



Regional Investment Corporation (RIC) Act Review

22 December 2023

Context and background

Rural Financial Counselling Service NSW (RFCS NSW) welcomes the review of the operation of the *Regional Investment Corporation Act 2018* (the Act), as required by section 53 of the Act. Currently approximately one third of our 927 clients are involved with the Regional Investment Corporation (RIC) in some form. These clients are accessing one or more of RIC's products and services with support from a rural financial counsellor. This places RFCS NSW as a key stakeholder in the review.

RFCS NSW provides independent financial counselling to regional and rural farm and small businesses and individuals in or at risk of financial hardship. The service is provided in the Central and Southern regions of NSW (refer Attachment 1).

Success from the service is determined by the client. Typically, this can include one or more of the following:

1. Successfully negotiating with creditors and accessing support to trade out of hardship
2. Restructuring and improving the business or household to increase wealth and reduce the risk of financial hardship
3. Managing a dignified exit from the industry
4. Finalising a viable family succession plan
5. Increasing financial and risk management capability to increase resilience
6. Reducing stress, anxiety or depression and improving social and mental wellbeing.

The objective is to foster client self-determination, independence and autonomy. To achieve this a strengths-based case management model is used. This involves a counsellor working with a client through seven phases – immediate needs identification, immediate needs resolution, business review, goal setting, business planning, supported implementation and exit/referral. Further detail on the phases, including deliverables and outputs, are provided in Attachment 2.

Applications for RIC loans occur at the 'supported implementation' phase. Having it occur at this point ensures the client has thoroughly assessed their situation and has established plans and actions, like a RIC loan, to improve their financial viability and resilience.

RFCS NSW has attempted to answer as many questions in the Discussion Paper as possible. This has been based on a series of focus groups with counsellors involved with RIC and a review of Act, *Regional Investment Corporation Operating Mandate Direction 2018* (the Direction), and various loan guidelines. The objective is to ensure policy and practice alignment, meaningful and appropriate client outcomes and efficient service delivery.

Scope of the RIC's activities

1) Does the Act provide the RIC with the authority to undertake the necessary activities to effectively administer farm business loans?



Part 2 (8) in the Act articulates the functions of RIC. Based on RFCS NSW's experience these adequately summarise what they do.

2) Are the RIC's functions still relevant?



RIC loans are designed to support producers who have demonstrated long-term viability but have been temporarily thrown off-track by circumstances beyond their control e.g. drought or natural disaster. Being able to access a RIC loan enables these producers to recover from the financial impact of the event while helping them build reliance against future events.

3) Should the RIC have additional and/or different functions under its legislation?



Being able to support primary producers, agricultural businesses, new farmers and forestry schemes is sufficient scope for operations.

Governance arrangements

4) Are the governance arrangements for the RIC, being a corporate Commonwealth entity with an independent board appointed by 2 responsible Ministers, appropriate given its functions?

No comment.

5) Are the roles and responsibilities of the responsible Ministers, the board and CEO appropriate?



Section 8 of the Direction requires the Board to set interest rates for its products in accordance with a methodology agreed by the responsible ministers. The Reserve Bank is responsible for Australia's monetary policy and has a rigorous process for setting the interest rate on overnight loans in the money market i.e., the cash rate. It is important the methodology is relatively consistent with the RBA's for economic credibility.

6) Is the number of board members appropriate?



Section 16 of the Act says that the Board must consist of the Chair and two to four members. A three-member Board is too few and a four-member Board can be difficult to obtain majority decision. A five-member Board is more common in organisations as it starts to obtain some critical mass including coverage of the skills required.

7) Are the skills required of board members appropriate?



Section 17(2) articulates nine skill areas for the Board. This is an appropriate list given the nature of the business. The issue is the Board will find it difficult to cover these skills. In addition to the current size of the Board this is largely due to responsible Ministers making appointments based on an individual having one or more of the skills. Responsible Ministers should be more focused on filling gaps in the Board's skills based on the list in 17(2).

There is a gap with regards to diversity on the Board – age, gender, demographic, etc. This increases the risk of group think in decision making. It is suggested that this gap be addressed in 17(2).

Effectiveness of the RIC and concessional loans as a policy tool

8) Has the RIC achieved national consistency? If so, has it resulted in better outcomes for farmers?



There is a vast difference in State Government funding available across states and territories. For example, Queensland has First Start loans available through QRIDA, but NSW has no similar scheme.

RIC differs by its provision of consistent products across the country. However, processing timelines and product terms can be different across NSW.

9) Does the RIC support businesses to improve their long-term strength, resilience and profitability?



While each business makes these improvements the degree differs between businesses. The concessional interest rates mean that farmers are able to complete projects to improve resilience (e.g. improved water infrastructure), which might not have been affordable through normal commercial lending. If refinancing existing debt, the savings in interest can be diverted into projects which improve long-term strength and resilience or simply used to reduce debt which will reduce future interest charges thereby increasing profitability.

10) Are publicly-funded farm business concessional loans a useful policy tool?



Concessional loans provide farmers with greater financial discipline than grants and some other policy interventions. Going through the case management application process provides greater realisation of farm expenses. This provides a basis for corrective actions beyond the RIC product. When a RIC loan is secured the paying back of funds as per their Balance Sheet (as a liability) enhances financial discipline. With the loans being directed towards drought preparedness and productivity improvement, profitability and resilience are enhanced. As concessional loans are cost-neutral to government, there is a net positive benefit.

11) Are there any unintended consequences from the use of concessional loans as a policy tool? If so, how could these be addressed?



In theory, concessional loans could contribute to artificially high land prices, by improving farm profits and improving affordability by farmers. This could be addressed by removing the ability to use a RIC loan for land purchase. However, other factors have probably had more of an influence on the high land prices in recent years e.g. high livestock and commodity prices, coupled with historically low interest rates.

12) Would a different form of Commonwealth-funded financial support be more effective? If so, what and why?



Previous Interest rate subsidies were ineffective. Fundamentally these propped up farmers who were unviable.

13) Is the RIC the most appropriate vehicle to deliver farm business concessional loans?



There is still a stigma with farmers in dealing with Services Australia (Centrelink). This is largely seen as welfare support and an admission of business failure. This is not the case with RIC.

Legislative framework and eligibility criteria

14) Does the Operating Mandate and Rules provide appropriate direction to the RIC to meet objectives and deliver its services?



The Operating Mandate does provide appropriate direction. It articulates policy objectives, activities and product schedules. There could be an opportunity to streamline and depoliticise the document by merging it with the Act.

15) Do the eligibility criteria effectively target the intended cohort?



Schedule 1 in the Direction for the Farm Business Concessional Loans Program says that an eligible farm business will either be (a) solely or mainly supply, or intend to solely or mainly supply, products in or outside Australia or (b) be located in an 'affected area' as defined in the Desertification Convention and have a drought management plan which outlines the activities the loan will be spent on. These could be two very different eligibility criteria. (a) essentially provides eligibility to all farm businesses while (b) limits it to drought affected farm businesses. As the policy objective for farm business loans under section 6(2) in the Direction says 'businesses in need of assistance, to recover from short term hardship, but assessed as financially viable over the long-term and able to repay' makes (b) more appropriate than (a). However (b) should not be limited to drought affected, rather those farms that are adversely impacted by climate or other factors beyond their control. It should also be where there is market failure in the banks and other commercial lenders can or will not provide loans due to the hardship.

16) Are the factors used to determine financial need fit for purpose?



On occasions there is a lack of transparency in the assessment process. Current practices appear more rigorous than those in the earlier days of RIC.

17) Are the factors used to determine financial viability fit for purpose?



Our understanding is that RIC assessors take into account the YIYO information provided. This is an opportunity for primary producers to demonstrate viability.

18) Is this the right cohort the Australian Government should be seeking to assist with concessional loans?



Those that are long term viable but impacted by external conditions inherently out of their control are the appropriate cohort.

19) Should public resources be spent assisting this cohort?



The opportunity to improve resilience and effectiveness productivity and profitability supports food security and avoids unnecessary welfare.

20) Are the eligibility criteria easily understood and applicable to farmers and relevant businesses?



There is currently a perceived lack of transparency around what level of non-farm assets will exclude certain applicants. It is understood the focus is upon producers with financial need however examples in RFCS NSW suggest very low levels of non-farm assets can exclude producers – even when the level of these assets does not appear to be appropriately scaled to the production level of the enterprise.

The definition of eligible commercial debt is an issue that arises often. Many forms of livestock finance are currently being excluded from the calculation of eligible commercial debt which significantly reduces the amount of potential RIC refinance and lessens beneficial impact of the support.

The way overdraft and line of credit finance facilities can also prove problematic as even if there are apparent high levels of core debt occurring in these facilities. Anecdotally there appears to be an averaging of balances which may vary for a day or two prior to being redrawn for longer periods.

Products and services

21) Do the RIC's current products and services support meeting the relevant policy objectives?



Part 2 (6) in the Operating Mandate Direction describes the policy objectives. The overarching objective is improving economic growth and agricultural productivity in rural and regional Australia. This can only be measured by assessing growth and productivity rates for each RIC client and aggregating it by program type and overall. The subordinate objective of providing low-cost finance to help recover from hardship is being met based on RFCS NSW client experiences.

22) Do the eligibility criteria for the RIC's loans inadvertently exclude any groups that could/should benefit from such support?



While the focus of the Agristarter loan product appears to be relevant and appropriate to support entry of appropriate younger producers; feedback indicates successful applications are not in significant numbers. The Queensland Government's eligibility criteria appear to be a better option than the RIC's.

23) Are the products meeting current/future industry needs?



There is a market failure for farms requiring under \$500k loans. Banks and other lenders typically are not interested in them despite what that additional capital is intended to be used on. Addressing this gap would help agriculture improve productivity and diversification.

24) Are the loan settings (e.g. loan term, maximum loan amount, interest and principal repayments) for the current products appropriate?



Current loan terms are appropriate for RFCS NSW clients.

25) What other products and services would be suitable to meet policy objectives?

Many of RFCS NSW clients have been affected by floods and fires in recent years. There maybe an opportunity to expand the scope of the Drought Loan to a Natural Disaster Loan. The objective would be to take out a loan for infrastructure and other interventions that enhance disaster preparedness and resilience while improving productivity.

26) What are key current and future opportunities and challenges for the agriculture sector and what products and/or services could the RIC offer to usefully support the agriculture sector to meet them?

Like other parts of the economy the agriculture sector is being asked to become more environmentally responsible. This involves transitioning to net zero emissions, enhancing biodiversity, reducing or reusing pollution and waste. As natural capital and carbon markets mature farmers may be able to increase assets on their Balance Sheet. This would need to be accounted for by RIC in their loan assessments.

The impact of climate change and natural disasters are increasing risk for farmers. As a consequence, access to loans and insurance are becoming harder for them. The risk appetite and mitigation strategy for RIC should factor in that these drivers are a negative externality.

Funding model, operations, and loan delivery

27) Is the RIC's funding model appropriate, given its functions?

No comment.

28) Is another funding model more appropriate for the RIC?

No comment.

29) What are the advantages and disadvantages of seeking a concessional loan from, and engaging with, the RIC?

The most significant advantage is the focus on producers. Working through the information requirements provides a process for financial analysis of past, current and future performance and business viability.

RFCS NSW have a good relationship with RIC. Customer service is accessible and timely where appropriate.

30) Are there other models of loan delivery and management that would be more appropriate for the RIC? Why?



There does not appear to be any change required at this point in time.

31) Noting that clients pay for loan delivery through the concessional interest rate charged, is the RIC appropriately resourced to undertake its functions?



When the RIC initially offered interest-free loans there was a rush of applications. At this time there was a significant delay in processing times as RIC's resources were not scaled to accommodate. This has changed over time to the point resourcing now appears to be adequate for the work undertaken. The interest-free option is no longer available which has moderated demand and made it easier for RIC to manage workload.

First Nations engagement and inclusion

32) Is the RIC the appropriate vehicle to assist First Nations businesses?

No comment.

33) What could the RIC do to support First Nations involvement in agriculture?

No comment.

34) Do the eligibility criteria of the RIC's loans inadvertently exclude First Nations businesses?



First Nations businesses are generally small in size. The market failure for farms requiring under \$500k loans may exclude First Nations businesses at a disproportionate rate.