




NSW Farmers' submission to the Review of the Operation of the Regional Investment Corporation Act 2018

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About NSW Farmers

NSW Farmers is Australia's largest state farming organisation, representing the interests of its farmer members in the state. We are Australia's only state-based farming organisation that represents farmers across all agricultural commodities. We also speak up on issues that matter to farmers, whether it's the environment, biosecurity, water, animal welfare, economics, trade, workforce or rural and regional affairs.

Agriculture is an economic 'engine' industry in New South Wales. Despite having faced extreme weather conditions, pandemic and natural disasters in the past three years, farmers across the state produced more than \$23 billion in 2021-22, or around 25 per cent of total national production, and contribute significantly to the state's total exports. Agriculture is the heartbeat of regional communities, directly employing almost two per cent of the state's workers and supporting roles in processing, manufacturing, retail, and hospitality across regional and metropolitan areas. The sector hopes to grow this contribution even further by working toward the target of \$30 billion in economic output by 2030.

Our state's diverse geography and climatic conditions mean a wide variety of crops and livestock can be cultivated here. We represent the interests of farmers from a broad range of commodities – from avocados and tomatoes, apples, bananas and berries, through grains, pulses and lentils to oysters, cattle, dairy, goats, sheep, pigs and chickens.

We have teams working across regional New South Wales and in Sydney to ensure key policies and messages travel from paddock to Parliament. Our regional branch network ensures local voices guide and shape our positions on issues affecting real people in real communities. Our Branch members bring policy ideas to Annual Conference, our Advisory Committees provide specialist, practical advice to decision makers on issues affecting the sector, and our 60-member Executive Council makes the final decision on the policies we advocate on.

As well as advocating for farmers on issues that shape agriculture and regional areas, we provide direct business support and advice to our members. Our workplace relations team has a history of providing tailored, affordable business advice that can save our members thousands of dollars. Meanwhile, we maintain partnerships and alliances with like-minded organisations, universities, government agencies and commercial businesses across Australia. We are also a proud founding member of the National Farmers' Federation.

Executive summary

NSW farmers strongly supports the existence and the purpose of the Regional Investment Corporation (RIC) as a fundamental part of agriculture policy in Australia and supports the expansion of the organisation's remit to support longer-term finance products for farm businesses. Providing concessional loan products to farm businesses is essential for the government to achieve their stated priorities of drought preparedness, improving biosecurity and sustainability, increasing trade and market access and supporting the long-term economic development of Australia's regions and reduce economic disparities between regions and cities.

Agriculture in Australia is facing increased challenges such as extreme climate variations, high cost of inputs, supply chain disruptions and trade disruptions accentuated by geopolitical events. These disruptions in production are putting pressure on Australia's food security and require government support for farm businesses to improve their long-term strength, resilience and profitability.

The agriculture industry has an output target of \$100 billion by 2030 and the RIC offers a vehicle for investing long-term patient capital in the industry. Farm businesses are seeking longer term investment, with secure repayment schedules set at a steady rate, which is desired for long-term planning. The current RIC loan products have a maximum limit of \$2 million and maximum term of 10-years, these are too small and short-term focused to provide the capital investment required for serious transformations of farm businesses that address the prioritise of the Government. Elevated cost of production since the end of the pandemic and high agriculture land prices make these smaller limits redundant.

A potential model for an expanded RIC is the Clean Energy Finance Corporation (CEFC) or the National Reconstruction Fund Corporation (NRFC). These corporate Commonwealth entities exist to facilitate increased finance flows into the priority areas of the economy such as clean energy. These entities are not taxpayer grants, the boards are legislated to expect a return on investment above the Australian Government bond rate. This would provide a mechanism for long-term patient capital at a steady and secure rate of repayment.

The RIC should operate as a revolving fund that is not a burden on the taxpayer. The interest rate on a loan will cover the cost of operation and the cost of capital, making it revenue neutral. The expanded RIC model will provide value for money, repayments will be reinvested back into funding RIC loans rather than returned to consolidated revenue.

The RIC loans should continue to support agriculture's role in socioeconomic goals such as environmental sustainability and drought preparedness to secure the long-term prosperity of the regions and build resilience against climate risks. Drought loans should include a minimum 2-year interest free period. RIC loans can help farm businesses become part of the solution and mitigate climate risks by using loan products to facilitate investment in natural capital and carbon abatement. An expanded AgriStarter product is needed to allow new entrants to tackle the hurdle of entering agriculture. The current requirements for Agristarter are too onerous, and the \$ 2 million limit, given the increased agriculture land value, would only assist a person in a very specific circumstance.

Introduction

NSW Farmers welcomes this opportunity to respond to the statutory review of the Regional Investment Corporation (RIC). NSW Farmers strongly supports the RIC as an essential feature of the Australian agriculture policy landscape. NSW Farmers supports continuing and extending the RIC's activities beyond 30 June 2026 to provide concessional loans to farm businesses that help secure their long-term financial position. The RIC's loan package aligns strongly with NSW Farmers goal of developing financial instruments that provide a source of longer-term funds available for agriculture and aligns with our drought policy goal of seeking concessional drought preparedness loans.

NSW Farmers supports the RIC in supplying the agricultural lending products that commercial banks cannot provide. The RIC puts an aspect of competitive tension in the agricultural lending market, which in turns makes the commercial banks offer farm businesses better loan products. The RIC is a good extension of policy for the government to achieve their priorities of drought preparedness, improving biosecurity and sustainability, increasing trade and market access and supporting the long-term economic development of Australia's regions and reduce economic disparities between regions and cities. RIC products ought to be expanded beyond current loan offerings to include products which extend socio-economic benefits such as:

- Assist farm businesses to prepare for, manage through and recover from periods of drought;
- Support the long-term strength, resilience and profitability of Australian farm businesses by helping them to build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas;
- Support farm businesses into new markets and assist in carbon abatement
- Assist new entrants to farming looking to purchase, establish or develop their first business and support farming succession arrangements.

Industry, risks and opportunity

Australian agriculture is increasingly challenged by a range of factors including extreme weather events, the availability and increasing cost of critical inputs, labour shortages, threats of disease and both pre and post-farmgate supply chain disruptions and inefficiencies. Perpetuated by the global pandemic, geopolitical tensions and extreme weather events that are expected to worsen due to the effects of climate change. The past few years have seen many of these factors reach boiling point.

The resulting pressure on Australian production systems and supply chains has translated to significant price volatility at supermarket shelves. Ultimately, our sustainable food security will be determined by how we as an industry are supported to overcome the number of risks, vulnerabilities, disruptions, challenges and increasing costs that underpin Australia's food production.

Supporting a strong agricultural sector is the primal way the Government can support the long-term economic development of Australia's regions, which will reduce the inequality between metropolitan and regional areas. The government can create a virtuous economic cycle for regional NSW and Australia through well targeted investment to maintain stability in the agriculture sector and increase job opportunities.

The RIC offers a vehicle for better and targeted investment in agriculture and regional economies that provide community benefit. The RIC should support funding regional infrastructure and farm expansion which needs long term planning and patient capital investment. The agricultural industry has an output target of \$100 Billion in Australia by 2030 and a NSW target of \$30 billion by 2030.

For the industry in NSW to grow and increase profitability it will need to meet new opportunities such as increasing trade diversity and take advantage of new and emerging markets in the Asia-Pacific region, the industry needs more capital investment. The average net annual investment in the agricultural industry in NSW has averaged out at around \$360 million, for the past 30 years. The level capital investment in the industry has not kept pace with capital consumption over the past decade.

According to AgriFutures report on capital requirements of Australia's agriculture sector, the estimated annual net investment in productive capital to achieve \$30 billion by 2030 in NSW is \$2.6 billion¹. For the industry to continue historical growth rates it will require \$1.8 billion of investment. For the industry to maintain market share will require \$870 million. Whichever way you look at it, there needs to be a sustained increase in net investment in productive capital. Farm businesses are seeking longer term patient capital investment for the farm, with secure repayment schedules set at a steady rate which is desired for long-term planning.

Loan products

Amount

For RIC loan products to remain relevant the maximum loan amount will need to increase beyond the current limit of \$2 million across all product ranges to reflect the realities of the market.

The smaller loan limits being offered are no longer relevant to the reality farming finds itself in 2023. According to Rabobank's Australian Agricultural Land Price Outlook agricultural land has increased by 29 per cent (median price per hectare) since 2022. The cost of production and agricultural inputs has increased since the end of the pandemic. The cost of critical inputs including fertiliser, chemicals and energy have seen record high prices. Australia's headline inflation is one of the highest among advanced economies which has lifted the nominal value of all goods and services.

Long Term Investment Loans

The New South Wales Government have announced the Drought Ready Resilient Fund (DRRF) which are a series of low interest loans delivered through the Rural Assistance Authority (RAA). The need for short-term low interest loans has been taken up by the RAA in NSW. These loans are focused on preparing for, managing and recovering from drought and are presented as 5-year loans or 10-year loans. As these loans are short-term in nature, aiming to provide drought support, this leaves room for the scope of the RIC to focus on the long-term position of the farm.

The RIC lends concessional loans with a maximum amount of \$2 million to farm businesses and is largely aimed at farmers in need of more capital. The term of a RIC loan is 10 years, and they have variable interest rates currently at 4.52% that cover the cost of the corporation and the borrowing cost of the government.

¹ Agrifutures *Capital requirements of Australia's agriculture, fisheries and forestry sector* 2020

The rate is reviewed every 6 months and would only change along with changes to the Commonwealth bond rate.

For a stronger more significant Farm Investment Loan, the RIC should be modelled on the Clean Energy Finance Corporation (CEFC). The CEFC is a corporate Commonwealth entity which exists to facilitate increased flows of finance into the clean energy sector. They have been allocated \$10 Billion by the Federal Government to make investments which attract private sector finance. This has helped spur on \$33 billion into the sector. The CEFC is not a grant, the board is required to target an average return of at least the five-year Australian Government bond rate +3 to +4 per cent per annum over the medium to long term.

The Government have also announced the National Reconstruction Fund Corporation (NRFC), with an operating mandate, that requires the board to target an average return of between 2 and 3 per cent above the five-year Australian Government bond rate. The NRFC has regional development as one of the investment considerations and out of \$15 billion, \$500 million is targeted for agriculture.

A similar model where the government allows larger scale investment into the Australian agriculture industry through the issue of some form of 'Regional Investment Bond.' The RIC could, through the Australian Government, secure 10–30-year bonds. Agriculture investment would be more attractive to superfunds if investment in agriculture was presented as a liquid bond. Agriculture has enormous potential but will need certainty and long-term lending.

Currently, paying back a loan from the RIC or an Authorised Deposit taking Institution (ADI) in a timeframe of 10-years is not enough for the longer-term investment needed to increase the productivity of capital to enable market expansion and reduce regional disadvantage. This is not a subsidy – the money will be paid back; however, farmers would have the certainty of fixed repayments at the coupon rate or a level of return the Government deems fit. To fully integrate this model the current debt requirements to hold a RIC loan, such as having at least 50% of your total debt stay with a commercial lender, should be eased. This allows a more flexible model that has less onerous requirements for applicants and allows greater flexibility.

Continuing the 50% commercial debt requirement will lead to a RIC with a bias towards farmers with assets, who can borrow against the assets as collateral. There needs to be options for farmers who have cashflow but have insufficient assets.

Drought preparedness

RIC loans should still continue to support drought preparedness in the regions. This will secure the long-term prosperity of regions and build resilience against climate risks. Drought loans should include a minimum two-years interest free, as recognition of the need to support farm businesses to manage drought conditions, cash flow and maintain profitability.

The two-year interest free period on the RIC's Drought Loans, and a further three years of interest only repayments, was well-received by drought-affected farmers in November 2019. Despite lengthy processing times, this loan package effectively eased pressure on farm businesses, often being used to refinance existing debt at a lower rate to free up cash flow to assist in everyday operations during the drought.

Environmental benefits

RIC loan products can support farm businesses being part of the solution to mitigate climate risks through facilitating investment in natural capital and carbon abatement. Investment and long-term planning in achieving net zero emissions in agriculture has been marginal, especially when placed in contrast to other sectors. Large investments from the budget include, \$10 billion through the Capacity Investment Scheme into the electricity grid and others.

In the federal budget \$20 million is allocated to establish an outreach program to empower participation in carbon markets and to integrate low emission technologies and practices. \$302 million over five years for climate-smart, sustainable agriculture investments under the Natural Heritage Trust, \$9.4 million to collection information on the adoption of low emissions technologies, \$12.8 million to examine the effect of domestic and international emissions policies on Australian agriculture.

Agriculture is a hard to abate industry with no commercial alternatives available for some emissions sources, such as enteric fermentation from livestock. Significant public investment in research and adoption far above current levels – which would also attract private investment – will be required to ensure agriculture can decarbonise.

Investment in the form of sustainability linked loans with discounted finance can assist farmers who are interested in investing in infrastructure, technology or practices that will have a positive environmental impact. These practices could include improving soil quality on degraded land, better waste management, using regenerative farming practices and use of precision chemicals.

AgriStarter

A loan product aimed at assisting young farmers enter agricultural through penetrating the large entry barrier cost is positive, however AgriStarter as it is currently constructed falls short of this aim. As stated earlier, the high levels of land value appreciation mean a \$2 million loan over ten years is nowhere near enough to manage this problem.

The requirements for Agristarter are too onerous and would only assist a person in a very specific circumstance. The requirements allow only an applicant with three years of experience and not having held sole or controlling interest in a farm business. These requirements carry over to succession loan requirements, along with the general requirement of already holding commercial debt and that half of your debt remains with a commercial lender.

Many young farmers start their career by working on a family farm, for which they may not receive payment. There should be greater variability for young farmers showing assets in a family history where they may not be the titled asset holder or on a permanent wage. There should be recognition of the diversity of income that aspiring farmers engage in when building up capital for their first purchase, such as workers on a casual wage. There is room here to expand a product that fits the circumstance of young farmers trying to enter into the market. There is room for a product that supports applicants with less capital or assets available.

Structure

Funding Model

The RIC should operate as a revolving fund that is not a burden to the taxpayer. The interest rates the RIC charges covers both the cost of capital and the cost of operation, making it largely revenue neutral and any profit made is returned to consolidated revenue. The repayments made should be reinvested in the RIC, not only to enable self-sufficiency but to allow the fund to grow and the surplus to be reinvested rather than returned to Treasury. This would enable the funds to support all the aims of the RIC over time and not cost the taxpayer in allocated funds.

Governance Arrangements

The current governance arrangement of the RIC as a corporate Commonwealth entity is appropriate for managing its operations. We support the model of the two ministers responsible for board appointments and the function and makeup of the independent board members. The current structure of the RIC's

operating mandate prescribed from the minister needs to be more flexible. Given the dynamic nature of the market, more decision-making authority should be given to the board for making addition program rules and loan products arrangements that are flexible and are responsive to economic and industry needs.

The Federal Government has launched the National Reconstruction Fund Corporation (NRFC), its role is to facilitate increased flows of finance into priority areas of the Australian economy. Under the NRFC Act, the board of the Corporation is responsible for deciding the strategies and policies to be followed by the Corporation. Under its operating mandate the NRFC is able to make investment decisions independently of the Government, the types of investment the NRFC may make includes loans, guarantees and equity. The NRFC is required to take into consideration the medium- and long-term interests. This independent model, along with the Clean Energy Finance Corporation mention earlier, would be an improved structure for the RIC.

NSW Farmers thanks you for this opportunity to respond and provide input to the Review of the Operation of the Regional Investment Corporation Act 2018. If you wish for further discussions on this matter, please contact our Acting Head of Policy Kathy Rankin on mobile [REDACTED]
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