

The Financial System Inquiry.

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Submission regarding SME funding

By way of introduction, we are Technical Business Consultants, working with businesses from the likes of Qantas and Caterpillar, down to small SME's. We deal not only in the design of their products, but in the design of their businesses, and are active in business turn-arounds.

Our purpose in writing to the Inquiry is to highlight finance issues confronting SME's. We have already discussed the situation with Adam Cagliarini from the Inquiry, but seek to formalise our points.

Most of our Clients are involved in Engineering or Manufacturing businesses - a key sector as it is Manufacturing that has a far greater potential to value-add, and to take the business away from direct competition on the basis of labour costs.

In our view, the major barrier to developing SME's is lack of access to finance.

Businesses are usually funded by mortgaging personal assets, and that limits the initial size and capability of the business. As the business becomes more established, it needs funding to move to the next size. This funding is just not available in practice.

The primary reason is that the personal assets are already fully engaged, and the standard financial institutions will not lend more without further liens over assets.

Venture Capital looks for a 60% return per annum, all of their funds back in 3 years, and a significant capital growth. This type of funding is totally unsuitable for the majority of businesses, as the development cycle of their products is too long for these sorts of extreme, short-term returns..

The most sought-after Investor is a private individual who will take an interest in the business, and accept lower returns over a longer term. This individual is extremely rare – those with discretionary funds at this level are usually very protective of them.

So, businesses stall, and are unable to reach their potential. Our economy doesn't reach its potential either, and our imports increase because our local businesses cannot fulfil requirements.





We have reviewed many \$billions worth of investment opportunities for Clients over the years, and we have sought funding for many Clients too. Our experience clearly indicates that unless there is real estate available for a mortgage, Investors will not participate. Everyone in the Finance industry recognises there is a major problem with financing SME's, but no-one will take action.

We have developed a plan that would reduce the risk to Banks making loans to SME's, and reduce the likelihood of defaults. We would be happy to discuss this in a confidential forum, but believe it will remove some of the excuses employed by Banks when refusing SME loans.

In regard to the wider situation, Banks need to be encouraged to fund suitable SME's. We know of businesses that have been refused funds to action orders in hand, or because it isn't "core business".

Recently a senior banking official explained to me that when lending to Business, Banks have to hold significantly higher reserves than if lending for home loans. That surely acts as a disincentive to business funding, and restricts the amount of funds available for lending in general. If this is the case, it needs to be changed.

I would strongly encourage the FSI to promote any means that will free up funding for SME's, as a major means of stimulating our dying technical economy.

I would also like to take this opportunity to cover a couple of other topics that have been raised in recent Banking/Government discussions:

1. Number of Businesses

- a. It was recently put to me that the high number of businesses in Australia was an example of a vibrant economy. I would contend it is more likely that most people can't find a job, and have to create their own by starting a business. This high level of business ownership is in many cases an indicator of an economy in crisis.
- b. Indeed Government figures show an increase in business registrations of 175,000 in 2011 (~700 per day), which to me is a startling amount. With 12,735,995 taxpayers at the end of the 2012 financial year, and 10,853,874 ABN's, there are on average 1.2 taxpayers per business. Take out the non-business ABN's and taxpayers, and the employment level will still be quite low.
- c. To more rapidly grow the economy, the better focus would be to grow existing businesses (creating employment) than encouraging new businesses to be formed. That's where better funding approaches comes in.

2. Competing Internationally

- a. In practice, Labour costs has little impact in most businesses, and less so if the business is based on particular Intellectual Property. The idea that things are made cheaper overseas relates to Direct Costs, and does not normally incorporate Overheads
- b. Many products can be made cheaper overseas, but by the time the required Expatriate Supervisors, and all the necessary systems are in place to ensure quality, the cost difference is indeed very small
- c. The point here is that will only a slight improvement in our performance in Australia, we can compete very strongly on the global stage.



3. Defence Procurement

- a. This has been a frustrating forum for many years, and the sooner Government agencies cease to preference international businesses over true Australian ones, the better. Current approaches to Defence Procurement severely disadvantage true Australian businesses, denying them the opportunity to build their businesses in Australia prior to launching export markets.
- b. We recognise this is a considerable topic in its own right, and we would be happy to discuss this to suit the FSI, but building defence-based Australian businesses is an excellent way of developing sophisticated exporters, with all the economic advantages that come with them.

In summary, we would encourage the Financial System Inquiry to look very closely at how to increase finance for deserving SME's, so that they can grow their businesses to the level they should be able to readily achieve.

Also, we would be pleased to discuss our ideas for supporting Banks to finance SME's if a suitably confidential environment can be provided.

Best Regards,

Motive Power Pty. Ltd.

Per :

LANCE PROCTER *
DIRECTOR

* This is an electronically generated signature, and as such cannot be considered to legally bind Motive Power Pty. Ltd. If you would like a personally signed copy, Motive Power Pty. Ltd. would be pleased to provide it.

Attachments :Nil