

The Australian Government's Role in Supporting Venture Capital Investment

Stephen Barkoczy

[6.1]	Introduction	139
[6.2]	Lack of venture capital funding in Australia.....	142
[6.3]	Importance of being prepared to support failures.....	143
[6.4]	The technology explosion and Australia's risk of brain drain.....	145
[6.5]	The end of living off the sheep's back and the dawn of the ideas boom	146
[6.6]	Impact of Global Financial Crisis on venture capital activity	147
[6.6.1]	Impact of Global Financial Crisis on venture capital activity around the world.....	147
[6.6.2]	Impact of Global Financial Crisis on venture capital activity in Australia	148
[6.6.3]	AVCAL data on venture capital activity in Australia	149
[6.6.4]	Other data on venture capital activity in Australia	152
[6.7]	Australia's venture capital fund managers.....	153
[6.8]	Superannuation investment in venture capital	153
[6.8.1]	Arguments for mandating venture capital investment by super- annuation funds.....	156
[6.8.2]	Arguments against mandating venture capital investment by superannuation funds.....	158
[6.8.3]	The Catch-22 dilemma	158
[6.9]	International venture capital investment in Australia	158
[6.9.1]	Geographic, demographic and economic challenges facing Australia.....	159
[6.9.2]	Challenges in attracting international venture capital investment.....	161
[6.10]	Future Fund venture capital investment	163
[6.11]	Venture capital fund performance	165
[6.11.1]	Potential issues with deal flow	165
[6.11.2]	Potential issues with fund managers	166
[6.11.3]	Potential issues with exiting investments	167
[6.11.4]	Potential issues with venture capital fund performance.....	168
[6.12]	The case for government intervention in Australia's venture capital market	168
[6.12.1]	Government policy on venture capital programs	169
[6.12.2]	Building venture capital capacity.....	172
[6.12.3]	Reasons for government intervention	173

This is a preview. Not all pages are shown.

prices) for its economic prosperity. If Australia wants to truly be a ‘clever country’ in the 21st century, it needs to create an entrepreneurial and innovative environment in which start-up and early stage companies, particularly those in new and emerging scientific and technological industries, can develop and prosper. The development of an active venture capital marketplace is vital for this to happen.

References

Books and chapters

- Balding, Christopher, ‘A Portfolio Analysis of Sovereign Wealth Funds’ in Renee A Fry, Warwick J McKibbin and Justin O’Brien, *Sovereign Wealth: The Role of State Capital in the New Financial Order* (Imperial College Press, 2011)
- Block, Joern, Geertjan De Vries and Philipp Sandner, ‘Venture Capital and the Financial Crisis: An Empirical Study Across Industries and Countries’ in Douglas Cumming (ed), *The Oxford Handbook of Venture Capital* (Oxford University Press, 2012)
- Lerner, Josh, *Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – and What to Do About It* (Princeton University Press, 2009)
- Massy, Charles, *Breaking the Sheep’s Back* (University of Queensland Press, 2011)
- McPhee, Margaret, *The Dictionary of Australian Inventions and Discoveries* (Allen & Unwin, 1993)
- Sandler, Daniel, *Venture Capital and Tax Incentives: A Comparative Study of Canada and the United States* (Canadian Tax Paper No 108, Canadian Tax Foundation, 2004)

Reports

- APRA, *Quarterly Superannuation Performance December 2015* (23 February 2016)
- AusIndustry, *Twenty-five Years of Innovation in Australia* (2011)
- Australian Bureau of Statistics, *Venture Capital and Later Stage Private Equity 2013-14* (12 February 2015)
- Australian Government, *Australia in the Asian Century* (White Paper, 2012)
- Australian Government, Department of Foreign Affairs and Trade, *Trade at a Glance 2014* (2014)
- Australian Government, Department of Industry, *Australian Innovation System Report 2013* (2013)
- Australian Government, Department of Industry, Innovation and Science, Office of the Chief Economist, *Australian Innovation System Report 2015* (2015)
- Australian Government, Department of Industry, Innovation and Science, Office of the Chief Economist, *Australian Industry Report 2015* (2015)
- Australian Government, Department of Innovation, Industry, Science and Research, *Focusing Australia’s Publicly Funded Research Review: Maximising the Innovation Dividend – Review Key Findings and Future Directions* (October 2011)
- Australian Government, Department of Innovation, Industry, Science and Research, *Innovation Investment Fund Program Progress Report* (September 2011)
- Australian Government, Department of Industry, Innovation, Science, Research and Tertiary Education, *Australian Innovation System Report 2012* (2012)
- Australian Government, Department of Industry, Innovation, Science, Research and Tertiary Education, *Australian Small Business – Key Statistics and Analysis* (2012)
- Australian Government, Department of Industry, Office of the Chief Economist, *Australian Innovation System Report 2014* (2014)
- Australian Government, Financial System Inquiry, ‘Financial System Inquiry’ (Final Report, November 2014)
- Australian Government, *Industry Innovation and Competitiveness Agenda – An Action Plan for a Stronger Australia* (2014)

THE AUSTRALIAN GOVERNMENT'S ROLE IN SUPPORTING VENTURE CAPITAL INVESTMENT

- Australian Government, *National Innovation and Science Agenda – Welcome to the Ideas Boom* (2015)
- Australian Government, *Re:think – Tax Discussion Paper* (March 2015)
- Au-Yeung, Wilson, Michael Kouparitsas, Nghi Luu and Dhruv Sharma, *Long-Term International GDP Projections* (Treasury Working Paper 2013-02, The Treasury, 2014)
- AVCAL, *2002 Yearbook – An Analysis of Australian Venture Capital* (2003)
- AVCAL, *The Economic Impact of VC in Australia* (May 2013)
- AVCAL in partnership with Ernst and Young, *2012 Yearbook: Australian Private Equity and Venture Capital Activity Report – November 2012* (November 2012)
- AVCAL in partnership with Ernst and Young, *2013 Yearbook: Australian Private Equity and Venture Capital Report – December 2013* (December 2013)
- AVCAL in partnership with Ernst and Young, *2014 Yearbook: Australian Private Equity and Venture Capital Report – November 2014* (November 2014)
- AVCAL in partnership with Ernst and Young, *2015 Yearbook: Australian Private Equity and Venture Capital Report – November 2015* (November 2015)
- AVCAL, *Value Capital: The Evolution of Venture Capital and Private Equity in Australia* (2009)
- Committee of Inquiry into the Australian Financial System, *Interim Report of the Committee of Inquiry* (1980)
- Committee of Inquiry into the Australian Financial System, *Final Report of the Committee of Inquiry* (1981)
- Commonwealth of Australia, 'Budget 2014-15' (Budget Measures, Budget Paper No 2, 13 May 2014)
- Commonwealth of Australia, *Parliamentary Debates*, House of Representatives, 17 August 2015
- Cutler, Terry, *Venturous Australia: Building Strength in Innovation* (Department of Innovation, Industry, Science and Research, 29 August 2008)
- Durufié, Gilles, *Government Involvement in the Venture Capital Industry* (Canada's Venture Capital & Private Equity Association, May 2010)
- Dutta, Soumitra, Bruno Lanvin and Sacha Wunsch-Vincent (eds), *The Global Innovation Index 2015 – Effective Innovation Policies for Development* (Cornell University, INSEAD and WIPO, 2015)
- Economic Planning Advisory Commission, 'Short-termism in Australian Investment' (Commission Paper No 6, AGPS, April 1995)
- Financial System Inquiry, 'Financial System Inquiry' (Interim Report, July 2014)
- Future Fund Board of Guardians, 'Future Fund – Australia's Sovereign Wealth Fund' (Annual Report, 2013/2014)
- Future Fund, 'Portfolio Update at 31 December 2015' (27 January 2016) 2 <http://www.futurefund.gov.au/__data/assets/pdf_file/0015/7134/2016_Portfolio_update_to_31_December_2015_released_Jan_2016.pdf>
- Goldberg, Itzhak, John Gabriel Goddard, Smita Kuriakose and Jean-Louis Racine, *Igniting Innovation – Rethinking the Role of Government in Emerging Europe and Central Asia* (Report, World Bank, 2011)
- Parliament of the Commonwealth of Australia, House of Representatives Standing Committee on Industry, Science and Technology, *Small Business in Australia: Challenges, Problems and Opportunities* (1990)
- Industry Commission, 'Availability of Capital' (Report No 18, Australian Government, 1991)
- National Investment Council, Marsden Jacob Associates, *Financing Growth: Policy Options to Improve the Flow of Capital to Australia's Small and Medium Enterprises* (1995)
- O'Shea, M, *Government Programmes for Venture Capital* (OECD, 1996)
- OECD, *Entrepreneurship at a Glance 2015* (2015)
- OECD, *Financing SMEs and Entrepreneurs 2013 – An OECD Scoreboard* (2013)
- OECD, *The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses* (2009)

OECD, *OECD Digital Economy Outlook 2015* (2015)
 OECD, *Science, Technology and Industry Outlook 2012* (2012)
 OECD, *Science, Technology and Industry Scoreboard 2013 – Innovation for Growth* (2013)
 The Prime Minister, The Honourable John Howard MP, *More Time for Business* (Commonwealth of Australia, AGPS, 24 March 1997)
 Productivity Commission, *Business Set-up, Transfer and Closure* (Productivity Commission Report No 75, 30 September 2015)
 StartupAUS, *Crossroads 2015 – An Action Plan to Develop a Vibrant Tech Startup Ecosystem in Australia* (April 2015)
 Treasury and Department of Industry, Innovation, Science, Research and Tertiary Education, *Review of Venture Capital and Entrepreneurial Skills* (Final Report, 2012)
 Universities Australia, *Keep it Clever – Policy Statement 2016* (2015)
 United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects: The 2010 Revision, Volume 1: Comprehensive Tables*, ST/ESA/SER.A/3.13 (2011)
 World Economic Forum, *Entrepreneurial Ecosystems Around the Globe and Company Growth Dynamics* (September 2013)

Articles and conference proceedings

Ferris, WD, 'Australia Chooses: Venture Capital and a Future Australia' (2001) 26 (Special Issue) *Australian Journal of Management* 45
 Jeng, Leslie A and Philippe C Wells, 'The Determinants of Venture Capital Funding: Evidence Across Countries' (2000) 6 *Journal of Corporate Finance* 241
 Stewart, Miranda, 'Venture Capital Tax Reform in Australia and New Zealand' (2005) 11 *New Zealand Journal of Taxation Law and Policy* 216
 Williams, Ross, Anne Leahy, Gaétan de Rassenfosse and Paul Jensen, *U21 Ranking of National Higher Education Systems 2015* (May 2015) Melbourne Institute of Applied Economic and Social Research <www.universitas21.com/RelatedFile/Download/670>

Bills, Acts, regulations and guidelines

DisabilityCare Australia Fund Act 2013 (Cth)
Future Fund Act 2006 (Cth)
National-building Funds Act 2008 (Cth)
Superannuation Industry (Supervision) Act 1993 (Cth)
 Treasurer and Minister for Finance and Administration, *Future Fund (Crediting of Initial Amount) Determination 2006*
 Treasurer and Minister for Finance and Administration, *Future Fund (Crediting of Additional Amounts) Determination 2007*
 Treasurer and Minister for Finance, *Future Fund Investment Mandate Direction 2014*

Internet materials

Australian Government, *National Innovation and Science Agenda, Australia's Global Innovation Strategy* (2015) <<http://www.innovation.gov.au/system/files/case-study/Factsheet%2012%20-%20Australia%E2%80%99s%20Global%20Innovation%20Strategy.pdf>>
 Australian Government, *National Innovation and Science Agenda, Biomedical Translation Fund* <<http://www.innovation.gov.au/system/files/case-study/Factsheet%206%20-%20Biomedical%20Translation%20Fund.pdf>>
 Australian Government, *National Innovation and Science Agenda, CSIRO Innovation Fund* (2015) <<http://www.innovation.gov.au/system/files/case-study/Factsheet%205%20-%20CSIRO%20Innovation%20Fund.pdf>>

THE AUSTRALIAN GOVERNMENT'S ROLE IN SUPPORTING VENTURE CAPITAL INVESTMENT

- Australian Government, *National Innovation and Science Agenda, New Arrangements for Venture Capital Limited Partnerships* (2015) <<http://www.innovation.gov.au/system/files/case-study/Factsheet%202%20-%20New%20arrangements%20for%20Venture%20Capital%20Limited%20Partnerships.pdf>>
- Australian Government, *National Innovation and Science Agenda, Insolvency Reform* (2015) <<http://www.innovation.gov.au/system/files/case-study/Factsheet%208%20-%20Insolvency%20reform.pdf>>
- Australian Government, *National Innovation and Science Agenda, Supporting Innovation Through Visas* (2015) <<http://www.innovation.gov.au/system/files/case-study/Factsheet%2021%20-%20Supporting%20innovation%20through%20visas.pdf>>
- Australian Government, *National Innovation and Science Agenda, Tax Incentive for Early Stage Investors* (2015) <<http://www.innovation.gov.au/system/files/case-study/Factsheet%201%20-%20Tax%20incentive%20for%20early%20stage%20investors.pdf>>
- Australian Government, Department of Finance, *Future Fund Financials and Investment Performance* (10 November 2015) <<http://www.finance.gov.au/investment-funds/future-fund/investment-performance/>>
- Australian Labor Party, *Fact Sheet: Getting Australia Started* <https://d3n8a8pro7vhmx.cloudfront.net/australianlaborparty/pages/3071/attachments/original/1443073878/Getting_Australia_Started.pdf?1443073878>
- Beeche, Mat, 'Three \$200 Million Aussie Funds Have Launched So Far This Year. Is this a Welcome Change in the Weather for Startups?', *StartupDaily* (online), 3 November 2015 <<http://www.startupdaily.net/2015/11/three-200-million-aussie-funds-have-launched-so-far-this-year-is-this-a-welcome-change-in-the-weather-for-startups/>>
- Bender, Adam, *Budget 2013 – Budget Kills 'Vital Lifeline' for Tech Startups: StartupAus* (14 May 2014) Techworld <http://www.techworld.com.au/article/545041/budget_2014_-_budget_kills_vital_lifeline_tech_startups_startupaus/>
- Bingemann, Mitchell, 'Brain Drain Worsens as 20,000 Australians Work in US Tech Hubs', *The Australian* (online), 17 February 2015 <<http://www.theaustralian.com.au/business/technology/brain-drain-worsens-as-20000-australians-work-in-us-tech-hubs/story-e6frgkx-1227221793783>>
- Bivell, Victor, 'Unlisted Companies: Budget Blow to Commercializing Innovation' (June 2014) 10 (73) *Eco Investor* 29 <<http://www.ecoinvestor.com.au/Stories/Unlisted-Companies/Budget-Blow-to-Commercializing-Innovation.htm>>
- Blackbird Ventures, *Chapter 2* (15 September 2015) Medium <<https://medium.com/@blackbirdvc/chapter-2-9a3d086e83e#imqq7k8f1>>
- CEDA, *Australia's Future Workforce?* (June 2015) <http://adminpanel.ceda.com.au/FOLDERS/Service/Files/Documents/26792-Futureworkforce_June2015.pdf>
- Cochrane, Nate, 'All Systems Go for Innovators as More Crowdfunding Sites Arrive in Australia', *Sydney Morning Herald* (online), 29 October 2013 <<http://www.smh.com.au/it-pro/business-it/all-systems-go-for-innovators-as-more-crowdfunding-sites-arrive-in-australia-20131028-hv29m.html>>
- Cox, Lisa, 'Malcolm Turnbull's Rare Prime Ministerial Admission: There's Nothing Wrong with Failure', *The Sydney Morning Herald* (online), 8 December 2015 <<http://www.smh.com.au/federal-politics/political-news/malcolm-turnbulls-rare-prime-ministerial-admission-theres-nothing-wrong-with-failure-20151207-glhcmm.html>>
- The Economist, *Special Report – Tech Startups: A Cambrian Moment* (18 January 2014) 1 <http://www.economist.com/sites/default/files/20140118_tech_startups.pdf>
- Future Fund, *Investment Managers* <http://www.futurefund.gov.au/investment/investment_managers>
- Gardiner, David and Kathryn Wells, *Australia's Nobel Laureates and the Nobel Prize* (14 September 2015) Australian Government <<http://www.australia.gov.au/about-australia/australian-story/australias-nobel-laureates>>

- Gardner, Jessica, 'IIF Grant Attracts Super Funds to Venture Capital', *Australian Financial Review* (online), 27 March 2013 <http://www.afr.com/p/business/companies/iif_grant_attracts_super_funds_to_Ql7jYH4j87IPz8pRwK259L>
- Gardner, Jessica, 'Why Super Funds Won't Touch Venture Capital', *BRW* (online), 3 October 2012 <http://www.brw.com.au/p/why_super_funds_won_touch_venture_8rgadUPa458HEPz5kgVytJ>
- Gilder, Paul, 'Call to Stop the Brain Drain', *Herald Sun* (online), 10 June 2015 <<http://www.heraldsun.com.au/business/call-to-stop-the-brain-drain/story-fni0dcne-1227390433421>>
- Jenkins, Chris, 'Bob Ingham Sells to TPG for \$880m', *BRW* (online), 11 March 2013 <http://www.brw.com.au/p/business/bob_ingham_sells_to_tpg_for_HZA5aljydlEtbu0xU54abO>
- Kitney, Damon, 'Venture Capital Industry Calls for Slice of Super Pie', *The Australian* (online), 19 September 2012 <<http://www.theaustralian.com.au/business/venture-capital-industry-calls-for-slice-of-super-pie/story-e6frg8zx-1226476889255#>>
- KKR, 'GenesisCare Announces Investment by KKR' (Press Release, 27 June 2012) <http://ir.kkr.com/media/media_releasedetail.cfm?releaseid=686886>
- Krishna, Bala Murali, 'Australia Picks Southern Cross for "Clean" Start with Renewable Energy Fund', *Australian Anthill* (online), 11 January 2012 <<http://anthillonline.com/australia-picks-southern-cross-for-%E2%80%98clean%E2%80%99-start-with-renewable-energy-fund/>>
- Lim, Matthew, 'Sovereign Wealth Funds and What Temasek Holdings & GIC Do with Your Money', *The Fifth Person* (online), 9 October 2015 <<http://fifthperson.com/sovereign-wealth-funds-and-what-temasek-holdings-gic-do-with-your-money/>>
- MacFarlane, Ian and Malcolm Turnbull, 'CSIRO and NICTA Join Forces to Create Digital Research Powerhouse' (Joint Media Release, 28 August 2015) <<http://www.nicta.com.au/csiro-and-nicta-join-forces-to-create-digital-research-powerhouse/>>
- Martin, Peter, 'Free to Fail in Malcolm Turnbull's New \$1.1 billion Innovation Plan', *The Sydney Morning Herald* (online), 7 December 2015 <<http://www.smh.com.au/federal-politics/political-news/free-to-fail-in-new-11-billion-innovation-plan-20151206-glgzll.html>>
- MRCF, 'Brandon Capital Partners Raises AU\$200M New MRCF Fund' (Press Release, 24 April 2015) <<http://www.mrcf.com.au/blog/2015/04/brandon-capital-partners-raises-au200m-new-mrcf-fund>>
- Reserve Bank of Australia, *Small Business Finance Roundtable* (22 May 2012) <<http://www.rba.gov.au/publications/workshops/other/small-bus-fin-roundtable-2012/pdf/small-bus-fin-roundtable.pdf>>
- Rudder, Debbie, *Wes Standfield's Supreme Mousetrap-making Machine* (15 December 2012) Powerhouse Museum <<http://www.powerhousemuseum.com/insidethecollection/2012/12/wes-standfields-supreme-mousetrap-making-machine/>>
- Powell, Rose, 'Super Funds Back Biggest-Ever Australian Tech Venture Fund Worth \$200 Million', *Australian Financial Review* (online), 15 September 2015 <<http://www.afr.com/technology/super-funds-back-biggestever-australian-tech-venture-fund-worth-200-million-20150826-gj8qlj>>
- Prime Minister and Minister for Industry, Innovation and Science, 'Launch of the National Innovation and Science Agenda' (Media Release, 7 December 2015) <<https://www.pm.gov.au/media/2015-12-07/launch-national-innovation-and-science-agenda>>
- Santiso, Javier (ed), *Sovereign Wealth Funds 2014* (ESADE Business School, KPMG and ICEX-Invest in Spain) <<http://www.kpmg.com/ES/es/ActualidadyNovedades/ArticulosyPublicaciones/Documents/sovereign-wealth-funds-2014.pdf>>
- Starke, Andrew, *Axing Innovation Funding a Blow to Venture Capital Firms* (12 May 2014) FINSIA <<http://www.finsia.com/news/news-article/2014/05/11/axing-innovation-funding-a-blow-to-venture-capital-firms>>
- Sugo, Rene, 'How Australia's Lack of Support for Innovation Fuels the Brain Drain', *BRW* (online), 23 July 2015 <http://www.brw.com.au/p/tech-gadgets/how_australia_lack_drain_support_WyCc0ghOfFXaMAy1Y17RJ>

THE AUSTRALIAN GOVERNMENT'S ROLE IN SUPPORTING VENTURE CAPITAL INVESTMENT

- Thompson, Renee, 'Young Aussie Entrepreneurs Falling Behind International Peers: Report', *Smartcompany* (online), 13 July 2015 <<http://www.smartcompany.com.au/growth/innovation/47622-young-aussie-entrepreneurs-falling-behind-international-peers-report.html>>
- Times Higher Education, *World University Rankings 2015-2016* <<https://www.timeshighereducation.com/world-university-rankings/2016/world-ranking#!/page/0/length/25>>
- Woodthorpe, Katherine, *Life Sciences Sector Shines in Australian Private Equity and Venture Capital Industry*, Invest in Australia <<http://www.investinaustralia.com/industry/biotechnology/life-sciences-sector-shines-australian-private-equity-and-venture-capital-ind>>