Speech

Financing SME Innovation in Australia – Challenges and Opportunities

RESERVE BANK OF AUSTRALIA

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Introduction

Small and medium-sized firms (SMEs) are in many ways the backbone of the Australian economy. At the Reserve Bank, the importance of SMEs has long been reflected in our analytical research agenda and our liaison program. Indeed, last July the RBA hosted its annual small business financing roundtable event for the 31st time, while our liaison program – which includes active year-round engagement with SMEs spanning the breadth of the country – is now into its 24th year.

There are different ways through which to view the contribution that SMEs make to our economy and society.

The first (and most familiar) is through their central role in the daily life of our communities. Of the 2.6 million businesses in Australia, 97 per cent are characterised by the Australian Bureau of Statistics as 'small' firms (comprised of less than 20 employees), with a further 2 per cent of firms classified as 'medium-sized' (between 20 and 200 employees).[1] SMEs are widely represented across the sectors of the Australian economy. A particularly notable contribution they make is through the labour market, where SMEs account for two-thirds of private sector employment. They also comprise just under 60 per cent of company profits. More than this, SMEs are integral to the social fabric of our communities – whether it be sponsoring the local kids sporting team, community theatre production or charity event. Nowhere is this more true than in regional Australia, where many SMEs are family-run businesses that provide goods and services in areas where larger firms are less active.[2] And who doesn't have a favourite weekend 'local'?

Another way in which to view the contribution of SMEs to our collective wellbeing is narrower but no less important – they are potential engines of innovation and dynamism in the Australian economy. SMEs can introduce competitive tension to established markets that are typically dominated by larger incumbents, driving them to be more efficient in the process. And in generating or diffusing new ideas and better ways of doing things, they can create new markets for goods and services and facilitate the reallocation of capital and labour to more productive use. This creative energy can be of sufficient scale to directly impact our living standards. But unleashing this creative energy first requires access to financing on reasonable terms. And for a long time, this has been easier said than done.

It is this innovation role for SMEs – one that has historically received less attention – that I will focus on today. More concretely, I will begin by setting out some tangible markers of the ways in which a cohort of SMEs, particularly those seeking to compete in global markets, are helping to fuel innovation in the Australian

economy. I will then discuss some of the longstanding financing challenges experienced by SMEs, particularly those seeking funding for innovation-based investments that have a large 'intangibles' component and a long and uncertain payoff. I will conclude by casting a light on the evolving role that the Australian financial system is playing in supporting innovation among smaller entrepreneurial firms.

The punchline here is two fold. First, SMEs have become increasingly important participants in the innovation ecosystem in Australia, particularly in professional, scientific and technical services. In some respects, they appear to be taking over the 'innovation baton' from large firms, including in early-stage investment in research & development and intellectual property rights. Second, while the Australian financial system and policy settings have interacted to lend more support to innovation-focussed SMEs over the past decade, there is more to be done if the next generation of innovative Australian firms are to have the wind at their back.

The contribution of SMEs to innovation in Australia

Why should we care about innovation, and the role of SMEs in it? One reason is that innovation is a feedstock for productivity, which in turn drives national living standards. But as the Productivity Commission has noted, Australia's productivity performance in the 2010s was the worst in six decades, and the picture has yet to improve in the current decade. If there is a blessing in disguise here, it is that these outcomes have ignited a renewed sense of urgency about how we turn this around. And as we will come to see, some SMEs have a large and growing role to play.

For our purposes today, I will generally refer to innovation as the development and application of ideas and technologies that improve the quality of goods and services, or that make their production more efficient.[3] This encompasses not only the generation of entirely new products and processes, but also the rapid adaptation and diffusion of other cutting-edge ideas and processes across the economy. Innovation is closely tied to the concepts of 'creative destruction' and 'economic dynamism', which can find expression in the entry of new firms, the downsizing (or exit) of less efficient firms, and workers moving from lower to higher productivity firms where wages are higher.

On first impression, a discussion of SMEs in this context might seem a bit out of step with today's international focus on large, winner-take-all 'superstar' firms – think BigTech. Here we see a growing share of sales concentrated in a handful of large dynamic firms, whose high mark-ups allow them to generate abnormal profits. This is no accident. Favourable 'unit economics' in parts of the technology and data services industry mean that each additional unit of sales, generated from around the world, costs little to produce and so flows straight through to the bottom line. A related theme is that powerful network effects and high barriers to entry ('walled gardens') can further entrench market dominance of large incumbents, where free cash flow is recycled back into ever-growing innovation budgets, supporting the development of even more highly valued goods and services and thus increases in profitability. This is the context for rising concerns from competition regulators around the world.

But while the concept of innovation might have become, in the public imagination at least, more closely tied to the largest global firms, part of what I want to discuss today is a less covered story – and that is, the pulse of innovative intent that is running through parts of the Australian SME ecosystem. This pulse might be less visible than the latest edition of the iPhone, but it is happening nonetheless.

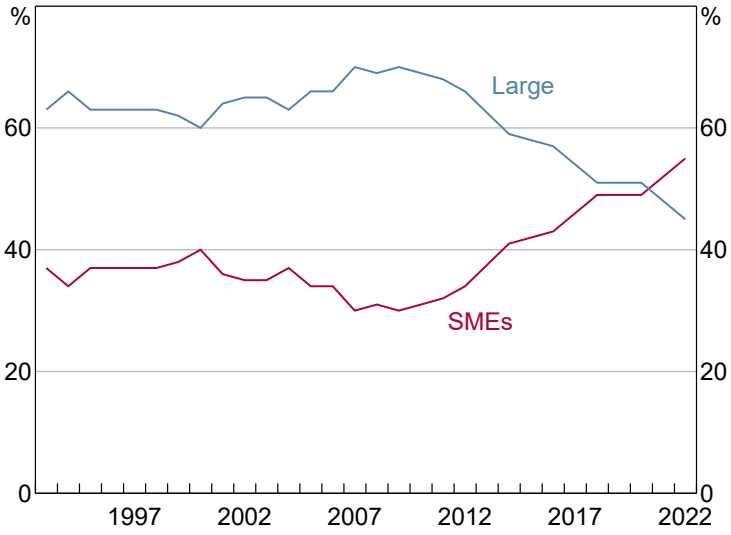
Consider, for instance, spending on research and development (R&D), which is an integral feature of any economy with innovative aspirations, including where firms seek to compete in global markets.[4] SMEs now spend around 25 per cent more on R&D than large firms in Australia, the largest differential in decades. The SME share of R&D spending in Australia oscillated between 30 and 40 per cent for many years; today that figure stands at 55 per cent (Graph 1). All of the real decline in national R&D spending over the past 10–15 years can be attributed to large firms, which was initially concentrated in the mining industry before broadening in scope to

the non-mining sector. While real R&D spending by large firms has retreated to levels observed in the mid-2000s, for SMEs it has more than doubled over the same period and increased as a share of GDP. Today the biggest contribution to R&D spending in Australia comes from SMEs in professional, scientific and technical (PST) services, comprising 26 per cent of the national total; large firms in this sector comprise 8 per cent of the national total.

Graph 1

R&D Expenditure

Share of total*



* SMEs are businesses with less than 200 employees; large businesses are those with 200+. Data are biennial after 2012.

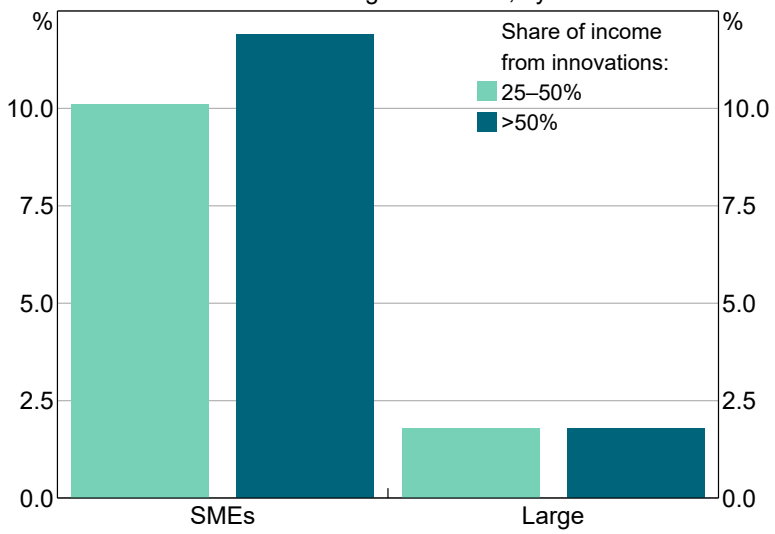
Sources: ABS; RBA.

While just over half of surveyed Australian SMEs are likely to be innovating at any one time, compared with around 70 per cent of large firms, the *intensity* of innovation is much higher for the SMEs that are innovating. Put bluntly, these SMEs are more likely to be throwing the kitchen sink at innovation. Beyond R&D, this includes by investing in intangible assets such as intellectual property (IP) rights.[5] Similarly, among firms that are active in innovation, the effects on income tend to be far more consequential for SMEs than larger firms that typically have more diversified revenue sources (Graph 2).

Graph 2

Impact of Innovation on Income

Share of innovating businesses, by size*



* SMEs are businesses with less than 200 employees; large businesses are those with 200+.

Sources: ABS; RBA.

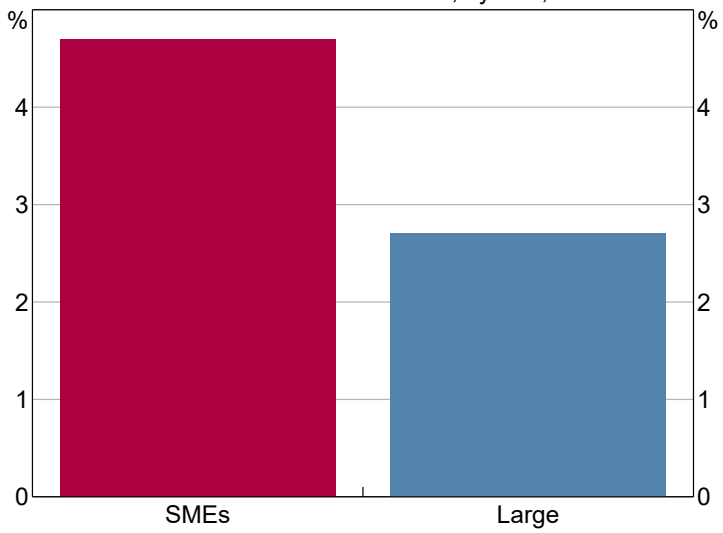
In the United States, recent research has pointed to a trend of declining in-house R&D spending by large established firms. This has occurred alongside the repurposing of innovation budgets to fund buyouts of smaller firms that are better placed to commercialise the best-of-breed ideas from their interactions with the university system.[6] Some preliminary research at the RBA has also identified that Australian firms with IP assets are disproportionately likely to be the focus of the buyout decisions of large established firms, over a period where the direct R&D spending by large Australian firms has contracted.[7] This is not to suggest that large Australian firms no longer have an interest in innovation, only that it may be taking a different (acquisition-based) form to the past. I will return to this later.

The Australian economy, like most others, tends to be an importer of 'new-to-world' innovations rather than a large-scale producer like the United States. But in the case of firms that are engaged in innovation in Australia, SMEs are almost twice as likely to have introduced new-to-world innovations compared with large firms (Graph 3). These types of innovations are harder to produce and so are typically riskier to finance. But they are also likely to generate large positive externalities for the economy and society. Australian SMEs that sell into global markets and that collaborate on innovation, particularly in the manufacturing and PST sectors, are among the most likely to innovate.[8]

Graph 3

New-to-world Innovations

Share of innovation-active businesses, by size, 2019–2021*

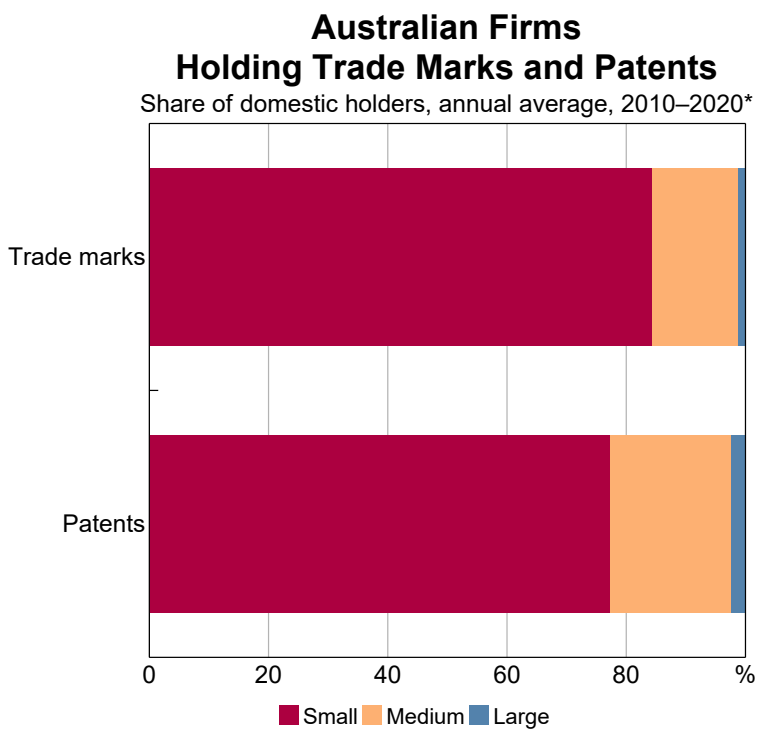


* Novelty of the most significant innovation introduced by a business. SMEs are businesses with less than 200 employees; large businesses are those with 200+.

Sources: ABS; RBA.

Patents and trademarks can be important markers of innovation, and the IP rights conferred by holding them can be highly valuable intangible assets. As IP Australia has noted, patents and trademarks can provide vital tools for entrepreneurship and the creation of high-growth businesses.[9] Labour productivity in Australia is around 30 per cent higher in the median patent-holding business compared with the median business without patents.[10] SMEs now hold almost all patents and trademarks filed by residents in Australia (Graph 4).[11] Perhaps more interesting is that, as with R&D spending, there has been a significant relative shift in the holding of IP rights between SMEs and large firms: over recent years the number of patent-holding SMEs has increased at a rate five times faster than the increase in the number of SMEs in the economy – a pattern not apparent among large firms.[12] Australian SMEs that file for patents, trade marks and design rights are more than twice as likely to achieve high turnover growth than their peers with no recent filings. This broadly aligns with the experience in the United States where the holding of IP rights has been shown to substantially increase investors' estimates of the value of a start-up enterprise.[13]

Graph 4



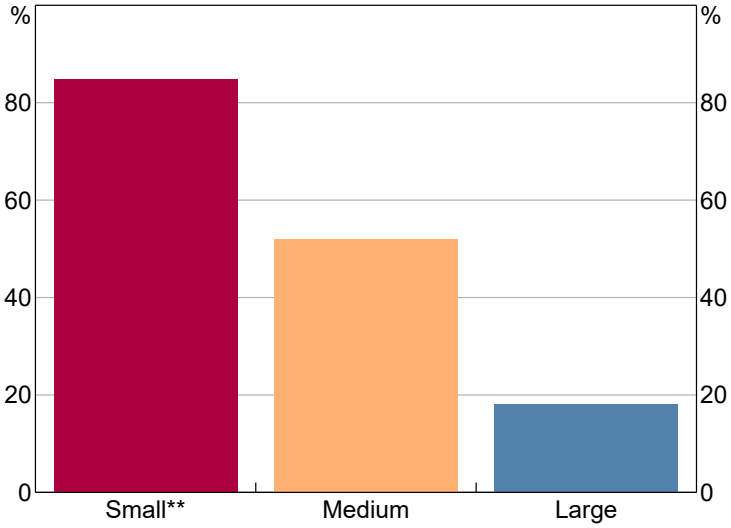
* Small businesses have less than 20 employees, medium 20–199, large 200+.
Sources: IP Australia; RBA.

It has been well documented internationally, and more recently in Australia, that economic dynamism supports productivity-enhancing resource reallocation in the economy.[14] This can be seen in wage and productivity differences across firms (which promotes job switching) and in business entry and exit patterns. For Australian firms of all sizes, there is a positive wage differential between firms that hold IP rights (such as patents) compared with those that do not. But the differential is especially pronounced for smaller firms (Graph 5). Over the past two decades, firm entry and exit rates have generally declined in Australia, though the entry rate for small firms has tracked sideways over the most recent decade (Graph 6). It is possible that lower transition rates (from smaller to larger firms) and acquisition activity may have contributed to some of the sustained decline in entry rates for medium-sized and large firms, but it is an area our researchers are looking into.

Graph 5

Difference in Median Wages for Firms with and without Patents

By firm size*



* Small businesses have less than 20 employees, medium 20–199, large 200+.

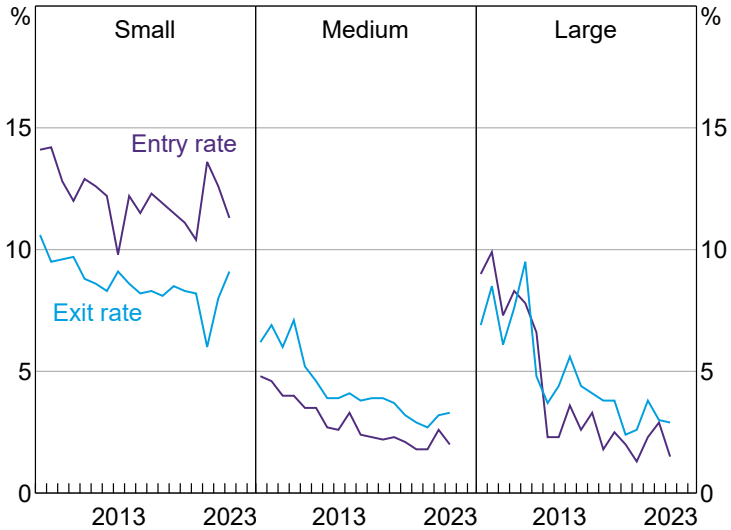
** Results for small businesses are an average of the results for businesses with 0–4 employees and 1–19 employees.

Sources: IP Australia; RBA.

Graph 6

Business Entry and Exit Rates

By size, annual*



* Small businesses have 1–19 employees (non-employing entites are excluded), medium 20–199, large 200+.

Sources: ABS; RBA.

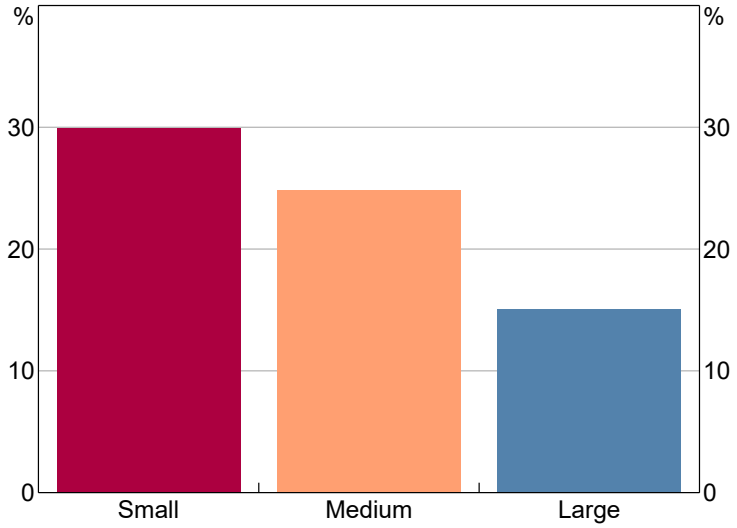
The longstanding challenge of SME innovation financing

The investment environment for firms is shaped by a number of factors, with the financial system and policy settings key among them. As internally generated free cash flow is often in short supply for SMEs, particularly younger firms, access to external financing can make all the difference. At the RBA, we've consistently heard this message through our liaison program. It also accords with surveys of Australian businesses indicating that a lack of financing is a key barrier to innovation for small firms (Graph 7).[15]

Graph 7

Firms Reporting Access to Finance as a Barrier to Innovation

Share of innovation-active businesses, by size, 2019–2021*



* Small businesses have less than 20 employees, medium 20–199, large 200+.

Sources: ABS; RBA.

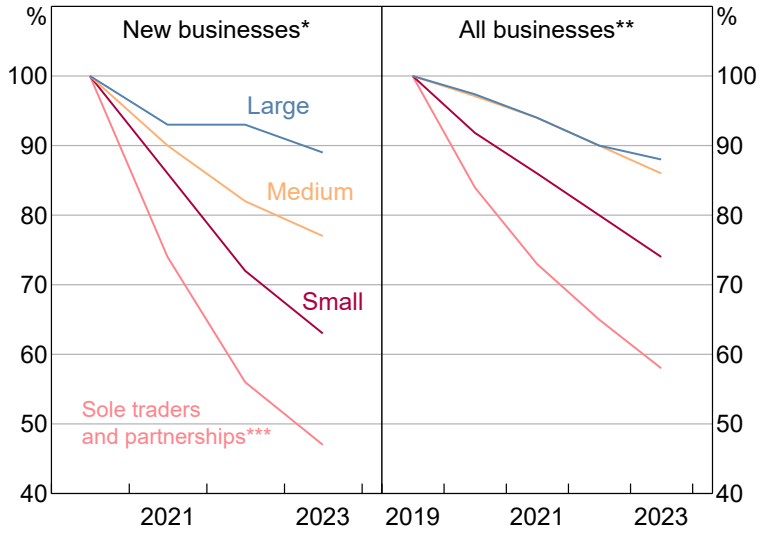
There are a number of factors at work here, some of which apply to SMEs in general, while others relate more specifically to SMEs that are active in innovation-based investment.

The highest order problem is that small firms are riskier propositions for suppliers of capital. Survival rates bear this out – whether new or established, small firms are more likely to go out of business in any given year than their larger counterparts (Graph 8). Particularly low survival rates among young small firms are consistent with the 'up or out' stage of their development, where they are experimenting and succeeding, or failing and exiting – they either crash through or crash.

Graph 8

Business Survival Rates

By firm size



* Firms commencing operation in 2019/20. Small businesses have 1–19 employees (non-employing separate line), medium 20–199, large 200+.

** Firms operating at end-June 2019.

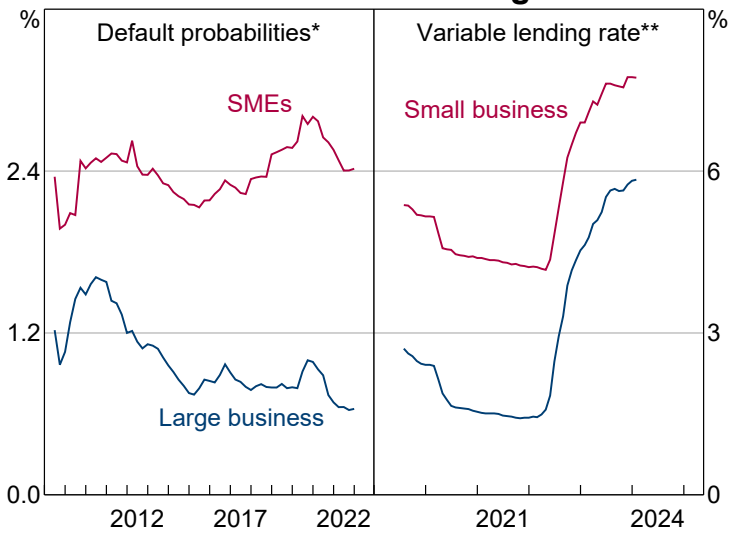
*** Non-employing businesses.

Sources: ABS; RBA.

While bank loans to SMEs comprise half of all business lending in Australia, many SMEs report experiencing tight financial conditions in the form of credit-rationing and/or high borrowing costs. This is partly linked to risk-weights that are relatively higher for SME lending, reflecting banks' risk modelling where SME loans are expected to be around twice as likely to fall into arrears as large firms (Graph 9). And loans to SMEs almost always require collateralisation, unlike those to large firms.

Graph 9

Business Lending Default Probabilities and Lending Rates



* Average estimate from internal ratings-based models. On-balance sheet exposures of major banks. SME is the SME retail and SME corporate categories in APRA's capital framework; large business is the corporate category.

** Average variable rate on outstanding loans. Business size based on turnover and exposure.

Sources: APRA; RBA.

Prospective lenders and investors also tend to be more circumspect in financing SMEs for any number of reasons, including that: there is a lack of scale in financing smaller entities; their revenues are often more volatile; and informational asymmetries are more acute compared with larger firms where more information on their finances is publicly available.[16]

And if many SMEs feel as though they are kicking into the wind when it comes to access to financing, those winds can blow stronger still for SMEs seeking debt funding to support their innovation priorities. There are at least two reasons for this.

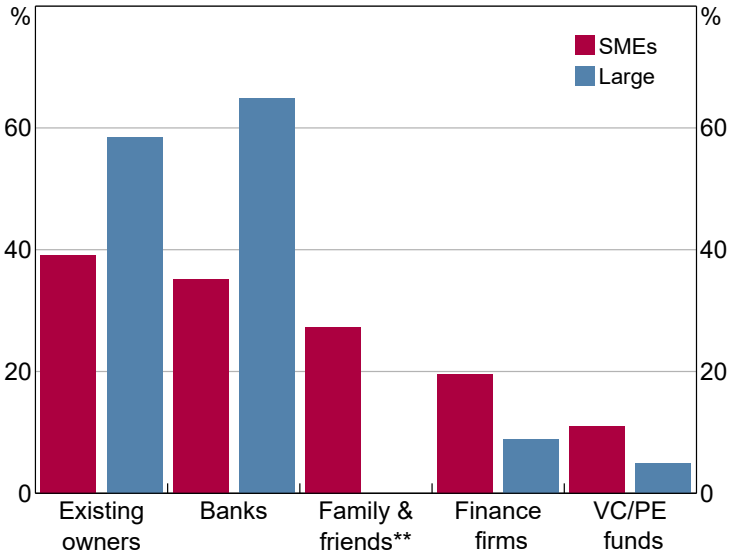
One issue is that innovation-based assets are often largely (or exclusively) intangible, and therefore are not of a standardised form that most traditional lenders prefer. Given that almost all SME lending is secured, and residential property has an outsized role in collateralising the loans of small businesses, access to innovation-based debt financing is not straightforward. This is particularly the case for younger entrepreneurs struggling to get onto the housing ladder.[17] We also hear through our liaison program that even if small business owners do hold residential property, some are understandably reluctant to post it as collateral given the stress involved; and, if they do, they are more likely to be more risk averse in their business investment decisions when their family home is on the line.[18]

Survey data suggest that banks are much less likely to finance the innovation-based investments of SMEs compared with large firms (Graph 10). SMEs are therefore more likely than large firms to fund innovation-based investments from family and friends, and non-bank institutions like venture capital (VC) and private equity (PE) funds who are better placed to bear such risk. I should note here that this pattern has not been unique to Australia, but rather has been widespread across advanced economies and is one of the factors supporting the growth of technology-focused VC funds and PE funds focused on early-stage funding rounds.[19]

Graph 10

Sources of Innovation Financing

Share of innovation-active businesses, by size, 2019–2021*



* SMEs are businesses with less than 200 employees; large businesses are those with 200+.

** Large business funding from family and friends not published.

Sources: ABS; RBA.

Another funding issue that is felt acutely by innovation-focused SMEs is navigating the 'valley of death' – the long lead time between converting greenfield research ideas into commercially viable propositions, during which time firms can burn through their initial funding. This valley can appear prohibitively deep and wide for many lenders.

Overcoming the financing impediments to SME innovation

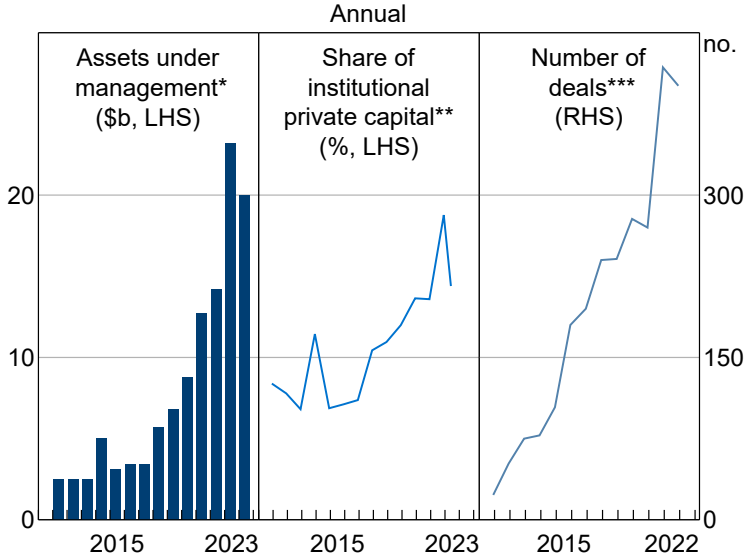
While funding challenges will likely remain a fact of life for many SMEs, private and public capital is now being mobilised in Australia in ways that are beginning to ease some longstanding constraints on innovation financing, at least for some firms.[20]

One of the most material developments has been the emergence of an institutional-grade domestic VC industry that, over the past decade, has channelled long-term equity capital into some of Australia's more innovative and scalable businesses. This capital can support small firms that are loss-making during an intensive period of ideation and prototype development. The past decade has marked a 'third wave' for the domestic VC industry, after nascent upswings in the late 1990s and just prior to the global financial crisis were followed by industry shakeouts. Investment in the Australian VC industry (as a share of GDP) is now in the range of peer economies, though still considerable distance behind the United States and Israel. Over the past decade, assets under management in Australian VC funds have grown from $2.5 billion to $20 billion; their share of institutionally managed private capital in Australia has doubled; and the number of VC deals written each year has increased significantly (Graph 11). This is despite a challenging period for SME technology valuations over the past two years as interest rates have risen. This capital is in search of the far right tail of the distribution of young small firm returns, where a minority of enterprises can break out with innovations that can be readily scaled into global markets, more than making up for losses incurred on those that don't make it (Graph 12).

Graph 11

Australian Venture Capital

Annual



* 2023 observation only includes data up to June.

** Institutionally managed private capital. 2023 observation only includes data up to June.

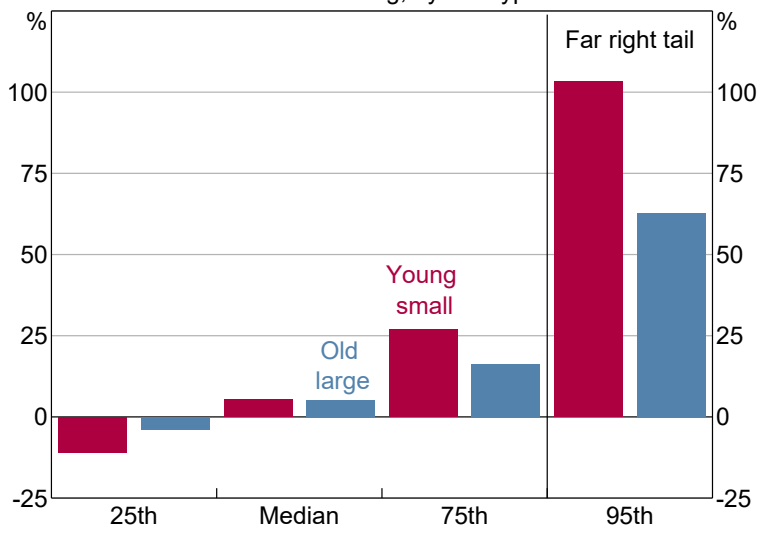
*** Data up to December 2022.

Sources: Prequin; RBA.

Graph 12

Annual Revenue Growth Distribution*

Percentile ranking, by firm type**



* Year-ended revenue. Results based on ATO tax data in BLADE from 2004–2023. Only includes companies with revenue greater than $75,000.

** Small companies have less than 20 employees and are less than 10 years old; large companies have 200+ employees and are older than 10 years.

Sources: ABS (BLADE); RBA.

At the same time, there are limits to what the private domestic VC industry alone can achieve in supporting innovation in Australia. In any given year only a small fraction of innovating firms that seek VC funding actually obtain it, the average deal size has clustered in the range of $10–20 million over recent years (which may be too large or too small for some firms), and the sectoral focus of VC funding is more narrowly skewed vis-à-vis other traditional SME funders (toward software, information technology applications in financial and health services, and manufacturing). This sectoral skew in investment is broadly consistent with the sectoral skew in R&D spending.

Over the past decade or so, government has also had an important role – direct and indirect – in easing constraints on innovation funding through long-term equity and cash flow support. Tax benefits for fund managers and investors have been made available through three different VC programs supported by the Australian Government, and in 2017, CSIRO Australia founded the Main Sequence VC fund to serve as an incubator for scientific entrepreneurial talent (particularly in 'deep tech') in Australia. SMEs that are further along the commercialisation journey might be eligible for funding from the Australian Business Growth Fund, which was established just prior to the pandemic to provide both long-term growth capital and strategic advisory services for expanding SMEs. A range of government-backed initiatives have also been introduced over recent years to support SME cash flows more generally, including by shrinking the payment times for SME invoices. Arguably the most valued and direct source of cash flow support for innovating SMEs has been the R&D tax credit, which has been in effect for just over a decade. Indeed, recent analysis has found that the ability of Australian SME firms to compete in export markets is linked to their incentives to innovate through R&D.[21]

Debt market financing is available to innovating SMEs, though those that are cash flow positive (through the 'death valley curve') typically have more options. VC debt funds have sprung up in recent times, with expertise in valuing intangible assets and extending 'growth credit' aimed at lengthening the runways for SMEs so they can get through to the next funding round. More generally, the difference in variable rates between SME loans and large firm loans has compressed in recent years,[22] and it is possible that reductions to bank capital requirements for SME loans, which became effective from January 2023, contribute to slightly more accommodative financing

conditions for SMEs. Similarly, over time, the comprehensive credit reporting and open banking regimes might help in reducing informational asymmetries that can make it difficult for startups to access debt financing. The Australian Business Securitisation Fund, which was established prior to the pandemic and invests in securitisations that are backed by SME loans issued by small banks and non-bank lenders, is also aimed at easing financing constraints for SMEs in general (though only a small number of investments have been made so far). And non-traditional lenders, including technology and payment companies, are using transactions data to rapidly identify and make unsecured credit available to SMEs using their own balance sheets. However, these direct lenders comprise a very small share of the small business financing pie and, like most lenders, don't target innovating firms *per se*.[23]

It is worth highlighting that it is not just increased access to capital that can support innovation-focused entrepreneurs – access to networks and forums for providing strategic advice are becoming commonplace. There is growing recognition across the community of former company founders, experienced private VC investors and managers of public-private growth funds that strategic advisory support – both formal and informal – also has a key role to play.

Conclusion

Our national living standards will turn in part on the propensity of firms to generate and rapidly integrate innovative practices into their operations. It has been troubling therefore to observe that our aggregate productivity outcomes have been lagging for a considerable time. We should also be under no illusions that financing constraints for many SMEs remain substantial. And they can be even bigger for SMEs that are trying to innovate aggressively, with little in the way of tangible collateral to pledge as security for financing, and where it can take years to generate positive cash flow on the back of investments in greenfield ideas and untried technologies. These types of investments are not for the faint of heart.

But in recent years there have been signs, including in R&D spending and IP rights, to suggest that the contribution of SMEs to the innovation economy has been rising. A cohort of Australian SMEs are innovating intensively, including those with ambitions to compete on the global stage. And, as in the United States, it is possible that a division of labour is beginning to emerge in the Australian innovation ecosystem, where large firms increasingly look to acquire and scale up the innovative ideas and practices first developed by more nimble, IP-rich smaller firms. Time will tell here. But if we do follow the pattern in the United States where many large firms are looking to innovate through acquisitions of dynamic SMEs rather than through in-house R&D, then it will place even further importance on our SME sector as an engine of innovation in Australia. Either way, we also need large firms playing their part in the innovation and productivity challenges facing the country. We need both engines firing.

Of course, it is not feasible to expect anything like a majority of SMEs to operate on the global innovation frontier – most understandably have more modest, local ambitions. But given the overwhelming majority of firms in Australia are SMEs, it would only take only a small increase in the share of these businesses to successfully innovate to have a material impact on the Australian economy. It is therefore in our collective interest for the financial system and policy settings to interact in ways that continue to support innovative Australian entrepreneurs. If history is any guide, the positive externalities could entail benefits to the Australian economy and society extending well beyond just the firms producing them.

Endnotes

[*] Thanks to Sid Roche for his considerable assistance in the preparation of these remarks, and to Angelina Bruno and Jonathan Hambur for acting as invaluable sounding boards.

[1] In APRA's lending data, for the largest reporting entities a business is classified as small or medium if it has an annual turnover of less than $75 million; within this, a business is considered small if it has an exposure to the reporting lending entity of less than $1.5 million.

[2] Just over 30 per cent of small businesses are located outside of greater capital city areas, compared with around one-quarter of large businesses. See Chan P, A Chinnery and P Wallis (2023), 'Recent Developments in Small Business Finance and Economic Conditions', RBA *Bulletin*, September.

[3] Alternatively, the OECD's Oslo Manual refers to innovation as 'a new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process)'.

[4] R&D is an important input variable for both innovation and exporting in Australia; see Zaman M and G Tanewski (2024), 'R&D Investment, Innovation, and Export Performance: An Analysis of SME and Large Firms', *Journal of Small Business Management*, January.

[5] For small firms engaged in innovation, this finds expression in a wider set of investment activities than just R&D. See AlphaBeta (2020), 'Australian Business Investment in Innovation: Levels, Trends and Drivers', January.

[6] See Arora A, S Belenzon, L Cioaca, L Sheer and H Zhang (2023), 'The Effect of Public Science on Corporate R&D', NBER Working Paper No 31899, and the references therein.

[7] See Hambur J (2024), 'IP Mergers in Australia' (forthcoming); Competition Review Taskforce (2023), 'Tracking Mergers in Australia Using Working Flows', Treasury.

[8] Majeed O and R Breunig (2021), 'Determinants of Innovation Novelty: Evidence from Australian Administrative Data', Tax and Transfer Policy Institute Working Paper No 15/2021, ANY Crawford School of Public Policy, Canberra; Zaman and Tanewski, n 4.

[9] IP Australia (2023), 'Australian Intellectual Property Report 2022', Australian Government.

[10] IP Australia, n 9.

[11] It should be noted, however, that the majority of patents in Australia are filed by non-residents.

[12] Over the same period, the number of large firms has been increasing, while the number of patent-holding large firms has remained relatively stable. This large relative shift could be partly attributed to a decline in the rate at which patent-holding SMEs scale into large firms, and/or an increasing division of innovative labour within the innovation system. See Dobson-Keeffe B and M Falk (2024), 'The Structural Change in Patenting Behaviour in Australia', IP Australia Analytical Note (forthcoming).

[13] IP Australia (2023), 'IP and the Economy: Key Impacts', Australian Government; Hsu DH and RH Ziedonis (2013), 'Resources as Dual Sources of Advantage', *Strategic Management Journal*, January; Block JH, G De Vries, JH Schumann and P Sandner (2014), 'Trademarks and Venture Capital Valuation', *Journal of Business Venturing*, 29 (4), July.

[14] See for instance IP Australia, n 13; Hambur J (2023), 'Did Labour Market Concentration Lower Wages Growth Pre-COVID?', RBA Research Discussion Paper No 2023-02; Hambur J and D Andrews (2023), 'Doing Less, with Less: Capital Misallocation, Investment and the Productivity Slowdown in Australia', RBA Research Discussion Paper No 2023-03; Buckley J (2023), 'Productivity in Motion: The Role of Job Switching', e61 micro note, November.

[15] See Figure 2.2 in Productivity Commission (2023), '5-year Productivity Inquiry: Innovation for the 98 per cent', Australian Government.

[16] Productivity Commission (2021), 'Small Business Access to Finance: The Evolving Lending Market', Australian Government.

[17] In the United States, housing market conditions have been shown to play an important role in firm entry and young firm employment share by affecting wealth, liquidity and collateral. See Davis SJ and JC Haltiwanger (2021), 'Dynamism Diminished: The Role of Housing Markets and Credit Conditions', NBER Working Paper No 25466.

[18] See for instance McCowage M and L Nunn (2022), 'The Current Climate for Small Business Finance', RBA *Bulletin*, September.

[19] OECD (2019), 'Productivity Growth and Finance: The Role of Intangible Assets – A Sector Level Analysis', OECD Economics Department Working Paper No 1547.

[20] This is separate from the pandemic period that saw a range of policies introduced to support SMEs more generally. These included incentives for SME lending embedded in the RBA's Term Funding Facility and a host of government support programs, including the SME loan guarantee scheme, the Jobkeeper program, the Boosting Cash Flow for Employers scheme, and modifications to insolvency requirements. See for instance Kent C (2021), 'Small Business Finance in the Pandemic', Speech at the Australian Finance Industry Association, Sydney, 17 March.

[21] See Zaman and Tanewski, n 4.

[22] Some of this compression likely reflects that since the tightening in monetary policy in 2022, rates on new loans for large firms increased by more than for small firms, as the three-month BBSW rate (the reference for most business lending) increased by more than the cash rate (a key reference for small business loans).

[23] See Connolly E and J Bank (2018), 'Access to Small Business Finance', RBA *Bulletin*, September; McCowage and Nunn, n 19.