

Additional Comments by Senator Xenophon

Introduction

- 1.1 In addition to the Committee's Report, which includes six recommendations to better support small business' access to finance, it is important to note the need for increased support for small rural businesses, in particular farmers, in terms of access to finance, whether through improved support from existing financial institutions or through the establishment of a Development Bank, as was canvassed during the Committee Inquiry process.

Rural business

- 1.2 There are approximately 140,000 farm businesses in Australia, 99 percent of which are family owned and operated.¹ The majority of these rural businesses rely on bank finance to be able to invest in infrastructure and equipment to advance their business output. The average farm has over \$400,000 in debt, with two largest costs for farmers being interest and fertiliser.²
- 1.3 Indeed, in its submission to the Committee, the National Farmers Federation said that:

"Rural debt has escalated by over 85% since 2002-2003, due to drought conditions, placing the agriculture sector at considerable exposure to increasing credit cost."³
- 1.4 Outstanding credit to borrowers in the rural sector has been on the decline since 2006 for loans less than \$100 million, and since 2008 for loans between \$100 million and \$500 million.
- 1.5 While the decline of loans less than \$100 million preceded the global financial crisis, there have been reports that this decline was only exacerbated by the tightening of credit markets during the global financial crisis. The timing also seems to suggest that the approval of larger sized loans were directly impacted by the global financial crisis.
- 1.6 According to the National Farmers Federation,

"The NFF has received information from members that credit access has tightened. There have been cases where the global financial crisis has had a noticeable impact on banks treatment of loan security requirements, with a

1 National Farmers Federation, *Submission 49*, Pg 4

2 ABARE, *Australian farm survey results 2007-08 to 2009-10*, April 2010, Pg 1 and Pg 6

3 National Farmers Federation, *Submission 49*, Pg 4

clear increased sensitivity by the banks to their financial exposure. Some loans that would be offered prior to the GFC are no longer readily available."⁴

- 1.7 Interestingly, during the Inquiry, the Committee identified that when a farm was struggling financially as a result of drought conditions or low commodity prices, the bank would move to charge a higher interest risk to compensate for the higher risk of default. However, this in itself would result in greater likelihood of default occurring because of the added financial pressure it placed on farmers.
- 1.8 Further, the inquiry also heard that, as a result of non-bank lenders being unable to receive the Government bank funding guarantees offered in 2009/2010 to support financial institutions during the global financial crisis, non-bank lenders were unable to extend finances to businesses including farmers where they might otherwise have been able to or where AAA financial institutions may have been able to.
- 1.9 The Government's bank funding guarantee was withdrawn on 31 March 2010. However, specific support for small business moving forward was raised by the NSW Business Chamber during the inquiry.

Mr Cartwright—... we do believe that there is scope for the Australian government to take on a role as guarantor of the small business finance market as a temporary means by which we can free up access to small business finance. This is not a revolutionary concept. Such government guarantee schemes already operate in Canada, the UK and the US. Under our proposal such a scheme would be self-funding, ensuring absolutely no cost to taxpayers. The guarantee would be priced. It would share the risk between government and the banks and it would ensure that Australian banks could once again feel relatively confident about lending to the small business sector.⁵

- 1.10 Such schemes currently exist internationally.

United States:

The Small Business Administration, established in 1953, administers a programme which helps small businesses apply for loans up to US\$5 million from banks and acts as a guarantor.

Canada:

Under the Canada Small Business Financing Program, the government guarantees 85 percent of loans up to C\$500,000.

Singapore:

4 National Farmers Federation, *Submission 49*, Pg 4

5 Senate Economics Committee, *Proof Committee Hansard*, Pg 89, 12 April 2010

The Standards, Productivity and Innovation Board provides loan guarantees for small business.⁶

- 1.11 While these schemes are not specific to rural small business, a similar program introduced into Australia could go some way to assisting the sector and provide greater support for financial institutions who provide small business finance or, specifically, finance to rural businesses.
- 1.12 The inquiry also heard that the establishment of a 'Development Bank' could be useful to provide better, easier and increased access to finance for small business, such as is the case in Japan and Korea:

Japan:

The Japan Finance Corporation has a unit that lends up to ¥20 million for up to 20 years at fixed rates to small business, including start-ups.

Korea:

The Industrial Bank of Korea is required to make at least 70 percent of its loans to small business.⁷

- 1.13 Such a bank would ensure a focus on small business financing, both for start-ups, innovative companies and rural businesses.

Conclusion

- 1.14 Farmers are in a unique position, affected by seasonal conditions, low commodity price outlooks, stricter financial policies, and rising interest rates, which have all heavily impacted their reliance and accessibility to finance in the last decade.
- 1.15 Small business represents around 2 million actively trading businesses in Australia and employs more than 40 percent of total employed persons around the country.⁸ Agriculture, specifically, contributes approximately 3 percent towards Australia's Gross Domestic Product.⁹
- 1.16 It is vital, therefore, that this sector is appropriately supported and assisted to enable growth and to invest to allow it to remain competitive, both on a domestic and international level.

6 Australian Chamber of Commerce and Industry

7 Australian Chamber of Commerce and Industry

8 Australian Bureau of Statistics

9 National Farmers Federation, *Submission 49*, Pg 4

Recommendation 1

That the Government establish a small business guarantee scheme in Australia, similar to those already in place in the United States, Canada and Singapore.

Recommendation 2

That the Government re-establish a 'Development Bank' in Australia, similar to those in place in Japan and Korea, and along the lines of that which existed previously – the Commonwealth Development Bank which was established in 1960 and wound down from 1996.

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