



RIC Act Review 2023

Submission to the Review

Acknowledgement of Country

RIC acknowledges the Traditional Custodians of Country throughout Australia and their continuing connection to lands, waters and community.

We pay our respects to the Aboriginal and Torres Strait Islander cultures, and to the Elders past, present and emerging.

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1. Introduction and summary

RIC (Regional Investment Corporation) is a Corporate Commonwealth Entity and Special Investment Vehicle within the Commonwealth's Investment Framework. Our purpose is to **support the growth, resilience, and sustainability of Australia's agricultural economy**. We deliver this through concessional loans to farm businesses, and farm-related small businesses, for the benefit of agriculture and regional economies. We have supported the agricultural sector during times of drought, disaster, and business disruption, and for investment in a stronger future.

We were established in 2018 and continue to be proudly headquartered on Wiradjuri Land in the Central West of New South Wales, with most of our staff having strong ties to agriculture and based in the regional communities they serve. 59% of our staff are located in Orange and the Central West, and 77% of the total workforce are located in regional Australia (RIC 2023).

In 2023, our organisation transformed from an outsourced business model into an insourced, end-to-end loan service provider, with fully integrated lending systems that increase our capability to deliver government policy.

Having undergone such business transformation in our short existence, and with increased capability to deliver outcomes for agriculture, the timing of this review is ideal to consider our future scope, and hear from government and stakeholders on how they see our purpose being fulfilled into the future.

1.1 Terms of reference

Section 53 of the *Regional Investment Corporation Act 2018* (the Act) requires that the Agriculture Minister arranges a review of the Act that considers the scope of the Corporation's activities and governance arrangements after 30 June 2026.

On 1 November 2023, the Department of Agriculture, Fisheries and Forestry announced the commencement of the review and released of the review's Terms of Reference (ToR) as follows:

Without limiting the matters to be covered by the review of the Act (Review), section 53(2) of the Act stipulates that the Review must consider the following in relation to the Regional Investment Corporation (RIC):

- *the scope of the RIC's activities after 30 June 2026; and*
- *the appropriate governance arrangements for the RIC after that date.*

In addressing the above matters, the Review should consider:

1. *the need for, and effectiveness of, the RIC as a mechanism to deliver nationally consistent concessional finance to support the long-term strength, resilience and profitability of Australian farm businesses*
2. *the appropriateness of the Regional Investment Corporation Operating Mandate Direction 2018, rules made under the Act and eligibility criteria*
3. *the customer base of the RIC and the case for supporting that customer base with publicly-funded concessional finance*
4. *the suitability and effectiveness of the RIC's products and services*
5. *the suitability of the RIC's funding model and operations*

6. *opportunities for the RIC to appropriately support the agriculture sector to meet current and future challenges in line with government policy objectives*
7. *opportunities to support greater engagement and inclusion of First Nations people in agriculture, including facilitating activities that are First Nations-led*
8. *opportunities to improve the efficiency and effectiveness of loan delivery and management, including with reference to other Commonwealth Specialist Investment Vehicles*
9. *other matters relevant to the operation of the Act.*

This submission addresses the ToR through the following discussion clusters:

- Chapter 2 addresses the ‘why’ of concessional lending, why Australian farmers should be supported, and why the RIC should continue to deliver this service (ToR points 1 and 3)
- Chapter 3 provides a pragmatic view of RIC’s operating framework and its future potential:
 - Section 3.1: RIC’s current legislative framework (ToR point 2)
 - Section 3.2: RIC’s products and services (ToR point 4), future opportunities to support the sector (ToR point 6) and deliver government policy objectives (ToR points 2, 6, 7 and 8)
 - Section 3.3: RIC’s funding and operating model (ToR points 2 and 5) and future opportunities to create an enduring, self-sustaining, cost-neutral business model
 - Section 3.4: Other technical matters regarding legislation (ToR point 9)



“
**Because when our
regions are strong,
our nation is strong**
(the Hon. Catherine King MP) ”
Regional Australia Institute 2023

1.2 Executive summary

In 2023, RIC entered its fifth year in operation. Since inception, we have embedded the learnings from several reviews, for example, the *Design and Establishment of the Regional Investment Corporation* Performance Audit (ANAO 2020); and the *Independent Review of the Regional Investment Corporation* (Tune 2021), and from first-hand interactions with farm business customers, their trusted advisors and industry representatives.

Having undergone an operating model transformation to insource lending services, RIC has gained staff with banking expertise alongside end-to-end loan management systems. We have the practical knowledge and agribusiness lending expertise to provide sound advice to the government, through this review, to maximise policy outcomes and improve operational efficiencies. The government has invested time and funds into establishing RIC and the review provides an opportunity to look to the future and maximise that investment. Our view is based on augmenting policy outcomes and their adaptability into the future, and taking advantage of the benefits of RIC's cost-efficient model, established operations and independent Board.

Regional communities rely on agriculture as one of the largest employers and economic stimulators. The impact of RIC loans on regional Australia is an estimated \$3.4 billion contribution to Gross Regional Product over 20 years, and 1,263 FTE jobs annually (BDO 2023). The benefit of RIC loans is greater than the loan funding investment, enhanced further by the loan funds being returned to government for re-use. Added to this, the multiplier effect of a strong and productive agriculture sector on Gross Domestic Product, when agriculture-dependent value chains and employment from value-add activities are considered, has been shown to increase agriculture's contribution by a factor of up to 4 times (Figure 1).

RIC believes investment in agriculture is the key to vibrant regional communities, economies, and a sustainable future. Concessional loans are a tool to deliver that investment in a consistent manner that is cost-neutral to government and that mitigates the economic impacts of seasonal and commodity variabilities. When constructed in a pragmatic and flexible way, it can be applied to the government of the day, with minimal additional time, cost, and effort of continual legislative change. An at-the-ready concessional lending vehicle for agriculture is a prudent economic mechanism within the government toolkit due to the boom-and-bust nature of agriculture's seasonal and economic conditions, coupled with the strong need for future adaptation in the sector, and strong support from the sector.

Our recommendations to the review are focused on achieving:

- a more appropriate level of operational flexibility to manage our customers and collaborate with other government entities
- a longer-term view of product design, and
- continuation of RIC loan funding beyond 2026 through a revolving loan funding model.

RIC modelling suggests a revolving facility is possible through the redeployment of repaid loan funds with no increase to the administrative cost margin, even during unplanned event scenarios such as drought. Our recommendations will support Australian agriculture to address increasingly variable conditions, to provide a cost-neutral mechanism to government for future drought and disaster funding, and to support adaptation to a sustainable future.

With an investment vehicle like RIC, the government can reap multiple and enduring benefits from concessional loans – from economic and environmental health, productivity and social fabric of farmers and their regional communities to national and global benefits like food security, climate adaptation, biodiversity, and strong Gross Regional and Domestic Product.

At its core, concessional lending to farm businesses in financial need is about regional people, because regional Australia is where agriculture lives. Hand in hand, the combined economic force of agriculture and regional Australia is why RIC exists.

1.3 Recommendations

1. A legislative framework that provides greater differentiation between loans products, tailored to policy outcomes, and with appropriate flexibility in delivery.
2. Legislative framework amendments that increase the Board's decision-making ability, and therefore accountability within an agreed framework, allowing RIC the scope to:
 - a. Increase RIC's management options to meet individual customer circumstances, including non-performing and impaired loans.
 - b. Work with government entities to deliver their policy outcomes by using the RIC as the delivery entity for farm businesses and farm-related small businesses
3. Establishment of a revolving lending facility, facilitated through the re-use of loan funds following principal and full loan repayments.

2. The need for concessional lending - community & government outcomes

Terms of reference 1 and 3

2.1 About farm business concessional lending

Concessional loans have more favourable terms than can generally be obtained elsewhere in the market and have been used in Australian public policy for decades to deliver government policy objectives (Department of Finance 2021).

Historically, the Commonwealth's farm business concessional loan programs were delivered through states and territories to assist farm businesses to improve their debt servicing capacity. In practice, delivery was inconsistent across schemes and jurisdictions, creating inequitable outcomes for farmers, and a time-consuming burden for the government when negotiating across state jurisdictions.

RIC was established on 1 July 2018 to deliver farm business concessional loans as a nationally consistent loan scheme that was equitable for farm businesses with streamlined administration. The AgBiz Drought Loan for farm-related small businesses was added to our product suite in 2020 in response to the drought, recognising the post-farmgate impacts on regional towns when farm businesses are under financial pressure.

In 2018, the Australian Government and state and territory signatories agreed to the National Drought Agreement, committing to the Australian Government's role in '*providing continued access to incentives that support farming businesses' risk management including ... concessional loans*' (National Drought Agreement 2018).

The RIC further delivers on government policy through the Australian Government Drought Response, Resilience and Preparedness Plan (Department of Agriculture 2019) through:

- *Action 1.3 Continue to provide concessional loan products to support farm businesses prepare for, manage through and recover from drought, and*
- *Action 2.2 Support for the wider communities affected by drought through the delivery of the drought loan for small businesses.*

Today, concessional loans are a tool used across most government Special Investment Vehicles, providing capability for Ministers with Special Investment Vehicles attached to their portfolios to deploy funding into their respective sectors. Through the design of RIC's interest rate, the investment into agriculture is made on a cost-neutral basis, with loan funds being prudently managed and returned to the government.

In the USA and Canada, concessional lending has been established for decades on a large scale, allowing each country to build its return on investment, diversify its offering and broaden its reach.

Established in 1959, Farm Credit Canada provides business and financial services to primary producers, agribusinesses and agri-food operators. It is a financially self-sustaining federal commercial Crown corporation with an agribusiness and agrifood portfolio worth \$47.9 billion and net income of \$722.1 million.

Established in 1939, the United States Farm Service Agency (FSA) makes direct and guaranteed farm loans to family farmers and ranchers who cannot obtain commercial debt from a bank. In FY 2022, FSA administered 24,357 loans at a value of \$5,815,610,031.

2.2 The 'why' for concessional lending in agriculture

Vital to the Australian economy, the agriculture sector contributes to economic buoyancy, market productivity, domestic and international food security, export income, regional employment, and employment in post-farmgate industries, attracting further investment in vibrant regional communities.

87,800 farm businesses in Australia
(ABARES 2023a)

55% of Australia's land use
(ABARES 2023a)

300,000 people on average employed in the
4 quarters to Nov 2022
(ABARES 2023a)

369 million ha of agricultural
land
(ABS 2023a)

\$80 billion in agricultural
production value expected in 2023-24
(ABARES 2023b)

2.4% of value-added Gross Domestic
Product in 2021-2022
(ABARES 2023a)

However, this important economic driver is dependent on environmental conditions. It is a business with considerable uncertainty and risk. Such challenges will be further exacerbated by climate change as demonstrated by the 2001 to 2020 reduction in annual average farm profits by **23%** (Hughes 2021).

Regional communities depend on agriculture



There are strong interdependencies between a productive agricultural sector and strong regional communities.

9.5 million people live in regional Australia	33% of businesses involved in agriculture are in regional Australia (ABS 2023)
\$584 billion contribution to Gross Domestic Product	79% of agricultural employment is attributed to small farm businesses (ABS 2023)
Agriculture is one of the key regional industries that leads productivity (Regional Australia Institute 2023)	81% of the agriculture workforce lives in regional areas (ABARES 2023c)

Agriculture is more inextricably linked to the success of regional Australia than any other economic sector. This combination of agriculture and regional Australia drives our iconic way of life and economy.

Agriculture businesses, their family households and surrounding communities are enmeshed like no other industry. A struggling farming sector can mean struggling regions and households. The smaller the rural town, the more dependent they are on agriculture (Fleming-Munoz et al 2023). Take Cabonne for example, the local government area that surrounds RIC’s head office in Orange NSW, population 13,825, where agriculture represents more than 40% of the total number of businesses (ABS 2023).

The injection of concessional lending investment into agriculture has a direct regional impact due to agriculture’s dominant regional presence. It is an investment in those that make our country prosperous, with cash flow from interest saved through a concessional loan being injected into regional communities by farmers (an estimated \$268.47 million in interest saved through RIC loans to September 2023).

Supporting viable farm businesses with concessional lending when farm incomes and profits are at risk, protects food security and strong, decentralised regional economies. It increases the likelihood of farm businesses staying in business during times of market shock when banks can become risk averse.

The provision of a support mechanism for agricultural enterprises in an environment where the risks are inherent and increasing beyond a farm business’ control is a critical role for the government.

The benefits to regional Australia from investing in its future through agricultural concessional lending include strong regional productivity, employment opportunities, attracting further population growth and investment into regional communities, and the social and mental wellbeing of regional communities during adversity.

A strong economy depends on regional communities



The economic influence of agriculture combined with regional Australia is powerful.

RIC commissioned independent economic impact analysis (BDO 2023) of the RIC loan portfolio from commencement to the present, to quantify the direct and flow-on economic effects on regional Australia’s economy and Gross Regional Product (the regional equivalent of Gross Domestic Product encompassing business profit, taxes and household income). Impacts analysed were derived from the release of funds through concessional loans that were put towards increased investment (e.g. purchase of stock, inputs into expanding crop areas) or resilience (e.g. water infrastructure, pasture renovation), and the increased productivity itself.

The analysis over a 20-year period found that RIC loans result in ‘a *healthy contribution to the economy of regional Australia over the course of the 20-year period of the analysis*’ with the following highlights.

\$3.4 billion	Contribution to Gross Regional Product over 20 years
1,263	Full-time (FTE) equivalent jobs supported
\$1.6 billion	On-farm investments and productivity improvements
\$1.3 billion	Production-induced flow-on effects stimulated by farm business expenditure
\$0.6 billion	Consumption-induced flow-on effects (spending of employee wages on-farm and in broader supply chain)
67%	Higher average impact from a \$1 million loan when compared to a \$1 million construction project
47%	Of the impact directed to farm businesses
37%	Of the impact feeds regional Australia supply chains
16%	Of the impact directed to employees of the full supply chain located in regions

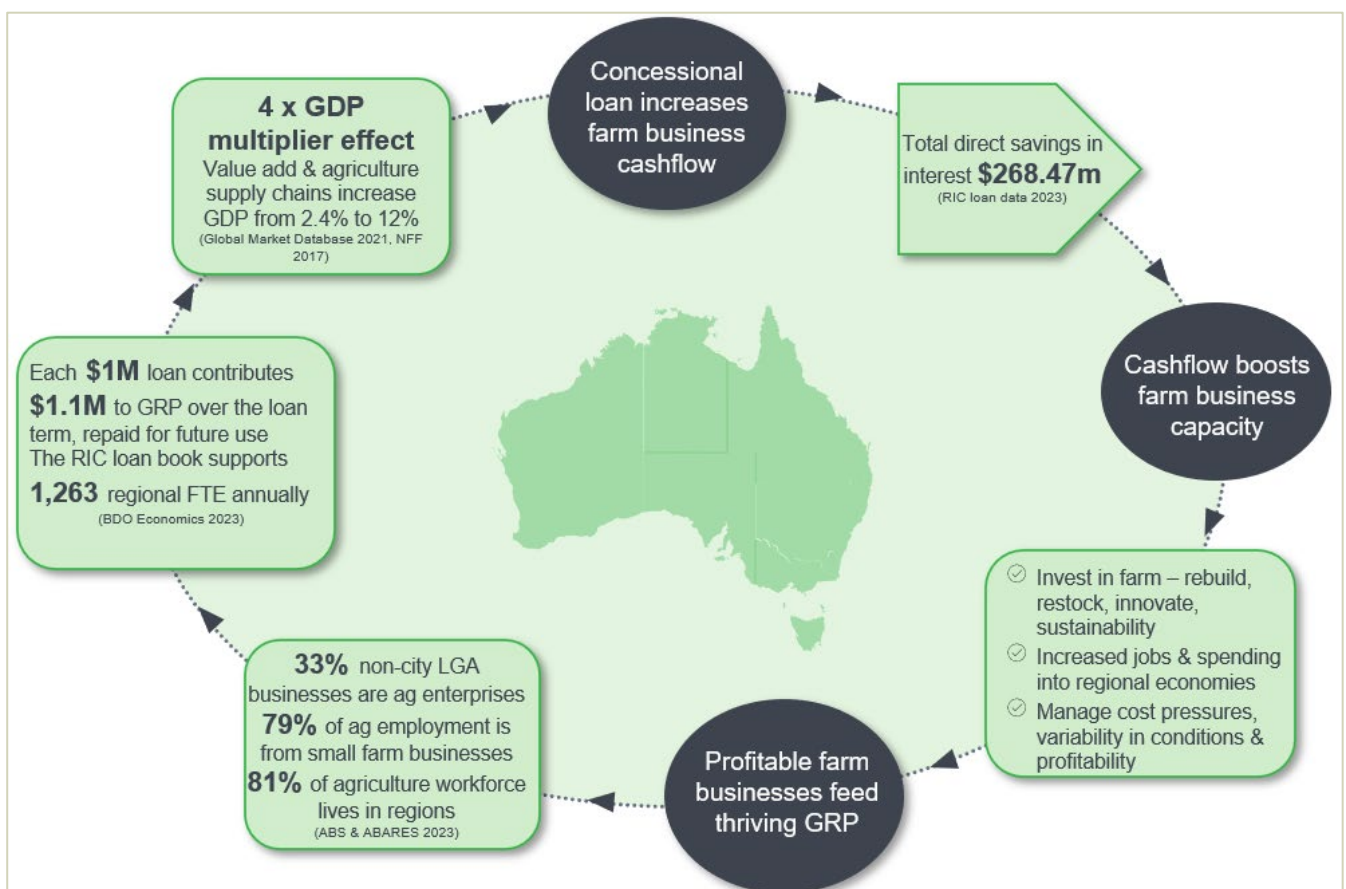
For each \$1 million lent, there is approximately \$1.1 million of Gross Regional Product generated over the 10-year life of a loan, and each loan contributes 0.43 FTE in regional employment annually for the loan term when on-farm and associated supply chains are considered. Not only is

there a measurable economic impact that exceeds the loan value, but upon the loan being repaid, the funds are available to the government for re-use.

Added to this, the multiplier effect of agriculture on Gross Domestic Product, when agriculture-dependent value chains and employment from value-add activities are considered, has been shown over time in literature (per Figure 1) to be significant to the economy, increasing agriculture's Gross Domestic Product contribution by a factor of up to 4 times.

The release of cashflow from concessional loans into regional economies feeds a thriving cycle that is economically significant to Australia. To date, an estimated \$268.47 million in interest savings from RIC loans has helped good farmers come through a difficult period, while maintaining a long-term profitable business, and allowing investments in productivity or value-adding improvements. This in turn has increased cashflow into regional communities (Figure 1). The benefits are multiple and enduring – from local and regional jobs and productivity to national and global benefits like food security and a multiplier effect on Gross Domestic Product.

Figure 1: The economic power of concessional lending to agriculture



It all hinges on a highly variable enterprise

Farm businesses are vulnerable to external impacts and continual volatility that are uniquely intensified in agriculture when compared to other sectors, and impact on farm profitability. The effects of struggling farm businesses flow on to the economic and social wellbeing of surrounding regional communities and post-farmgate industries and economies.

Norco / NFF (2023) reported that 88% of Australian farmers have been '*significantly impacted*' by natural disasters over the past 5 years, costing on average \$1.4 million per farm.

For some of our customers, these variabilities and extremes have occurred all at once, and sometimes one on the back of another – climatic conditions and natural disaster events; economic volatility (commodity prices in freefall, spikes in interest rates and input costs, including access to and cost of labour and insurance); and biosecurity risks. These risks will continue with some, for example, as a result of climate change increasing.

Just after the peak of the last drought, the Reserve Bank of Australia (2020) verified that:

Lower rural production overall and higher input costs, particularly for water and livestock feed, have placed significant pressure on farm profits, which have declined by around 30 per cent since early 2017. This has had flow-on effects to regional and rural communities; as farmers have scaled back spending, this has reduced the income of businesses that supply goods and services to the farm sector.

Access to multiple financial vehicles allow farm businesses to manage the variety of volatility and risk during times of disaster and business disruption. Concessional lending is one such vehicle. While state and federal recovery grants are lifelines that support short-term cash flow and initial recovery efforts, the road to recovery is not so straightforward.

Community recovery will not occur without business recovery. In the absence of an adapted and functioning economy, a disaster impacted region will remain in a state of post-disaster dysfunction ... the recent trend towards establishing short-term recovery authorities runs the risk of creating perceptions that the recovery process is complete after two years and reinforces the notion that the recovery phase ends with the completion of reconstruction activities ... Four years after Black Saturday, Marysville is still struggling to get back on its feet. Residents estimate the recovery process will take anywhere between 10 to 25 years. In Cardwell, two years after Cyclone Yasi, businesses are still rebuilding. The common consensus there is that the recovery process will last at least another five years.

(Regional Australia Institute 2022)

Impacts on farm profits from climate variability

During the 2017-2020 drought, agricultural output reduced dramatically, there was limited access to additional credit and borrowing arrears subsequently increased (refer Appendix 1: Value Proposition, Regional Australia proof points).

In 2023, an El Nino weather pattern has been officially declared, some agricultural commodity prices have hit an all-time low (for example, sheep prices so low they were being given away), worse than during the 2017-2020 drought, and average broadacre farm cash incomes are forecast to decrease (Mulcahy et al 2023). This combination of circumstances can be tough for a seasoned farmer to manage, but new entrants to farming will be less equipped to manage debt in such an operating environment. With these events combining, farm businesses become higher risk to banks and can find themselves with cashflow difficulties and at risk of financial distress.

ABARES (2023a) modelled the longer-term impact on farm profits from conditions arising from climate change, noting '*adaptation pressure faced by regions and sectors*' and a likely scenario of overall farm profit falling by 13% by 2050 (Hughes 2021). The radical difference in farm profitability due to seasonal variabilities (Figure 2), aligns to the concentration of farm businesses supported by RIC loans across the agricultural food belt of regional Australia (Figure 3).

Hughes (2021) noted that '*Given their lower profit margins, smaller farms are likely to face greater pressure from climate change which could hasten farm consolidation trends*'. Supporting family farms in regional Australia has the benefit of directing profits to regional communities (versus corporate farming).

Figure 2: Effect of 2001 to 2020 seasonal conditions on farm profit (ABARES 2023a)

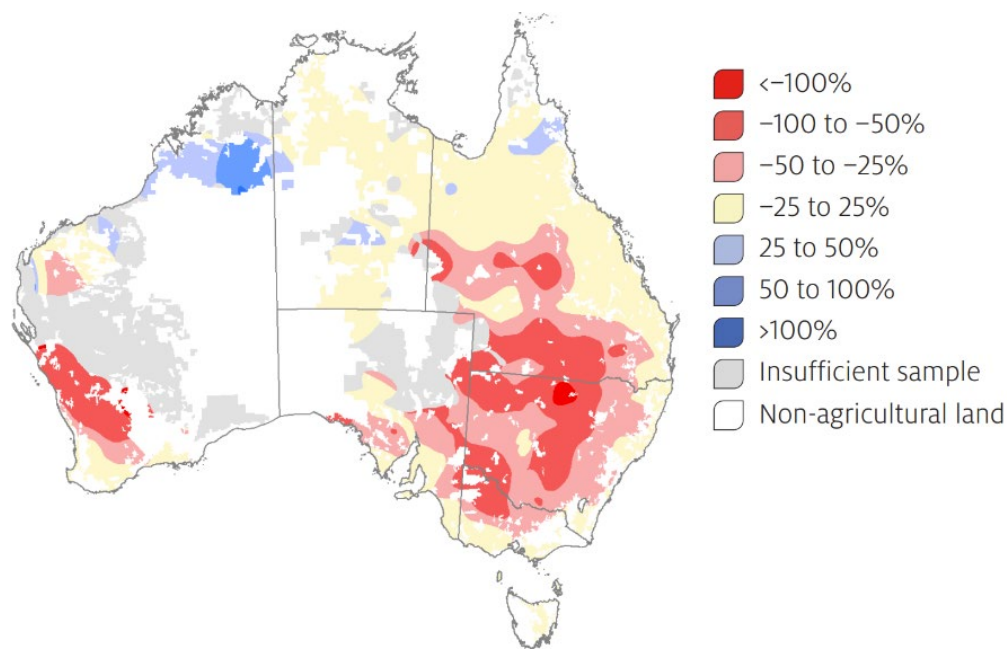
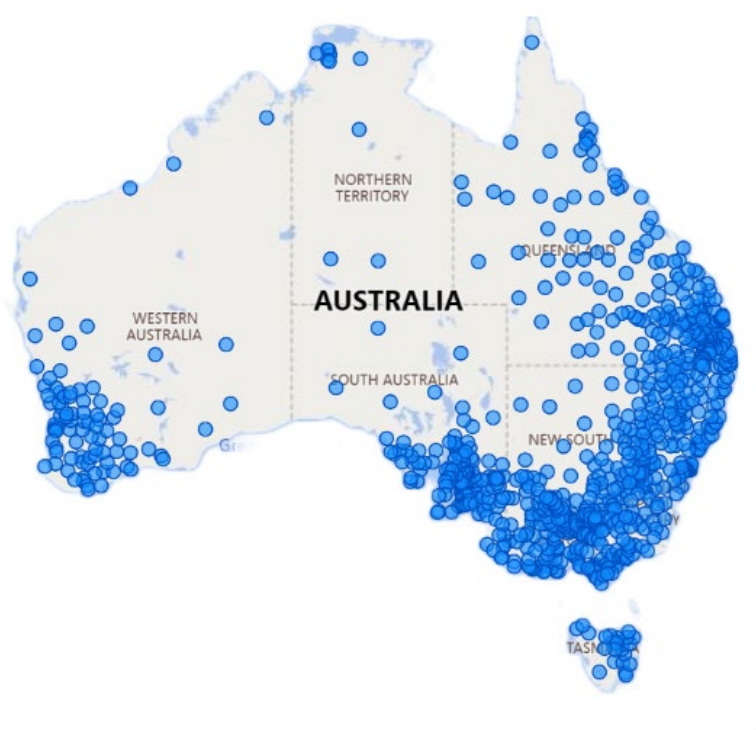


Figure 3: Geographical spread of RIC loan portfolio (RIC loan data Sep 2023)



RIC's latest customer research shows that **55% of surveyed customers believe their farm or small business would not have survived without their RIC loan** (JWS 2023). This sentiment, extrapolated over the entire RIC loan book of over 3,000 customers, indicates the potential to have lost around 1,600 family farming businesses that were actually viable businesses in the longer term.

In 2023, a nationally representative sample of 600 farmers participated in a phone-based survey (RIC 2023a) in which they were asked about their likelihood to adopt government assistance measures. 72% responded that they would be likely to take advantage of concessional loans, which ranked third in the list of available measures after grants and taxation support. Concessional loans were ranked above financial counselling, farm household allowance, farm debt mediation and mental health support.

Concessional loans are the most wide-reaching, cost-effective, direct-to-farmer agriculture policy mechanism that supports viable farm businesses to operate in highly variable conditions.

“

Farming is not like any other small family business. No other business creates the emotional connections that farming does. It's where the business owner and their family live. It's where they raise their children. It's where they connect to their community. It's where their family memories are generated. It's where they care for and raise their stock.

It's where they improve the land, planting trees, gardens, dams and landscapes. It is full of highs and low – tough times and good – fire, flood, drought, plague, good seasons and bad. It's not just about generating an income. If it was, there would be a lot less food producers in Australia. So unlike other businesses it's not as easy as saying 'just sell up and move into town'. There is emotional fallout and wide-ranging impacts to deal with which non-farmers may find difficult to understand. ”

Shire of Strathbogie, Euroa, Victoria
(Extract from Drought Policy Review Expert Social Panel 2008)



It's the key to a sustainable future

Increasingly important to the future is funding to support industry transition to improve biodiversity, sustainability, and carbon capture. Agriculture is in a key position to influence future environmental outcomes due to its large ownership of land mass and land use, and its stewardship of vast natural resources.

Having successfully established the RIC to deliver products directly to Australia's largest landholder group provides government sustainability policy delivery opportunities, such as assisting farm businesses to take advantage of emerging markets, carbon capture and biodiversity conservation, while also delivering public benefits.

As Australia's society, environment, and economy evolve and new government and industry targets are set, there continues to be a role for government to facilitate change by incentivising innovation and adaptation. Not only does the agriculture sector need to transition to new practices, technologies, and infrastructure towards Net Zero, transition is also required to allow smaller farm businesses to remain competitive in the face of an increasingly ESG-minded consumer and more difficult growing conditions.

A farm business that wants to diversify or transition its crops to more drought-hardy varieties will face up-front investment costs, impacting their cashflow and detracting from their ability to access debt financing. Uptake of new practices at scale and pace will be slower for smaller farm businesses (RIC's customer base) without incentive and support, leaving family farms and their regional communities behind. Effecting change is more likely to occur where financial incentives are provided.

As the risks of climate change grow, food systems will be tasked with creating more products with fewer inputs in increasingly difficult conditions ... Key barriers to adoption and associated opportunities include novel financing to provide adequate incentives for farmers ... Lack of access to capital also limits farmers' adoption of interventions with high investment needs, especially on small farms, and longer timeframes of potential payoffs further limit uptake for farmers late in their careers

(McKinsey & Company 2023)

KPMG (2023) estimated that \$30 billion in additional capital is required to improve agriculture farming practices, technology, and carbon sequestration to abate emissions by 2030. When compared to global banks, KPMG (2023a) states '*examples of sustainable financing in the Australian agricultural sector are yet to target the full breadth of environmental, social and governance issues facing rural industries in a way that is integrated into more broadly adopted secured agricultural loans*'. This gap in the market represents an opportunity for the government to hasten the pace of sector transition.

Investment, incentivisation and intervention decisions which prioritise building regional economic opportunity through increased agricultural industry will have the symbiotic outcomes of enhancing both the sustainable growth of the farm sector and the long-term viability of regional communities.

(Australian Farm Institute 2021)

Current estimates predict a funding gap in the industry's ability to achieve its \$100 billion in farmgate output by 2030 target, requiring \$8.7 billion of additional investment per year (Natural Capital Economics 2020). Government policy, producers and consumers are increasingly seeking farmers to improve their productivity, operate on a sustainable basis, and deliver improved biodiversity, conservation, reduced greenhouse gas production and carbon capture and storage.

Incentivising sustainability through concessional lending is a cost-effective way for the government to achieve its targets, through widespread incentivisation of the 87,800 farming businesses across more than half the land mass of the country.

Furthermore, concessional lending provides a mechanism beyond drought and disaster recovery support, to supporting preparedness, sustainability, innovation and adaptation. It remains in line with the National Drought Agreement's (2018) '*objectives and outcomes that enhance long-term preparedness, sustainability, resilience and risk management for farming businesses and farming communities in Australia*', and the National Farmers' Federation 2030 Roadmap Pillar 2, *Growing Sustainably* (NFF 2019).

A long-term view of the benefits from agricultural transition to a sustainable future needs to be applied due to the scale of the challenge. In a lending sense, the Australian National University (2018) found:

Short-term loans don't encourage investment in some key climate abatement strategies relating to investment in natural capital which typically take longer to provide farmers with returns ... extending the term of conventional concessional loans past 10 years (e.g. 20 years) could significantly reduce the size of regular fixed repayments, reduce the risk of repayment hardship, and improve the attractiveness of the loan scheme to borrowers.

Design of a concessional loan scheme for such a purpose would build on existing motivations of farm businesses to be environmentally resilient and maintain a competitive advantage. RIC is well placed to help design and deliver such a scheme to the agriculture sector, helping to achieve multiple public and private outcomes with economic, environmental, and social benefits across Australia.

Concessional lending - supported by industry

Pre- and post-establishment of the RIC, peak agriculture and finance industry bodies have supported the RIC's purpose, and at times have suggested its expansion (Table 1). Concessional loans that do not cost the government beyond its initial loan funding investment are a direct and cost-effective way to address industry concerns and demonstrate the government's support of the industry.

Table 1: Industry peak body support

National Farmers' Federation

(NFF 2017a) ... the operation of the RIC should be able to cater to all farmers, including those whose business it is to trade wholly within a particular state ... NFF would like to see the RIC to be able to reinvest funds and deposits as this would enable it to become financially self-sufficient following initial financial support by the Government.

(NFF 2017b) ... the RIC is a significant opportunity to further the agricultural sector ... 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

(NFF 2021) The NFF recommends that the potential loan amount be increased to \$3 million, where it can be demonstrated that this amount is necessary for the specific farm ... That a provision for loan extensions in exceptional circumstances be included ...

Section 4.1 (of guidelines) be modified to accommodate farm businesses that solely or mainly supply, products within their own state.

That a fixed interest rate loan option be provided ... a fixed-rate loan would increase the options available to farm businesses and allow farm businesses to choose the best risk management option available depending on the circumstances.

National Farmers' Federation

That the eligibility criteria of the AgriStarter Loan be reviewed to include those who do not have access to certain commercial loans ... This aspect of the eligibility criteria is likely to limit new farmers who might not be able to obtain a loan on commercial terms from accessing the AgriStarter loan and thus act as a counter to the intended purpose of this type of loan.

(NFF 2022) Commitments sought: Support the Regional Investment Corporation to deliver farmers a wider range of investment support, including innovative products to drive longer (sic)

(NFF 2023) Recommendation 36: \$40 million over four years to introduce a new Regional Investment Corporation (RIC) loan to assist farmers undertake emissions reduction activities.

Pillar 5: Capital and Risk Management - Well-targeted tax incentives and concessional loans are two of the most effective policy instruments for achieving these goals.

(NFF 2023a) The NFF supports the value of the RIC and concessional lending to farm businesses as a fundamental component of Australian Government's drought policy and suite of support measures. It has been a long-term objective of the NFF to maintain or expand existing concessional loan products for farm businesses in relation to drought and encourage the consideration of new concessional loan products ... The RIC and loan packages must be diverse, adaptable and flexible. Loans beyond the traditional remit of the RIC help to maintain the RIC's capacity, capability, effectiveness and connection to industry both during and outside periods of crisis.

GrainGrowers Ltd

(GrainGrowers 2021) GrainGrowers supports the role and mandate of the RIC as a provider of affordable finance that encourages resilience of a farm business's long-term financial position.

GrainGrowers supports the commitment by the RIC to provide loans that support the long-term strength, resilience, and profitability of Australian farm businesses, and has extensively advocated to government for the security and recirculated investment of funds back into the RIC.

GrainGrowers believes that the RIC has an integral role in improving resilience in rural Australia.

Further, as farmers continue to diversify their risks and look to additional value add components of their business, such as seed cleaning or milling, this should not preclude their eligibility from the RIC loans.

(GrainGrowers 2023) Recommendation: Expand the Regional Investment Corporation (RIC) program to include a loan to assist farmers adopt emission reduction practices and activities.

(GrainGrowers 2023a) GrainGrowers' Drought Asks ... Farmers must have access to affordable and accessible finance options through the Regional Investment Corporation that supports their viability, sustainability and resilience.

(GrainGrowers 2023b) Australian agricultural production is a public good as it sustains food security, supports rural economies, and preserves natural resources. Concessional loans to agriculture bolster this by ensuring stable food supply, economic resilience, and environmental sustainability outcomes. Supporting agricultural production through loans directly contributes to the broader public interest and welfare.

Focusing on the next 5 to 10 years, there is a need for increasing capital flows required to flow into agricultural innovation to prepare growers for increasing dryness and climate variability and assist in the adaption to a changing climate and consumer expectations. This remains an ongoing challenge and RIC could play an increasingly important role in helping Australian growers manage this risk through modifications to the RIC Act and directive that allows the RIC to become another vehicle for innovation and resilience

NSW Farmers

(NSW Farmers 2021) NSW Farmers notes and supports the objective of the RIC to provide concessional loans ... NSW Farmers considers there is also value for the RIC to expand the concessional loan offerings to aid management of environmental impacts and the associated business impacts.

Australian Banking Association

(ABA 2021) While mindful of the expanding scope of RIC, the finance sector remains supportive of objectives in the legislative instrument, which highlights loans have been designed to support farm businesses to prepare for, manage through, and recover from periods of drought.

Concessional lending - supported by our customer base

The impact of RIC loans on delivering government policy is best shown through our customers.

RIC customers are sound farm business operators who are in financial need but viable in the long term. They seek a RIC loan to prepare for, manage through or recover from drought, disaster, or business disruption, or for innovating and adapting their farm business for the future.

The customer is shared between RIC and their commercial bank, where the RIC loan increases the customer's capacity to grow equity and credit quality through our concessional terms, and the customer is returned to their commercial bank in an improved position at the end of their loan term (see Appendix 1: Value Proposition – Our Customers).

Our current proprietary credit assessment process determines a customer's level of financial need and long-term business viability. This assessment fulfils our legislative requirement to not be a 'lender of last resort' by:

1. Not supporting farm businesses that are 'too good' and not in need of financial support
2. Not supporting farm businesses at the bottom of the credit spectrum who cannot demonstrate long-term viability and capacity to repay the loan funds

RIC customers are (JWS 2023):

Small-to-medium farms predominantly, (often with complex business structures), and regional farm-related businesses

72% have run their farm or business for **20+ years**

40% are women

99% identify as family-owned and operated farms or small businesses

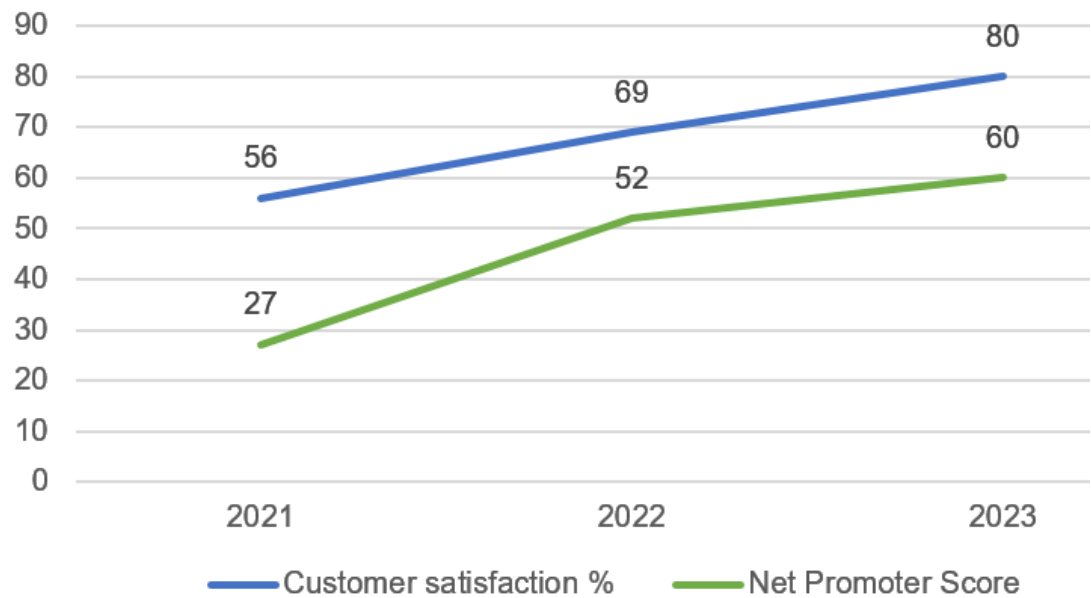
49% in grain growing, **36%** in mixed sheep, **33%** in mixed beef, **24%** in beef cattle enterprises

58% are men

RIC undertakes annual, independent, customer research to monitor the impact and value of our loans. Customer satisfaction has been on an increasing trajectory over recent years (Figure 4).

Figure 4: Customer satisfaction and Net Promotor Scores

Source: JWS 2021, 2022, 2023



Customer sentiment on the impact of RIC loans remains positive – a good news story for government and its reputation. Our research results (JWS 2023) indicate RIC-assisted farmers agree that their loan:

- 88%** Made drought, natural disaster or external disruption recovery easier
- 55%** Enabled their farm or small business to survive
- 86%** Provided greater confidence in the future and profitability of their farm / small business

Repaid loan customers agree:

- 90%** RIC contributes to regional economic growth and investment
- 85%** RIC contributes to resilience in regional communities
- 46%** Were able to negotiate better terms with their commercial lender

“ RIC provided valuable financial relief when we most needed it to allow us to recover financially and mentally from drought ”

“ Coming out of the dry years, a RIC loan has meant that we’ve been able to take financial pressure off our loan situation so that we can keep investing in what we need to do ”







“ RIC are definitely stimulating regional growth. They are helping people get onto farms or into regional areas ”

(RIC-assisted customer insights)

Table 2 demonstrates the diversity of RIC customer industries, loan uses, and locations across Australia. What they all have in common has been the ability to make a practical difference to their farm business through their RIC loan.



Table 2: Customer stories

Customer		Loan use
	<p>Brodie and Kevin Game <i>Blackjack Holsteins</i></p> <p>Dairy farm, Bega Valley, NSW</p>	<p>Farm Investment Loan</p> <p>After drought, bushfire and multiple floods, Brodie and Kevin installed pivot irrigation for homegrown dairy cattle feed that irrigates 35ha of pasture and utilises effluent nutrients on farm</p> <p><i>"The interest-only period for the first 5 years of the 10-year loan term was very enticing because it gave us more time to install the pivot and pay the money back once it made money for us."</i></p>
	<p>Scott and Melissa Carter <i>White Cloud Farms</i></p> <p>Berry and fruit growers Corinella, VIC</p>	<p>AgriStarter Loan</p> <p>Installed infrastructure which improved fruit quality for blueberry orchard</p> <p><i>"[The loan] helps your cash flow immensely in that first five years when you're setting up."</i></p>
	<p>Angas and Melissa Swann <i>Goodoo Farms</i></p> <p>Onshore aquaculture, Yanco NSW</p>	<p>AgriStarter Loan</p> <p>Refinanced debt to improve cash flow for early-stage Murray Cod farm</p> <p><i>"We know we have that money available. It's just given us that breathing space ... We've taken a long-term approach for this business and to get funding that matches up with our strategy is really important."</i></p>
	<p>Tom and Antoinette Archer <i>Archer Pastoral</i></p> <p>Beef cattle and carbon credits farm, Rexton, North of Goondiwindi, QLD</p>	<p>Drought Loan</p> <p>Improved soil quality through planting and preventing high water runoff, steadily building soil carbon to be granted Australian Carbon Credit Units and improve drought resilience</p> <p><i>"If you're holding more water in the soil, drought affects you more slowly so in the event of another drought, we're hoping we might go into drought more slowly and recover a bit quicker."</i></p>
	<p>Martin and Helen Kinsela <i>Kinsela Agriculture</i></p> <p>Broadacre cropping, hay, Angus, Angus Cross breeders, Canowindra, NSW</p>	<p>Drought Loan</p> <p>Refinanced part of their commercial loan for respite from high interest rates and capital costs. Purchased new cattle yards and diversified into hay making, hay sales, transport and trading.</p> <p><i>"The RIC loan meant we were able to invest sooner, five years or more earlier ... There's a lot of things we need to be doing and the only thing that stops you is having the money to pay for it."</i></p>
	<p>Graham and Lorna Jones</p> <p>Grain growers, Katanning WA</p>	<p>Drought Loan</p> <p>Purchased machinery for hay baling business, increased water storage and purchased land with dams.</p> <p><i>"The RIC loan means we can improve our farm and hopefully secure our future here ... meant we could diversify immediately instead of sitting around for 5 years hoping for good crops."</i></p>

Concessional lending - benefits and effectiveness for government

Enhancing the sustainable growth of the farm sector and strengthening the long-term viability of regional communities will require long-term commitments.

(Australian Farm Institute 2021)

The economic impact to farm businesses and regional communities has been determined to be greater than the loan value, and at the end of the loan term, funds are returned to the government and can be re-used, unlike a grant or other forms of support. Once direct and total flow-on impacts are considered, the economic impact is dispersed as 47% direct to the farm business, 37% to the supply chain and 16% to employees of the full chain, located in regional Australia (BDO 2023).

In our contemporary, volatile environment, the criticalities to consider in maintaining a successful agriculture sector are mounting, but concessional lending can bring multi-dimensional payoffs and a whole-of-region impact.

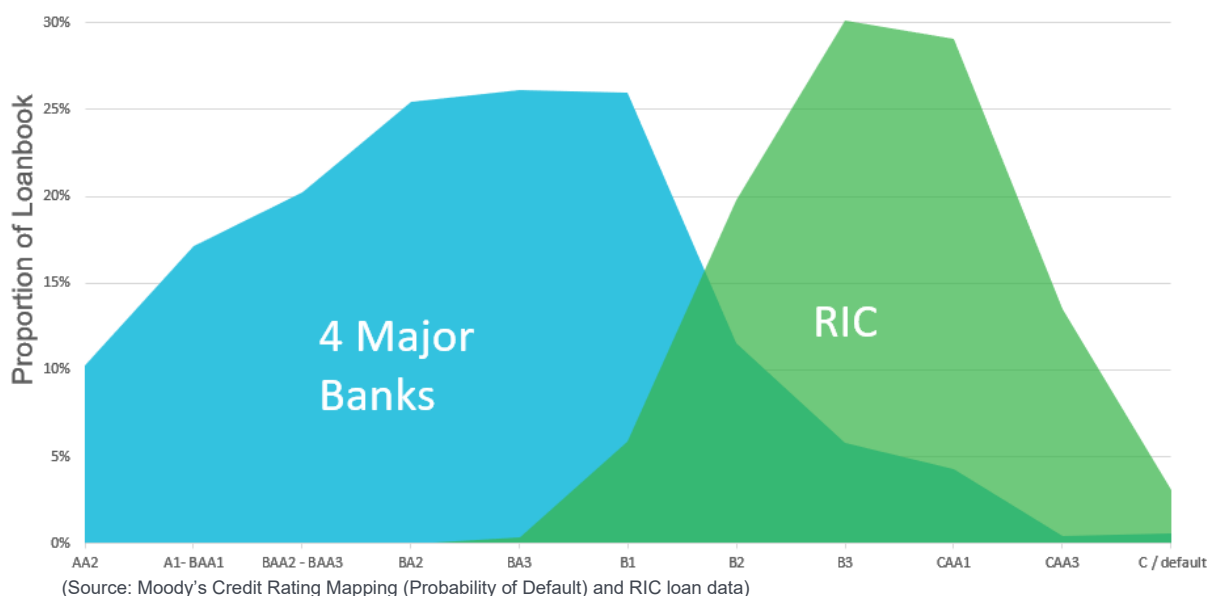
Heightened and sustained impacts on domestic and global supply chains resulting from a pandemic, bushfires, drought, flood disasters, and conflict have caused food security issues and inflation to soar and, if of sufficient magnitude, can generate a cost-of-living crisis on a global scale. National and international priorities to address climate adaptation continue to emphasise the role agriculture can and needs to play in reducing impacts on the global climate.

The government achieves multiple benefits through the success of farming families across Australia, from thriving local communities, to global supply chains, food security and more productive and sustainable farming practices. A Special Investment Vehicle like the RIC provides a mechanism for policy outcomes such as:

- Equitable access to, and nationally consistent delivery of, concessional loans for all Australian farmers.
- Wide-reaching, direct-to-farmer outcomes that benefit regional communities, economies, and agricultural supply chains, with an estimated \$3.4 billion contribution to Gross Regional Product and 1,263 FTE jobs supported (BDO 2023).
- The RIC's interest rate model has been effective, with interest rates remaining concessional despite inflation and commercial interest rate rises.
- Normalised RIC operations over the past two years have demonstrated loan demand, that policy intent is being served, and there is industry support. The rural and regional community aspects of supporting agribusiness, particularly during drought and disaster, have strong public good outcomes.
- It is a key delivery mechanism for drought policy as committed under the National Drought Agreement, including the provision of RIC's AgBiz Drought Loan in recognition of farm-related small businesses in regional towns that suffer during drought when farm incomes are under stress.
- Investment beyond initial disaster recovery hastens medium-to-long term recovery of farm businesses during times of disruption, preserving agricultural production and economic activity during times of stress.
- It relieves impediments and incentivises investment in business transition to government and industry priorities such as Net Zero and \$100 billion by 2030.

- It could potentially be used to aid sector adjustment necessary for government policy, such as live sheep export phase out, or geopolitical events, such as exclusion from specific markets.
- It provides a finance solution when market confidence is low. KPMG (2023) notes the current levels of sustainability finance products by Australian banks are below that of overseas markets, despite our well-evidenced need for change.
- Due to RIC's assessment of a farm business' financial need coupled with long-term viability, concessional loans do not impede structural adjustment, as applicants that are 'too good' or at the bottom end of the credit spectrum are not supported.
- Provides structural and cyclical support with return of funds to the government, versus a short-term grant with no return.
- Concessional loans provide better value for money than grants, with a longer-term customer commitment and funds returned to the government on a cost-neutral basis. As of 30 September 2023, \$240 million in repaid RIC loan funding has been returned to the government.
- Concessional loans provide better value for money and increased benefits when compared to interest rate subsidies which are harder to quantify. A concessional loan recipient returns to the commercial bank market in a better credit position and can negotiate better terms with their bank. An interest rate subsidy does not come with a rigorous financial viability assessment, thereby impeding structural adjustment, and comes at a cost to government with banks being a beneficiary of the subsidy.
- Concessional lending is a safer investment with loans being appropriately secured, and generally holding a second mortgage behind a bank, which reduces government risk in relation to bad debts.
- While RIC has achieved a wide reach geographically and across agricultural industries in supporting appropriate farm businesses, the customer base is just over 3% of the total number of farm businesses in Australia. The customer base is therefore a large enough base to deliver measurable policy outcomes without distorting financial markets or impeding structure change.
- RIC's operations have proven that the lending model works in coexistence with commercial banks, with the credit rating of RIC customers being distinctly different compared to the big four banks (Figure 5). Banks and other financiers comprise 23% of referrals to the RIC (JWS 2023); therefore, banks are determining the type of customer that they may be too risk averse to take on in full, but can do so through a partnership with RIC.

Figure 5: Weighted average corporate and business loan risk profiles



An at-the-ready concessional lending vehicle for agriculture is therefore a prudent economic mechanism within the government toolkit due to the boom-and-bust nature of seasonal and economic conditions, coupled with the strong need for future adaptation in the sector.

2.3 Why the RIC?

Established expertise

Having overcome the challenges of establishment, the government has built a successful regional business model in the RIC that is engaging with and delivering outcomes directly to farmers.

Within the group of government Special Investment Vehicles, the RIC is the financing entity for the pre-farmgate agriculture sector. The RIC also provides an AgBiz Drought Loan – a post-farmgate loan for farm-related businesses that depend on the agriculture sector, to help them manage through and recover from drought.

The RIC operates in a different market, with a distinct purpose and without overlap, when compared to other Special Investment Vehicles (see Appendix 1: Value Proposition – The SIV ecosystem) and commercial banks, namely:

- RIC's operation provides a self-funding operating model with a cost-neutral rate of return (excluding interest free).
- A mandate for pre-farmgate agribusiness lending with a focus on regional outcomes, with lower loan value (maximum \$2 million, with a previous loan product up to \$5 million), but higher volume loan transactions (more than 4,800 loan applications processed, and more

than 3,000 active loans). This high volume is more granular and individual business-based when compared to other Special Investment Vehicles that mainly deal in smaller volume, higher loan value, project-based lending.

- Onboarding over 3,000 customers in 5 years of operation when 100% are new to the RIC is a demonstration of our high-volume capability (repeat bank customers have an established relationship that facilitates a new loan onboarding process).
- A wide reach across the country and into rural and regional communities.
- A strong capability skillset in agribusiness lending and its associated risks, a specialised area due to commodity and seasonal volatilities seen in the agriculture sector.
- Loan products are primarily targeted towards primary production for resilience and recovery, and innovation and adaptation, where the concessional nature of our loans is the primary 'value add'.
- RIC lends directly to farm businesses, a unique customer base, and a unique government-to-customer relationship within the Australian Government.
- Established arrangements to share loan security with a commercial bank, which is not typical in the agriculture sector in which we operate.
- A proprietary credit assessment process determines long-term farm viability.

Efficient, cost effective and capable

In 2023-24, RIC completed a project to insource loan origination and management services from an outsourced provider. The project delivered us:

- Intellectual property of an end-to-end integrated loan management ecosystem to manage the loan lifecycle – from application and assessment to ongoing management of the loan portfolio and customers.
- An integrated, holistic system that incorporates technology, people, service standards, and quality and compliance controls.
- A modern, dispersed, capable workforce that remains substantially regional and is scalable to demand.
- A return on investment and enduring savings for the government delivered by our strategic intent to maximise the level of interest rate concessionalality passed on to farm businesses. The model we have built allows us to find further efficiency savings into the future:

2 years Breakeven

4 years Payback

\$1.5M Enduring savings per annum modelled against steady and fluctuating loan application volumes

- Ownership of our customers and their data, bringing us closer to our customers and making it easier to provide industry insights to government.
- Greater control over risk and reputation with our core business no longer outsourced to a third party.
- The ability to work more efficiently than the external loan service provider through direct ownership of processes, people, and systems:

89%	Faster at establishing any new loan products into our loan management system
66%	Faster process to negotiate deeds of priority with a customer's commercial bank
36%	Faster at time to application decision
33%	Faster at delivering monthly reporting

Regional presence

A rarity among Special Investment Vehicles, RIC is successfully decentralised from Canberra, providing meaningful employment to regional people who are connected to the regions they serve, and a coal-face perspective back into Canberra. The majority of RIC's workforce has ties to agriculture and proudly live and work alongside the farm businesses they support.

We are headquartered on Wiradjuri land in the regional town of Orange in the Central West of NSW, with 59% of our staff based in Orange and the Central West, and 77% of our total workforce based in regional communities across Australia. In 2023, 97% of our workforce participated in a staff engagement survey in which 91% of participants agreed they would recommend RIC as a great place to work and that RIC as an organisation makes a difference (RIC 2023).

Through the design of our interest rates, we know that the more efficiently we can run our operations, the more concessionality we can pass on to farm businesses, a factor that was integral to insourcing our end-to-end loan management systems. Our small, tightly connected workforce is driven to be agile and responsive through our commercial acumen.

In summary

Regional communities rely on agriculture as one of the largest employers and economic stimulators. An estimated \$3.4 billion contribution in Gross Regional Product and 1,263 FTE jobs annually are delivered to regional Australia through RIC loans. More broadly, the national economy benefits from a 4-times multiplier effect to Gross Domestic Product derived from agricultural value add and supply chains. Change in agricultural practices will also be a game-changer for the transition to Net Zero and the capability to deliver widespread environmental benefits such as improved biodiversity, sustainability, and carbon capture.

The agriculture sector is subject to volatility and risk, both of which are increasing. RIC's customer base, being farm and farm-related small businesses that are in financial need but viable in the long term, need risk mitigation strategies to address variabilities in commodities and seasonal conditions to stay in business, maintaining their contribution to food security, strong economies and thriving regions.

Concessional lending is a highly successful mechanism for the government to deliver support to this customer base, as it is a cost-neutral, nationally consistent, and safely secured investment. It delivers a long list of benefits to government policy that outweigh the initial loan funding investment, with the funds being managed and returned to the government for re-use. It is also supported by industry and loan customers.

RIC is an efficient and effective mechanism to deliver this support. Through our first 5 years of operations, we have maintained our regionality, grown our customer base and intellectual property, and evolved our model to balance the policy and financial objectives associated with agribusiness concessional lending by government. The end-to-end lending system we have built costs less to run than the outsourced model, delivering \$1.5 million annually in enduring savings, and faster service delivery through direct ownership of processes, people and systems.

3. A fit-for-purpose approach to RIC's operating framework and outcomes

RIC is successfully operating; however, per our recommendations, there are improvements that will enable more efficient, customisable, and ongoing delivery of policy outcomes.

3.1 Current governance framework

Terms of reference point 2

RIC is governed through an Act, an Operating Mandate, and loan-product-related Rules made by responsible Ministers through section 54 of the Act. RIC determines loan guidelines in accordance with the Act, Mandate and Rules. We are also governed by the *Public Governance, Performance and Accountability Act 2013* (PGPA) and associated rules. Our responsible Ministers are the Ministers for Agriculture and Finance.

We are bound by other Commonwealth legislation as it pertains to our business, in areas such as privacy, freedom of information, public interest disclosure and archives to name a few. We have adopted non-binding but best practice policies such as the Commonwealth Risk Management Policy and various Australian Securities and Investments Commission and Australian Prudential Regulation Authority policies.

We are designated as a Corporate Commonwealth Entity, meaning we are a separate legal entity from the Commonwealth, governed by an independent Board. The provisions in the Act regarding the Board's establishment and functioning are routine and sound.

Our independent Board is appropriately skilled to govern RIC, operating under a Board Charter that distinguishes Board responsibilities from management. The Board operates within an annual cycle that allows it to set RIC's strategic objectives, and methodically meet its Act, Operating Mandate and PGPA requirements.

The Board has several mechanisms in place to assure itself of the appropriate functioning of RIC, including an Audit and Risk Committee; external audit by the Australian National Audit Office; an internal audit program; an internal compliance assurance function; and regular reporting on human resources; health, safety, and wellbeing; credit risk appetite; cyber security and loan management.

The Board conducts regular assessments of its own performance and maintains a Board skills matrix. The Board's view of the skills required from Board members evolves through skills matrix reviews, compared to the hardcoded skills list contained within the RIC Act. The RIC Act skills list has not stopped Board skills appropriately evolving over time through new Board appointments.

Broadly, the Act, Operating Mandate and Rules have provided appropriate scope for RIC to establish its operations, a market and industry presence, and achieve outcomes and purpose.

Through practical experience and agribusiness lending knowledge, we have found aspects of our legislative framework that limit our operations and sector penetration. Opportunities to improve operations through legislative amendment are discussed further in this Chapter, and are centred on having a capable, independent Board that should be equipped with a degree of scope and accountability to manage its business within an agreed, fit-for-purpose framework.

3.2 Products and services and future opportunities to support industry and government objectives

Terms of reference points 2, 4, 6, 7 and 8

Current loan products

RIC's current loan products broadly support the farm business lifecycle and outcomes contribute to government objectives.

Table 3: Funding delivered by loan product since inception to September 2023

Loan	Funding approved	Loan purpose
Drought Loan	\$2.837 billion	Prepare for, manage through, recover from drought
AgRebuild Loan	\$0.18 billion	Restock, replant, recover from North Qld Monsoon Trough in 2019 (program ceased)
Farm Investment Loan	\$0.124 billion	Invest in strengthening farm business
AgriStarter Loan	\$0.087 billion	Secure first farm or support farm succession
AgBiz Drought Loan	\$0.034 billion	Farm-related small business support during drought

As described in Chapter 2, there is a growing body of evidence that loan products are meeting policy objectives, described in the Operating Mandate at the highest level as supporting the '*long-term strength, resilience and profitability of Australian farm businesses*'.

The loans are well received by loan recipients, with loans targeted at recovery from drought and disruption being particularly effective. Unviable businesses are not supported to not impede structural adjustment.

The benefits of extending increased cashflow into communities and economies are established and are progressing beyond cashflow, to on-farm improvements (see Table 2) making for more profitable and resilient farms, increasing Gross Regional Product, supporting over 1,200 regional FTE annually (BDO 2023), and the loan application process increasing rigour in farm business planning.

“ When I applied, drought was ravaging my business, now the loan is part of my business planning, could not recommend more highly ”

(RIC-assisted customer insights)

RIC-assisted farmers agree that their loan (JWS 2023):

83%	Gave them greater confidence in the profitability of their business
76%	Gave them greater confidence in the long-term future of agriculture
84%	Improved finance and lending options available to farmers
73%	Allowed them to grow their farm or small business
61%	Allowed them to minimise risk involved in trying new farming practices
79%	Allowed implementation of activities listed in their Drought Management Plan
83%	Improved drought resilience

As part of our annual processes, between October and November 2023, RIC ran a public consultation process seeking views on our loan products. 130 survey responses and 6 written industry submissions were received, providing the following latest insights:

- 61% believe RIC's eligible loan uses assist farmers to improve their strength, resilience, and profitability in the long term.
- 82% are likely or very likely to diversify their income streams to increase profitability, mitigate financial risks and build resilience. 60% are engaging or have engaged in diversification.
- That RIC loans should be used beyond recovery for proactive investment activity in priority order: innovations in production systems (79%), energy efficiency (66%), environmental stewardship (62%), supporting carbon activity (54%), activity to reduce greenhouse gas emissions (52%).
- 58% of respondents considered narrow eligibility criteria to be the main weakness of RIC loans (in-financial need requirements, 50% commercial debt).
- Commentary indicates government concessional loans are still an appropriate policy tool, and should focus on providing readily available finance to deal with adversity at all times; to

be able to develop resilient and sustainable farm businesses to remain competitive; and to better support new entrants / young farmers into the industry

- National Farmers' Federation (NFF 2023a) noted '*RIC is significantly constrained by its legislated mandate. However, to better accommodate the broad needs of our sector, the RIC must adjust eligibility criteria and ensure terms and conditions are appropriately flexible. At a minimum, the RIC must be empowered to adjust criteria once products are in-market. This will improve the accessibility of support for primary producers*'.

Future product opportunities

Recommendation 1: A legislative framework that provides greater differentiation between loans products, tailored to policy outcomes, and with appropriate flexibility in delivery

In practice, while there are some nuances in eligibility criteria between loan products, the construction of RIC's product suite is largely homogenous in its loan term duration, principal and interest terms, and eligibility requirements prescribed in the Operating Mandate.

Greater differentiation between, and increased flexibility within, the loan product suite through legislative amendments is recommended to allow tailoring of loan products to better align to policy objectives. This approach creates a more enduring product suite that is easier for the Agriculture Minister to adapt to cyclical or emerging sector needs and new government policy objectives, curbing the cost and effort of ongoing legislative change.

RIC's preferred model for a loan product suite (Figure 6) that better caters to the increasing complexities of operating a farm business would deliver:

- **Increased uptake of the AgriStarter Loan – critical to the future of farming**

We recommend softening or removing off-farm income and commercial debt requirements. These requirements preclude many applicants from being approved, when in reality, off-farm cashflow in the early stages of establishing a farm helps to mitigate loan serviceability risk, and when new farm entrants typically have difficulty in securing commercial debt due to their lack of equity and security.

- **An innovation and adaptation product stream that caters to business sustainability – a concept supported by industry bodies**

We recommend removing refinancing as an eligible loan use in this stream to promote activity-based outcomes, removing or softening commercial debt requirements to increase uptake, and removing the requirement for an external business disruption to have occurred (which makes sense for a recovery product, not for a product focused on investment). This stream also caters to a more holistic view of farm business operations, lending for business diversification, vertical integration and on-farm value add. For example, currently a primary producer that grows grapes is eligible for a loan, but the producer who also makes wine is not necessarily eligible.

- **A recovery product stream that is more responsive to future droughts and disasters**

The RIC's successful flood recovery loan, AgRebuild, was a one-off product that has closed. A specific product to lend for flood-and-fire-impacted farms and farm-related small businesses has not since been available. A more generic, standby recovery product that is easily activated would show greater and more rapid disaster recovery support. The loan

term would benefit from being shorter and aligned to the production cycle of the agricultural industry receiving the loan (for example, a 3-year term for cropping, and a 7-year term for horticulture). Limiting the term of the loan to an appropriate industry-based timeframe that gets a farmer back on their feet, with loan funds being repaid at the earliest possible time, is a well-struck balance between beneficial outcomes and cost effectiveness for the government.

An additional point of flexibility across all streams is to allow a customer to choose interest only or principal and interest repayments in any particular year, to optimise their loan repayment capacity within their production cycle.

Figure 6 also depicts future possibilities for loans that could support broader regional outcomes, given RIC's regional mandate, and lending to farm businesses on behalf of other government departments who may seek to deliver their own policy objectives through RIC as the pre-farmgate lender. This could include, for example, being the lending mechanism for government departments or Special Investment Vehicles seeking to deploy their funding (discussed further in this Chapter):

- To pre-farmgate primary producers (or post-farmgate where not within the remit of the National Reconstruction Fund) in support of sustainability and Net Zero policies.
- For regional Australia initiatives.
- In pursuit of Indigenous participation in agricultural or regional pursuits.



Figure 6: Preferred Loan Product Plan

Farm lifecycle	Product Objective	Use principles	Design principles
Start	<i>AgriStarter Loan</i> Support people to secure their first farm, assist with succession planning & effecting plans	THE FUTURE OF FARMING <ul style="list-style-type: none">• First farmers• Succession planning for the next generation	<ul style="list-style-type: none">• Longer loan term e.g. >10 years• 5 years interest only• 5 years P&I• Flexibility for customer to choose interest only or P&I in any particular year• Removal or softening of off-farm income requirement & commercial debt
Grow	<i>No current loan product</i> Accelerate market innovation and adaptation	SUSTAINABILITY (environmental & business) <ul style="list-style-type: none">• Water• Carbonisation• Climate adaptation• Drought preparedness• Live export ban• Transition to caged eggs• Water buy backs requiring greater water efficiency	<ul style="list-style-type: none">• Longer loan term e.g. >10 years• 5 years interest only• 5 years P&I• Flexibility for customer to choose interest only or P&I in any particular year• Refinance not permissible• Removal or softening of commercial debt requirement
		BUSINESS DIVERSIFICATION VERTICAL INTEGRATION ON-FARM VALUE ADD	Where aligned with primary production or to lower-valued opportunities not covered by NRF
Recover	<i>Drought Loan</i> <i>Farm Investment Loan</i> Support viable businesses through distress to recovery <i>AgBiz Loan</i>	RECOVERY <ul style="list-style-type: none">• Disaster recovery• Business disruption• Operating expenses to manage through drought <ul style="list-style-type: none">• Post-farm gate: Ag value chain businesses experiencing hardship (AgBiz Loan)	<ul style="list-style-type: none">• Shorter loan term e.g. 5 years or aligned to 1 production cycle• Flexibility for customer to choose interest only or P&I in any particular year

Future possibilities

Broader regional impact sphere

Broader government outcomes sphere

To support the agriculture industry to meet current and future challenges, it is imperative to consider the views of primary producers. Research by Norco / NFF (2023) and the RIC (JWS 2023) provides insights on areas of greatest concern for primary producers.

Table 4: Current and future challenges for agriculture

Factors impacting farmer mental health		Future of farming and agriculture	
47%	Weather or natural disasters	43%	Building climate resilience
36%	Financial stress	82%	Interest rate increases
35%	Inflation and cost pressures	60%	Equipment upgrades

Concerns regarding disaster recovery and resilience, financial stress, cost pressures, investing in equipment and interest rate increases are squarely within RIC’s purpose and are served by current loan products (with increased uptake and outcomes delivered through RIC’s proposed loan product plan).

We see a future opportunity for the government to accelerate market innovation and adaptation through a new product stream for sustainability and business diversification. It would also provide RIC greater scope to meet the Operating Mandate policy objective of *‘build and maintain diversity in the markets [loan recipients] supply and take advantage of new and emerging opportunities across Australia and overseas’*.

Current services

Concessional lending by RIC is more effective and efficient than ever. Benefits achieved from insourcing our end-to-end loan origination and management systems and enduring savings derived from this new operating model (described in Chapter 2) demonstrate the capability we have acquired and effectiveness of our service model.

As a result, RIC is well placed to expand our service offering beyond lending, which is now possible with our scalable systems and workforce. We believe that, given our core customers are small farm businesses as opposed to large companies or big projects, maintaining maximum concessionality should remain a cornerstone feature of our services.

Future service opportunities

Recommendation 2: Legislative framework amendments that increase the Board’s decision-making ability, and therefore accountability within an agreed framework, allowing RIC the scope to:

- a. Increase RIC’s management options to meet individual customer circumstances, including non-performing and impaired loans
- b. Work with government entities to deliver their policy outcomes by using the RIC as the delivery entity for farm businesses and farm-related small businesses

The RIC’s current legislative framework is prescriptive which in turn constrains service delivery, examples of which are outlined in this section. The first recommendation would enable RIC to better manage the changing circumstances of loan recipients while continuing to protect the

government's investment. The second recommendation would allow RIC to be the delivery mechanism for other government policy outcomes to the agriculture sector.

Broad principles

A revised legislative approach would benefit from:

- At the highest legislative level, defining expectations on government policy objectives being sought, prudent management of loan funds and their return to government
- At lower-order levels (delegated legislation / statement of expectations), RIC's Board oversees how loan fund management occurs between RIC, our customers, and other government entities, and how eligibility criteria are designed to maximise policy outcomes in consultation with Ministers / Department.

Collaboration and cooperation with other government entities and Special Investment Vehicles

A less constrained legislative framework allows scope to respond to future opportunities that make business and policy sense, such as:

- RIC as the exclusive Australian Government pre-farmgate lender in the agriculture economy could deploy and administer funds on behalf of other government entities who wish to target smaller pre-farmgate agricultural entities in order to achieve their objectives.
- The government may seek to do more regionally focused lending, different types of lending such as equity and guarantees, to use the RIC as the financier for Net Zero in agriculture, or to lend to value-add initiatives that are post-farmgate but of a lower value (<\$10 million for example) where not provided for under the auspices of the National Reconstruction Fund.
- RIC as a specialist agribusiness lender could collaborate with Indigenous Special Investment Vehicles and related government entities to deliver their funding targeted at increasing Indigenous participation in agriculture. With nearly 60% of the Aboriginal and Torres Strait Islander population living in remote and regional Australia, there is a clear productive relationship that could harness the expertise of entities that specialise in Indigenous programs and regional / agribusiness issues.
- With our end-to-end loan origination and management systems, RIC should have the capacity to provide back-office lending system services if required to other Special Investment Vehicles and government entities, a shared-service model that saves time and public money through other Vehicles not replicating already-existing systems, licensing arrangements and workforce expertise.
- As a key drought policy mechanism, RIC could have a role in delivering more practical on-farm support to farm businesses through the initiatives of the Future Drought Fund.

Other Investment Vehicles, such as the Clean Energy Finance Corporation, have an Investment Mandate that requires them to collaborate with other entities (naming RIC as one such entity), that can support investments in clean energy technologies. RIC's Operating Mandate, on the other hand, is too constrained to allow loan deployment on behalf of other entities.

Channelling such future opportunities through RIC provides clarity for the public on where to seek support for agribusiness lending within the complex government support network, and maintains the specialised agribusiness lending capability built by RIC.

Management of non-performing and impaired loans

Our lending environment deals with customers in financial need, but our legislative framework provides few of the typical levers a bank can use when managing impaired loans and customers in financial distress. It is important to note that allowing RIC more flexibility to manage customers in financial distress **reduces risk of loan default and reputational risk for the government.**

Some RIC customers, who have been deemed as viable businesses in the longer-term, have been subjected to drought, bushfires and multiple flood disasters and are in financial distress from circumstances well beyond their control. Current settings limit the methods that RIC can deploy to support these customers to manage their loan repayments, whereas a commercial bank has multiple strategies to provide tailored support, and indeed is required to do so under the Banking Code of Practice. Flexible use of levers around interest rate treatment and loan term can avoid a customer's loan amount being higher than the original loan amount due to accrued interest.

While a commercial lender will have a primary objective of minimising losses, the RIC must be able to balance policy and public good considerations in supporting distressed customers and may need different avenues or more time to resolve problem loans. We seek the flexibility to manage customers with dignity during times of hardship until they return to a state of financial health.

There are a limited number of sections in the Act and Operating Mandate that, if amended, would enable the increased flexibility we seek.

Table 5: Overview of legislative amendments - flexibility

Theme	RIC Act reference	Operating Mandate reference
Product flexibility Allow Minister and Board more flexibility to amend product parameters to drive improved policy outcomes	Section 8 Section 4 Definitions – farm business loan	Section 8 Schedule 1 – Loan specifications, Mandatory requirements; Eligibility; Offering farm business concessional loans
Customer management Flexibility to tailor support for customers experiencing hardship	N/A	Section 8 Section 11
Enabling services Flexibility to leverage RIC's inhouse lending capability to support other government entities / policy initiatives when required	Section 8	N/A

3.3 Funding model and future opportunities for an enduring model

Terms of reference points 2 and 5

Current funding model

At 30 June 2026, RIC will have lent its original appropriation of \$4.075 billion. Repaid loan funds are returned to the Commonwealth and, at 1 July 2026, there are no further loan funds available for new loans. Without further loan funding, the RIC will move into a care and maintenance mode and manage the existing loan book from that time.

Future funding opportunities

Recommendation 3: Establishment of a revolving lending facility, facilitated through the re-use of loan funds following principal and full loan repayments.

RIC proposes an ongoing loan facility be put in place to meet both agricultural policy initiatives and recovery from significant natural disasters and drought. This submission has expressed the economic benefits of concessional lending that is also budget neutral and empowers regional communities. Concessional lending has been established and advocated for by industry and farming organisations both nationally and internationally. An ongoing loan facility will provide continued benefits to government, regional communities, economies, and the environment. It makes good business sense to have an established entity equipped to respond to the complexities of future need.

As at September 2023, \$239 million in loan funds have been repaid and returned to the Australian Government. By July 2026, when all loan facility funds have been fully drawn down, RIC estimates that \$869 million will have been repaid either as loans fully repaid ahead of time, or as scheduled principal repayments.

The amount of loan funding provisioned for the remaining term (i.e. 2023-24, 2024-25 and 2025-26) is \$858 million (including recently approved Movement of Funds). Funds repaid at July 2026 are equivalent to 3 years of loan funding at current levels. RIC proposes that repaid funds be made available to re-lend under a structured process. Mechanisms can be put into effect to manage demand in any given year in line with government appetite and objectives.

An ongoing lending facility would also mean RIC's structure and operations would need to continue to manage new lending as well as the existing loan portfolio. RIC modelling suggests this can be achieved with no increase to the administrative margin (the costs to operate the lending facility) and that re-lending can operate during unplanned event scenarios such as drought.

Benefits to the proposal are:

- Given the economic benefits to Gross Regional Product and employment in regional areas, concessional loans represent an investment by government with measurable and ongoing outcomes. The capacity to re-lend beyond June 2026 allows the investment to continue and further outcomes to be achieved.

- The RIC would operate as an ongoing, budget-neutral investment vehicle, providing primary producers and industry bodies with certainty about access to support.
- Reduces government administration effort and cost, and boosts government reputation – when drought, disaster or disruption strike, a funding mechanism is there for rapid response to meet community need and expectation.
- Addresses National Drought Policy and provides a practical funding mechanism for future droughts, and industry requests for ongoing access to concessional loans.
- Increases reach of government policy outcomes into regional communities, and protects a productive tax base.

Table 6: Overview of legislative amendments – revolving funds

Theme	RIC Act reference	Operating Mandate reference
Revolving loan funding Allows RIC to recycle repaid loan funding as an ongoing mechanism for Drought Policy and broader farm business support	Section 8	Part 2, Section 7

In summary

Broadly, the Act, Operating Mandate and Rules have provided appropriate scope for RIC to establish its operations, a market and industry presence, and achieve outcomes and purpose. The Act establishes the Board and its self-governance function appropriately.

Our legislative framework does, however, constrain policy outcomes and our operations.

Opportunities to improve operations, our ability to support customers in financial distress and collaborate with other Special Investment Vehicles and government entities, including those that run Indigenous programs, are centred on having a capable, independent Board that should be equipped with a degree of scope and accountability to manage its business within an agreed framework.

With a growing body of evidence that loan products are meeting policy objectives, we recommend greater differentiation between, and increased flexibility within, loan products, and flexibility to manage our business and customers at an operational level.

Due to the economic impact of concessional lending being significantly greater than the amount of loan funding (\$3.4 billion contribution to Gross Regional Product, 1,263 FTE jobs annually, and up to 4 times multiplier effect on Gross Domestic Product), we recommend the implementation of a revolving pool of funds be made available to RIC from repaid loan funding. Such a model provides the government with an enduring, cost-neutral mechanism for future drought and disaster funding and investment in sustainability.

With appropriate operational flexibility, a long-term view of product design, and a revolving funding model, concessional lending can be an enduring, cost-effective, and commercially sound option for governments to mitigate risk and promote innovation in the sector, and becomes more readily adaptable for use in supporting government initiatives as they evolve.

3.4 Other technical matters

RIC notes the following points with reference to the RIC Act and other related legislation:

- References in the RIC Act to the National Water Infrastructure Loan, and associated lending to States and Territories, should be removed given the RIC no longer delivers the program.
- RIC agrees with recommendations from previous reviews that the RIC Board's role should be removed from the *Future Drought Fund Act 2019*, noting that RIC as a tool to deliver direct and practical drought funding in collaboration with the Future Drought Fund would have greater impact and outcomes than the Board's current role.
- Under Schedule 2, Part II of the *Freedom of Information Act 1982*, RIC would benefit from being treated the same as other similar entities in being exempt from supplying documents that relate to commercial activities. Entities that currently hold this exemption include Australia Post Corporation, Export Finance Corporation, Indigenous Business Australia, and Housing Australia. RIC's internal proprietary credit risk assessment policies and tools that outline how RIC makes risk-based decisions on loan applications should remain protected to avoid inappropriate misuse of the information by members of the public who wish to make a loan application.



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Appendix 1

Value Proposition



Introduction

RIC (Regional Investment Corporation) is a Corporate Commonwealth Entity and special investment vehicle (SIV) within the Commonwealth's Investment Framework that delivers government policy through concessional loans. Our purpose is **to support the growth, resilience and sustainability of Australia's agricultural economy**. This purpose has supported the agriculture sector during times of drought, disaster and business disruption, and for investment in a stronger future.

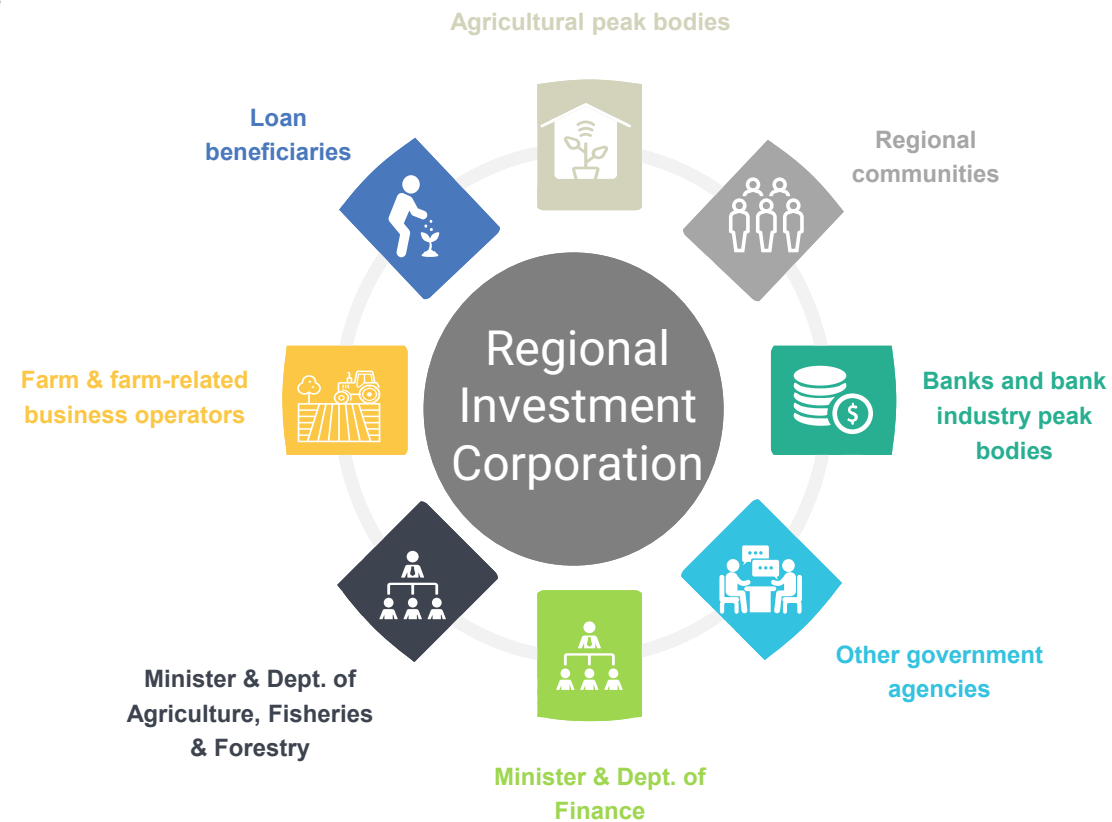
We specialise in concessional loans to pre-farmgate agribusinesses with a focus on regional outcomes. In recognition of agriculture-dependent supply chains, we also offer a loan that supports farm-related small businesses manage through and recover from drought. We offer loans in a risk-sharing partnership with commercial banks. We manage the return of loan funds back to the Australian Government on a cost-neutral basis, an investment that benefits the government, industry, regional communities and borrowers.

Our customers are farm businesses and farm-related small businesses who are in financial need, but viable in the long term (long-term viability means RIC is not a lender of last resort). Concessional loans support customers by freeing up cashflow to invest in their farm business, manage cost pressures, variability in conditions and revenue, and increase spending into their local economy. Improving farm business cash flow and operating position has direct and flow-on effects that benefit the rural and regional communities, economies and agricultural supply chains that depend on agriculture.

We have a wide reach across the country into rural and regional communities. 77% of our staff are based in regional communities, many of whom come from agricultural backgrounds and work in the farming communities they serve.

We operate among a network of stakeholders - government entities, agricultural and banking industries, and most important of all – our customers. The network represents common and diverse interests. For this reason, we have laid out our value proposition for how we provide value to stakeholders. By providing evidence-based value, we seek to earn our license to operate from the government, our credibility from customers, and advocacy from industry stakeholders.

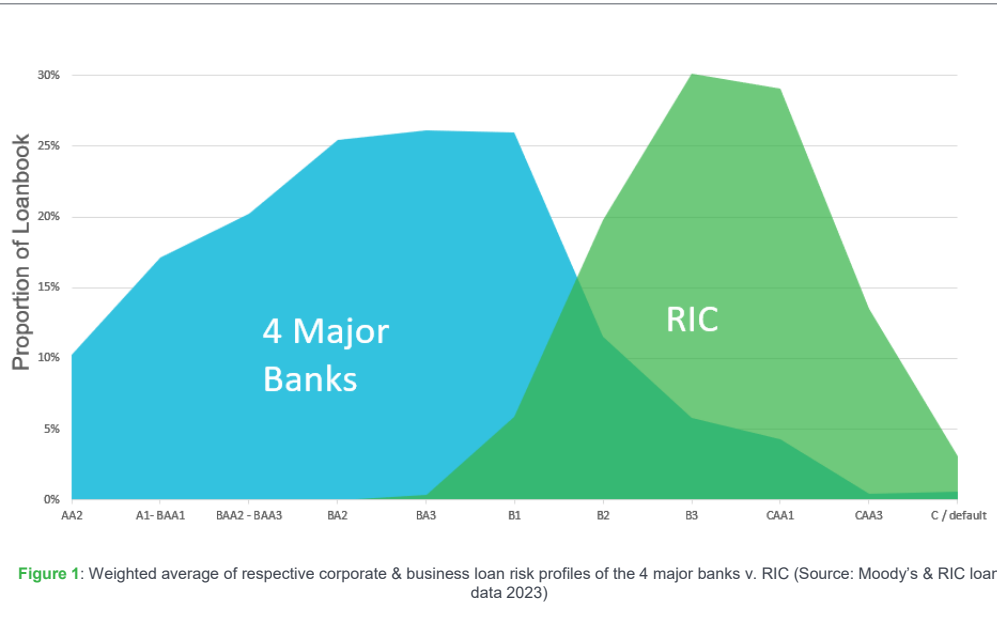
The value proposition provides context for RIC, the environment in which we operate, the impact of our loans, and a tailored statement for the key stakeholder groups we serve.



RIC's stakeholder network

Our customers

Our customers are small-to-medium farm and farm-related businesses who are in financial need, but viable in the long term. They seek a RIC loan to prepare for, manage through or recover from drought, disaster or business disruption, or for innovating & adapting their farm business for the future. They return to the commercial bank market in an improved position.



Customer profile

Higher input costs, lower margins and of a lower credit quality when compared to other agri-lending customers (figure 1)

Complex and layered corporate structures: sole trader/partnership, partner/company ATF trust, multiple entities

In financial need but with capacity to repay their loan in the longer term. Less eligible to be taken on by a commercial bank in full but can do so through a partnership with RIC.

A RIC loan increases a customer's capacity to grow equity and credit quality through our concessional terms, and the customer is returned to their commercial bank in an improved position at the end of their loan term (figure 2)

Predominantly comprised of **small-to-medium family farms and regional businesses**

99% of RIC clients identify as family-owned and operated farm or small businesses (JWS 2023)

72% have run their farm or business for **20+ years** (JWS 2023)

40% are women, **58%** are men (JWS 2023)

49% in grain growing, **36%** in mixed sheep, **33%** in mixed beef, **24%** in beef cattle enterprises

Note: Multiple responses were allowed (JWS 2023)

Two-thirds* of the RIC loan book will be returned to commercial markets at the end of the loan term, with improved credit risk grade

RIC modelling demonstrates a RIC client will improve on average **1 credit grade** and **2 security grades** at the end of their loan term

Figure 2: RIC loan data (Source: RIC 2022)

* 1/3 having been repaid

The 'why' of concessional lending

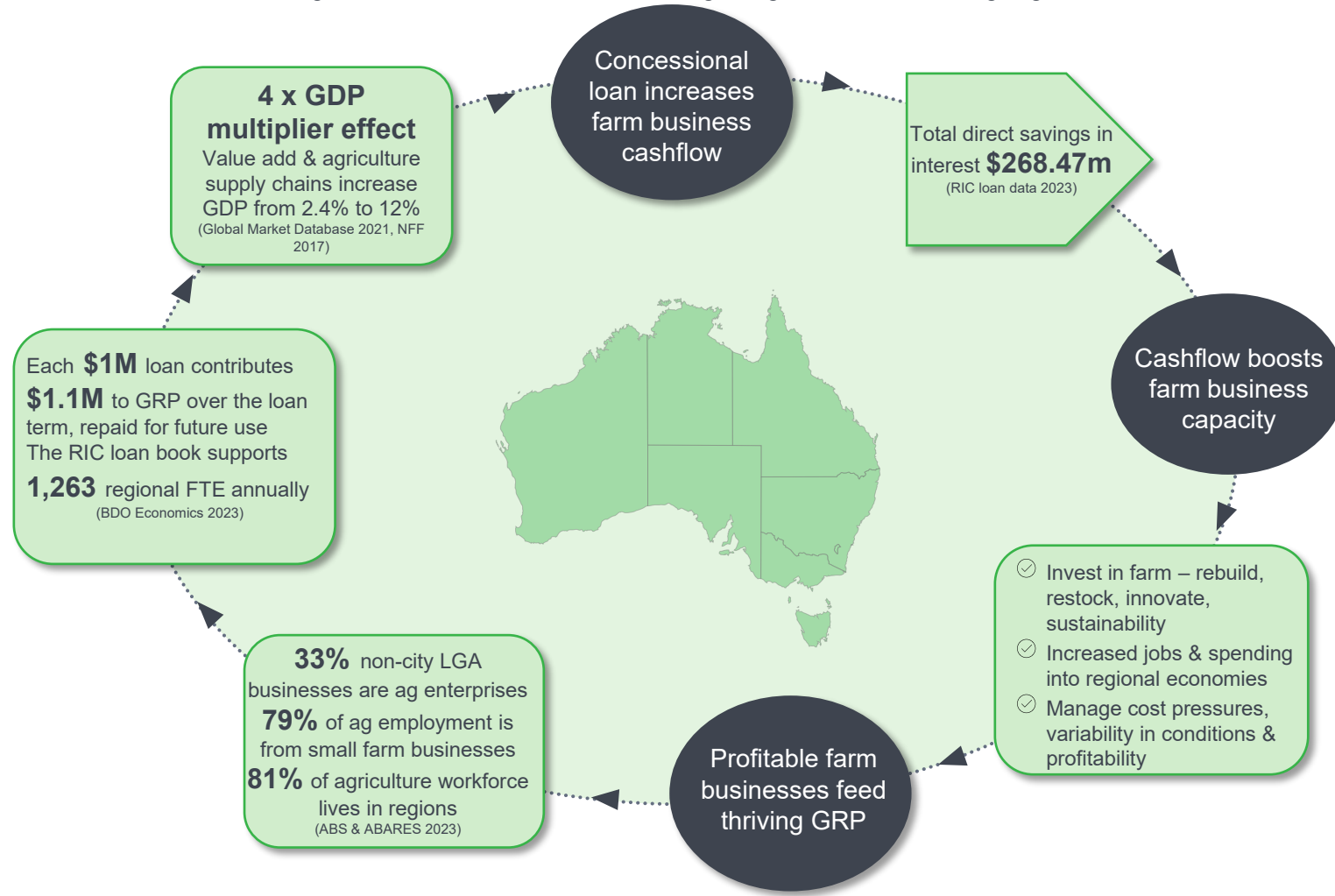
Agriculture is inextricably linked to the success of rural and regional Australia and is central to the social fabric of these communities and our iconic way of life.

While agriculture is 2.5% of GDP, the estimated value add to GDP from the supply chain is up to 4-fold in employment from value-add activities.

79% of agricultural employment is attributed to small farm businesses – the RIC's customer base.

Investment into agriculture through concessional loans has a direct and pervasive economic impact on jobs and productivity. RIC's loan book adds 100% of its value to Gross Regional Product (GRP), sustaining regional jobs that strengthen big regions and small towns. The combined economic force of agriculture and regional Australia is why RIC exists.

Figure 1: Economic influence of investing in regional Australia through agriculture



Regional benefits

- ✓ Direct and flow-on impact on economic and employment outcomes
- ✓ Strong and vibrant regions attract population that sustains community fabric and further investment
- ✓ Increased likelihood of farm businesses staying in agriculture during times of market shock when banks become risk averse
- ✓ Loan funds used for farm business sustainability, succession planning or starting a first farm are investing in community futures
- ✓ Support mechanism for high-risk enterprises in an environment where the risks are increasing and beyond farm business control
- ✓ Social wellbeing of regional communities during extreme adversity

Government benefits

- ✓ Nationally consistent, independent, cost-neutral agriculture investment vehicle, capability for Agriculture Minister to deliver policy through cyclical and structural funding that is returned to government
- ✓ A 4-fold multiplier to agricultural GDP and employment that has a sustained whole-of-economy impact
- ✓ Government reputation enhanced through drought management policy and other agricultural policy enablement initiatives such as carbon management and Net Zero
- ✓ Hastens disaster recovery, preserves agricultural production, food security and economic activity during times of stress
- ✓ Curbs ongoing investment and administration in the establishment of disaster preparation and medium-to-long-term recovery funding
- ✓ Incentivises transition / relieves impediments to transition to government and industry priorities
- ✓ Supports sector adjustment to government policies or geopolitical issues
- ✓ Solution for bank sector market failure / at-risk markets

The 'why' cont'd: Presence of agriculture in regional Australia

The agriculture, forestry and fishing industry is a dominant economic force in regional Australia, comprising a high proportion of businesses and employment (figure 1). Agriculture is the key mechanism to invest in vibrant, resilient, regional communities and economies. Concessional loans are the tool to deliver the investment in a consistent, cost-neutral manner.

The dependence of small communities and regions on agriculture is evident with **33%** of businesses involved in agriculture being located in regional Australia (ABS 2021), where **81%** of the agricultural workforce resides (ABARES 2023).

Zooming in on the regional LGA of Cabonne in the Central West of NSW, where RIC is headquartered, is a localised example of the importance of agriculture to small regional communities. In Cabonne, agriculture comprises **44%** of the total number of businesses, employs **17%** of the population, across more than **70%** of the Cabonne land mass, and generates **\$286.4m** gross value agricultural production per annum (ABS 2021).

Zooming in further still, the country town of Eugowra - population 862 - lies on the border of Cabonne and Forbes LGAs and was devastated by floods in late 2022. **34%** of the town's population is employed in the agriculture sector, demonstrating agriculture's importance as a key recovery and resilience mechanism for the town (ABS 2021).

	Greater Cities of Australia	Regional Australia	Cabonne LGA
Total population	17,252,876	8,435,203	13,825
Total no. of businesses	976,332	425,752	1,963
% of businesses in agriculture, forestry & fishing industry	2.7%	33.8%	44%
Proportion of population employed in agriculture forestry & fishing industry	0.6%	6.0%	17%

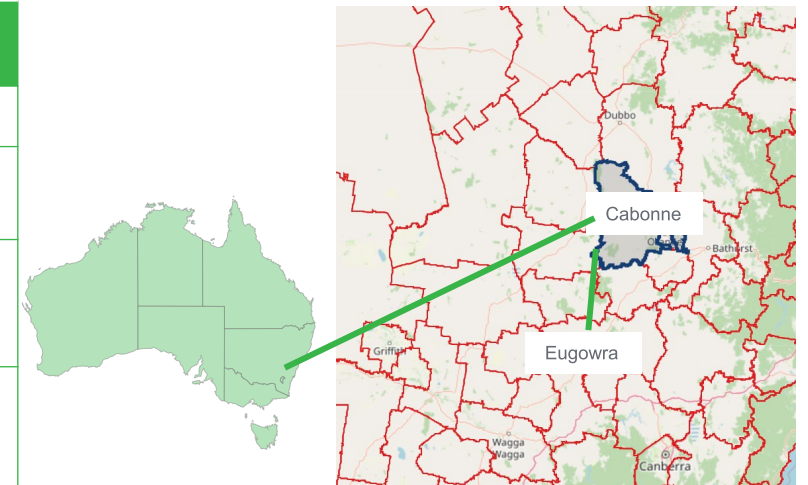


Figure 1: ABS 2021 census data

The SIV ecosystem

Within the group of government Special Investment Vehicles (SIVs), the RIC is the exclusive financing entity for the pre-farmgate agriculture sector, plus drought loans for farm-related small businesses. The RIC, characterised by a large number of lower value loans, operates in a different market, with a distinct purpose and without overlap, when compared to other SIVs.

Regional Investment Corporation

- \$4.075b fund
- \$3.2b loans settled across >3,000 customers
 - Cost neutral
- Exclusive lender to pre-farmgate agribusinesses
- High volume (>4,500 applications processed), low amount (max. value \$2m)
- Funds direct to individual farm businesses (not project based)

National Reconstruction Fund

- \$15B fund to invest in project-related finance in renewables; medical science; transport; value-add in agriculture and resources; defence capability; enabling capabilities
- Loans, equity & guarantees

Export Finance

- Export trade enablement
- \$9.3b in finance provided across 2012 transactions and 683 customers
- Loans, bonds, guarantees, structured finance

Aust. Renewable Energy Agency

- \$2.25b in funding delivered across 663 projects to support global transition to net zero emissions by accelerating pre-commercial innovation
 - Grants only

Northern Australia Infrastructure Facility

- \$7B fund to invest in Northern Aust. infrastructure projects & businesses across all sectors
- \$3.9B committed
- Focus on loans >\$10m
- Concessional finance & equity

Aust. Infrastructure Financing Facility for the Pacific

- \$3b in loan funds and \$500m in grants
- Infrastructure project financing for stability and prosperity in the Pacific & Timor-Leste
 - Loans & grants

Housing Australia

- \$3.4B committed to social & affordable housing projects
- Guarantees, grants, bonds, concessional loans, infrastructure finance

Clean Energy Finance Corp

- \$12.7b committed, >300 large-scale transactions
- Clean energy, decarbonisation & special investment programs
- Direct investment, green bond investor, asset finance & alternative capital via listed & unlisted funds

Value Proposition

Regional Australia

The RIC was established in June 2018 to support the long-term strength, resilience, and profitability of Australian farm businesses. In 2019, we responded to the impact of catastrophic drought conditions by providing concessional finance to assist eligible farm businesses, and farm-related small businesses, to remain viable through the drought, hasten recovery, and continue their contribution to Australian agriculture.

Our loans continue to support the farm business lifecycle, and in turn, strengthen the rural and regional communities and supply chains that depend on the agriculture sector to remain vibrant.



Government

We are a regionally located, full lending service, investment vehicle that supports the Australian Government's agricultural policy agenda in a nationally consistent and cost-neutral manner. Our concessional loans can accelerate and incentivise policy outcomes in regional communities for public good. We apply due diligence and prudential management in the administration of concessional loans and the return of loan funds to the government.

Agriculture Industry

We service the agriculture industry by providing access to capital to stimulate industry growth, promote adaptation, foster resilience, and support emerging and at-risk markets. We work directly with the agriculture industry, individual farm businesses and financial institutions across the country, within an ecosystem that relies on the industry's success.



Regional Australia proof points

The extreme impact of the 2017-2020 drought on agricultural output, regional communities and social wellbeing cannot be underestimated. The RIC's establishment coincided with the timing of this devastation, when agricultural output reduced dramatically (figure 1), and borrowing arrears increased (figure 2). Since the drought broke in autumn 2020, recovery occurred sharply (figure 3) and there was an unprecedented increase in farm production value and farm debt (figure 4). RIC was there for eligible businesses, when the gap between debt and capacity to service it was at its widest, easing the impacts and hastening recovery in regional communities. RIC loans support the end-to-end farm business cycle and inject cashflow and investment into regional economies (figure 5).

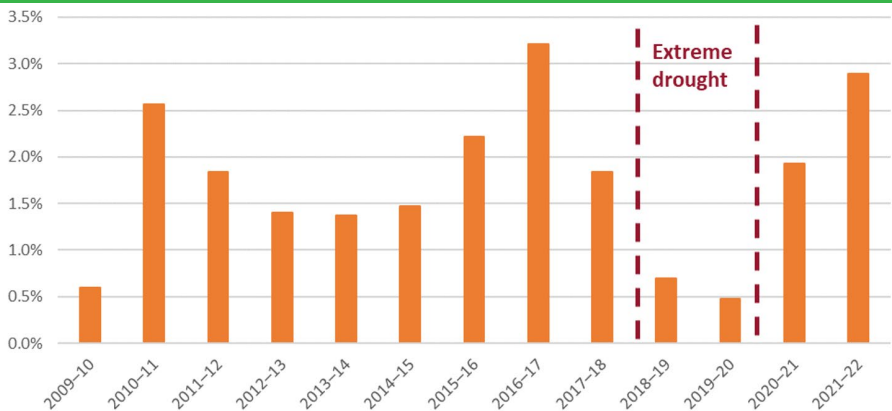


Figure 1: Reduction in output: rate of return to total farm capital – broadacre farms (Source: ABARES 2022)

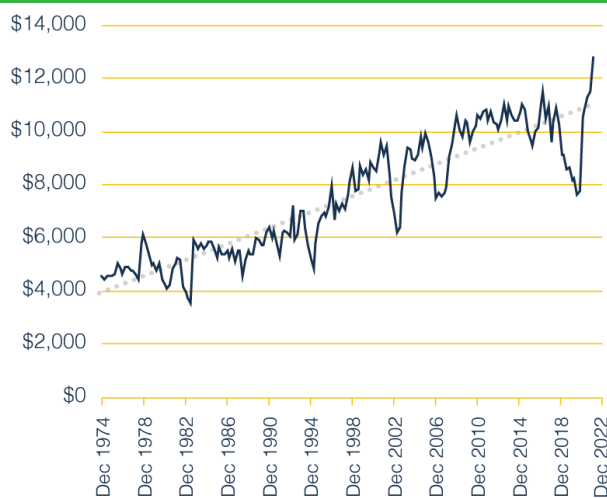


Figure 3: Gross value added of agricultural income \$m, 1974-2021 (Source: ABA Agribusiness Report 2022)

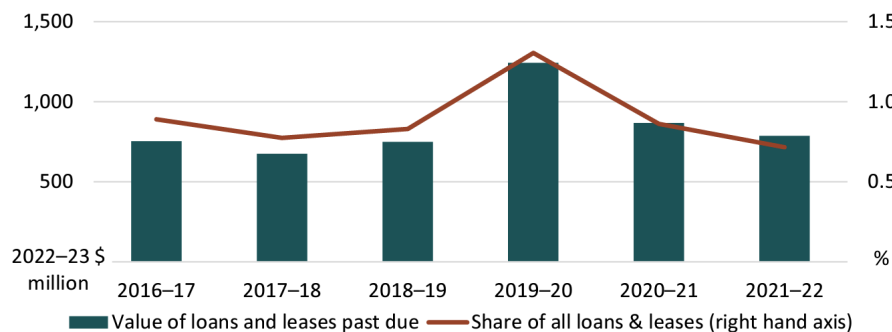


Figure 2: Agricultural lending >90 days past due (Source: ABARES 2023)

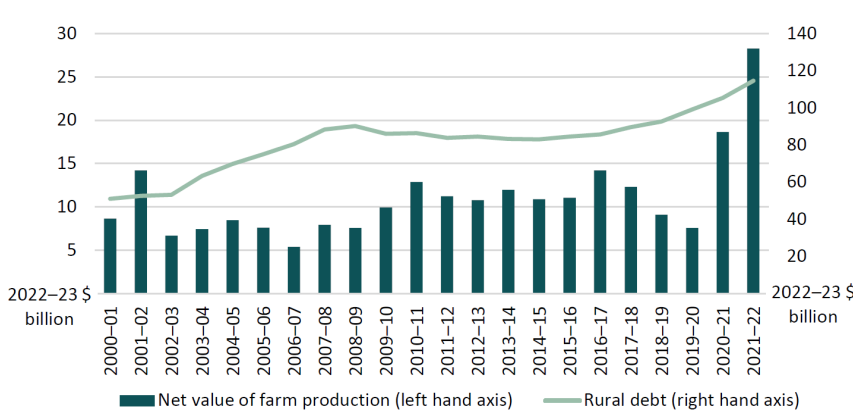


Figure 4: Net value farm production & rural debt (Source: ABARES 2023)

\$3.2b in RIC loan settlements since inception across more than **3,000** RIC clients

\$268.47m¹ estimated in interest saved through RIC loan, cashflow injected into **regional economies**

Farm business lifecycle supported:

Drought Loan prepare for, manage through & recover from drought	\$2.8b
AgBiz Drought Loan farm-related small business support during drought	\$34m
AgRebuild Loan restock, replant, recover from North Qld Monsoon Trough in 2019 (ceased)	\$180m
Farm Investment Loan invest in strengthening farm businesses	\$124m
AgriStarter Loan secure first farm or support farm succession	\$87m

Figure 5: Approved loan portfolio data (Source: RIC Sep 2023)

¹ includes interest-free loans



Government proof points

Concessional loans are a cost-effective and safe way to deliver government policy outcomes. Loans are well secured against assets that demonstrate safety over the long term and undergo ongoing credit grade assessment to manage risk (figures 1, 2, 3). Prudent lending that delivers policy outcomes provides tangible benefits to government, farm businesses and the wider economy (figure 4). As a regionally important organisation, the RIC is embedded within the regional communities it serves, providing quality frontline services to primary producers (figure 5, 6) through a successful government decentralisation model, and a strong sense of purpose for its staff (figure 7). The RIC has built end-to-end loan management systems and capability to enhance its service offering to government and customers, increasing its service delivery efficiency and cost effectiveness.

RIC's operating model is self-funded with a **cost-neutral** rate of return through the application of an administrative margin on interest rate calculations. Loan funds are returned to government

Figure 1: RIC operating model

20% increase in median price for farmland in 2021 & 2022

8.5% compound annual growth over 20 years

Figure 2: Growth in farmland values (Source: Rural Bank Farmland Values Report 2023)

90% of committed funds for the total loan portfolio have a satisfactory credit risk grading

Figure 3: Credit grade of approved loans (Source: RIC 2023)

RIC-assisted farmers agree that their loan:

- Made drought, natural disaster or external disruption recovery easier (**88%**)
- Enabled their farm or small business to survive (**55%**)
- Provided greater confidence in the future & profitability of their farm/small business (**83%**)

Repaid loan customers agree that the RIC:

- Contributes to regional economic growth & investment (**90%**)
- Contributes to resilience in regional communities (**85%**)

Figure 4: Customer feedback (Source: JWS Research 2023)

80% of RIC customers are satisfied with RIC processes.

Net Promoter Score **+60** (how likely a customer is to recommend a RIC loan)

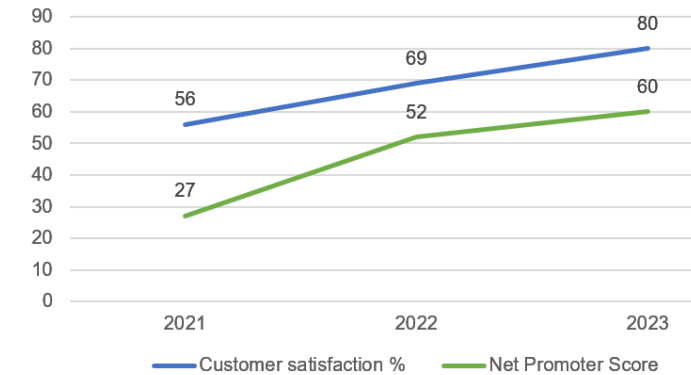


Figure 5: Customer satisfaction & NPS (Source: JWS Research 2023)

RIC **exceeded its loan processing timeframe KPIs** for the last 2 financial years. Application processing remains up-to-date with minimal files awaiting decision per month

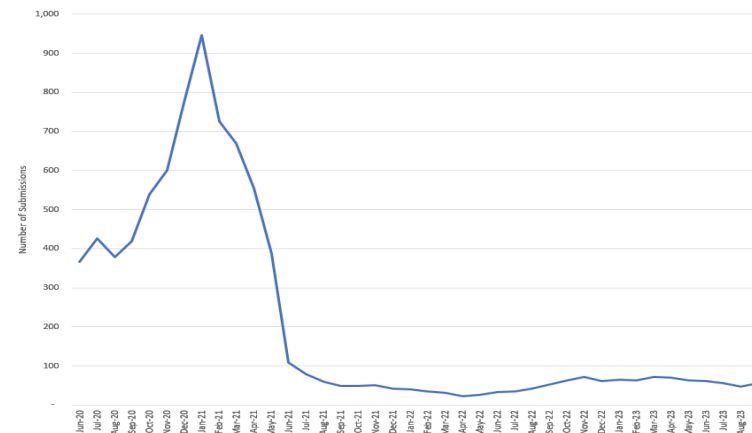


Figure 6: Point-in-time active files on hand per month

77% of RIC staff based in regional communities. **91%** of staff recommend the RIC as a great place to work and that the RIC makes a difference. **52.5%** female and **47.5%** male employees.

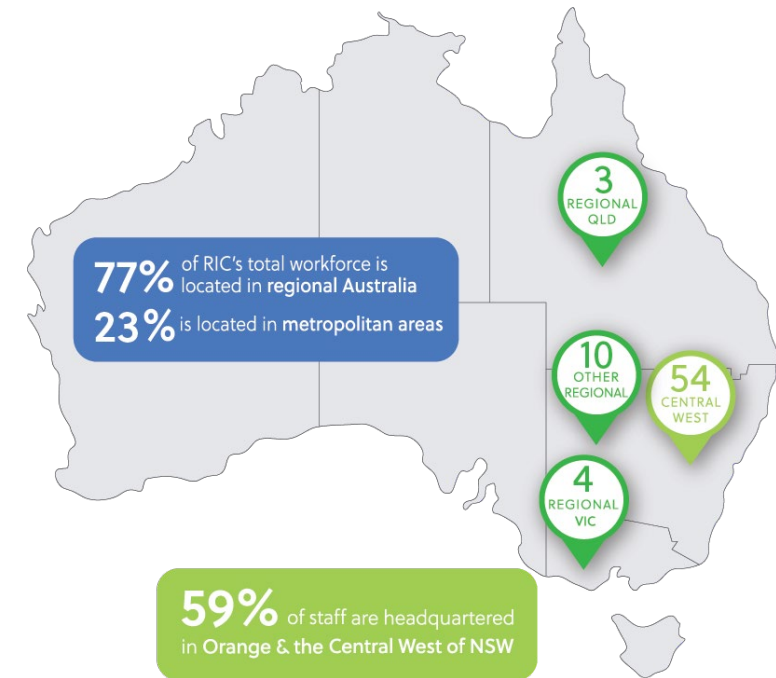


Figure 7: RIC staff location and satisfaction score (Source: RIC data, Culture Amp 2023 Staff Engagement Survey, RIC Annual Report 2022-23)



Agriculture Industry proof points

RIC loans bolster industry confidence (figure 1) and increase farm business cash flow, stimulating the industry's capacity to recover and grow (figure 2). Concessional finance increases on-the-ground business investment and economic activity (figures 3, 4) through direct savings to farm businesses that is invested in local communities. The RIC is providing support to the agricultural belt of Australia (figure 5) and aims to support the agriculture industry to increase its output and meet its growth targets (figure 6).

86% of RIC-assisted farmers agree that their loan increased confidence in the future of their farm/small business

Compared to a baseline of **58%** of declined applicants who described their business outlook as strong

Figure 1: Customer feedback on impact of RIC loans (Source: JWS Research 2023)

88% of RIC-assisted farmers agree that their loan made recovery from drought, natural disaster or external disruption easier

Figure 2: Customer feedback on impact of RIC loans (Source: JWS Research 2023)

85% of repaid loan customers agreed that their loan contributed to growth & resilience of regional communities, citing freeing up cash flow allowed them to prioritise on-farm improvements and spending in their local economies and **46%** cited they were able to negotiate better terms with their commercial lender

Figure 3: Customer feedback on impact of RIC loans (Source: JWS Research 2023)

RIC-assisted farmers agree that their loan helped to:

	Have done	Plan to do
Pay down debt	49%	29%
Improve drought resilience	61%	21%
Purchase livestock	31%	7%
Purchase machinery or infrastructure	41%	15%
Improve pasture quality	32%	20%
Negotiate a better interest rate with their commercial bank	27%	10%

Figure 4: Customer feedback (Source: JWS Research 2023)

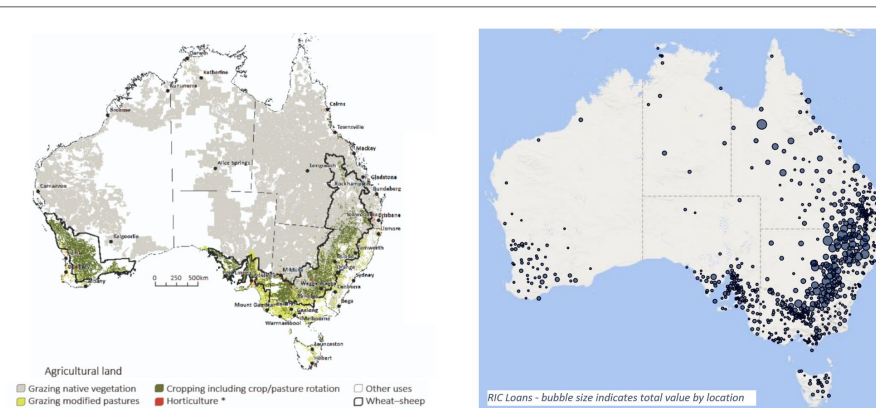


Figure 5: Agricultural land & RIC loan portfolio maps (Source: ABARES & RIC 2023)

RIC loans support NFF 2030 Roadmap Pillar 5 – Capital and Risk Management

NFF metric	RIC support
90% of family farms have documented business plans, including succession plans	2,400 settled Drought Loans - all have a drought management plan which articulates a business plan to prepare for, manage through & recover from drought 24 AgriStarter succession loans settled – commencing the transfer of knowledge & engaging a new generation of farmers (RIC data 31 July 2023)
Year-on-year increase in equity investment in Australian farm businesses	RIC loans in partnership with commercial banks facilitate a supportive policy environment to increase equity through alternative ownership models such as share farming, farm leasing business & farm business succession
90% of Australia's farmers employing multiple financial tools to manage risk	A RIC loan is a tool for eligible farmers to manage risk. Interest saved through concessional interest rates frees cash flow to reinvest in the farm & manage through difficult times. Interest rates are determined by the bond rate, not the cash rates, & are adjusted twice a year, providing certainty in the management of risk

Figure 6: RIC alignment to NFF 2030 Roadmap