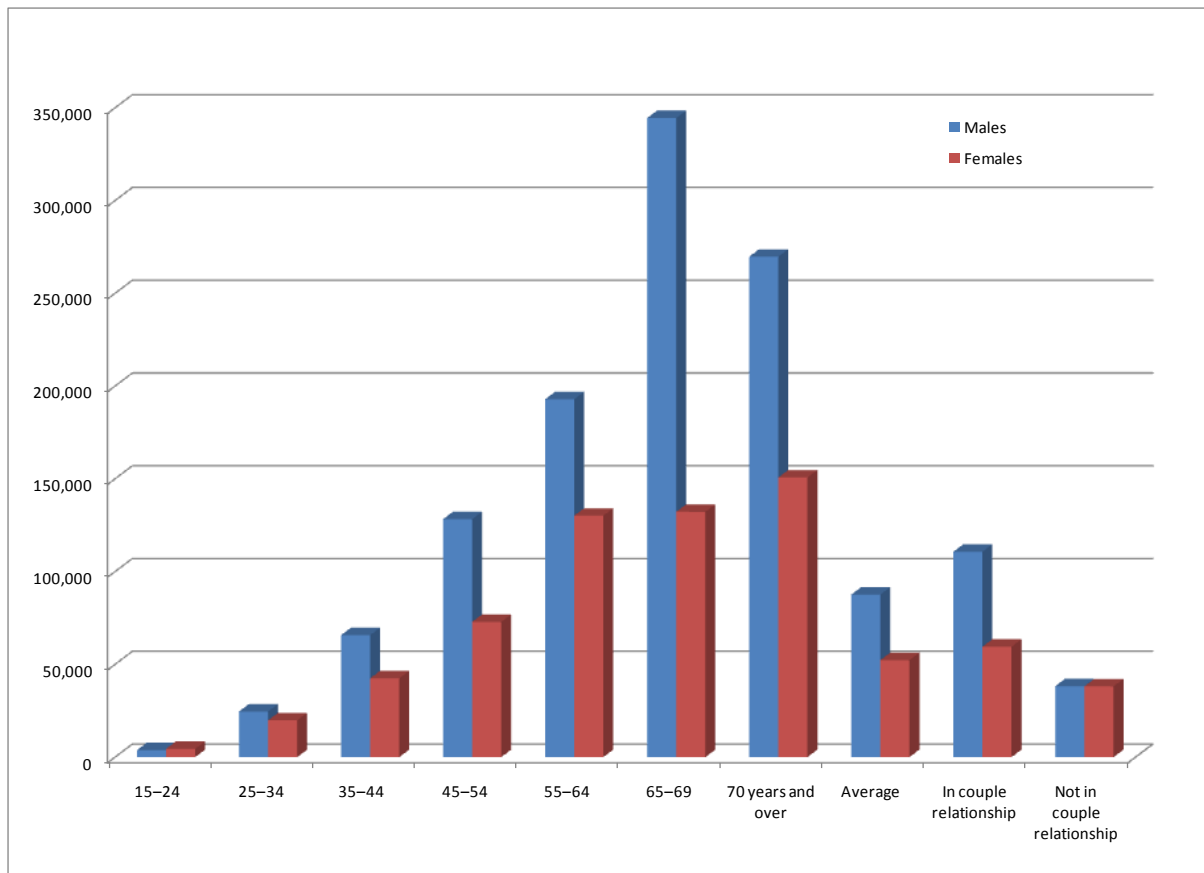
Preservation rules apply to both the compulsory and voluntary contributions that are made into superannuation. The preservation age is the minimum age that superannuation funds can be accessed, and can range from 55 to 60 depending on date of birth. Superannuation funds can be accessed due to:

- Incapacity – if you suffer permanent or temporary incapacity
- Severe financial hardship – if you have received Commonwealth benefits for 26 continuous weeks but are still unable to meet immediate living expenses
- Compassionate grounds – to pay for medical treatment if you are seriously ill
- Terminal medical condition – if you have a terminal illness or injury^{xiv}

As at 2007, the average superannuation balance for women was \$52,272 significantly less than the average for men at \$87,589. The superannuation gender difference is bigger the older that they are. For those aged 70 and over, the average superannuation balance for women and men is \$150,722 and \$269,710 respectively. It is also much higher for those in couple relationship with the average balance for women at \$59,493 compared to \$110,683 for men.

The factors contributing to the lower levels are primarily on average lower wage levels, average weekly wage in 2010 was \$827.70 for women and 1,192.10 for men, and interrupted work patterns. In looking at the total number of hours and minutes spent by parents per day taking care of children, women spent 8:33 more than double for men at 3:55. This gap is bigger for parents whose youngest child is aged 0 to 5 years with women spending 11:25 compared to 4:59 for men. The amount accumulated in superannuation is an important factor given that women on average live longer and are two and half times more likely to live in poverty in their old age than men^{xv}.

Figure 5: Superannuation Balance, 15 years and over by age and by relationship in the household, 2007^{xvi}



Attachments

Current Government Funding Programs Available Listing.

Office for Women (2010), *Women and Superannuation Information Paper*, Queensland Government.

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- ⁱ Parliamentary Joint Committee on Corporations and Financial Services (2011), *Access for Small and Medium Business to Finance*, Commonwealth of Australia.
- ⁱⁱ Parliamentary Joint Committee on Corporations and Financial Services (2011), *Access for Small and Medium Business to Finance*, Commonwealth of Australia.
- ⁱⁱⁱ Australian Bureau of Statistics, *Counts of Australian Business Operators*, Catalogue No. 8175.0,
- ^{iv} Borzi, A. (1994), *The Gender Finance Gap*, Ministry for the Status and Advancement of Women.
- ^v Claessens, S. (2006). "Access to Financial Services: A Review of the Issues and Public Policy Objectives." *World Bank Research Observer* 21(2): 207-240.
- ^{vi} Arora, R.U. (2010), Measuring Financial Access, *Griffith Business School Discussion Papers*, No. 2010-07.
- Beck, T., A. Demircug-Kunt, et al. (2009). Access to Financial Services: Measurement, Impact and Policies. *World Bank Research Observer* 24(1): 119-145.
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- ^{vii} Reserve Bank of Australia (2011) Submission 3 to the Parliamentary Joint Committee on Corporations and Financial Services, *Access for Small and Medium Business to Finance*.
- ^{viii} CPA Australia (2010), *The CPA Australia Asia-Pacific small business survey 2010: Australia, Hong Kong, Malaysia and Singapore*, CPA Australia <http://www.cpaaustralia.com.au/cps/rde/xbcr/cpa-site/Small-business-survey-2010.pdf>
- ^{ix} Van-Hulten, A. (2011), Does gender influence access to small business finance in Australia? (unpublished).
- ^x Borzi, A. (1994), *The Gender Finance Gap*, Ministry for the Status and Advancement of Women.
- ^{xi} NSW Trade & Investment, <http://www.smallbiz.nsw.gov.au/initiatives/women/Pages/default.aspx> [Accessed 31 August 2011]
- ^{xii} Export Finance and Insurance Corporation (EFIC), <http://www.efic.gov.au/ABOUT/Pages/aboutefic.aspx> [accessed 31 August 2011]
- ^{xiii} What is the Superannuation Guarantee Charge? <http://finance.ninemsn.com.au/smallbusiness/managingpeople/8124272/what-is-the-superannuation-guarantee-charge> [Accessed 31 August 2011]
- ^{xiv} Getting your Super, <http://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/getting-your-super> [Accessed 31 August 2011]
- ^{xv} The Office for Women (2011), *Women and superannuation* Information Paper [http://www.communities.qld.gov.au/resources/women/resources/focus-on-women/information-paper-3.pdf] [Accessed 31 August 2011]
- ^{xvi} ABS (2011), *Gender Indicators Australia 2011*, ABS Catalogue no. 4125.0