



Regional Manufacturers' Submission on the implementation of the National Reconstruction Fund (NRF)

03/02/2023

About the Geelong Manufacturing Council

Geelong Manufacturing Council (GMC) is the leading voice for manufacturing in Geelong and the south-west region of Victoria. Our members include globally competitive manufacturers, entrepreneurs, and associated technology and engineering leaders, as well as research institutions and vocational education organisations.

The GMC supports members in skills and opportunities development, in stimulating innovation, product and market diversification, and in creating a positive manufacturing environment, through knowledge sharing, advocacy and networking activities.

Overview

Geelong has a long and rich history in manufacturing. Manufacturers drive disproportionate benefits to the rest of the economy.

The National Reconstruction Fund will provide finance (including loans, guarantees and equity investment) for projects that “diversify and transform Australia’s industry and economy”. These will be in seven priority areas of the Australian economy. Modelled on the successful Clean Energy Finance Corporation (CEFC), the NRF will be established in legislation as a new Corporate Commonwealth Entity. The NRF will be administered at arm’s length to Government by an independent board appointed jointly by the Minister for Industry and Science and Minister for Finance.¹

We canvassed members for their responses to the design of the NRF and commend the following GMC submission with comments and recommendations to you for consideration.

¹ [Establishing the \\$15 billion National Reconstruction Fund, 30 November 2022: Joint media release – Prime Minister the Hon Anthony Albanese MP, Minister for Finance, Senator Katy Gallagher, and Minister for Industry and Science, the Hon Ed Husic MP](#)

SME accessibility

The key assumptions underlying the proposed model of the NRF include the following:

- Committed funding would not impact consolidated revenue until funding is deployed or drawn down for investment or operational purposes.
- Average investment maturity would be around 7 years, consistent with the CEFC's investment management experience to date.
- Debt not expected to be repaid would be 5% of loans issued, as this proposal would involve high-risk early-stage enterprises and innovations.²

GMC comments

Based on the precedents around the operation of the Clean Energy Finance Corporation and Northern Australia Infrastructure Facility, some of the following areas should be addressed through the design phase to better accommodate issues impacting regional businesses, and SME manufacturers:

- While manufacturers may be interested in Government debt or equity for a project, most can be expected to balk at relinquishing equity in their companies.
 - This means that applicants must be able to structure the investment opportunity as a standalone project, rather than as an investment in the company itself, which will create significant hurdles for SMEs in particular.
- 5% of debt not repaid is a comparatively low level of risk expectation - when the aim is to "diversify and transform Australia's industry and economy". Governments might be expected to have a higher tolerance for risk than a bank.
- The relationship between the NRF and the banking sector in supporting projects will be critical to the success of the NRF. The Government may be reluctant to 'crowd out' the banks, but as an important fund which aims to develop Australia's capability and economy, this reluctance will create problems for SME manufacturers and entrepreneurs, already facing investment challenges.
- New projects within the SME manufacturing sector, like most start-ups, require patient capital. Is 7 years for average investment maturity patient enough for a Government seeking to drive sustainable growth and secure financial prosperity?
- Many SME companies have walked away from CEFC and NAIF processes previously on the basis of the processes being too time consuming.

² [Parliamentary Budget Office: 2022 Election commitments report: ECR157](#)

GMC recommendations

1. Ensure sufficient resources are available to provide genuine and guided support for SME companies going through the application process.
 - a. We recommend the Government establish a decentralised team, similar to the Entrepreneurs Programme Business Advisers. There has been a tendency in the past for CEFC and NAIF personnel to act as 'gatekeepers'.
2. Establish timelines that reduce the burden on SMEs, and introduce clear processes that are well communicated, to ease SME approaches to the NRF. Are they required to have been rejected by banks first, for example?
3. Require that large company applicants to the NRF include a minimum of 10 and up to 100 Australian SME supply chain partners – in high value segments of the project – as part of their applications.
4. Require that Australian SME applications constitute a significant percentage of the fund's allocation, so that it remains consistent with the Government's stated intention for the NRF.

“No grants”

The Consultation Paper states that the NRF will not provide grants: “The NRF will be required to generate a positive return across its investment portfolio, and will conduct operations on a commercial basis. The NRF will not provide grants.”³

GMC comments

Transformation for many Australian manufacturers can come from simple actions as well as major interventions. Simply implementing and better-deploying digital platforms and management systems can transform businesses. Long-term partnerships with research and significant investment in R&D will also be transformative. Both industry-research collaboration and programs to improve capabilities and skills require support from Government in the form of grants. Programs such as the CRC and CRC-P programs, are vital for developing innovation and new to world solutions. Grant support for digital upskilling programs and schemes that train the trainers are vital.

A major concern associated with the NRF is that Government may consider it is a complete solution. We urge the Government to see it as a supplement rather than replacement for other industry transformation and support programs.

GMC recommendation

5. Continue to strongly support and improve national and regional grant programs for industry transformation and capability development.

³ [NRF Consultation Paper 30 November 2022](#)

Regional focus

The NRF will target projects and investments that help Australia capture new, high-value market opportunities to help our businesses grow and succeed in the economy of today and tomorrow. Investments will help drive economic growth in the regions to ensure a wide range of Australians see tangible benefits.⁴

GMC comments

We strongly congratulate the Government for a focus and emphasis on regional development in the National Reconstruction Fund consultation, and for the aim of building broad and inclusive prosperity through investment.

More than their city-based counterparts, regional manufacturers struggle to attract and retain sufficient skilled and unskilled workforces. Supply chain stability is also an issue and has been exacerbated in recent years.

GMC recommendations

6. Require that a proportion of the total fund be allocated to regional-based companies; this quota to be sufficient to fulfil the vision and intention of the NRF.
7. Reduce hurdles and improve accessibility to the fund for regional SME companies, including implementing regional-based “business advisers” as described in Recommendation #1 above.

Thank you for this important opportunity to submit comments and recommendations from regional-based manufacturers to the design of the National Reconstruction Fund.

I commend the above responses to you.

Yours sincerely

Jennifer Conley, CEO

[Geelong Manufacturing Council](#)

Na2.104, 75 Pigdons Road

WAURN PONDS 3216

Jennifer.conley@geelongmanufacturingcouncil.com.au

www.geelongmanufacturingcouncil.com.au

⁴ [NRF Consultation Paper 30 November 2022](#)