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Backing Business – Australia's Growth Engine

INNOVATION LESSONS FROM ISRAEL, THE 'START-UP NATION'

19 July 2019

FOREWORD

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Chief Customer Experience Officer



As Australia's biggest business bank, NAB is acutely aware of the importance of fostering a strong and resilient small and medium enterprise (SME) sector, given the critical role these businesses play in the health and growth of Australia's economy.

The Australian National Outlook 2019 (ANO), a CSIRO project developed in partnership with NAB and 50 other business leaders, looks towards 2060 and shows that SMEs – and Australia more broadly – are at a critical juncture. Confidence and conditions are at near record lows. Global competition is intensifying. And constant disruption makes planning for the future ever more difficult.

Action needs to be taken now to ensure the Australian SME sector thrives and NAB is keen to play its part in tackling the challenges the sector faces. We have launched initiatives to address some of the issues identified by the ANO, including by providing \$2 billion in funding for emerging technology companies. We are also committed to doing our part to address issues such as agricultural sustainability. And there is more we, and all parts of this ecosystem, can do.

It is in everyone's interest that we keep learning how to tackle these challenges and we can look to global examples to do so. When it comes to innovation, technology and a thriving start-up scene, Israel is an obvious example. Several members of the NAB team recently visited Israel, travelling as part of an Australia-Israel Chamber of Commerce delegation, which included senior representatives from government, academia and the private sector.

While there, we discussed issues relevant to NAB's business customers with people involved in Israel's innovation ecosystem and we were fortunate to be accompanied by some of our customers from a number of agricultural industries. Many meetings focused on cybersecurity and agricultural technology, recognising the importance of these industries to Australia's growth.

My hope is that this white paper will convey the most valuable insights gained through our visit to Israel – in fact, I believe that acting on these insights can result in a more prosperous and resilient SME sector within Australia.

NAB is committed to boosting the confidence, resilience and innovation of Australian SMEs, and we call on other key stakeholders to do their part in fostering the type of thriving innovation ecosystem that can continue to drive Australia's economy forward.

CONTENTS

Executive summary	06
How to promote resilience and growth	08
Challenging times for Australian SMEs	08
It's all about mindset as well as money	10
Innovation in Israel	10
Financing growth	09
Lessons for Australia	12
Collaboration drives innovation	13
Translation and commercialisation	13
The big impact of small-scale innovating	14
Policy settings to promote innovation	15
Innovation policy in Australia	15
Helping our established industries and SMEs	15
Time to shift	16
Improving SME resilience - NAB's role	17
Financing	17
NAB's Australian National Outlook Commitments	20
Case study: Innovation in practice	21
NAB's invitation	22

EXECUTIVE SUMMARY

Australia's SMEs are the backbone of the Australian economy, employing seven million people and accounting for 57 per cent of the nation's GDP.¹

But these companies are facing both significant challenges and opportunities in a globalised marketplace, disrupted by technological advances and the arrival of nimble market entrants.

NAB is committed to promoting growth opportunities for Australian SMEs. We believe it is critical that other stakeholders – government, and both private and public institutions – help Australian SMEs future-proof themselves by embracing innovative solutions. Innovation is continuous improvement and this is increasingly essential in order for businesses to thrive.

Australia's opportunity

An ecosystem which leverages the resources and expertise of the private sector, academia and the government is critical to establishing a flourishing innovation industry. Australia fosters this now through a focus on collaboration, R&D and commercialisation in industries of strength. Embracing innovation can also be transformative for many, if not all, businesses – not just those focused on high-tech.

This whitepaper examines how, based on lessons learned from Israel, the Australian SME sector, and the country more broadly, can continue to prosper, and what NAB can do to support SMEs to thrive and grow, including to:

- **Promote resilience and growth as a country through innovation:** Innovation delivers better access to and competitiveness in global markets, as well as increased productivity and risk mitigation. Australia is already a more innovative nation than many of its citizens realise. In recent years, it has placed in the top 20 nations on the Bloomberg Innovation Index and it is the birthplace of tech behemoths such as Atlassian, Canva, Freelancer and 99Designs.² We have the foundations in place to do more.

- **Build a collaborative mindset to drive innovation and extraordinary economic achievements through trust and co-operation:** An ecosystem, leveraging the resources and expertise of the private sector, academia and the government is critical to this. Embracing innovation can also be transformative for many, if not all, businesses – not just those focused on high-tech.

- **Advocate policy settings required to drive innovation:** Government plays a critical role in maintaining Australia's focus on pursuing innovative fields of research and technology, as well as driving broader cultural change to increase engagement with innovation and a more entrepreneurial mind-set. Our SME customers and the companies we speak with through the course of our venture capital investments, tell us more can be done to promote a consistent innovation policy, calibrated for the long term. Innovation policy in Australia should also consider the needs of the broader business community and not just companies involved in applied R&D investment or other 'typical' forms of innovation.

¹ NAB, Moments that Matter – Understanding Australian SMEs: Chapter 1, 2017, <https://business.nab.com.au/part-1-moments-that-matter-understanding-australian-smes-24841/>.

² See <https://www.bloomberg.com/news/articles/2019-01-22/germany-nearly-catches-korea-as-innovation-champ-u-s-rebounds>.

NAB's role and our commitments

As Australia's leading business bank, we play a critical role in supporting our customers to invest in and grow their businesses. Our customers have told us that they want our support, not only in financing their growth, but in supporting them to build knowledge and capacity to grow and protect their business in a rapidly changing world.

As the nature of financing evolves, we expect innovative solutions will continue to arise to help SMEs meet their financing needs. In addition to the established avenues of venture capital, private equity, IPOs and debt finance, there are an increasing number of financing models being developed in Australia, with a focus on innovative businesses. Working alongside regulators and policy makers, we must deepen our understanding of what is holding SMEs back from investing further in their businesses.

Our commitments recognise the importance of innovative and sustainable industries to ensuring Australia's future prosperity, and the role that we have in promoting these industries:

1. Announced with the release of the Australian National Outlook, we have committed to allocate \$2 billion of funding over five years to help emerging technology companies build and grow their businesses by providing loans, facilitating access to capital markets and supporting companies with transactional banking and risk management.

2. We are developing metrics that farmers, agriculture customers and banks can use to quantify the benefit of using sustainable farming practices. These metrics will create the evidence base needed to elevate sustainable farming to an 'asset' that third parties, such as banks, can value and invest in.

3. We will continue to support our customers by providing insights in areas such as cyber security and agricultural technology to lift their capability and resilience.

4. We have entered into a long-term strategic partnership with the Australian Owner-Manager Program to help selected business customers participate in a subsidised management program. This will equip them with critical skills to build their business and develop them as leaders. The program is aimed at businesses with a turnover between \$3 million and \$100 million and will help up to three hundred businesses over the next three years.

NAB is taking action – through direct support and promotion of broader structural initiatives – to make Australia's SMEs more resilient and enhance the role they play in this nation's start-up sector. We encourage all other key stakeholders – from private and public enterprises as well as government – to do the same.

HOW TO PROMOTE RESILIENCE AND GROWTH

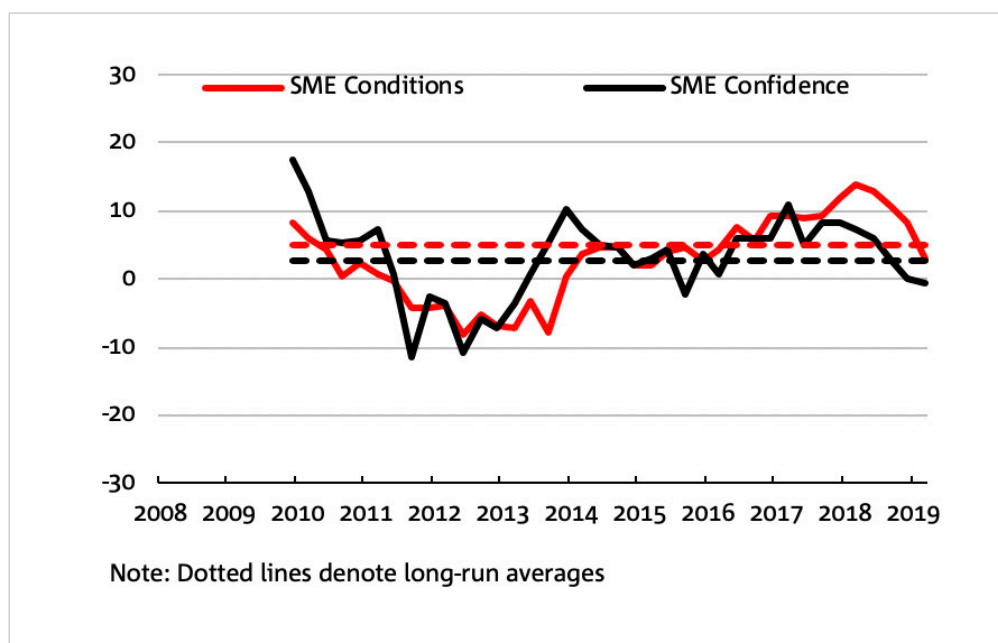
Australia is known as the Lucky Country for good reason. It is rich in natural resources, located next to the world's fastest-growing region, and has been recession-free for close to three decades.

But geopolitical shifts and rapid technological change means Australia will need to invest in maintaining its existing competitive advantages where feasible, as well as creating new opportunities. This requires long-term policymaking that positions Australia for sustainable growth.

Challenging times for Australian SMEs

The NAB economics team produces a quarterly SME Business Survey. It involves around 750 businesses and provides measures of confidence, conditions, cash flow, trading conditions, profitability and employment – specifically in the SME sector. Results from the SME survey show that business conditions and confidence in Australia are weakening.³ Both are below their long-run averages and SME confidence has slipped into negative territory.

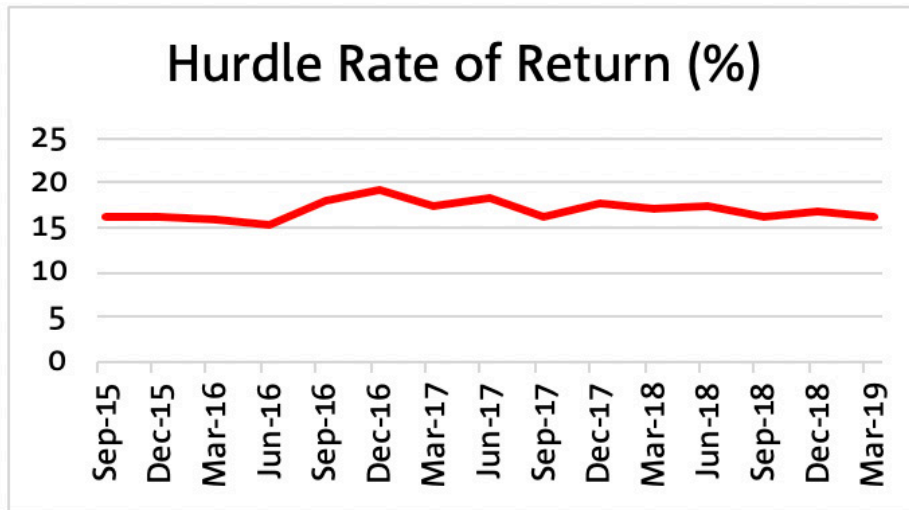
SME BUSINESS CONDITIONS & CONFIDENCE



Confidence and conditions are critical considerations for a business when making investment decisions, with increased investment boosting confidence. However, businesses are usually reluctant to invest when confidence is low. NAB's surveys suggest that despite historically low interest rates, Australian SMEs are still demanding a high 'hurdle rate' for investment (business).⁴

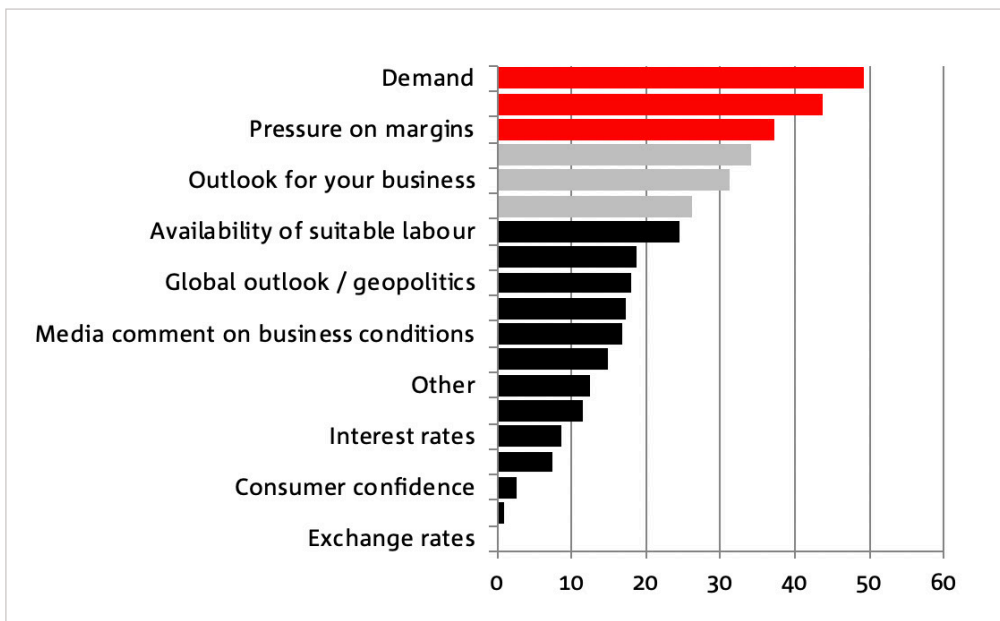
³ NAB Group Economics, NAB Quarterly Q1 2019 SME Survey, released 30 April 2019.

⁴ NAB Group Economics data, 2019.



As the chart below illustrates, there are a number of drivers of confidence for SMEs.⁵

MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE



Given the decline in conditions and confidence from early 2018, it is timely to examine these downward trends and consider what NAB and others can do to equip SMEs with the resources required to meet the challenges of the future. Of course, one aspect of this is resourcing and investment. NAB has a proud history of supporting Australian businesses throughout economic cycles. We presently lend around \$3 billion each month to Australian SMEs.

⁵ Ibid.

However, it is not simply a matter of access to capital. SMEs need the confidence as well as the means to invest. Successful economies are typically powered by optimistic businesspeople oriented towards creativity, innovation and problem solving.

It is about mindset as well as money

As the Productivity Commission's 2017 report *Shifting the Dial* acknowledges, "innovation and science are seen as critical for maintaining Australia's high standard of living, ensuring its ongoing international competitiveness, creating jobs and ensuring future economic prosperity".⁶ Innovation provides the adaptability businesses require to navigate an uncertain future. In the US, venture-backed companies have been the primary driver of economic growth, jobs and R&D spending since the turn of the Millennium.⁷

It is self-evident that innovation can drive advances in productivity, products and services. What is less obvious is that, when embedded culturally, it can also result in shifting millions of individual mindsets. This is demonstrated by the examples of nations such as Israel, Singapore and Estonia.⁸ Many Australian individuals, institutions and businesses do embrace this type of innovative mindset that serves nations so well in the 21st century.

"Many Australian individuals, institutions and businesses see the sense in embracing the type of innovative mindset that serves nations so well in the 21st century."

In the SME context, innovation means better access to and competitiveness in global markets, as well as increased productivity and risk mitigation. Australian businesses, even small ones, will increasingly need to be able to compete on the world stage if they are to thrive. Of course, competing globally will require these businesses to be more outward looking. All businesses – not just those in high-tech industries – will need to keep track of innovative leaps being made in other nations and consider the technologies and skills in which they should invest.

Innovation in Israel

The pursuit of innovation in Israel has played an important role in delivering large economic benefits over a relatively short period.⁹ Innovation has permeated the national identity and Israel now takes pride in being known as 'the start-up nation'. While touring Israel, NAB customers and team members saw approaches to innovation that could be implemented by many Australian SMEs.

6 Productivity Commission, *Shifting the Dial – 5 Year Productivity Review: Supporting Paper No. 12, An overview of Innovation Policy*, 2017, p1, <https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting12.pdf>.

7 See <https://www.gsb.stanford.edu/insights/how-much-does-venture-capital-drive-us-economy>.

8 See <https://www.forbes.com/sites/michellegreenwald/2018/08/16/business-lessons-from-the-worlds-most-digital-country-estonia-the-happiest-country-finland/#42f794211935>.

9 See <https://www.bloomberg.com/opinion/articles/2019-06-06/israel-s-economy-shows-that-classical-economic-theory-still-works>; <https://www.timesofisrael.com/from-1950s-rationing-to-21st-century-high-tech-boom-an-economic-success-story/>.

Israel has experienced strong economic growth,¹⁰ low levels of unemployment¹¹ and solid wage growth over recent decades.¹² Given Israel's small domestic market, its success is mostly a result of its access to global markets.

Over 350 multinational companies have established R&D centres in Israel.¹³ The country has one of the highest levels of GDP spending on R&D, mainly through foreign investment.¹⁴ A key benefit of operating in Israel is access to the nation's pipeline of talent. Companies we met with also spoke of the way in which an R&D hub in Israel can impart important cultural change internally across the company.

Israel's achievements have not come about by chance. Successive governments have remained committed to a clear, cohesive and proactive strategy to encourage the continued growth of the nation's start-up ecosystem. Through the education system and military, Israel's governments have also championed creativity and problem solving as important skills.

"Israel has one of the highest levels of GDP spending on R&D, mainly through foreign investment."

Financing growth

As we observed, Israel has a well-developed financing sector. In 2017, it had US\$19 billion in foreign direct investment inflows.¹⁵ A critical part of Israel's innovation ecosystem is its mature venture capital and private equity industries. Again, Israel's government has provided strong support to develop these industries, effectively creating a venture capital market with the launch of Yozma in 1993.¹⁶ As the OECD notes, the "share of venture capital investment in GDP in Israel is the largest in the OECD area and is more strongly weighted towards seed and early stage investment stages than most other countries".¹⁷

Yet it faces challenges, too.

We observed that many SMEs outside of high-tech sectors either do not apply for, or do not receive, the debt funding larger businesses do. This has predictable consequences for their growth and productivity. The OECD undertook a study to understand how SME innovation and productivity can be strengthened in Israel, given the gaps seen in productivity, sustainability, growth and innovation activities between the high-tech sector and more traditional industries many SMEs operate in. The study noted that access to finance was an obstacle and that the major productivity gaps seen in some industries, such as manufacturing, would benefit from more long-term investment financing, improved workforce training, strengthened management skills, support for innovation and market expansion.¹⁸

10 See <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2017&locations=IL&start=1960&view=chart>.

11 OECD (2019), Unemployment rate (indicator). doi: 10.1787/997c8750-en (Accessed on 24 April 2019).

12 See <https://tradingeconomics.com/israel/wages>.

13 See <https://innovationisrael.org.il/en/contentpage/israel-innovation-authority>.

14 See <https://data.oecd.org/israel.htm#profile-innovationandtechnology>; 4.3% of GDP in 2017

15 United Nations, World Investment Report 2018: Investment and Industrial Policies, 2018, p21, https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

16 See <http://www.yozma.com/overview/>.

17 Organisation for Economic Co-operation and Development, SME and Entrepreneurship Policy in Israel 2016, 2016, p25, https://read.oecd-ilibrary.org/industry-and-services/sme-and-entrepreneurship-policy-in-israel-2016_9789264262324-en#page27.

18 Ibid p21.

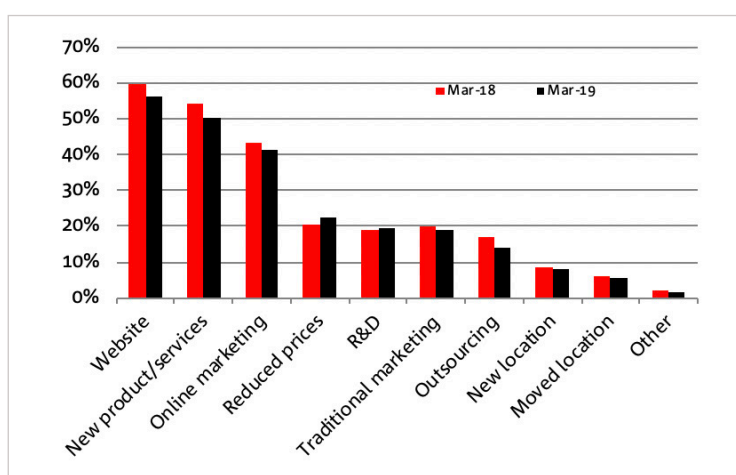
Lessons for Australia

As is often said, necessity is the mother of invention. The Productivity Commission notes that in Australia, the lack of private sector innovation likely reflects a confluence of many factors, including: relatively high standards of living without significant innovation; a relatively small domestic market; a lack of proximity to larger markets; and relatively small venture capital markets compared with other countries.¹⁹

In reflecting on the lessons able to be taken from the Israeli example, it is important to consider there are many ‘inputs’ which are not able to be replicated and which are integral to the mentality and skill set that drive success. The geographic and political realities that Israel faces – a small and arid country engaged in intermittent regional conflict – are challenges which have been the genesis for many technological developments for which Israel is now well known (such as those in cyber security or agri-tech). In addition, Israel continues to grapple with challenges such as relatively high rates of poverty,²⁰ and the ongoing need for social cohesion. As well, the OECD observes that “alongside [the] high-technology success story there is a second economy consisting of SMEs and entrepreneurs operating in traditional sectors”.²¹

Australia has a strong education base and a mix of foreign and domestic businesses investing in R&D and a growing collection of promising ‘innovation precincts’.²² It is also becoming easier for Australian start-ups to access capital. There are increasing numbers of investors at different growth stages. For example, three venture debt funds have now launched, as well as several equity funders, with US\$630 million of venture capital investment in Australia in FY17-18.²³ For SMEs more broadly, technological advancements, changing customer expectations, increased disruption, and globalisation mean that many industries in Australia are undergoing rapid change. As the chart below illustrates, Australian businesses do believe that creating new products and services and R&D investment are important.²⁴

STRATEGIES EMPLOYED TO IMPROVE COMPETITIVENESS



19 Productivity Commission, Shifting the Dial – 5 Year Productivity Review: Supporting Paper No. 12, An overview of Innovation Policy, 2017, p24, <https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting12.pdf>.

20 OECD (2019), Poverty gap (indicator). doi: 10.1787/349eb41b-en (Accessed on 28 June 2019).

21 OECD, SME and Entrepreneurship Policy in Israel 2016, 2016, p13, <https://www.oecd.org/israel/sme-and-entrepreneurship-policy-in-israel-2016-9789264262324-en.htm>.

22 See <https://mckellinstitute.org.au/app/uploads/McKell-Institute-Innovation-Nation.pdf> ; <https://dfat.gov.au/trade/investment/Pages/the-benefits-of-foreign-investment.aspx> ; <https://www.austrade.gov.au/Local-Sites/India/News/Australian-Innovation-research-development-investment-destination>. For example, <https://defence.vic.gov.au/projects/fishermans-bend>.

23 See <https://www.businessinsider.com.au/debt-venture-capital-funding-australia-2018-8>.

24 NAB Group Economics, NAB Quarterly Q1 2019 SME Survey, released 30 April 2019.

COLLABORATION DRIVES INNOVATION

Based on our observations in Israel, its success in innovation is due in part to the ecosystem developed around the industry. This ecosystem is made up of participants across government, universities, and the private sector. Another critical aspect of this ecosystem is the military. The training received by young Israelis through compulsory military service provides foundational development – significant levels of responsibility at a young age, and for those in cyber or intelligence units, exposure to leading technologies – able to be leveraged in the private sector.

Translation and commercialisation

A critical aspect of the ecosystem is its ability to narrow the gap between academic concepts and commercially viable products and technologies – through the contribution of many cooperating participants. To facilitate this in Israel, there are:

- deliberate programs within universities to seek out academics with the skills and willingness to work on translational research;
- emphasis on the importance of adopting a commercial lens – for example, through increasing the number of concepts patented or providing a financial interest for academics involved in the related work; and
- close consultation and investment by the private sector in translation projects.

In Australia, there are many initiatives under way to improve private-public sector collaboration, presenting significant opportunities.

Tertiary education is Australia's third largest export, reflecting the high regard in which many Australian universities are held.²⁵ Publicly funded research organisations have a deep technical knowledge in many scientific and technological fields, and we are continuing to see many stakeholders working to drive the commercialisation of academic research through initiatives such as:

- **Federal and state governments facilitating R&D commercialisation**, through programs such as the Cooperative Research Centres, the CSIRO's Innovation Fund, and various state-based innovation policies focused on both the public and private sectors.²⁶
- **The private sector driving commercialisation of concepts in start-up companies**, through seed funding to promote the scaling of new ideas. (Many companies, local and foreign, have also been enthusiastic backers of Australia's burgeoning collection of innovation hubs).
- **Many universities promoting innovation**, especially in fields such as applied science, engineering and technology, through venture catalyst models. (These models allow academics and students interested in launching a start-up to obtain mentorship and funding from those in the private sector).

²⁵ See <https://internationaleducation.gov.au/research/Research-Snapshots/Documents/Export%20Income%20FY2016%E2%80%9317.pdf>.

²⁶ See, for example: <https://www.bettercare.vic.gov.au/our-work/innovation-fund>; <https://www.vic.gov.au/public-sector-innovation-strategy-putting-innovation-motion>.

It is in highly specialised areas of applied R&D that the most promising opportunities exist to develop world-leading hubs of excellence. In Melbourne, Fishermans Bend has been designed as an innovation ecosystem that brings together the likes of Boeing, Siemens, the University of Melbourne and the Victorian Government.²⁷ In Sydney, Macquarie Park's Innovation District, of which NAB is a founding partner, is home to more than 180 multinational companies, 200 SMEs, Macquarie University, Macquarie University Hospital and a growing number of entrepreneurs.²⁸

"Tertiary education is Australia's third largest export, reflecting the high regard in which many Australian universities are held."

The big impact of small-scale innovating

Innovation policy also has the potential to be transformative for many – if not all – businesses. While innovation is often viewed in terms of new, radical developments, it can ultimately be applied and benefit a broader section of the business community through the adoption of current innovations and greater awareness of disruptive forces that will shape future industries.

To minimise the risk of a two-speed economy emerging which preferences specific high-tech industries, NAB believes that Australia's innovation policy should also include a focus on helping more 'traditional' SMEs to innovate. In developing an 'innovation ecosystem' in Australia, the underpinning principles of cooperative achievement and mentorship to achieve growth and scale should be applied broadly.

We see opportunities to improve the engagement between academics and both SMEs and larger businesses. This should allow universities to better understand the skills employers will demand in future, as well as provide business owners with a greater awareness of future disruptive trends.

NAB is committed to informing its business customers about innovative solutions to the challenges they face, as well as making sure NAB's products and services remain relevant in a fast-changing world. Reflecting this, NAB recently signed a Memorandum of Understanding (MoU) with Western Sydney University to extend its involvement in that university's Launch Pad Business Incubator. The MoU includes plans for co-location of university services at NAB's nearby offices and the development of education programs for NAB customers.

"NAB argues Australia's innovation policy should include a focus on helping more 'traditional' SMEs to innovate."

²⁷ See <https://www.fishermansbend.vic.gov.au/precincts/employment-precinct/innovation-precinct>.

²⁸ See <http://mpid.com.au/who-we-are/>.

POLICY SETTINGS TO PROMOTE INNOVATION

As we observed, innovation is seen as a valuable natural resource in Israel.²⁹ Its start-up ecosystem – and the policy settings that nurture it – is globally focused; oriented to fresh ideas with the potential to create new markets or disrupt existing ones. It welcomes multinationals, as well as foreign investment in local companies.

Innovation policy in Australia

For some time, Australian governments have encouraged innovation through innovation grants, international landing pads, collaboration hubs between the public and private sector, and concessional taxation for R&D investment.

Based on feedback from our SME customers and companies we speak with through the course of our venture capital investment, we believe more can and should be done to promote a consistent innovation policy, calibrated for the long term.

NAB believes Australia's innovation policy should foster an innovation ecosystem and an entrepreneurial culture, taking into account all participants and parts of the value chain, be that in the public or private sectors. This type of comprehensive policy would better promote end-to-end support for companies developing innovative technologies, products or services. It would also make it easier for them to scale their offering through, for example, ready access to export markets.

Helping our established industries and SMEs

Australian SME owners say they devote too much time to dealing with red tape. In fact, 48 per cent feel overwhelmed by the complexity of running a business and 57 per cent think they spend too much time working in their business rather than on it.³⁰ Reflecting this sentiment, many Australian SME owners do not have the time or energy to devote to exploring opportunities to innovate their businesses, be it through productivity-enhancing measures, new risk management strategies or understanding what trends may disrupt their industry. The role of a start-up is to create something

new. The role of a start-up ecosystem is to create a commercially viable company based on that new concept. Start-up founders need support, and not only financially. Founders almost always want guidance about how to scale their business, how to access export markets, and what systems and procedures they need to put in place. Many SME owners, especially those with ambitions of expanding their business, need similar guidance. We believe that these principles can and should be applied more broadly to help all SMEs – not just start ups – better scale and develop entrepreneurial skills.

²⁹ See <https://innovationisrael.org.il/en/contentpage/israel-innovation-authority>.

³⁰ NAB, Moments that Matter – Understanding Australian SMEs: Chapter 2, 2017, p4, <https://business.nab.com.au/wp-content/uploads/2017/09/mtm-whitepaper-ipsos.pdf>.

Recommendation

NAB recommends that innovation policy in Australia considers the needs of the broader business community and not just companies involved in applied R&D investment or other 'typical' forms of innovation.

Time to shift

Many SMEs will face disruption to their business model or sector. Many will need to identify what skills will be required to compete globally. Anecdotal evidence suggests that plenty of Australian SME owners are aware of the growing importance of, for example, artificial intelligence, the use of data and cyber security risks. We welcome the Government's commitment to expand the role of the Australian Cyber Security Centre to support SMEs by providing technical cyber security advice.³¹

In helping our traditional SME customers understand these issues and future trends, we believe greater awareness and engagement with innovation will also flow. The Australian National Outlook outlines the 'shifts' Australian businesses (of all sizes) need to embrace if they are to thrive. In particular, the report highlights the need for five fundamental shifts, including:

- The first is an **'Industry Shift'** to increase the adoption of technology; invest in new skills to ensure a globally competitive workforce; and develop export-facing growth industries.
- The second is a **'Culture Shift'** to encourage more engagement, curiosity, collaboration and healthy risk taking.³²

³¹ See <https://www.liberal.org.au/our-plan-keep-australians-safe-online>.

³² CSIRO, Australian National Outlook 2019, 2019, p26, <https://www.csiro.au/en/Showcase/ANO>.

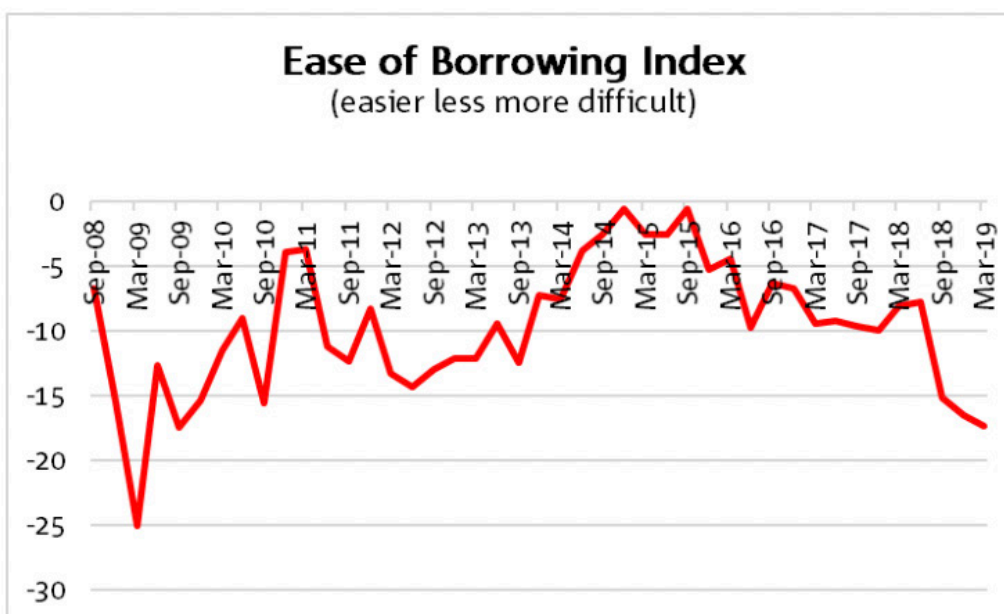
IMPROVING SME RESILIENCE – NAB'S ROLE

Financing

NAB recognises that issues of SME confidence, resilience and investment are all closely linked. As a financier, NAB has an important role to play in supporting our customers to invest and grow. We also recognise that we can help our customers become more resilient through providing insights into areas such as cyber security and agricultural technology. These are areas where NAB's own business operations and products and services mean we have expertise or the ability to aggregate knowledge from our customers.

Increasing confidence and resilience

NAB Business surveys show that Australian businesses believe it is becoming more difficult to borrow.³³



Despite this perception from businesses more broadly, NAB's approval rate for SME customers seeking to borrow is above 90 per cent. Given the high rates of approval when finance is applied for, we believe a critical aspect of increasing confidence and resilience of SMEs is understanding why a customer may not apply for finance in the first place or withdrawing from an application. This is an issue banks, regulators and policy makers must work on together.

³³ NAB Group Economics data, 2019.

NAB has innovated to make applying for a loan more frictionless for SMEs. The QuickBiz unsecured lending product offers NAB's business customers a fast and simple digital-application process. Conditional credit approval is granted in minutes and cash is delivered within 24 hours. In December 2017, NAB upped the amount that could be lent via QuickBiz from \$50,000 to \$100,000. We also lowered the turnover threshold a business needs to reach, down to \$75,000 p.a. from \$100,000 p.a. Since its launch, 40 per cent of customers taking out a QuickBiz loan have grown their turnover by more than 10 per cent within six months of receiving the loan.

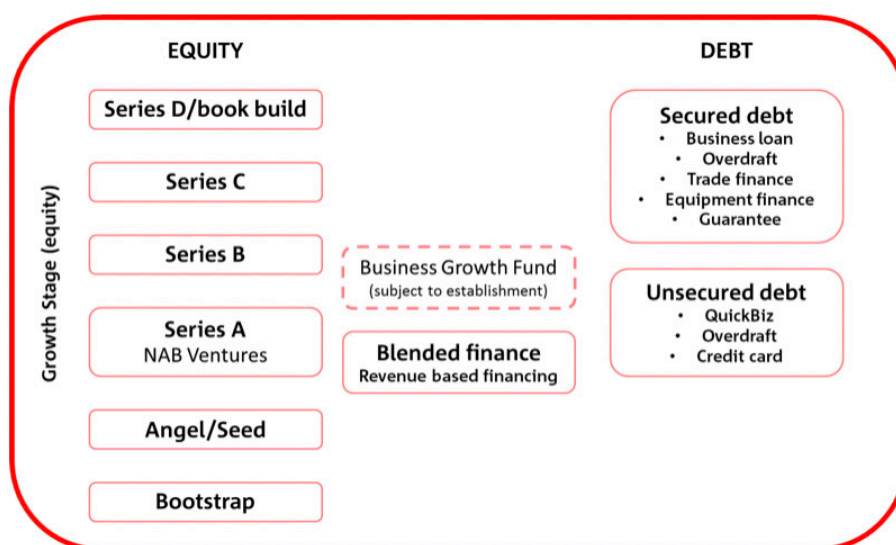
"Since its launch, 40 per cent of customers taking out a QuickBiz loan have grown their turnover by more than 10 per cent within six months of receiving the loan."

New financing models

We are also seeing a shift in the nature of financing offered in Australia.

In 2016, NAB launched NAB Ventures, our venture capital arm aimed at supporting entrepreneurs in Australia and offshore to build leading technology companies. NAB Ventures leverages NAB's core capabilities, driving customer insights and solutions via its deep understanding of customer data along with strengths in security and identity management to assist companies to grow. More broadly, we provide mentorship to companies through the NAB Ventures Advisory team which was established to support NAB's portfolio companies. At this stage, the Australian venture capital industry remains relatively small with USD\$165 million in venture capital investments in Australia in 2016, compared with USD\$1.165 billion in Israel and over USD\$66 billion in the US.³⁴

In addition to established avenues of venture capital, private equity, IPOs and debt finance, there are an increasing number of growth-oriented financing models being developed in Australia, particularly with a focus on innovative businesses. This has been aided by both public and private sector intervention.



NAB also supports the development of the Australian Business Growth Fund (BGF), and has welcomed the Federal Government's announcement of \$100 million in funding to help establish at BGF in Australia.³⁵ This fund would provide a new way for Australian SMEs to receive long-term equity capital to grow their businesses, invest in new technology and create more jobs. NAB takes confidence from the United Kingdom and Canadian Business Growth Funds having operated successfully for several years.

³⁴ OECD, Entrepreneurship at a Glance 2017, 2017, p127, http://dx.doi.org/10.1787/entrepreneur_aag-2017-en.
³⁵ See <https://www.liberal.org.au/our-plan-back-small-business>.

NAB'S AUSTRALIAN NATIONAL OUTLOOK COMMITMENTS

Financing innovation

- As the major collaborative partner of the Australian National Outlook, NAB has committed to allocate \$2 billion of funding over five years to help emerging technology companies build and grow their businesses by providing loans, facilitating access to capital markets and supporting companies with transactional banking and risk management.
- This recognises the increasing importance of innovative industries to ensuring Australia's future prosperity, and the role financiers have in promoting these industries.

Sustainable agriculture

- As Australia's economic landscape continues to change, businesses will continue to grapple with these changes, as well as natural disasters such as drought and flooding. The ability of agricultural businesses to adapt to changing conditions and engage with innovative solutions will be important to maintaining Australia's thriving agricultural industry.
- As noted in the Australian National Outlook, shifting the way we use land in Australia has the potential to create a more productive, profitable and sustainable landscape. We believe that banks can help incentivise the use of more sustainable farming practices through more appropriate valuation of sustainable farming. Accordingly, NAB is also committing to develop metrics that farmers, agriculture customers and banks can use to quantify the benefit of using sustainable farming practices. These metrics will create the evidence base needed to elevate sustainable farming to an 'asset' that third parties, such as banks, can value and invest in.

We strongly believe that patient capital and support to assist companies in achieving scale will be important mechanisms to promote growth and resilience for SMEs in Australia. A BGF would complement existing financing options for businesses, such as unsecured and secured debt, venture funding and project finance.

CASE STUDY: INNOVATION IN PRACTICE

Cybersecurity is an issue best addressed and improved through collaboration across industry, academia and government.

In recognition of this, NAB is embarking on a series of partnerships with the Australian Cyber Security Cooperative Research Centre and with universities to allow deep collaboration on research opportunities, and for talent pipeline creation.

These research partnerships will drive thought leadership and access to the latest thinking in cybersecurity research, which in turn will benefit NAB customers. They will also allow for a holistic, multidisciplinary approach to cybersecurity research problems, with input from disciplines such as the arts, business, law, psychology, health, engineering and information technology.

We have also worked with RMIT to develop an online course to address cybersecurity gaps, offering a professional pathway to help managerial professionals develop cybersecurity skills. As part of this course, NAB will offer mentorship for participants.³⁶

Given the expected demand for cyber security professionals, Australia must also work to create new talent pipelines to cultivate and attract innovative thinking to the cyber security workforce. We continue to work with universities and TAFEs across Australia to create bespoke cybersecurity courses that give students the practical skills needed to work in this area. We also have several internship, apprenticeship and Industry Based Learning programs in place to attract the best talent to NAB, as well as a neurodiversity program that allow us to harness the highly specialised and valuable skillsets of individuals on the Autism Spectrum.

³⁶ See https://news.nab.com.au/news_room_posts/nab-collaborates-with-rmit/.

NAB'S INVITATION

NAB is passionate about helping Australian SMEs thrive in the coming decades. Australians should expect no less from their nation's largest business bank.

However, no one individual or institution can singlehandedly meet the challenges that Australian SMEs will face in the future. This reflects the principles on which the recent Australian National Outlook was founded, and was evident in our experiences in Israel – national growth and prosperity require collective purpose and coordinated effort.

NAB is committed to taking action to support SMEs so that they can take advantage of future opportunities – and continue to drive growth in Australia. We encourage all other key stakeholders – from private and public enterprises, as well as government – to do the same.