



Innovation funds lock out innovators

Peter Vogel | April 21, 2009

AFTER the much-criticised scrapping of Commercial Ready innovation grants last year, the Government has introduced a new set of grants designed to help small businesses undertake "green" projects.

Climate Ready is a program that claims to "support projects that address the effects of climate change". Re-tooling for Climate Change provides grants to help companies improve the energy or water efficiency of their production process. The Green Car Innovation Fund is aimed at technologies for reducing cars' greenhouse gas emissions.

These initiatives are basically a good thing. They recognise that with the right policies, going green can be a boost to Australia's economy, rather than be a drain on it.

But all these grant schemes have a fatal flaw that must be fixed if they are to achieve their stated purpose - none of the grants are full grants, they are only subsidies.

Climate Ready grants, for example, require the applicant to match every dollar of grant with one dollar of their own.

For Green Car grants, it's even worse - the applicant has to provide \$3 of their own funding for every dollar funding from the Government. I raised this criticism at a public consultation I attended. The rationale given for the 1:3 ratio is that this will result in a multiplier effect for the Government's investment - \$1 of grant resulting in a total of \$4 worth of innovation.

This logic is seriously flawed.

Only companies with existing revenues or a strong capital base will be able to find the matching funding and these companies would carry out the project whether or not they receive a grant. For them, the grants just represent nice "icing on the cake".

Small companies, individuals, university researchers and the like simply cannot raise the money required, especially these days.

To make matters worse, the fund pays retrospectively, so the grantee actually needs to find 100 per cent of at least the first few months of the project cost themselves. This presents a cash flow barrier for small, innovative and efficient developers. Sadly, this will be a real deal-breaker.

The Government says it only offers matching funding because it wants to get the best bang for its buck. However, the exact opposite will result. The biggest rewards will come from the small research projects, not the big ones.

With the minimum Green Car grant being \$100,000, it also dictates that the minimum project size is therefore \$400,000. Some of the most innovative work being carried out in Australia at the moment in the field of alternative energy is by small companies that would have neither the management bandwidth nor the cash flow to execute a project of that size.

Giving 100 inspired individuals \$100,000 each with no matching funding required is much more likely to produce ground-breaking technology than giving a car manufacturer a \$10 million cash-back on a \$40 million project.

My recommendation is that the funding ratio should be calculated on a sliding scale so small innovation projects receive 100 per cent funding (removing the impossible matching funding barrier).

Companies undertaking large projects could be expected to fund part of the costs themselves. Grants should also be paid in advance, with tranches delivered based on a cash flow projection.

If left in their present form, these schemes will, by their design, lock out the organisations they are intended to support

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This article is found at:
<http://smallbusiness.smh.com.au/growing/grants/innovation-funds-lock-out-innovators-615873916.html>