Date Introduced: 23 May 1985
House: House of Representatives
Presented by: Hon. P.J. Keating, M.P., Treasurer

Purpose

To amend the Commonwealth Banks Act 1959 in order to allow the Commonwealth Development Bank (CDB) to provide finance for all general business purposes and equity finance or packages of equity and debt finance.

Background

The CDB is part of the Commonwealth Banking Corporation Group and wholly owned by the Commonwealth Government. The Commonwealth Banks Act sets out the purposes for which the CDB may provide finance. The CDB provides medium to long-term finance which is provided for primary production and for the establishment and development of businesses particularly small enterprises. The CDB considers only those proposals which have already been rejected by the applicant's own bank, i.e. the role of the CDB is that of last-recourse lender. The Bank's charter requires that, when determining whether finance is to be provided, the CDB must consider primarily the enterprise's prospects and not necessarily the value of the available security.

Various studies in recent years have examined the availability of finance to small business and concluded that many small businesses were undercapitalised. For example, the survey conducted by the Bureau of Industry Economics indicated that deficiencies existed in the supply of start-up and venture capital for product-innovative small businesses.[1]

Furthermore, in the area of loan finance, the Campbell Committee received complaints of the CDB placing too much emphasis on collateral and less on success prospects, as well as not providing working capital.[2] The CDB, however, considers that trading banks are the more appropriate mechanism for providing day-to-day working capital to established businesses.
Deficiencies also exist in the provision of longer-term debt finance and equity finance. The Small Business Advisory Council Report considered that the CDB and the trading banks together adequately met small business demands for short and medium-term finance.[3] Difficulties in obtaining long-term finance was mainly due to inadequate information about available sources of finance, lack of persistence with applications of finance and lack of expertise in the presentation of proposals.

There have been various suggestions of how to increase the supply of finance to small businesses. The Crawford Study Group recommended that the CDB's activities be extended to provide either equity finance or packages of equity and debt to small businesses. The Campbell Committee, however, did not favour this proposal.[4]

The Martin Group recommended that the CDB offers more diverse forms of finance, including quasi-equity and equity finance, subject to the development of appropriate guidelines. The Group also recommended the removal of interest rate controls on bank loans to the small business sector.[5]

On the basis of the Martin Group's recommendations, the Treasurer announced, in a Press Release dated 28 April 1985, the Government's decisions to extend the range of CDB's activities and to remove interest rate ceilings on bank loans under $100,000 for all purposes other than housing. This measure covers overdrafts, fully drawn advances, term and farm development loans, personal instalment credit and bankcard credit. As a result of these two measures, the availability of bank finance to small businesses is expected to improve. More innovative loan packages and the provision of better advisory services to small business is also expected to be encouraged.

Outline

This Bill will extend the CDB's charter to allow the Bank to provide finance to all businesses in its lender of last recourse role.

Furthermore, the CDB will be able to provide equity finance or debt/equity packages (amendments to section 72 by clause 2). By amendments to section 74, the CDB will be able to participate in the formation of a company, acquire shares in a company and enter into a partnership or profit sharing arrangement (clause 3).

The CDB's equity funding role will be subject to general policies approved by the Government.
A detailed analysis of the provisions of the Bill is contained in the Explanatory Memorandum.

For further information, if required, contact:

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1 July 1985

References

4. Campbell Committee, ibid, p.690.