

The Senate

Economics
References Committee

Access of Small Business to Finance

June 2010

© Commonwealth of Australia 2010

ISBN 978-1-74229-272-4

Printed by the Senate Printing Unit, Parliament House, Canberra.

Senate Economics References Committee

Members

Senator Alan Eggleston, Chair	Western Australia, LP
Senator Annette Hurley, Deputy Chair	South Australia, ALP
Senator David Bushby	Tasmania, LP
Senator Julian McGauran	Victoria, LP
Senator Louise Pratt	Western Australia, ALP
Senator Nick Xenophon	South Australia, IND

Participating Member participating in this inquiry

Senator John Williams New South Wales, NATS

Secretariat

Mr John Hawkins, Secretary
Ms Hanako Jones, Executive Assistant
Mr Joshua See, Executive Assistant

PO Box 6100
Parliament House
Canberra ACT 2600
Ph: 02 6277 3540
Fax: 02 6277 5719
E-mail: economics.sen@aph.gov.au
Internet: http://www.aph.gov.au/senate/committee/economics_ctte/index.htm

TABLE OF CONTENTS

Membership of Committee	iii
Summary and Recommendations.....	1
Chapter 1.....	5
Introduction	5
Background.....	5
Conduct of the inquiry	5
Structure of the report.....	6
Chapter 2.....	7
Recent trends in small business finance	7
The role of small business in the economy	7
The extent of the lending slowdown	7
Small business loans by industry and sector	9
Chapter 3.....	11
Causes of the slowdown in small business finance	11
Introduction	11
Demand for credit by small business	13
Supply of credit to small business	14
Business liaison by official agencies.....	19
Business surveys.....	20
Comments by business organisations	22
Obtaining better information	23
Demographic factors	23
Chapter 4.....	25
Costs and conditions of small business finance.....	25

Interest rates.....	25
Security for small business loans	33
Fees.....	35
Chapter 5.....	37
Competition in the market for small business finance.....	37
Introduction	37
Views about current extent of competition	37
The role of non-ADI lenders	39
Bank switching costs	40
The Government's bank funding guarantees	45
The Government's support for mortgage-backed securities	46
Chapter 6.....	47
Structural change in the market for small business finance	47
Introduction	47
Implications for small business lending	50
Development bank.....	57
Postal bank.....	61
Banks' service to small businesses	62
A small business loan guarantee.....	64
Chapter 7.....	75
Improving financial literacy and codes of conduct	75
Introduction	75
Financial training.....	75
Comparing financial products	77
Codes of conduct	78
Committee view.....	79

Chapter 8.....	81
Rural finance.....	81
Introduction	81
Lending to the rural sector.....	82
Suggested responses	85
Committee view.....	85
Chapter 9.....	87
Venture capital.....	87
Background.....	87
Superannuation funds and venture capital.....	89
Equity-loan hybrids	90
Government Minority Report.....	91
Additional Comments by Senator Xenophon.....	103
Appendix 1	107
Submissions Received.....	107
Additional Information Received.....	109
Appendix 2	111
Public Hearings and Witnesses	111
Glossary.....	115

