

Australian Business Growth Fund Bill 2019

Submission to the Treasury

November, 8, 2019

# Key recommendations:

* Further detail is needed on the Fund Structure such as matters of majority control; investor range; portfolio diversity; and whether there will be a cap on the overall funds available.
* Further clarity is required on how the established corporation will:
	+ Process applications for funds and opportunities for investment;
	+ Develop and maintain systems to establish, monitor and manage the loans and investments;
	+ Establish a network of finance industry lenders and equity fund specialists to undertake assessment of funding opportunities or provide mentoring and education to SME business owners.
* Greater emphasis is required on investment certainty by providing further clarity on Commonwealth and private sector divestment triggers;
* Further clarity is required on the process of reviewing the operation of the Act. In particular, what does success look like?
* Determination must be sought on whether the Fund will be limited to institutional investors such as banks and superannuation funds, or open to other entities including non-Australian deposit taking institutions, individual or international investors.
* Further clarity on whether Government intends to invest more than the initial $100 million outlay to encourage its success and attract greater investment in the long term.

# Introduction

The Australian Chamber welcomes the opportunity to comment on the Australian Business Growth Fund Bill 2019. The Australian Chamber supports the establishment of the Australian Business Growth Fund. The Fund will provide small businesses with the equity needed for expansion, while ensuring small business owners do not have to risk their assets to secure additional funding.

In a survey undertaken by Scottish Pacific for their growth index, ‘The Index found that 59% of growth SMEs are seeking additional finance or capital to fund their projected growth, with one in three looking to borrow $50,000 - $250,000 and a similar proportion seeking $500,000 - $2million.’[[1]](#footnote-1)

The Australian Chamber supports the objective the Fund. Access to patient capital is an issue for many small businesses. Few banks and other lending institutions are willing to take on long-term capital lending, requiring early returns to finance debt. The Australian Business Growth Fund is likely to provide the patient capital necessary to allow businesses to realise their investment over a longer period of time.

The Australian Chamber supports the Fund following similar international precedents. By way of example, since its establishment in 2011, the United Kingdom’s Business Growth Fund has invested $2.7 billion in range of sectors across the economy.

# Fund structure

The Exposure Draft does not provide sufficient information on how the established corporation will:

* Process applications for funds and opportunities for investment;
* Whether systems will be developed or maintained to establish, monitor and manage the loans and investments;
* Whether a network of finance industry lenders and equity fund specialists will undertake assessment of funding opportunities or provide mentoring and education to SME business owners.

We recommend further clarity on the funding source and product of debt and equity vehicles:

* By offering variable loan terms of up to seven or ten years, will act to meet investors need for liquidity and yield
* Developing an end product in consultation with finance industry professions to ensure it become an attract asset class
* Potential to explore professionally managed debt fund investors including high net worth individuals and family offices, in addition to banks and non-Australian Deposit taking institutional banks
* Determine whether the target investment is less than $5 million
* Determine whether the Fund will only take minority equity positions of not more than a given percentage

Comparable Business Growth Funds provide some guidance in this regard. For example, Canada’s business growth fund have a target return of between 11 and 12 per cent. The product offering includes investment between $3 million and $20 million over the long term with convertible notes. The total application process takes around 16 weeks and the current pipelines is 170 companies. Canada’s business growth fund has a modest target size of approximately $1.5 billion, and is looking to prove the model then expand the fund and products. Similarly, the UK Business Growth Fund, took initial investments of approximately £1 - £10 million with approximately 231 companies invested since its inception in 2011.

# The need for investor certainty

The Exposure Draft does not make explicit the divestment triggers of private investors. As detailed in the Explanatory memorandum, banks are reluctant to finance start-ups given the high risks involved and most banks are motivated by short term returns. Banks may not release returns in the short term which places pressure on entrants. As such, there requires a divestment trigger to allow greater certainty that the Business Growth Fund will be operational and grow. To do this the Act will need to detail how a divestment trigger can be exercised.

Investment products require clearly defined exit plans and financial outcomes. This is a crucial difference to current private equity investing and needs to be made explicit in the Act. Investment is required with a long term view of five or more years.

# Summary

The Australian Chamber is supportive of a Business Growth Fund, however we recommend further consideration be given to the Fund structure, how the established corporation will process applications for funds and opportunities for investment and whether systems will be developed or maintained to establish, monitor and manage the loans and investments. Further clarify whether a network of finance industry lenders and equity fund specialists will undertake assessment of funding opportunities or provide mentoring and education to SME business owners. There is also a greater need for investor certainty by clarifying exit plans and divestment triggers. Given that there are existing funds in comparable jurisdictions in Canada and the UK, there needs to be further learnings from international best practice and particularly where Australia’s Growth Fund can deliver tangible outcomes for SMEs.

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1. Scottish Pacific Business Finance, SME Growth Index, September 2018, page 4 [↑](#footnote-ref-1)