



National Farmers' Federation
Regional Investment Corporation –
Discussion Paper on Key Loan Settings

15 September 2017

NFF Member Organisations



Australian Chicken Growers' Council Ltd



TREES | WOOD | PAPER



CANEGROWERS



CORPORATE AGRICULTURAL GROUP



The Pastoralists' Association of West Darling



WOOLPRODUCERS AUSTRALIA



The National Farmers' Federation (NFF) is the voice of Australian farmers.

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the breadth and the length of the supply chain.

Operating under a federated structure, individual farmers join their respective State farm organisation and/or national commodity council. These organisations form the NFF.

The NFF represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

Statistics on Australian Agriculture

Australian agriculture makes an important contribution to Australia's social, economic and environmental fabric.

Social >

There are approximately 85,681 farm businesses in Australia, 99 per cent of which are Australian family owned and operated.

Each Australian farmer produces enough food to feed 600 people, 150 at home and 450 overseas. Australian farms produce around 93 per cent of the total volume of food consumed in Australia.

Economic >

The agricultural sector, at farm-gate, contributes 2 per cent to Australia's total Gross Domestic Product (GDP). The gross value of Australian farm production in 2016-17 is forecast at 58.5 billion – a 12 per cent increase from the previous financial year.

Together with vital value-adding processes for food and fibre after it leaves the farm, along with the value of farm input activities, agriculture's contribution to GDP averages out at around 12 per cent (over \$155 billion).

Workplace >

The agriculture, forestry and fishing sector employs approximately 304,200 employees, including full time (217,000) and part time employees (87,200).

Seasonal conditions affect the sector's capacity to employ. Permanent employment is the main form of employment in the sector, but more than 28 per cent of the employed workforce is casual.

Environmental >

Australian farmers are environmental stewards, owning, managing and caring for 48 per cent of Australia's land mass. Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 6.8 million hectares of agricultural land set aside by Australian farmers purely for conservation/protection purposes.

The NFF was a founding partner of the Landcare movement, which recently celebrated its 20th anniversary.

Contents

NFF Member Organisations	i
Statistics on Australian Agriculture	iii
Contents	iv
Introduction.....	1
Streamlining delivery	1
Characteristics and assessment of in financial need and financial viability	3
Evidence to demonstrate eligibility	4
Eligible loan uses	5
Terminology that resonates with farmers	6
Future Outlook	6

Introduction

The National Farmers' Federation (NFF) welcomes the opportunity to make a submission to the *Regional Investment Corporation – Discussion Paper on Key Loan Settings*. The NFF is the peak national body representing farmers and, more broadly, agriculture across Australia. Operating under a federated structure, individual farmers join their respective State farm organisation and/or national commodity council. These organisations form the NFF. The NFF is committed to advancing Australian agriculture by developing and advocating for policies that support the profitability and productivity of Australian farmers.

NFF is concerned to ensure the Regional Investment Corporation (RIC)'s objective and mandate gives regional and rural communities the very best opportunity to grow and prosper. To be effective and successful, the RIC must support primary producers and rural communities by providing accessible capital to enable innovation capable of lifting Australia's agricultural output to \$100 billion by 2030.

The NFF discerns that the establishment of the RIC is a significant opportunity to further the agricultural sector through the administration of farm business loans and the delivery of funding for infrastructure projects. To that end, the farming community is largely supportive of the proposed RIC. The concessional loans have the potential to lead farmers through drought preparedness and recovery, to establish innovative farm-based activities and to promote the presence and accession of young farmers in the industry. NFF also recommends the RIC to support activities designed to bolster climate resilience on farm, and increase the adaptive capacity of Australian farmers under the section on productivity enhancing activities. Climate resilience, carbon sequestration and renewable energy on farm all significantly contribute to productivity and can support farmers during periods of drought.

Further, the streamlining of farm business loan programs by delivering them through a nationally consistent platform – the RIC – will benefit consistency across States and importantly, promote competitiveness. Where previous state-based organisations did not seemingly have the bandwidth to do so, the RIC should aim to react efficiently and effectively to the changing agricultural landscape to progress self-sufficiency and innovative thinking in regional and rural communities. The RIC must avoid transcending into a welfare scheme with negative perceptions, but rather be a positive enabler for farm sector financial self-sufficiency and economic growth.

Streamlining delivery

There is hope in the farming community that the RIC will significantly shorten the lag between political announcements about farm business loan programs and the actual delivery. Thus, during tough seasons, a streamlined and centrally administered farm business loan program could prove vital to farmers across the nation. Paramount to a functional and useful RIC will be to eliminate unnecessary paperwork and to process applications in a timely manner.

Central location

NFF is supportive of having farm business loans controlled and operated out of a central location, as there is less scope for funds to be lost through duplication of administrative costs. Consequently,

more revenue should be available for on-farm purposes, and, hopefully, this will release other streams of revenue that can be accessed to increase on-farm opportunities. However, there needs to be a balance between removing duplication and ensuring that real people with regional knowledge and aptitude are able to discuss individual applications with applicants. For this reason, NFF strongly recommends that RIC has a reasonable on ground presence to enable it to quickly assess applications and work with successful applicants.

Application design

At present, farmers find the criteria for state-delivered drought loan applications often difficult to understand and inflexible and consequently, self-assess themselves out of applications. In addition, paperwork is complex, lengthy and often requires professional input to have a reasonable chance of success. The assessment process can be opaque and unclear and, in the past, applications were rejected for reasons inconsistent with bank guidelines.

Moreover, NFF would like to highlight that not all farmers have easy access to high-speed internet or any internet access for that matter. NFF therefore recommends the use of digital applications that can be downloaded, filled in offline and saved on a PC, and have the smallest possible file size. Applicants should also be able to request that an application be mailed to them in light of telecommunications failures in rural and regional communities.

Assessment of applications

Crucial to fast and efficient assessments of loans will be that RIC staff are appropriately trained to have a good understanding of Australian agricultural production systems, of specific regions and of the challenges facing farmers and rural communities at large. Applying the same assessment criteria to a live export enterprises in the Gulf and to a strawberry farm in Tasmania is likely to result in either a lost opportunity (risk overestimated) or more risky loans provided (risks underestimated).

Additionally, if an application is rejected and an appeal mounted, the RIC should have the capability to meet with the individual applicant in a physical setting. Transparency of process is necessary, and the RIC would not want to be accused of bias or favouring the applicants of the State in which the central location is based. Furthermore, NFF strongly recommends that RIC staff are trained in mental health awareness when in contact with distressed individuals and comprehend the needs of rural communities during adverse climatic events.

Clear service standards

NFF is of the view that clear service standards need to be established, both in relation to the delivery of a program once announced and in relation to the processing of individual applications once a program has commenced. These service standards and the estimated processing time should be communicated to applicants immediately after they lodge their application. Moreover, the service standards should outline the pathway for a clear appeals process and state what default/foreclosure on RIC loans would look like.

Characteristics and assessment of in financial need and financial viability

Financial need

The definition of ‘in financial need’ should not be overly focused on eligibility characteristics that support the drought concessional loans scheme. The characteristics need to be broadened to encompass other factors such as viability, with an emphasis on risk, fiscal policies, and international trade. Just like drought, risk, fiscal policies and international trade are beyond the control of farmers and often farmers are not prepared for the impact of these external and unforeseen events.

NFF considers the following issues to be criteria for financial need:

- Inability to service or meet interest and principal repayments;
- Inability to meet living costs;
- Inability to have any or substantial reserves such that fixed and variable costs of the business are not able to be met (short term, medium and long term);
- Infrastructure is not being maintained or reinvested in;
- Inability to reinvest in capital requirements such as machinery, technology;
- Inability to action a succession plan;
- Sourcing multiple forms of “overdraft” finance facilities; or
- The uptake in riskier forms of finance.

Financial viability:

- The ability to service overheads and finance costs such as interest only and principal repayments;
- Reinvestment in capital and infrastructure; or
- Uptake of innovative technology including farm machinery to personal telecommunication services.

Demonstration of criteria:

- Holding FMDs;
- Farm debt restructure assessment;
- Business management plan;
- Regional level assessment of risk as undertaken by previous state-based farm loan delivery organisations;
- Machinery replacement;
- Infrastructure;
- Off farm investments;
- Superannuation funds;
- Off farm income sources (which should not be a reason for exclusion but encouraged and supported for its pro-active initiative); or
- Purchase of and/ or investment in non-farm assets and expenses.

Evidence to demonstrate eligibility

Proof of trading interstate or overseas or proof of willingness to trade

NFF are concerned that the eligibility criteria “Proof of trading interstate or overseas or proof of willingness to trade” necessitates a broad definition. Given the nature of agricultural production, especially of some bulk products such as grain, it would be unreasonable or even impossible for farmers to prove the final destination of the consumption of their product. NFF suggest that the RIC develop a list of commodities which are predominantly traded and that any applications which produce these commodities should automatically meet the “willingness to trade” requirement.

A large proportion of agricultural production is destined for domestic markets in addition to interstate and export trade, and often these domestic markets are the most efficient pathway to market. Further, improving productivity and/or efficiency, regardless of the supply chain, will ultimately benefit the Commonwealth, as Australia is predominantly a net exporter of agricultural produce. Therefore, increasing Australia’s production and efficiency of agricultural produce outright will improve Australia’s overall balance of trade.

Additionally, NFF recommends that participation in schemes such as industry-led Quality Assurance schemes or the National Livestock Identification System should be sufficient to demonstrate that farmers are actively participating in a large supply chain that spans interstate and international jurisdictions. To this end, NFF recommends that the RIC Board should put in place a list of approved Quality Assurance schemes, enabling farmers to tick the relevant schemes they operate under. Ideally, NFF would recommend to specify this function in the Operating Mandate at arm’s length from both the Department and the responsible Ministers.

Another option might be to require farm businesses to supply a statutory declaration stating that they have an intention to supply interstate or international markets, using a loan for the purposes of building or maintaining new destinations for their food or fibre.

Drought Management

Drought is an intrinsic and accepted part of the Australian landscape. While drought is beyond Australian farmers’ control, preparation for drought can be facilitated by providing farmers with the resources and support to plan carefully. It is also vital that farmers have agency when making the decision to apply for a concessional loan either for drought preparedness, during or in the recovery phase. Farmers should be afforded the opportunity to provide evidence that correlates to their personal situation in association with RIC’s eligibility criteria requirements. To better empower farmers to take charge of the drought cycle, NFF is actively exploring the concepts outlined in AgForce’s Drought Business Cycle Proposal¹ and recommends DAWR to do the same.

Businesses that operate in areas that are drought-prone and fall under the desertification definition should be encouraged to implement adaptable farm and business management strategies that take into account the risks they face. RIC should ensure that their assistance measures are adequate, flexible and appropriate to these identified areas. Drought does not happen unannounced and early

¹ For further information, see https://agforceqld.org.au/index.php?page_id=34.

monitoring is vital. However, in the current environment when the Bureau of Meteorology is not adequately resourced with sufficient monitoring stations, this is difficult to action.

In addition, it is important that RIC understands the limitations of the Bureau of Meteorology Australian Rainfall Deficiency Analyser (ARDA) currently used in Drought Assistance Concessional Loans application. The ARDA is not the perfect tool for determining drought as it does not taken into account other environmental impacts which effect farmer's productivity and economic growth. For example, a farmer in drought presently cannot prove a deficiency when they had an oversupply of rainfall in the prior year resulting in floods. The ADRA does not take into consideration the severe impact on cropping due to the floods in the prior year. This has a reverberating effect on pasture growth which is then compounded by a drought in the following year and yet the ADRA does not take this into account.

When portraying loan eligibility, NFF recommends that RIC stops using a map to demonstrate what the UN Desertification Convention means and to instead use the definition of "desertification" as outlined in the Convention to avoid confusion. NFF also suggests to clearly state that the UN Desertification Convention is only an additional tool to capture farmers that do not engage in interstate or international trade when offering loans.

Security and equity

NFF considers the issue of security as significant seeing that farmers are required to negotiate security between their current loan provider and the RIC. NFF would like to have clarity whether the criterion of a minimum 50% loan debt with a commercial provider for eligibility of a RIC loan only applies to the initial point in time of setting up a loan or whether 50% loan debt with a commercial provider will need to be maintained throughout the lifespan of the RIC loan.

Eligible loan uses

Build diversity in markets

NFF suggests developing a negative list of ineligible activities instead of having a positive list of eligible activities, providing more scope for individual applications. NFF recommends to have the following as ineligible activities:

- Purchase of private and domestic assets;
- Payment of private and domestic expenses;
- Purchase of land;
- Payment of tax and other statutory payments;
- Applicant's own labour costs;
- Reimbursement for depreciation of assets; or
- Payment of dividend or other distributions of equity to owners.

NFF recommends that the list of ineligible activities should be reviewed every 12 months by the RIC Board. This timeframe will allow the Board to reflect on loan uses deemed eligible and ineligible against the criteria that may need reviewing. If the number of loan applications are increasing but the success rate is declining, a review will assist in identify the flexibility of the loan uses, the effectiveness of the criteria and the overall delivery of the loans.

Drought loans

NFF recommends that the RIC ensures that programs offered deliver real benefits to businesses, adding value to the enterprise plan. Initiatives that do not deliver value to farm businesses should not be offered. In addition, NFF strongly encourages the RIC to focus on assisting farmers to identify early intervention triggers and to build producer capability around managing their situations.

Programs aimed at mitigating the impacts of drought should always affirm the following questions:

- Does this program lead farmers towards a viable future?
- Does this program address the root cause of the problem?
- Is the program funding used for growing producer capacity?
- Does the program encourage on-ground change towards a viable future?

Productivity Enhancing Activities

NFF recommends RIC to not solely focus on drought relief activities and to instead include eligible loan activities focused on innovative enterprises, developing new agricultural industries and establishing more efficient or downstream on farm processing. A focus on innovative, pro-active activities will position RIC as a loan scheme for the future while supporting the enhancement of the agriculture industry through productive day-to-day operations. To that end an allowance must be made for succession planning as a productivity enhancing measure worthy of support. This should be seen in conjunction with measures that adequately support younger and newer entrants into agriculture.

Terminology that resonates with farmers

Crucial to the success of the RIC will be to clearly communicate eligibility criteria and loan terms to stakeholders. For that reason, the RIC must avoid terminology that places the loans schemes in a negative light, is condescending in its target marketing or uses language that is perceived by those who would apply for the loans that this is some form of welfare. Furthermore, when marketing and communicating the RIC, the use of plain English and simple messages will resonate with farmers. Information unique to RIC loan applications should be easy to understand, ensuring that applicants understand which information they are required to provide.

It is necessary to convey that the intention of the loans is to restructure debt in farm businesses to allow farmers to undertake improvements so to enhance the viability of their farm. NFF recommends RIC to design loan applications with key principles of Behavioural Economics in mind: It is important to reduce the required effort and make it easier to fill out loan applications by structuring loan application forms to mimic familiar commercial bank loan applications.

Future Outlook

NFF encourages the RIC to consider the establishment of loans schemes that help new and innovative farmers who are affected by drought or other unforeseeable situations. Currently, the RIC operating mandate lacks reference and consideration for farmers and young individuals that have been operating a farm business for less than three years. In addition to changing the eligibility

criteria for the new concessional loans scheme, NFF would also like to encourage the RIC Board to consider offering ‘first starter loans’ to farmers that have been in the industry for less than three years to facilitate young entrants breaking into an industry that traditionally has had high barriers to entry.

Furthermore, NFF recommends RIC to consider loans targeted at succession planning. Ideas and changes take time, and it is important to plan the future of farming enterprises. Succession planning loans would provide the opportunity to integrate and assist the current and future generations of farmers, enabling Australia agriculture to reach its goal to become a \$100 billion industry by 2030.