

## AFFORDABLE CAPITAL FOR SME GROWTH

### Terms of Reference

#### ***Purpose***

To explore the range of international initiatives that seek to provide affordable capital for small to medium enterprises (SMEs) to start and grow. As reported in our Barriers to Investment report, Australia's 2.2 million SMEs rely on credit to start, operate and grow their business<sup>1</sup>. Yet banks consider SME's as high risk and offer lending with restrictive terms and conditions at a price few can afford. Our findings are in line with the Reserve Bank of Australia<sup>2</sup> and the Financial System Inquiry 2014<sup>3</sup> which identified a funding gap, particularly for new small businesses.

The draft report from the Productivity Commission's inquiry into Competition in the Australian Financial System<sup>4</sup> has found that SMEs do not have access to finance when they need it. If they can access finance it is on terms that limit the commercial viability of their investment plans. Banks prefer to lend when secured by bricks and mortar. This is evidenced by lending to owners of, and investors in, housing growing to double the lending to business. The need for security coupled with a decline in the levels of home ownership, particularly in younger age groups, will result in the funding gap widening.

Our inquiry will investigate initiatives to provide affordable capital to SMEs to start and grow their business.

#### ***Reviews and consultations***

The inquiry will examine:

- Australian initiatives where the government shares the lending risk including Clean Energy Finance Corporation, Export Finance and Insurance Corporation.
- State and Territory initiatives to support small business start-ups and growth.
- International initiatives including the British Business Bank and the U.S. Department of the Treasury's Small Business Lending Fund.

We will consult with Australian and international experts in SME lending and risk management and liaise with Australian regulatory bodies.

#### ***Outcome***

From the reviews and consultations we will propose the implementation of initiatives we consider fit for purpose within the Australian regulatory framework for affordable lending to SMEs.

#### ***Timeframe***

Commencement: 4 April 2018

Final Report: 30 June 2018

<sup>1</sup> Barriers to Investment, Australian Small Business and Family Enterprise Ombudsman, Nov 2017

<sup>2</sup> The availability of Business Finance: Christopher Kent Assistant Governor Reserve Bank of Australia Dec 2017

<sup>3</sup> The Financial System Inquiry Final Report December 2014

<sup>4</sup> Competition in the Australian Financial System: productivity Commission Draft Report, January 2018