Submission to Productivity Commission Inquiry:

Reducing barriers to business dynamism in Australia

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I am a financial economist, researcher and consultant. I have expertise in entrepreneurial finance operating at the nexus of academic research, government policy and industry practice, offering a dual perspective as both a leading researcher and an active practitioner within the Australian startup ecosystem. My research has focused on the impact of venture capital, private equity and government grant funding on firm success and innovation. I have undertaken funded research to support policy development and change initiatives for the Australian Investment Council, Queensland Investment Corporation and NSW and Australian government industry and innovation departments.

As an executive committee member of Sydney Angels, I assist in generating deal flow, undertake screening and evaluation of startups and am involved in the member education program. I provide guidance and strategic advice to early stage ventures through the Founder Institute, Startmate and as an independent advisor. I am currently an Adjunct Professor at Swinburne University of Technology and was previously an Associate Professor in finance at UNSW.

My response focuses on the priority areas Australia's innovation ecosystem and support and incentives for innovation and entrepreneurs (Priority Area 2) and capital markets (Priority Area 4) and addresses the following questions related to Access to finance and Entrepreneurship in Australia as requested.

Executive Summary

This submission addresses barriers to angel investment, the effectiveness of the Early Stage Innovation Company (ESIC) program, the maturity of Australia's venture capital (VC) sector, the role of government support in addressing market failures and access to finance for female founders.

Angel investment and the sophisticated investor test.

The current Sophisticated/Wholesale Investor framework relies on wealth and income thresholds as proxies for investment competence. This disproportionately excludes investors capable of assessing startup risk from angel investment, including women who take career breaks for caregiving and skilled early-career professionals. The submission recommends introducing an additional Angel Investor exemption based on education and practical experience, alongside existing wealth-based tests.

ESIC program modernisation.

The ESIC program remains an important mechanism for encouraging early-stage investment but has not evolved in line with contemporary startup practices. Recommended reforms include reviewing outdated income and expense caps, replacing company age measures with indicators of commercial maturity and innovation activity, reviewing the 10-year CGT exemption period to reflect longer startup exit timelines, extending ESIC eligibility to investments structured through SAFEs, reducing legal uncertainty associated with the principles-based innovation test and accommodating common holding company structures through group-based eligibility assessments.

VC sector maturity and the pre-seed funding gap.

Despite substantial growth in Australia's VC sector, capital is increasingly concentrated in larger deals, leaving an emerging funding gap for startups seeking early-stage investment. Structural barriers include limited availability of specialist pre-seed funds and challenges faced by emerging fund managers raising capital. The ESVCLP regime's $10 million minimum fund threshold may act as a barrier to entry for small or emerging fund managers. A targeted government fund-of-funds model could act as a cornerstone investor in smaller ESVCLPs and

a management fee support mechanism could help expand the supply of early-stage capital. These funds could have targeted mandates to close market gaps including the funding of female led startups.

Government funds and sectoral market failures.

Deep technology, biotechnology and climate technology face persistent funding gaps, where long development timelines, high capital requirements and the need for specialised technical due diligence, limit private investment. An independently managed, government-backed direct investment vehicle operating under policy mandates could build long-term market capability and reduce future dependence on public intervention. This requires a fund structure, incentives and management that allows the government backed fund to take on higher risks from capital intensive projects, to have longer investment horizons and build expertise in VC fund investors and VC managers.

Female founders and access to finance.

Aggregate funding statistics can mask underlying dynamics in the investment pipeline. They cannot reveal whether gender disparities arise from fewer women seeking funding in the first place, from women being screened out at early stages or from differences that emerge in the due diligence and investment decision process. Original research presented in this submission highlights the importance of controlling for variables known to influence fundraising success when evaluating the gender gap. It also reflects the advantages of a structured and disciplined approach where screening and evaluation of startups applying for funding is undertaken by a diverse panel with a range of industry and founder experience.

Evidence gaps.

There are several areas where further evidence is needed to inform policy:

ESIC program outcomes: There is limited publicly available evidence on the effectiveness of the ESIC program. Further evaluation is needed on the long-term performance of ESIC-qualifying companies relative to comparable firms, the differences between firms that qualify

for ESIC and those that do not, why eligible companies choose not to utilise the scheme and the extent to which ESIC eligibility issues arise at company exit.

ESVCLP Registration and Fund Formation: Analysis of limited available data suggests a substantial proportion of conditionally registered ESVCLPs do not go on to achieve full registration. An evaluation analysis of the complete data, together with a survey of fund managers, is needed to increase understanding of the barriers facing emerging fund managers, the reasons for unsuccessful conversions and whether the $10 million minimum threshold continues to serve its intended policy purpose.

Gender and Investment Decision-Making: Little is known about how the diversity and characteristics of investment decision makers affect outcomes for underrepresented founders in the Australian context. This includes whether female founders benefit disproportionately from female investors, whether investor sector expertise affects outcomes for underrepresented founders and how investor backgrounds, experience and networks interact with founder characteristics to influence growth, follow-on funding and exit outcomes.

Conclusion

Australia's entrepreneurial ecosystem has structural weaknesses in early-stage capital formation, regulatory settings and targeted support mechanisms. The submission recommends reforms to investor eligibility rules, modernisation of the ESIC regime, expansion of pre-seed funding capacity, strategically designed government venture capital initiatives and improved data collection and evaluation of gender gaps in funding pipelines. Addressing the identified research gaps would enhance evidence based policymaking and strengthen Australia's ability to support innovative, high-growth businesses.

1. Barriers to expanding angel investment in Australia and the role of government in addressing these

Angel investors invest their own wealth and tend to invest at the pre seed stage where many start-ups are more likely to be in their initial development phase and may not yet be generating revenue. Angel investors can invest individualy, through a syndicate platform or through syndicates formed under organized groups. Many angels take an active role in the start-ups they invest in and can offer strategic advice, resources and access to their networks to support growth. Active participation tends to be viewed favourably by founders, adding value far beyond the monetary investment made.

A significant regulatory barrier to expanding angel (and pre seed) investment is the requirement for angel investors to meet the sophisticated investor test.

Sophisticated Investor test

Most angel groups, syndicates and founders require investors to qualify as a Sophisticated Investor (or Wholesale Investor). Australia's current Sophisticated and Wholesale Investor framework was originally designed to balance investor protection with capital market efficiency. The qualification relies heavily on wealth and income thresholds as proxies for an investor's ability to understand, assess and bear investment risk. However, these thresholds are an increasingly imperfect measure of investment competence, particularly in the context of angel investing.

Many individuals with significant expertise in technology, entrepreneurship, finance, product development or industry domains may not satisfy the income or asset tests despite being highly capable of assessing startup investments. Conversely, meeting a wealth threshold does not necessarily mean an investor understands the unique risks associated with early-stage companies.

This issue became particularly significant following Treasury's 2024 proposal to increase the financial thresholds for Sophisticated Investors. While the intention was to strengthen investor protection, international evidence suggests that making qualification requirements more onerous can have significant negative consequences for startup funding. Research from the United States demonstrates that tighter accredited investor requirements reduce the availability of angel capital. An increase in thresholds was associated with a significant reduction in the amount of angel financing and the number of firms that receive angel financing and subsequent VC financing (Xu, 2023), as well as reduction in new business creation and employment levels at small businesses (Lindsey and Stein, 2026). These findings suggest that increasing thresholds may inadvertently restrict capital formation, reduce entrepreneurship and weaken the startup ecosystem.

The current income test also creates unintended barriers for certain groups of investors. As investors must demonstrate income above the threshold for two consecutive years, the test may disproportionately exclude individuals, particularly women, who temporarily leave the workforce for caring responsibilities, professionals with substantial but variable income streams and skilled early-career individuals who have specialist expertise but have not yet reached the required income level.

These exclusions have broader consequences for the startup ecosystem. In particular, limiting the participation of female investors may contribute to the existing gender funding gap faced by female founders. Angel investors often support entrepreneurs with whom they share experiences, networks and perspectives. Limiting the pool of potential female angel investors therefore risks reducing access to funding for female-founded businesses. Similarly, excluding skilled younger professionals deprives startups of investors who can contribute valuable domain expertise, networks and industry knowledge in addition to capital.

A more balanced approach would be to introduce an additional Angel Investor (or Experienced Investor) exemption based on education and practical experience. Financial thresholds attempt to infer capability through measures of wealth. Education and experience, by contrast, directly develop the skills, knowledge and judgement required to understand

investment risks. It enables individuals to lower their risk exposure through better decision-making rather than relying solely on financial capacity to absorb losses. Research suggests that the capabilities relevant to successful angel investing are knowledge and experience based rather than wealth-based (Wiltbank et al. 2009; Botelho et al, 2023).

An alternative approved and structured education pathway, reinforced through practical experience and ongoing professional development, would provide a balance between investor protection and capital formation. Such an approach would expand access to startup investment, improve diversity among investors and support the continued growth of Australia's innovation economy while maintaining appropriate safeguards for participants.

2. Effectiveness of the Early Stage Innovation Company (ESIC) program

The ESIC regime has been an important innovation policy initiative, encouraging angel investment into Australian startups through a tax offset and modified CGT treatment for individual investors. However, the program has remained largely unchanged since its introduction in 2016, while startup costs, funding markets, investment structures and company formation practices have evolved significantly. As a result, a number of features of the regime now unnecessarily restrict access to the incentive and reduce its effectiveness.

The policy objectives of the ESIC program remain sound. However, the eligibility criteria, investment mechanics and administrative framework should be modernised to better reflect how innovative companies and investors operate today.

The financial eligibility caps require review.

ESIC qualification for a company requires the company to meet expense and income thresholds for the financial year immediately preceding an equity issue. Total expenses (across the company and any 100%-owned subsidiaries) must be $1 million or less and assessable income, $200,000 or less.

The income and expense thresholds are among the most common barriers to ESIC eligibility as companies must satisfy both. In practice, it is often the combination of these tests that causes otherwise innovative startups to fail the eligibility requirements. Many startups, particularly in software, deep technology, medical technology and life sciences sectors, incur significant development expenditure well before achieving meaningful commercial revenue. The expense cap can therefore exclude companies that are genuinely at an early stage of commercialisation but which have invested heavily in product development, regulatory preparation or technical talent.

A review should be undertaken to determine whether the expense threshold should be increased, particularly given the increased costs faced by startups in the last 10 years, whether alternative measures of commercial maturity should be used or whether companies should be able to qualify if they satisfy either the income or expense test rather than both.

The definition of "early stage" should be revised.

The current regime largely determines whether a company is "early stage" based on date of incorporation, date of registration and age-based tests. This assumption is not necessarily reflective of how many innovative businesses are built. Many deeptech, biotech, medtech, climatetech and advanced manufacturing businesses can spend 5-10 years developing technology before they are capable of commercialisation or external capital raising. A company can therefore be highly innovative, pre-revenue and seeking its first institutional investment but fail ESIC requirements simply because of the passage of time. Similar issues arise in the proposed changes to the R&D Tax Incentive and CGT concession framework, where company age is used as a proxy for startup status.

Age should not be the primary determinant of whether a company is innovative or early-stage. Greater emphasis could instead be placed on commercial maturity, employee numbers, product development stage and innovation activities.

The 10-Year CGT threshold should be reviewed against current exit timelines

When the ESIC regime was introduced in 2016, venture backed startups typically exited within a considerably shorter timeframe than is common today. Global data shows a marked and sustained lengthening of private holding periods. The median time from first venture capital round to IPO has grown from roughly 5–7 years a decade ago to over 10 years in many markets (PitchBook). Recent Australian data shows a median age of 8.7 years for companies raising Series C rounds in 2025 (Cut Through Ventures). High-growth startups, particularly in deeptech, biotech and other capital and R&D-intensive sectors, now commonly remain private for even longer. This shift creates a structural mismatch with the ESIC concession's design.

Under the current rules, capital gains (and losses) on qualifying ESIC shares held for at least 12 months and less than 10 years are fully disregarded for tax purposes. If shares are held for 10 years or more, the cost base resets to market value at the 10-year anniversary, so gains that accrue after that point are taxed under ordinary CGT rules, while gains that accrued up *to* that point remain tax-free. As exit timelines lengthen, this creates a number of issues and potentially reduces the attractiveness of early-stage investing. Investors in genuinely early-stage, high-risk companies that take longer than 10 years to exit increasingly forfeit concessional treatment on the portion of value created often the period in which the largest gains materialise. The requirement to obtain a market valuation at the 10-year anniversary of an illiquid, unlisted holding is itself a practical burden and can produce arbitrary or contested outcomes. Given that exit timelines were markedly shorter when the ESIC regime was introduced, the 10-year threshold and its cost base reset mechanism should be reviewed to determine whether they remain fit for purpose in a market where private company lifecycles have lengthened substantially.

ESIC should accommodate SAFEs

The current program is designed around traditional equity issuance. However, many early-stage companies now raise capital through SAFEs (Simple Agreements for Future Equity) due to speed, cost-efficiency, and operational simplicity. Companies may no longer qualify for ESIC when the SAFEs are converted into equity at the next capital raise, due to not meeting the age or revenue and expense thresholds. The purpose of the ESIC incentive is to encourage investment in innovative Australian startups. That purpose is served equally whether capital is invested through a direct equity subscription or through a widely accepted early-stage financing instrument that ultimately converts into equity. The legislation should therefore focus on the economic substance of the investment and the degree of risk capital provided, rather than the particular legal structure of the funding instrument. This would better align the ESIC regime with contemporary startup financing practices while maintaining appropriate integrity safeguards.

The Principles-Based Test Creates Significant Legal Uncertainty

The principles-based innovation test is intended to provide a flexible alternative to the more mechanical 100-point test. This allows genuinely innovative companies that do not neatly fit prescribed criteria, to still qualify as an ESIC. In practice, however, this flexibility comes at a significant cost to certainty. The test requires a company to demonstrate concepts that are inherently evaluative and commercial in nature rather than objectively verifiable. Tax practitioners consistently report that the test can be interpreted differently by different ATO assessors, with no reliable way for a company or investor to determine in advance how their specific facts will be assessed. The practical consequence is that professional advice routinely recommends that companies not rely on self-assessment under the principles-based test without first obtaining a private binding ruling from the ATO. This effectively converts what was designed as a self-assessed regime into one that in substance, requires case by case adjudication to be used with confidence.

The reliance on private rulings as the de facto mechanism for achieving certainty is imperfect. Rulings can take months to obtain, are binding only on the precise facts disclosed and can be invalidated by even minor subsequent changes in a company's circumstances. This leaves both companies and investors exposed to real financial risk long after an investment has been made and incentives claimed. This level of interpretive uncertainty around a core eligibility gateway represents a meaningful barrier to the confident use of the incentive. A review of the ESIC regime could consider introducing a statutory safe harbour, expanding the policy objective to recognise a broader range of innovative activity, strengthening the 100-point innovation test through additional objectively verifiable criteria and providing clearer legislative guidance to reduce reliance on subjective, case-by-case assessments and private rulings.

Holding Company Structures Should Be Accommodated

Current ESIC rules can penalise widely accepted startup structures. A common and widely recommended practice for intellectual property protection and investment often involves establishing a holding company and an operating subsidiary that undertakes development activity. The current ESIC framework assesses eligibility primarily at the company level where shares are issued. Where a wholly-owned subsidiary undertakes the innovation activities,

investors in the holding company may not qualify for ESIC benefits despite the underlying business satisfying the policy intent (highlighted in *ZWBX v Commissioner of Taxation* [2024] AATA 2065). The absence of a look-through or flow-through mechanism means that the ESIC outcome can depend more on legal structure than on innovation activity.

A review could consider allowing ESIC eligibility to be assessed on a group basis or introducing a legislative safe harbour that treats a holding company as satisfying the innovation limb where subsidiaries are wholly owned and innovation activities are substantially conducted within the corporate group. This would align the ESIC regime more closely with widely accepted startup and venture capital structures while preserving the policy objective of supporting genuine innovation

Evidence Is Needed on Program Effectiveness

Publicly available evidence on ESIC outcomes is limited. ATO data from the early years of the regime indicated that approximately 340 early-stage innovation companies received investment and around 3,400 investors invested approximately $300 million (Graw, 2017). An evaluation of the program could include an examination of the differences between and long term outcomes of companies that successfully used ESIC, startups that were eligible but chose not to use ESIC and startups companies that failed to meet eligibility requirements. There is also little data available on the scope of ESIC eligibility being rejected at the time of exit.

The ESIC program remains an important policy tool for encouraging investment into innovative Australian startups. However, it has not evolved alongside changes in startup financing, company structures and commercialisation pathways. Evidence based changes to the program would better align the ESIC framework with modern startup practice while preserving the program's fundamental objective of encouraging investment into innovative Australian businesses.

3. Maturity of the Australian VC sector, key barriers and role of government

ESVCLP threshold and pre seed funds

Australia's VC sector has grown substantially in scale (funds under management, annual investment and average deal size), 13.7x since 2016 (Side Stage Ventures, 2026). However**,** Australia's early-stage funding market is experiencing a growing structural gap. While data for 2025 showed investment of $5.4B across 390 deals in 2025, funding is increasingly concentrated, with the 20 largest deals accounting for 58% of total capital (Cut Through Ventures). The earliest stages of capital formation are being particularly affected. Investment activity below $5 million reached its lowest quarterly level since 2020 in Q1 2026 and its lowest level on record in Q2 2026 (Cut Through Ventures, 2026). These trends suggest a growing weakness precisely where innovative businesses first seek institutional capital.

Venture capital policy settings and market incentives increasingly favour larger funds and larger funding rounds, leaving a shortage of capital available for startups seeking initial rounds in the $800,000 - $1.5 million range. Australia has relatively few specialist pre seed funds. This problem is partly structural. Large institutional investors rarely write small commitment cheques. Management fees on small venture funds often do not provide a sustainable operating model and first-time managers face significant challenges raising capital despite possessing specialised expertise and networks.

The ESVCLP regime has been successful in encouraging venture investment through tax incentives. Recent reforms have enabled larger ESVCLP and venture capital vehicles. While these changes support the growth of larger funds, they do not address the shortage of capital available for very early-stage companies. In practice, conducting due diligence on a $1 million investment often requires similar effort to a $5 million investment, larger funds face pressure to deploy capital efficiently and managers are incentivised to make fewer, larger investments. As fund sizes increase, there is a natural migration away from smaller deals. Consequently, while Australia may have sufficient aggregate venture capital, it lacks sufficient capital at the earliest stages where startups first seek institutional backing.

The current minimum fund size requirement under the ESVCLP regime creates unintended barriers. The $10 million minimum fund threshold was originally intended to ensure that ESVCLPs represented genuine venture capital funds with diversified portfolios rather than vehicles established primarily to access tax concessions. The ESVCLP regime contains safeguards that substantially reduce the risk of tax-motivated structures that do not support genuine startup investment. The $10 million threshold could be argued to now function primarily as a barrier to market entry for emerging managers rather than as a meaningful anti-avoidance measure.

Available data on the conversion rate from conditional registration to unconditional registration for ESVCLPs, although incomplete, provides some support for this view. The list of registered ESVCLPs and the current conditionally registered funds are available on the government listing webpage.[1] Historical conditional ESCVLP registrations can be estimated using data from archived snapshots of the government listing webpage.

From this data, I identified 89 funds as receiving conditional registration between January 2020 and 30 Jume 2024. Of these, 36% did not raise the threshold $10 million to receive full registration. The average length of time to receive full registration was 1.12 years. Data on fund size was collated from commercial databases and web sources for 38 of the 57 funds that received full registration. Only 3 funds raised $15m or less. The average fund size was $82m. There may be alternate reasons for the lack of conversion to full registration for some funds and an analysis of the complete data and a survey of fund managers could provide additional insight.

This suggests that there is a role for a government fund in growing the scale of early stage funding availability and the number of smaller pre seed funds. A fund of fund (FoF) model is proposed where the government fund acts as a limited partner, providing a cornerstone investment in smaller funds. This would assist small funds in raising sufficient private capital to achieve the ESVCLP threshold. [2]

[1] https://business.gov.au/grants-and-programs/early-stage-venture-capital-limited-partnerships/list-of-early-stage-venture-capital-limited-partnerships

[2] This structure and objectives differ from the 2001 Australian Pre-Seed Fund program.

The FOF model has been successfully used to develop VC markets or sectors in Australia (eg IIF and state based programs in Vic, WA and Queensland) and internationally (eg, Elevate NZ, UK Innovation Investment Fund, ESCALAR (European Union)).

International government early-stage funding initiatives have focused on direct co-investment models where a government owned VC fund co-invests in startups alongside private investors. Eg UK Angel CoFund, Scottish Co-Investment Fund and New Zealand Co-Investment Fund. However, direct government investment programs can create challenges including political risk, resource-intensive assessment processes and slower decision-making. While they increase the amount of capital available to individual startups, they rely on existing private investors rather than increase supply through assisting the establishment of new private investors. A government FoF could also prioritise the funding of ESVCLPs with particular investment mandates in order to close market gaps. For example, the funding of female led startups.

One of the challenges for small funds is sustainability. Management fees are often insufficient as a $10-15 million fund generating a 2% management fee produces only $200,000-$300,000 annually before operating expenses. A potential solution would be a management fee support mechanism. Government could provide temporary fee support to be repaid from future carried interest distributions. This could improve the viability of smaller funds without creating permanent subsidies.

A targeted Government Fund-of-Funds (FoF) supporting small ESVCLPs that leverages private capital would build a more diverse early-stage investment ecosystem.

4.Government Venture Captital Funds and funding gaps/market failures

Australia's venture capital ecosystem has grown significantly over the past decade. However, important market failures remain in sectors such as deep technology, biotechnology and to a lesser extent climate technology. These sectors require significantly larger amounts of capital at earlier stages, have longer periods before commercialization, require specialised technical due diligence and thus require patient capital with longer investment horizons.

Traditional venture capital structures are often poorly suited to these characteristics. In many cases, companies require 5-7 years or more simply to reach commercialisation, considerably longer than conventional venture-backed software businesses. The economics of venture capital funds themselves create structural barriers. A typical Australian VC fund has a 7-10 year timeline to provide returns to limited partners. That leaves almost no time for the growth phase that generates VC-scale returns. As a result, many commercially promising technologies struggle to attract private investment despite their potential economic, industrial and strategic value.

Investment decisions in these sectors require highly specialised technical expertise. Many generalist venture capital funds do not possess the capability to confidently evaluate risks including technical feasibility, scientific risks, regulatory pathways and engineering challenges. In the absence of that expertise, investors frequently choose not to invest and commercially promising technologies can remain unfunded.

Internationally, specialised government investment vehicles have been established to address these challenges including High-Tech Gründerfonds (Germany), EIC fund (EU) and Future Fund: Breakthrough (UK), invest directly in startups and mostly focus on growth funding. Germany now has consolidated seed, early-stage, and growth financing under a single institutional umbrella as the High-Tech Gründerfonds have absorbed the DeepTech and Climate Fonds, creating a continuous public-backed equity pipeline.

A conventional fund of funds model can support general venture capital sector development. However, for targeted sectors such as deep technology, a direct investment model provides important advantages. This would not be a direct government owned and run fund as research highlights the disadvantages of such structures (eg Suchard et al, 2021; Bertoni and Quas, 2025). Rather, a government-sponsored VC fund, managed independently but operating under a defined mandate, can establish specialist sector expertise, influence investment strategy, build technical evaluation capability and support national priorities.

A direct model could provide the government with sufficient influence and oversight of investment mandates and fund design to achieve policy objectives. This type of model allows for capacity building in other limited partners that invest in the fund, the government VC fund manager and the private VCs that co-invest with the government VC fund in targeted industries. Institutional investors can gain exposure to specialised sectors they might otherwise avoid. Investment from a government VC fund may serve as a market signal of the technical and commercial feasibility of a venture for private VCs who may not have capability to conduct due diligence. Private VC funds who co-invest alongside the government VC will obtain more exposure to assessing the commercial and technical viability of targeted ventures which will facilitate skills development and help build confidence in the sector.

Various design features relating to fund management, structure, mandates and risk and return sharing have been used to address specific issues relating to the higher risk, capital intensive nature and longer time horizons of certain targeted industries. These design features depart from conventional VC models and concessionary returns and other incentives may be required to attract a fund manager and limited partners to invest in the fund. The establishment of panels with expertise in specific technologies to assist fund managers could reduce the costs of technical due diligence and build pools of VC expertise in targeted industries.

The role of a government VC fund and its costs and benefits, needs to be considered in the context of the broader innovation ecosystem. A government VC fund will have greater impact if supported by a range of complementary policies. These measures such as targeted non matched grant programs, can addresses barriers at different stages of the startup lifecycle to

help develop a pipeline of ventures through to market. Grants generally send a strong market signal to future VC investors (Shinkle and Suchard, 2019).

A specialist government-backed venture capital fund can play an important role in both filling funding gaps and transforming the market by building expertise, reducing barriers to private investment and developing a sustainable long-term investment ecosystem.

Australia's climate tech government funds through the CEFC (eg Clean Energy Innovation Fund) and some activities of the NRF have been formative steps to transforming the market in these sectors. However, the capital specifically directed toward early-stage investment remains small relative to the scale of the opportunity, national policy ambitions and the much larger pool of nominal public capital that is overwhelmingly deployed toward large scale infrastructure, project finance and manufacturing scale-up rather than early-stage market building. While deeptech investments account for about 40% of capital committed by the NRF, only approximately 10% and of the deeptech investments could be considered as earlier stage investments. There has been limited impact on building expertise across the broader VC market.

5.Female founders and access to finance

The State of Australian Startup Funding 2025 report from Cut Through Ventures showed that startups with at least one female founder received 24% of total capital raised in 2025, an increase from 15% in 2024. However, the proportion of deals involving female founders declined from 28% to 24%, indicating that a relatively small number of larger funding rounds contributed disproportionately to the increase in capital share.

These figures highlight the importance of moving beyond headline funding statistics and examining how companies progress through investment pipelines. An understanding of where female founders enter the funding process and where they are filtered out, is essential for identifying gender based barriers. Initiatives such as Equity Clear's work to develop a national standard for tracking startup funding pathways are an important step in providing initial data. Aggregate investment outcomes alone cannot reveal whether disparities arise from fewer women seeking funding in the first place, from women being screened out at early stages or from differences that emerge in the due diligence and investment decision process.

Research that I undertook in early 2025 using data from Sydney Angels, demonstrates the value of this more detailed approach. An analysis of 1,302 companies that applied for funding between 2014 and 2021 found that companies with at least one female founder accounted for 16.9% of applications. Despite this lower representation at the application stage, female-founded companies represented 27.5% of companies receiving investment and 32.6% of total dollars invested. Companies with female founders were significantly more likely than all-male teams to progress through screening and secure investment. Importantly, these results remained statistically significant after controlling for a range of other factors that influence investment decisions, including year of application, industry, funding sought, valuation, company stage and previous fundraising history. The results may reflect the advantages of the structured and disciplined approach used by Sydney Angels, where screening is undertaken by a diverse panel with a range of industry and founder experience.

Future policy and research should focus on developing a more comprehensive understanding of funding pipelines across the Australian investment ecosystem. Simply comparing the share of capital raised by female founders does not adequately isolate the presence or absence of gender gaps. Robust analysis of the gender gap requires tracking companies through each stage of the investment process and controlling for other variables known to influence fundraising success.

There is also an important need for further research into the role of investor characteristics. International evidence suggests that diversity among investment decision makers may influence both investment selection and venture outcomes (eg Gompers et al, 2016; Calder-Wang and Gompers, 2021; Hammer, et al, 2022). Yet relatively little is known about how these effects operate within the Australian ecosystem. In particular, understanding the relationship between founder human capital and investor human capital warrants further investigation. Questions that remain largely unexplored include whether female founders benefit disproportionately from female investors, whether sector-specific expertise among investors affects outcomes for underrepresented founders and how the backgrounds and networks of venture capital partners interact with founder characteristics to influence company growth, follow-on funding and exit performance.

Improving outcomes for female founders requires better data. Transparent tracking of investment pipelines, rigorous analysis that controls for venture quality and founder characteristics, and deeper understanding of the role played by investors themselves are all necessary to identify where barriers exist and which interventions are most likely to be effective. Data driven transparency, rather than reliance on headline funding statistics alone, offers the best opportunity to improve access to capital and strengthen the overall performance of Australia's startup ecosystem.

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