

4 October 2019

Mr Frank Tonkin  
Manager – Commercialisation and Entrepreneurship  
Department of Industry, Innovation and Science  
Industry House  
10 Binara Street  
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By email: [BFF@industry.gov.au](mailto:BFF@industry.gov.au)

### **Submission – Program design consultation ‘Boosting Female Founders Initiative’**

Dear Mr Tonkin

The Australian Investment Council appreciates the opportunity to contribute our feedback in response to the discussion paper on the Boosting Female Founders Initiative (BFFI) being developed by the Department of Industry, Innovation and Science.

The Australian Investment Council is the voice of private capital in Australia. Private capital investment has played a central role in the growth and expansion of thousands of businesses and represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include: private equity, venture capital and private credit funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers.

Our private capital investor members invest in a wide range of Australian companies from early stage tech start-ups to established agricultural and manufacturing businesses. Private capital investment funds seek to support high-growth companies that use invested capital to expand their workforce, increase sales growth and invest in highly innovative and market-leading research and development.

As part of the context for thinking on the program design of the BFFI, we believe that women are very entrepreneurial and tend to start as many companies as men. However, while the fundamentals are consistent as between male and female founders, women tend not to scale their ventures at the same rate as men. In our view, two of the main reasons for this are a lack of broad networks, and a dearth of female role models. We believe these considerations should be taken into account as part of the work being done to devise the program design for the BFFI.

At a high level, the Australian Investment Council recommends that the BFFI maintain a focus on simplicity and be very targeted in the approach taken to meeting the market objectives. Immediately below we have outlined some broad principles and strategies for startup, seed, and scaleup phases which could be considered as part of the design of the BFFI.

#### 1. Startup grants

- \$25,000 that can be matched ‘in-kind’ – not necessarily with cash
- Women could be encouraged to use this money to attend existing and approved female founder targeted incubator and accelerator programs



- Not too prescriptive about stage of business – for example, might be a very early stage technology company, or a more established social impact business wanting to fund a specific initiative etc; but they should demonstrate the need for funding
  - Take the form of a grant, not equity or for repayment
  - Light-touch application and reporting process, however applications must be highly meritorious and must be in a priority area such as by geography (e.g. regional), disadvantage (e.g. indigenous) or sector (e.g. agtech) and must be able to demonstrate some form of scalability (e.g. job creation)
  - Offer (perhaps) 20 grants per annum only in two rounds (total \$0.5M per annum)
2. Pre-seed/seed co-investments
- Up to \$250,000 matched by co-investment
  - Female co-investors/investment firms with good gender metrics given an advantage (e.g. perhaps they can leverage 2:1 government funding where other investors may only access 1:1)
  - Take the form of a grant, not equity or for repayment
  - Co-investors must be 'active', not passive – for example, they would take a board role and commit to mentoring the female founder
  - Must be high growth potential, scalable companies – but should not necessarily have to be technology companies
  - Application process is somewhat more involved, with the recipient and co-investor to collaborate on reporting
  - Offer (perhaps) 10 grants per annum in two rounds (total \$2.5M per annum)
3. Scaleup/growth co-investments
- Up to \$1M matched by co-investment
  - Female co-investors and investment firms with good gender metrics given an advantage (e.g. perhaps they can leverage 2:1 government funding where other investors may only access 1:1)
  - Take the form of a grant, not equity or for repayment
  - Companies must have a minimum of \$1M revenue in the preceding financial year and be able to articulate a well-developed growth plan
  - Co-investor must be 'active', not passive – for example, they would take a board role and commit to mentoring the female founder
  - Must be high growth potential, scalable companies – but should not necessarily have to be technology companies
  - Application process is more involved, with the recipient and co-investor to collaborate on reporting
  - Recipients could already have received start-up or pre-seed/seed co-investments
  - Offer \$3M total per annum in two rounds (say 3-6 grants)

In our view, structuring the program as a grant-based initiative would be preferable because for the sum of capital involved in this program, it is difficult to justify equity investment and the administrative and legal obligations of managing modest amounts of equity capital. The government could consider asking recipients



to sign a non-binding 'pledge' that if their ventures are ultimately successful they will pay back the principal of the grant received, and perhaps even include a tax incentive to pay back more if they are very successful, allowing the BFFI to become 'evergreen'.

Below we have set out some additional, or alternative, thoughts on potential strategies that can be leveraged in designing a successful BFFI.

### **Grant funding – maximising BFFI's success**

More and more founders are choosing to raise capital from private capital investors today because of the benefits of partnering with venture capital and private equity firms in unlocking growth and expansion opportunities of businesses. Prior to seeking capital for growth though, a founder needs to achieve a product market-fit and this is a significant stumbling block for most pre-funded start-ups.

To maximise BFFI's success, we recommend the BFFI focuses on female founders in the seed or pre-seed stage that have achieved an early product-market fit. That is, they have identified a problem and a solution to that problem that could meet real customer needs and is superior to any current alternatives.

To incentivise female founders to apply and enable them to further develop their product or service to achieve the product market-fit, the grant size could be set at a minimum of \$250,000, with at least two to six years duration and no milestone payments or, milestone payments determined on a per company basis.

### **Co-contribution and mentorship**

Founders with a more developed product-market fit would likely require funding over \$250,000 and the support of a co-investor, specifically an individual investor, angel investor, an investment business including a venture capital fund, or a syndicate of investors that can at least match the government funding. Any co-investor should demonstrate a commitment and track record in making investments, fund reporting and providing support and mentorship to seed and early stage businesses, especially female founders.

A study by Cornell University<sup>1</sup> found that men tend to overestimate their abilities and performance, while women underestimate both. In fact, their actual performance does not differ but to succeed, confidence matters as much as competence. Mentorship from an experienced co-investor is vitally important for female founders as mentors have the power to effectively manage, or eliminate, the so-called 'imposter syndrome'.

In the absence of a co-investor, a panel of start-up ecosystem leaders could be well-placed to provide mentorship and advice on how to structure a compelling pitch to investors. Funded business and leadership courses for the grant recipients and/or a toolkit would also help empower the female founders to succeed.

It also worth noting that in recent years it can be observed that there has been significant growth in the number of organisations and standalone initiatives which have been created to support female entrepreneurs. Many of these organisations and initiatives make a highly valuable contribution to growing and mentoring the pipeline of female entrepreneurs here in Australia. One consistent theme that invariably exists across each of these separate programs is that the organisations delivering these initiatives typically struggle to access reliable and consistent funding and resources. It is therefore worth considering whether or not the BFFI could play a role in assisting to address this challenge for organisations delivering high-value initiatives and support to female founders.

### **Tools and resources**

The Australian Investment Council has a suite of information available through the '[Preparing for investment](#)' section on our website. We would be pleased to work with the government to further expand the type of information and resources that can be made available to female founders to assist with building a compelling

<sup>1</sup> [The Confidence Gap, May 2014](#)



pitch to potential investors. This webpage also includes a link to the Australian Investment Council's member directory, which may be helpful when searching for potential institutional level investors.

When pitching for capital, female founders may face unconscious bias from fund managers. That is, fund managers generally making investments in businesses backed by founders similar to themselves, outside of their conscious awareness. Because of that, we believe it is important that gender diversity in the private capital investment sector continues to grow in parallel with the government's efforts to boost the participation of female founders in the entrepreneurial ecosystem.

### **How the Government can support female founders**

Increasing the number of women in the private capital sector is a priority for the Australian Investment Council, and significant achievements have been made through our work in promoting the importance and benefits of diversified teams, implementing initiatives to support the junior women, and promoting female investment professionals within the industry as role models. However, while we have made progress, there is still significant improvement required as women make up only 11% of senior roles and 20% of the total industry in Australia<sup>2</sup>.

The BFFI could explore the merits of assisting with efforts to increase the number of women in the private capital sector which would, in turn, increase the likelihood of more female founders being supported through private capital investment. Funding unconscious bias training for fund managers may be one mechanism to helping overcome the impediments that may currently exist. To protect the percentage of female founders in the business, co-investors in the BFFI initiative could be set a requirement that:

- their investment teams be comprised of at least 50% females; or
- have undertaken, or commit to undertaking, unconscious bias training; and
- commit to retaining at least 50% females in executive positions for the life of their investment.

We look forward to participating in any future consultations about the ideas set out in this submission. If you would like to discuss any aspect of this submission further, please do not hesitate to contact me on 02 8243 7000.

Yours sincerely

Yasser El-Ansary  
Chief Executive

<sup>2</sup> [Women in Private Capital Report, September 2018](#)