**Australian Business Growth Fund Bill 2019**

**Public consultation submission from Scottish Pacific**

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The Manager  
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Following is a submission as part of the public consultation process for the proposed Australian Business Growth Fund 2019 legislation (BGF). As an experienced and long-established participant with a history of more than thirty years in the Australian SME lending sector, Scottish Pacific welcomes this opportunity to contribute to the public consultation process.

**Overview**

The Government has released for public consultation an exposure draft of the Australian Business Growth Fund Bill 2019 and explanatory materials to authorise the Commonwealth Government to invest in the Australian Business Growth Fund jointly with financial institutions.

We understand that the aim of the Bill is for the establishment of the BGF to significantly enhance the ability of high growth SMEs ($2m to $50m turnover) to access equity funding while still retaining control of their companies, filling a gap in the market that is preventing them from reaching their full potential.

**Scottish Pacific’s role within the SME lending sector**

Scottish Pacific has been involved in SME lending and supporting the small business sector in Australia since 1988 and is interested in ensuring the broadest and best access to funds for this vital business sector.

As Australasia’s largest specialist SME working capital provider, we have helped many thousands of business owners access working capital, most commonly via invoice finance and trade finance facilities secured to the SME’s accounts receivable. These funding options are tailored towards improving cash flow to generate the funds that small and medium sized businesses need, regardless of where they sit in the business life cycle or in the economic cycle, and – importantly - without the need for real estate security.

Scottish Pacific lends to small, medium and large businesses with revenues ranging from $500,000 to more than $1 billion, whose customers generate more than $18 billion in sales each year. We work directly with SMEs and with a range of introducers: accountants, banks, commercial finance brokers and other business advisers.

**Observations on Australian Business Growth Fund draft legislation**

Given Scottish Pacific’s knowledge of and involvement within the SME lending sector, we would like to bring to the attention of Treasury the following key points regarding the proposed Fund:

*1. Initiation of the Australian Business Growth Fund*

Scottish Pacific recognises the support for the vital SME sector that is behind the intent of this legislation. We commend the Commonwealth for plans to increase investment in small and medium Australian enterprises.

From the outlined scope of the BGF it appears that support would be offered to a segment of the SME sector that does find it hard to access traditional property-secured funding, that being fairly new businesses with limited history and assets.

We note that given the size and scope of the proposed Fund, many Australian SMEs will fall outside the criteria to access its funding and for this reason it is important for both governments and the private sector to diligently work to make SMEs aware of the full range of business funding options, including but also beyond the banks, at their disposal.

2. *Australian SME awareness of funding options*Our national research project, the [*Scottish Pacific SME Growth Index*](https://www.scottishpacific.com/images/General/SPC11500-SME-Growth-Index_AW2_Digital.pdf), has been independently conducted twice-yearly on our behalf since 2014 by global market researchers East & Partners. The *SME Growth Index* talks to more than 1200 owners and leaders of businesses in the $1m-$20m revenue range, across a representative range of industries nationally.

The latest round of [*SME Growth Index research*](https://www.scottishpacific.com/media-releases/revenue-sentiment-highest-since-2017-but-regional-smes-have-more-pessimistic-outlook-than-metro-businesses) highlights that while SME awareness of the range of funding options available is increasing, many business owners are yet to act on this awareness.

Over the past five years, business owners are increasingly aware that they have options beyond the family home to secure funding for their business.

They also clearly indicate that it’s their preference to not use property as security for business borrowing – when asked about their preferred method of securing funding, only 5.5% nominated property security. The most popular option was a secured loan against non-personal assets, nominated by 57.4% of respondents, followed by an unsecured term loan (28.2%), secured loan against a vehicle (23.7%) and loan against receivables (22%).

And yet, despite few business owners saying their preference is to borrow against property security, the research found that 7 in 10 business owners who are aware they can borrow against business assets are still borrowing against property security.

Time-poor business owners need a clear understanding of the benefits and risks of different forms of capital, education about how much capital they require and what type of product best fits their needs.

For this reason, in 2019 Scottish Pacific partnered with Kate Carnell at ASFBEO to create the [Business Funding Guide](https://www.asbfeo.gov.au/sites/default/files/ScotPac-ASBFEO-Business-Funding-Guide_digital_FA2.pdf) and [FitsME Guide](https://www.asbfeo.gov.au/sites/default/files/FitsME-Guide%20-%20latest%20version.pdf) for SME lending, to help business owners and their advisers to understand the broad range of small business finance options available and find appropriate solutions for various needs. The guide is available as a free download for SMEs and their advisers and offers a valuable tool for accountants, bookkeepers, business consultants and brokers to better understand this growing market and serve their clients’ needs.

1. *Current borrowing environment for SMEs*
2. Scottish Pacific’s September 2019 *SME Growth Index* found Australian SME revenue sentiment is at a two-year high, with more than half the SMEs (54.6%) forecasting growth at an average revenue increase of 5.1%. At the same time, their cash flow position is deteriorating, with twice as many SMEs compared to 2018 reporting their cash flow is now significantly worse. A key driver of cash flow issues is being rejected from a lending product (an issue for 21.3% of Australian SMEs).
3. Industry and client feedback informs us that, in the aftermath of the Hayne Royal Commission, SMEs are finding it increasingly difficult to gain business funding in a timely manner, if at all, from the banks, the traditional funders of Australian SMEs.
4. The banks’ risk-weighted appetite, focused on real estate security, limits the lending available to Australia’s SMEs. ASBFEO’s *Affordable Capital for SME Growth* report states that home ownership in the key entrepreneurial period of life (ages 25-34), has fallen by more than 30% over the past 25 years. This declining home ownership trend, along with the current uncertainty around major metropolitan housing markets, will have a major future impact on business owners’ ability to access funds.
5. *SME Growth Ind*ex research in September 2019 found fewer than 6% of SMEs want to use property to secure business loans. This coincides with a watershed finding that, for the first time, SMEs say they are more likely to fund their growth using a non-bank lender rather than go to their main bank.
6. The banks have consistently lost ground each round since the twice-yearly Index first reported in 2014. At that stage, 38% of SMEs preferred their main bank for accessing growth funding – in late 2019, this preference has now halved to 18.3%.
7. The record high preference for non-bank lending indicates 18.7% of business owners plan to fund their next six months’ growth using a non-bank, removed from the barrier of using property as security. The key reason for SMEs turning to non-bank lenders was to avoid property security (nominated by 21.3% of respondents, up from 18.7% in September 2018).
8. Willingness to consider a non-bank option is consistently improving each round of *SME Growth Index* research, with only 2.6% of SMEs indicating they would not consider non-bank funding (down from 4% last year).

*4. Final comments*

We welcome the Federal Government’s move to boost SME access to finance via the Australian Business Growth Fund offering equity funding for high growth SMEs, in conjunction with matching commitments from Australia’s Big Four banks and a selection of other banks.

We would encourage the Government to take a long-term view to improving SME awareness of finance options, and this will go a long way to providing better access to finance.

Given the size and scope of the BGF, many SMEs seeking funding will not be able to be accommodated and for this reason we would also encourage the Government and its many departments and agencies to foster awareness of the range of other funding options available to the SME sector, in particular by supporting business’ access to and awareness of the independent [Business Funding Guide](https://www.asbfeo.gov.au/sites/default/files/ScotPac-ASBFEO-Business-Funding-Guide_digital_FA2.pdf) and [FitsME Guide](https://www.asbfeo.gov.au/sites/default/files/FitsME-Guide%20-%20latest%20version.pdf) created in partnership between ASBFEO and Scottish Pacific.

Yours sincerely,

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