

3 July 2015

Business Set-up, Transfer and Closure
Productivity Commission
By email: business.inquiry@pc.gov.au

Dear Sir/Madam,

As the state's peak body for business, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide feedback to the Productivity Commission on the Business Set-up, Transfer and Closure Draft Report.

Innovation

CCIQ takes this opportunity to reiterate the importance of innovation at all stages of a business' life cycle. Innovation is more than a product or service that is new to Australian or International markets.

Innovation can be defined as renewing, changing or creating more effective processes, products or ways of doing things. For businesses, this includes applying new ideas to products, processes, services, organisation management or marketing. Innovation can be seen in a variety of forms, from a major breakthrough such as creating and bringing a new product or service to market, or a series of smaller innovations such as finding better or more efficient ways of working and becoming more profitable. Invention of products and processes on its own is not innovation; it only becomes innovation when it yields commercial value.

Unsurprisingly, 70 per cent of Queensland businesses do not necessarily see themselves as being innovative, questionably believing that it is something for larger or corporate businesses or that it will not contribute to their competitiveness or viability. CCIQ believes that it is critically important that these perceptions are corrected.

Some of the best successes in innovation for Queensland small and medium businesses comes from everyday activities, which include restructuring and modifying their business models, business strategies and current management practices, as well as implementing new approaches to improve staff productivity. These are the practices being implemented on a daily basis in the operations of Queensland small and medium businesses – they are essential to the survival and growth of those businesses, and should not be underestimated in the context of innovation.

Access to Finance

Draft Finding 5.1

Access to finance does not represent a barrier for most new businesses. Only a minority of new businesses seek finances beyond the financial resources of the owners, and most that do seek external finance obtain it.

Draft Finding 7.2

While some new businesses are unable to obtain debt financing, there is no evidence to suggest that there are regulatory impediments restricting the ability of new businesses to access debt in Australia that require a policy response.

CCIQ does not agree with these findings and is disappointed with their initial inclusion. Access to finance is a significant issue for all small business looking to invest and grow, and is particularly difficult for entrepreneurs that are looking to fund a new idea.

Stricter lending requirements post-GFC have limited the avenues for small business to access finance for working capital, investment and business expansion. Existing regulations are restrictive and fail to accommodate viable businesses, making it increasingly difficult for small business owners to secure lending without providing significant security, which generally includes personal assets such as the family home. Access to financial institutions for start-up funding is generally therefore limited to personal credit card loans or small personal loans, which do not require assessment of the business venture for which the funds are to be used.

It is because of the difficulties that entrepreneurs face in accessing finance that they are using personal savings and/or loans from family and friends to get their business up and running, and are delaying full-time commitment due to funding gaps. CCIQ has previously called on financial institutions to make it easier for small businesses to get loans, and considers that increased access to funding would result in greater entrepreneurial activity.

Draft Finding 7.1

Credit Guarantee Schemes are not an efficient way to improve access to debt finance for new businesses.

CCIQ believes a credit guarantee system for small and medium businesses is worth exploring. The United Kingdom, Canada and the United States have introduced guarantees on small business loans. Given the importance of small and medium business growth to improving Australia's productivity and competitiveness, there is a valid role for government to play in underwriting to some extent these businesses access to finance.

Draft Recommendation 7.1

As identified in the 2014 Financial System Inquiry, the Australian Government should undertake a review of the participation of the lending industry in comprehensive credit reporting in 2017 with a view to determining whether participation should be mandated. The review should also consider extension of reporting to include the comprehensive credit history of businesses.

CCIQ believes comprehensive credit reporting (CCR) can be beneficial if it helps facilitate more affordable or more favourable conditions for small business loans. A positive reporting system that

provides more frequent and comprehensive data about small business credit history would improve the way lenders assess risk. This would be especially beneficial for small business owners that use equity in their homes to fund their businesses. Regular mortgage repayments would therefore be considered favourably in a credit application. Small businesses would also benefit from being able to verify a client or customer's liability ahead of any business transactions.

CCIQ therefore supports making CCR mandatory and extending it to SME lending. This would potentially improve access to finance, help speed up the process of finance approvals and facilitate more efficient SME banking. For these benefits to be realised however, there needs to be a genuine change to the traditional model of SME lending that combines better information with better relationship banking.

Feedback from Queensland small businesses points to a lack of highly skilled business banking managers that have a practical understanding of business operations, the relevant customer base, credit lifecycle and how access to finance can help grow the business sustainably. The banking relationship is especially crucial for start-up businesses that may not be able to offer a comprehensive credit history. The banking sector also needs to improve its dealings with small businesses in a way that clearly distinguishes between the owner's personal finance needs and the finance needs of the business.

Please find *attached* CCIQ's submission on the Financial System Inquiry Interim Report for CCIQ's position on how Australia's financial system can best meet the financial needs of small and medium businesses.

Please do not hesitate to contact me should you wish to discuss this submission further.

Yours sincerely,



Nick Behrens

Director- Advocacy and Workplace Relations