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VENTURE CAPITAL AND SMALL COMPANY POLICY SUGGESTIONS

Antony McGregor Day, quoted in the recent Good Weekend rightly says “the venture capital community in Australia is a joke”.

Let me list some of the issues:

1) Our taxation system is inimical to start up and development capital initiative, e.g. taxing options. Early stage venture capital cannot afford higher fees – sweat equity is an essential component for many start up situations.
2) There is no venture capital culture, i.e. it is OK to fail if you genuinely tried. There is little 3 or 4 stage fundraising before floating. The bottom of the ASX is our real venture capital market. This is wrong for venture capital and the ASX.
3) Our so called venture capitalists, many of whom are members of AVCAL, are primarily MBO and MBI funders starting at minimum $10 million deals (necessary to cover the overhead costs).

   What is required in the Australian market is a venture capital infrastructure that provides:
   - Startup Funds $100K - $500K
   - Development Capital $1000K - $3000
   - Expansion Capital $5000 - $10000K
4) Australia’s venture capital industry has the same fund manager syndrome as has management of superannuation funds. It is structured to benefit managers and not the investors.
5) By and large our superannuation funds are lazily managed. Company visits are a thing of the past. Too much emphasis is placed on short term results hence a lot of unproductive churn takes place.
6) Small companies have difficulty raising bank loans without bricks and mortar security. Many modern businesses do not need or have property assets. Floating charges would still be viable.

How to fix it:

1) There needs to be greater coordination at the R stage of R&D between universities and other research bodies, e.g. uniform approach to IP issues – inventor entitlements, licensing agreements – to avoid reinventing the wheel each time.
2) Taxation needs to encourage risk taking and therefore give tax holidays after success, say – 25% of normal tax for 3 years provided 50% of the tax break is reinvested, and 50% of normal tax for the next 2 years. Tax revenue will probably increase because successful companies engage others who pay tax.
3) Australian super funds must provide more meaningful financial support. They could easily allocate up to 3% of their funds to venture capital, say 0.5% to start ups and 2.5% to development capital which is sadly lacking at present. The US venture capital market took off when they modified the prudent man rule for institutional investors. Fundamentally there is no risk-free investment and everyone should understand this.

Generally Australia badly needs a well thought out and practical Industry Policy. The Department of Industry needs to be commercial and assertive with the economic theorists in Treasury who have a great record of neutering good programs suggested by other government departments.

In Australia's case where superannuation is compulsory, a sensible industry policy would demand that superannuation funds be required to allocate agreed percentages of their funds along the following lines:

- Seed/start up 0.5%
- Development and Expansion capital 2.5%
- Fixed Term Loans to banks to on-lend on fixed terms 3-5 years to small/medium businesses 2.5%

Because superannuation is a long-term saving mechanism Australian superannuation funds should also be obliged to invest in required Australian infrastructure by way of fixed interest bonds, and in strategic agricultural land.

I have been involved in venture capital for over 10 years (pre the PDF program) and made a presentation top a Senate Select Committee on Superannuation in the early 1990s. Prior to that I have had diverse experience in mergers and acquisitions, trade finance, property development and corporate law.

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