

Chapter 1

Introduction

Background

1.1 Small business is a vital element of the Australian economy, employing half the workforce. Lending to small business has slowed since the global financial crisis, and interest margins have widened. This report seeks to assess the extent to which this reflects reduced demand for finance, a reaction (possibly an over-reaction) to past lax lending standards and any lack of competition in the banking and finance industry. It suggests measures that could make the provision of finance to small business more efficient.

Conduct of the inquiry

1.2 The Senate referred the topic of small business finance to the Committee on 3 February 2010 for report by 30 June 2010. The terms of reference are:

This inquiry will investigate the current circumstances of issues surrounding access of small businesses to finance, including:

- (a) the costs, terms and conditions of finance and changes to lending policies and practices affecting small businesses;
- (b) the importance of reasonable access to funding to support small business expansion and the sector's contribution to employment growth and economic recovery;
- (c) the state of competition in small business lending and the impact of the Government's banking guarantees;
- (d) opportunities and obstacles to other forms of financing, for example, equity to support small business 'start ups', liquidity, growth and expansion;
- (e) policies, practices and strategies to enhance access to small business finance that exist in other countries; and
- (f) any other related matters.

1.3 The Committee advertised the inquiry in a national newspaper and on its website. A large number of interested parties were also told about the inquiry and invited to make submissions.

1.4 The Committee received 52 submissions (listed in Appendix 1) which are available for viewing on the Committee's website (http://www.aph.gov.au/Senate/committee/economics_ctte/small_business_10/submissions.htm) and held public hearings in Sydney and Canberra on 12 April and 10 May 2010. (The witnesses are listed in Appendix 2.)

1.5 The Committee thanks all those submitters and witnesses for their contributions and participation in the inquiry process.

Structure of the report

1.6 The recent slowdown in small business finance is described in Chapter 2 and the relative role of demand and supply factors behind this slowdown are evaluated in Chapter 3. The costs and conditions applying to finance for small business are the subject of Chapter 4.

1.7 Competition in the banking and finance industry is the subject of Chapter 5. This is followed by a discussion of structural changes in the industry. Both chapters examine suggestions for improving competition within the industry. Chapter 7 examines ways of improving financial literacy.

1.8 Farmers are an important category of small business and the discussion in all chapters is relevant to them. Chapter 8 discusses some issues specific to the rural sector.

1.9 The Committee received far more submissions about lending to small business than about the provision of venture capital. A brief discussion of venture capital is included in the final chapter.