Timid angels impose a burden on business

Opinion
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The impact of the global financial crisis has been exhaustively scrutinised, monitored and measured in terms of business collapses and job losses of critical importance to the national and global economy, but they're far from the whole sad story.

The evaporation of funding, both debt and equity, has also had an opportunity cost — a cost that is probably not measurable but is vital to our economic future.

When the money supply dried up, banks had to ration what they had. They maintained supply for the residential property market but funding for the private business sector was greatly restricted.

While existing facilities were not withdrawn entirely, debt amortisation programs have been enforced and applications for additional funding mostly rejected.

The major banks have not taken on new clients, except where facilities could be supported by bricks and mortar. Entire industries had the funding tap turned off.

As a result many businesses, even those with a solid trading history with opportunities for growth, have been unable to capitalise on them.

There are many stories of missed opportunities; a business with a proven model failed to attract funds to push into new markets; a syndication for commercialisation of a fully developed product stopped dead; a business whose products become more in demand in times of a credit crisis could not obtain additional capital; even pre-sold property developments could not raise finance.

If low-risk ventures couldn't be funded, imagine what early-stage opportunities have been missed. Risks that capital providers were happy to take a few years ago became unthinkable. Projects that promised environmental benefits, that potentially solved problems in water, transport, power and recycling, have been aborted or, at best, put on hold.

In many ways, financial crises are the mothers of enterprise. Many people made redundant start their own business and new ideas occur to those who have time to think while business is slow. But you can only go so far when funding is limited to your home mortgage, friends and family. For that all-important first funding step, new ventures need to access private equity.

Private equity funding in Australia has traditionally been low as a percentage of gross domestic product compared to countries such as the UK, US and Israel. Recently, it has practically disappeared. For those seeking private equity it has been the worst period in 20 years.

Innovation and ideas have kept flowing but not capital. Perhaps the recent financial turmoil just became an excuse for private capital providers to say no; many still had funds.

We desperately need private capital to start flowing again and much will depend on how willing angel investors are to take on that critical first stage of funding.

Opportunities that exist now may simply not be there when funding eventually frees up.

Perhaps, ultimately that is the real tragedy of the GFC.

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