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Industry Growth Program Taskforce
Department of Industry, Science and Resources
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By email: IndustryGrowthProgram.consultation@industry.gov.au

**RE: Industry Growth Program consultations**

The Australian Industry Group (Ai Group) welcomes the opportunity to provide feedback on the implementation of the Industry Growth Program (IGP).

Ai Group is a peak national employer association representing and connecting thousands of businesses in a variety of industries and sectors across Australia. Our membership and affiliates include private sector employers large and small from more than 60,000 businesses employing over 1 million staff.

The Government's commitment to fostering and expansion of small and medium-sized enterprises (SMEs) in the Australian industry is warmly welcomed by Ai Group.

Digitalisation and the clean energy revolution will remake global industry. Australia is well-positioned to benefit if we can seize emerging opportunities in areas where we have demonstrated or potential competitive advantages.

Growing these innovative industries will require scaling our SMEs. While the recently announced National Reconstruction Fund (NRF) provides industrial policy support to "investment ready" businesses, Ai Group has previously argued[1] it requires an adjuvant that will help earlier-stage SMEs achieve the scale to be ready for NRF and/or other investment sources.

Ai Group welcomes the Government's recognition of this need, and its positioning of the IGP as a vehicle to support early-stage commercialisation in Australian industry.

The extent to which the IGP achieves its objectives will depend on how it strategically orients its operations. While the budget commitment of $392 million is sizeable, it will also need to serve a large pool of potential business. There are approximately 8000 SMEs (defined as businesses with a turnover between $5m-50m) in the five Australian industries targeted by the NRF (Figure 1). The IGP's target population is larger still, as it also including early-stage micro-businesses with pre-commercial innovations that are yet to reach SME turnover thresholds.

[1] Ai Group submission to DISER consultations on the National Reconstruction Fund, 3 February 2023, https://www.aigroup.com.au/news/submissions/2023/national-reconstruction-fund/

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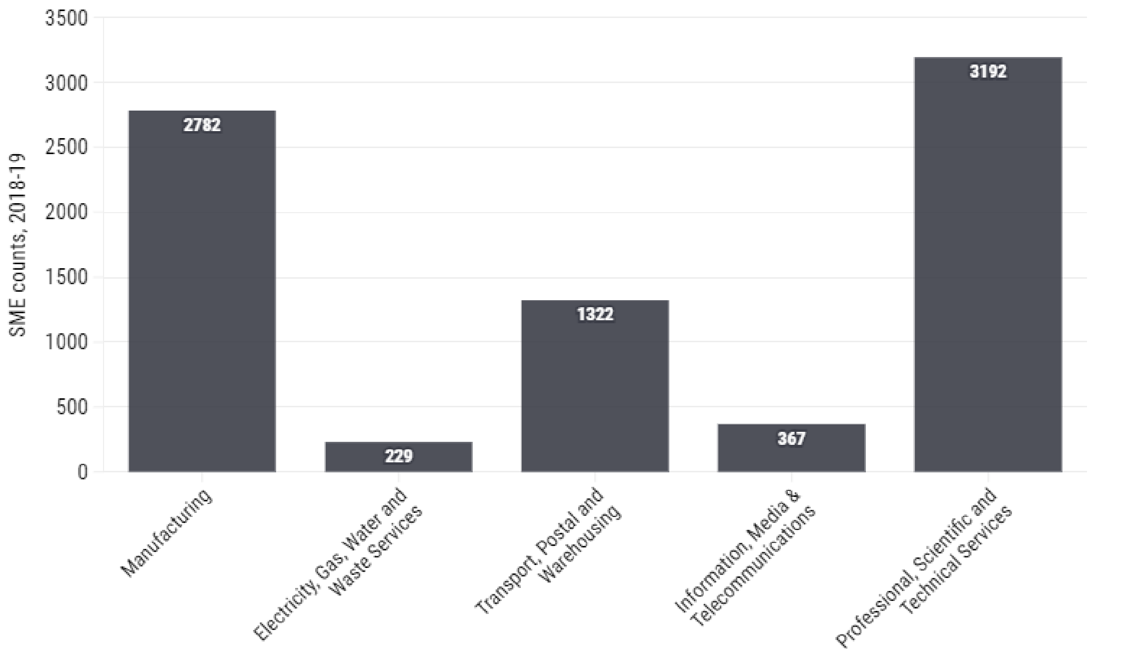
**Figure 1: Small and medium enterprises in NRF-targeted sectors**




Source: ABS Business in Australia Survey • "SME" is defined as businesses with turnover between $5m and $50m

The success of the IGP program will rest on how it identifies potential candidates within this population, and the methodology by which it provides appropriate support to those SMEs for scaling and commercialisation. Ai Group offers the following recommendations for effective IGP selection criteria and program design.

## 1. Criteria for IGP program eligibility

Ai Group suggests the following eligibility criteria to identify innovative SMEs for IGP:

- Business is currently a company, or demonstrably progressing to becoming one.
- Has revenues between $0 and $20 million
- Is based in any industry.
- Focused on new-to-market innovative products and/or process development.
- Has control of the intellectual property relevant to its innovations.
- Has progressed beyond the R&D stage (defined as Technology Readiness Levels 1 to 3)
- Has not already progressed to selling its innovation in the market.

## 2. Grant matching criteria and technology readiness

Grants should not be provided for SMEs at TRLs 1 through 3. These TRLs comprise the R&D stages of innovation, which are already supported by many other Commonwealth and State grant programs, as well as the R&D Tax Incentive. The IGP should focus on SMEs in the post-R&D stage that are looking to commercialise developed innovations.

SMEs at TRLs 4 through 6 should be provided grants to support market analysis. These TRLs comprise innovations which have been validated and demonstrated, and thus require support in aligning their innovation to market requirements. IGP grants should support market testing and analysis to inform the final stage of commercialization. A lower grant matching requirement – such as a 20:80 ratio – is appropriate for these innovations.

SMEs at TRLs 7 through 9 require assistance to scale. These TRLs are complete innovations which have been demonstrated in environment, and now need to scale production. IGP grants should be provided on a 50:50 ratio in reflection of their commercial readiness, and at a larger scale than for earlier-stage grants.

Access to IGP advisors should be made available to businesses at all TRLs.

### 3. “Need for funding” and IGP candidacy

Given the need to focus the IGP on businesses that will benefit the most from advice and financial support, it is understandable that “need for funding” might be adopted as a criterion. The IGP should prioritise SMEs that face tractable barriers to commercialization and scaling, and if funding is and/or can be secured a business might be a lower priority candidate. However, need for funding should not be a mandatory criterion for IGP candidacy.

There will be potentially eligible SMEs which are yet to reach the stage of development where they require additional funding. This is particularly likely at TRLs 4 through 6, which Ai Group believes should qualify for grant support. It may also be strategically appropriate at this stage of an innovative business’s development to delay taking on VC funding, particularly if doing so would involve ceding control of some IP.

There will also be potentially eligible SMEs that have received commercial funding, but may still benefit from IGP support. IGP grants might be used to develop additional markets for core innovations, and/or scale more effectively via complementary investments. Having attracted commercial funding serves as evidence of the commercial potential of an innovation, and should not exclude an IGP candidate.

Access to IGP advisors should be made available to all SMEs irrespective of their need for funding.

### 4. Approach to NRF/IGP priority areas

The use of NRF priority areas for the IGP is appropriate, as it recognises that one of IGP’s functions is to support SMEs to become “NRF ready”. However, it will be important to take a broad-minded approach when assessing business- and project-alignment to the NRF/IGP priority areas.

Many innovations that align to the priority areas may be generated in adjacent industries not strictly within the priority areas. An illustrative example would be new technologies in the machinery sector that could find secondary applications in transport or resource value-adding. Any innovation could potentially be an ‘enabling technology’ for other industries, irrespective of the industry in which it is generated. Selection criteria should be applied in a way that assesses the potential contribution of a project to the NRF/IGP priority areas.

It will be also important to adjust the approach in defining what falls within these priority areas. Given the pace of technological change, what constitutes transformative value-add will change significantly during the life of the NRF and IGP. The renewables and enabling capabilities areas are particularly subject to technological disruption. A flexible approach to defining the priority areas will ensure that projects meeting the transformative and value-adding criteria can obtain support, irrespective of their specific technologies.

5. **Inter-state or international trading operations**

Innovative technologies usually require scale to earn back their development costs. Given the relatively small size of the Australian market, it is common for our successful industrial innovators to also be successful exporters. Trade-exposed industries are some of the most competitive, as they are exposed to world-leading competitors that drive productivity and innovation. Industries with foreign investment can transfer overseas-developed technology into the Australian market, filling gaps in our knowledge base.

International orientation should be considered a strength for projects under consideration for IGP candidacy. This includes both the export orientation and foreign investment attributes.

However, inter-state or international trading operations should not be formal criterion for IGP candidacy. There will exist some innovations which, by nature of their specificity to local markets, may not trade inter-state or internationally. An example would be minerals processing technologies to enable greater resource value-adding in the mining industry. Such a project is likely to be based within a resource cluster within a single Australian state, and may not easily find national or global markets. Such projects should not be excluded from IGP candidacy.

6. **Ownership of intellectual property**

IGP candidates should have control over the IP generated by and/or required for their innovations. IP is the primary asset possessed by an early-stage innovative SME, and need to be controlled for successful commercialisation and scaling. This might entail full legal ownership, or if not other legal provisions that deliver effective control to the SME (for example where early-stage VC funding has been raised on the back of existing IP).

IP should also be defined more broadly that just patents or patentable activities. The type of innovation most common in Australia is ‘new-to-the-firm’ innovation (i.e., applying high-tech equipment or processes invented abroad to local industrial applications). But unlike ‘new-to-the-world’ innovation, new-to-the-firm innovation rarely generates patents. New-to-the-firm innovations are undervalued in the absence of patents and fail to attract appropriate amounts of investment.

IGP could support these types of practical innovation by strategically targeting IP-heavy but patent-light forms of innovation. It should also consider non-patentable forms of IP as relevant for this criterion.

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### 7. The role of industry partner organisations

Industry partner organisations have a key role to play in supporting IGP. These organisations can help identify potential IGP candidates, provide industry-specific advice and expertise to participating SMEs, and embed the participant in the broader industry networks essential for successful commercialisation.

It is important that industry partner organisations are credibly qualified to perform these functions. They should:

- Be an established and recognised industry organisation, with a track record of engagement and leadership in areas relevant to the IGP priorities
- Possess an extensive network of commercial contacts within a relevant industry
- Have the capability to provide expertise and advice related to commercialisation, and undertake monitoring and evaluation of these functions
- Be experienced in working with both SMEs (the targets of IGP) and large businesses (which IGP candidates will need to engage with and potentially grow into).
- Have a recognised national presence with international engagement, while maintaining deep local connections to SME clusters
- Be a recognised thought leader in industry development and policy questions, so as to act as a champion and advocate for the program

Industry partner organisations should not have commercial conflicts with the IGP program. They should not offer similar products or services to IGP participants, or seek equity in IGP supported projects.

### 8. Grant eligibility from non-IGP sources

IGP candidates should not be limited by so-called ‘double dipping’ rules to only accessing grants from the IGP grants scheme only.

There exists many Commonwealth sector-specific grants programs that overlap the NRF/IGP priority areas, and in some cases complementary State government grant programs. For one example, DISER administers grant programs for the critical minerals industry, which would also be covered under the NRF/IGP ‘value-add in resources’ priority area.

If IGP candidates are limited to seeking grant funding only through the IGP stream, it will prohibit innovative SMEs from accessing other targeted grants programs that support successful commercialisation. It may also lead to adverse selection problems, where relevant SMEs do not join the IGP program so to as maintain eligibility for other grant programs.

Indeed, successful participation in IGP should be considered a mark of competitiveness for other grant programs, and vice versa. While IGP rules should not allow an SME to seek grant funding for an activity that has already been funded under another grant program, successfully completion of an earlier grant serves as evidence of the applicant's suitability for granting for subsequent linked activities.

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**9. Project timeframes**

Expectations for the pathway from innovation to commercialisation will vary between projects. Businesses which commence at mid-ranking TRLs (4-6) will have a longer path to market than those at a more advanced stage. Industry-specific factors – such as the complexity of the industrial system into which the innovation is being positioned – will also affect timelines.

It is likely that many more impactful innovations will require a longer project period than 24 months. A timeframe of four years would be reasonable if grants are given singularly. Alternately, grant funding might be given in stages, with an initial two-year grant awarded with the possibility of two-year extension contingent on the attainment of key milestones.

Should you wish to discuss the matters raised in this submission, please feel free to contact me at Louise.McGrath@aigroup.com.au

Sincerely yours,

Louise McGrath
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