

Preface: This document is submitted by [REDACTED] and an applicant seeking RIC Funding. In doing so, I aim to illustrate my personal experience as a representative example of the challenges faced by a group of farmers who have also been adversely affected.

The primary inquiry to be tackled is whether there exists market inefficiency that can rationalize a cumulative allocation of 2,750 loans, totalling \$2.991 billion, as disclosed in the RIC Annual Report for 2022/23. On average, each loan amounts to approximately \$1 million per recipient. In relation to the sector's overall indebtedness of \$110 billion, this constitutes merely 2.7%. At first glance, the presence of a \$110 billion lending activity within the commercial sector does not immediately indicate a market malfunction.

In order to substantiate the continuation of this program, it is imperative to demonstrate that the societal benefits derived from these loans surpass their associated costs. The sector's statistical data implies that the most compelling case for social expenditure arises during times of natural disasters, including droughts, floods, bushfires, biosecurity threats, and severe commodity price downturns. Furthermore, it is evident that the current criteria employed to establish the target recipients for RIC loans primarily revolve around businesses facing financial distress and those demonstrating long-term financial viability.

As of now, the program's governing regulations established under the RIC Act encompass:

- Regional Investment Corporation (Agribusiness Natural Disaster Loans–2019 North Queensland Flood) Rule 2019.
- Regional Investment Corporation (Agristarter Loans) Rule 2019.
- Regional Investment Corporation (Drought Loans Expansion) Rule 2020.
- Regional Investment Corporation (Plantation Development Concessional Loans) Rules 2021.
- Regional Investment Corporation (Small Business Drought Loans) Rules 2020.
- Regional Investment Corporation (Water Infrastructure Project Agreements) Rule 2018

In respect of the [Regional Investment Corporation Annual Report 2022/23](#) the following key statistics have been reproduced

Key Metrics

140 loan applications approved, with a total value of \$132.84 million.

140 loans successfully settled, with a total value of \$144.39 million

Approval of 27 Drought Loans, amounting to \$28.95 million.

Approval of 57 Farm Investment Loans, totaling \$58.6 million.

Approval of 56 AgriStarter Loans, valued at \$45.29 million.

The available funding for loan facilities in 2022-23 stood at \$355 million.

A total of 979 loan reviews were conducted.

Processing of 666 loan variations.

Cumulative loan portfolio comprising 2,750 loans valued at \$2.991 billion.

ABARES compiles annual reports and data dashboards that provide insights into lending activities within the agricultural sector.

These reports rely on data collected by the Australian Prudential Regulation Authority (APRA) on behalf of the Australian Government Department of Agriculture, Fisheries, and Forestry (DAFF). ABARES also conducts data analysis using information from the Reserve Bank of Australia (RBA), the Regional Investment Corporation (RIC), and ABARES farm surveys.

The most recent agricultural lending statistics from APRA indicate a real-term increase of 5.3% in aggregate lending to the farm sector during 2022–23. The total value of outstanding loans rose from \$109.9 billion on June 30, 2022, to \$115.7 billion on June 30, 2023. APRA's data consistently reveals sustained growth in lending to the farm sector since 2016–17, with an average annual growth rate of 6.2% during this period.

Lending to the farm sector experienced growth in all states and territories throughout 2022–23, with the most substantial percentage increase occurring in Tasmania, at 9.3% in real terms.

The aggregate value of loans and leases overdue by more than 90 days decreased by \$138 million during 2022–23. When expressed as a percentage of total lending, loans overdue by more than 90 days represented 0.6% of loans and leases in 2022–23, a slight reduction from 0.7% in 2021–22.

It is challenging to avoid the argument that, instead of a multitude of distinct loans, a singular loan option designed to support farms with long-term sustainability, encompassing both financial and environmental aspects, would be more effective. In the case of droughts, bushfires, natural disasters, biosecurity threats, or severe commodity price downturns, it is evident that a unified loan structure could provide assistance in all these scenarios.

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

Yes, the act is quite comprehensive in this regard.

2) Are the RIC's functions still relevant?

In our perspective, we disagree. We find no justification for Agristarter loans, especially when considering the two established criteria, which are businesses facing financial hardship and those demonstrating long-term financial viability. It's challenging to argue why, if the government's policy is to aid new entrants, this policy should be applicable to all individuals seeking to initiate businesses within the industry. Given the presence of approximately 87,000 farm businesses and numerous new entrants, it becomes unclear why the government should extend financial support to select individuals, particularly when the business requires financial assistance before it even commences.

Furthermore, rather than expanding the scope of RIC activities, we firmly believe that there should be a single sustainability loan program adhering to the existing criteria of financial need and long-term financial viability.

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

In respect of additional functions, we would strengthen the reporting conditions and operational guidelines to fully report to the public the activities of the organisation.

2. Governance arrangements for the RIC.

Regarding corporate governance, we advocate for the RIC to uphold the most stringent corporate governance standards, many of which are outlined in the Public Governance, Performance and Accountability Act 2013. We are of the opinion that there is room for enhancement in the provision of supplementary information within the annual report. Some of this information had been specifically requested in the recommendations of the prior review and the government's response to the 28 recommendations.

<https://www.agriculture.gov.au/sites/default/files/documents/government-response-independent-review-ric.pdf>

Governance arrangements for the RIC

1) 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?

Enhancements should be implemented in the realm of Corporate Governance arrangements. The annual report includes information that had been previously agreed upon during the review of the RIC Act.

Additionally, concerning the annual report, a greater level of detail should be provided regarding the organization's efficiency. Discrepancies exist in the reported number of staff members, which vary between the annual report, the discussion paper, and the DAFF website. In the traditional context of determining financial institutions' profitability, the ratio of expenses to revenue typically falls within the range of 10% to 25%. For the RIC, with an approximate sum of \$150 million based on 5% interest rates on \$3 billion, a 10% ratio would translate to approximately \$15 million. However, it's worth noting that RIC lacks a deposit side for its operations, which should result in a halved cost-to-revenue ratio.

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

Yes

3) Is the number of board members appropriate? Yes

4) Are the skills required of board members appropriate?

This is difficult to judge however what is not explained in the annual report is that if there are 2750 loans of which 979 were reviewed, then 2/3 of the loans were required to be changed. This seems to be a high number given that a lot of them were newly written.

3. Effectiveness of the RIC and concessional loans as a policy tool.

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

Based on my personal experience, achieving national consistency has proven challenging. A basic examination of the loans granted reveals an average of \$1 million, while new start loans have an average of \$750,000. There are limited instances of assistance falling within these amounts. In my specific situation, we sought \$250,000, which, based on the results, appears to have been overlooked, regardless of the established criteria.

Maintaining national consistency is inherently difficult, primarily because comprehensive natural disasters affecting the entire agricultural sector are infrequent. However, there will always be localised instances, whether due to floods, fires, or other weather events, where assistance is necessary. Moreover, farm operations differ in size and operational efficiency. It can be inferred that achieving national consistency may entail ensuring that loans are accessible in all states rather than being solely based on national need or appropriateness.

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

Undoubtedly, this serves as a gauge of the organization's effectiveness. As mentioned earlier, it is challenging to argue from an equity standpoint that Agristarter loans exclusively benefit a fortunate few. It's worth acknowledging that the corporation's resources are finite. Among the 87,000 businesses, only approximately 3,000 receive assistance. The total debt within the farm sector amounts to \$110 billion, with \$3 billion being subsidized. The rationale for advocating RIC to offer sustainability loans becomes evident when considering that these funds can lead to long-term viability, thereby minimizing economic costs. This approach prevents current operators from being compelled to sell, allowing new investors to take the reins.

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

Their utility becomes apparent when directed towards addressing genuine market failures. Globally, agriculture receives subsidies amounting to \$650 billion annually. An examination of ABARES' assessment of the financial performance of Australian farms reveals a segment within the bottom quartile where targeted assistance proves beneficial. This underscores the observation that there is reduced competition among loan providers, especially for agricultural enterprises in this particular sector.

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

Drawing from my firsthand experience, extending a low-interest loan to my business could potentially address the disparities arising from the absence of any form of assistance.

The unintended repercussions become apparent, especially when considering start-up loans, which appear to favor only a privileged few. It proves challenging to discern a clear policy differentiation between those who do not receive start-up loans and those who acquire property without any form of aid. When an operator necessitates financial support to secure property, comprehending how the operation can turn profitable right from the beginning becomes a complex task.

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

One clear alternative is the use of interest rate subsidies, which would allow for additional funds to be deployed. At the end of the term, there would be no collection or associated costs. In the context of first-time farm buyers, if that aligns with the government's objectives, a straightforward universal grant for anyone purchasing rural property could be considered. Lastly, in the case of natural disasters, adopting a national insurance scheme modeled after New Zealand's earthquake insurance could be a viable and positive alternative.

<https://issuu.com/muls/docs/npthebrief-2020-ed1-web/s/10219484>

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

In terms of profitability, the organisation does not appear to be efficient. However, given its functions, there is potential for improved efficiency, especially if administered at a national level to enhance consistency of outcomes.

Legislative framework and eligibility criteria.

1. Does the Operating Mandate and Rules provide appropriate direction to the RIC to meet objectives and deliver its services?
2. Do the eligibility criteria effectively target the intended cohort? Not really
3. Are the factors used to determine financial need fit for purpose? Questionable
4. Are the factors used to determine financial viability fit for purpose? Not entirely
5. Is this the right cohort the Australian Government should be seeking to assist with concessional loans? Perhaps
6. Should public resources be spent assisting this cohort? Maybe
7. Are the eligibility criteria easily understood and applicable to farmers and relevant businesses? No, this is evidently not the case.

Products and services.

1. Do the RIC's current products and services support meeting the relevant policy objectives? No, as indicated, we would like to see the abolition of first start loans, replaced with a sustainability loan.
2. Do the eligibility criteria for the RIC's loans inadvertently exclude any groups that could/should benefit from such support? In my personal opinion, yes.
3. Are the products meeting current/future industry needs? No, I do not believe so.

4. Are the loan settings (e.g. loan term, maximum loan amount, interest and principal repayments) for the current products appropriate? It seems not, as per the annual report, where two-thirds of loans had their terms and conditions changed.
5. What other products and services would be suitable to meet policy objectives? Interest rate subsidies, financial grants, and a natural disaster insurance scheme.
6. 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? The RIC could respond to loan applications more positively and productively. Additionally, given the challenges of climate change and the need to feed the world's population, Australia's agricultural production is expected to see increased demand. Removing other barriers to farm efficiency, such as local government issues, could also be beneficial.

Funding model, operations, and loan delivery.

1. Is the RIC's funding model appropriate, given its functions? Probably not, as it does not account for potential natural disasters and industry assistance demands.
2. Is another funding model more appropriate for the RIC? Unless it adopts some form of insurance model, alternatives are challenging to envision.
3. What are the advantages and disadvantages of seeking a concessional loan from, and engaging with, the RIC? Currently, I only see disadvantages, as my applications have been unsuccessful.
4. Are there other models of loan delivery and management that would be more appropriate for the RIC? Why? Interest rate subsidies, particularly for livestock and machinery purchases, could provide a similar concessional rate without the need for borrowers to secure the full loan amount.
5. Considering that clients pay for loan delivery through the concessional interest rate charged, is the RIC appropriately resourced to undertake its functions? It is unclear what the costs of doing business are, but they should range from 10% to 25% of revenue. Based on assumed staffing costs of \$22.4 million, the cost of doing business, given the absence of a deposit side, should be around 5% to 12.5% of revenue, approximately \$7.5 million. Depending on staff numbers, it appears that only six loans per staff member are issued annually, which is quite low compared to the commercial banking sector.

First nations engagement and inclusion.

1. Is the RIC the appropriate vehicle to assist First Nations businesses?
2. What could the RIC do to support First Nations involvement in agriculture?
3. Do the eligibility criteria of the RIC's loans inadvertently exclude First Nations businesses?

Regarding the above questions, the RIC could assist First Nations people by:

Providing the business with an appropriate farm advisor to assist with management.

Developing a mentoring system and connecting First Nations individuals with qualified farm business owners in similar enterprises.

Recognising that communal ownership is common in some communities and applying different loan criteria as needed.

Submitted by

[REDACTED]

[REDACTED]

[REDACTED]