2024

REVIEW OF THE OPERATION OF THE *Regional Investment Corporation Act 2018*

Wendy Craik AM

Cataloguing data

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This publication is available at: agriculture.gov.au/agriculture-land/farm-food-drought/drought/ric

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Acknowledgement of Country

I acknowledge the Traditional Custodians of Australia and their continuing connection to land and sea, waters, environment and community. I pay my respects to the Traditional Custodians of the lands we live and work on, their culture, and their Elders past and present.

Letter of transmittal

Senator the Hon Murray Watt
Minister for Agriculture, Fisheries and Forestry
Parliament House
CANBERRA ACT 2600

Dear Minister Watt

I am pleased to provide you with the outcomes of my Review and recommendations relating to the operation of the *Regional Investment Corporation Act 2018* consistent with s 53 of the Act. The Review addresses the proposed scope of the Corporation's activities after 30 June 2026 and the appropriate governance arrangements for the Corporation after that date.

The Regional Investment Corporation (RIC) has been operating for 6 years and has delivered 3,060 concessional loans totalling $3.3 billion, as at 31 March 2024, in a nationally consistent way. The loans have largely been provided to the RIC's target cohort, being farm businesses in financial need, particularly due to drought, but which are considered viable in the long term. The RIC states that farmers have saved approximately $309.03 million in interest as at 31 March 2024 from these loans and only one loan to date appears unlikely to be recoverable in full.

This Review recommends the RIC's retention. Extensive consultation confirmed widespread support for the continuation of the RIC and its loan programs and noted its predominantly successful loan delivery.

However, this Review found it was not possible to fully assess the RIC's impact on drought resilience, structural adjustment and other areas of drought policy due to the absence of comprehensive data collection and analysis. This is despite recommendations to this effect from previous reviews. The RIC should consolidate and strengthen its position as the Australian Government's delivery agency for farm business loans by focusing its attention on improving its monitoring, evaluation and reporting of existing activities rather than pursuing a wider remit. This Review recommends the RIC Board take responsibility for monitoring and evaluation and a detailed timetable has been proposed.

The RIC will ultimately be judged on its performance in a severe drought. To ensure the government has adequate early warning, a recommendation is made on reporting critical data for demand, arrears and reviews to the department and government.

The Review found that a clearer statement of the RIC's purpose would be valuable, including to guide future product development. While the objectives of the loans are broadly appropriate, some adjustment would be desirable, as would an assessment of the appropriate role for government in supporting intergenerational change in agriculture including through the provision of concessional loans for first-time and successional farmers. In the absence of data, retention of most loan parameters is recommended with some minor adjustments to facilitate loan recovery. In future, Drought Management Plans (DMPs), provided by loan applicants as a risk management tool and a key component of loan eligibility, should be rigorously assessed. Further, the implementation and impact of the DMPs should be monitored and reported including through regular (including annual) loan reviews for all loans. The merits of a sustainability loan should be explored subject to a number of critical assessments including of market gap and RIC capability.

The Review considered whether increased efficiency and effectiveness would be gained through merging the RIC with another Specialist Investment Vehicle (SIV). The firm conclusion is that, due to the differences in policy objectives, stakeholder cohorts, scope, number and magnitude of financing mechanisms, a merger would seriously erode the RIC's effectiveness, disenfranchise the farm sector and likely create difficulties for the government in the event of a severe drought. An alternative entity or governance structure for the RIC was not seen as having any advantages. Nor was there any expression of need by other relevant organisations for the RIC to provide services to them.

The Review recommends that the government consider moving the loans to the RIC's balance sheet to better balance risk and reward and the government also consider a recycled funding model for the RIC.

The Review recommends that the RIC continue to pursue an enhanced relationship with the Rural Financial Counselling Service providing benefits to both organisations and mutual clients. Working on improving relationships with commercial bankers, engaging with women in agriculture and culturally and linguistically diverse groups is also recommended. While the RIC acknowledges it is currently not well equipped to assist First Nations people interested in agriculture, the Review recommends activities to enhance its cultural capability including working with other experienced government organisations. Suggestions to increase the participation of First Nations people and businesses in agriculture are proposed, including the government investigating a First Nations revenue contingent loan.

The Review proposes that a senior executive of the department be appointed to the RIC Board to provide the RIC with greater visibility of the department and the government's strategic directions and vice versa, plus enhance the relationship between the two organisations. This approach has been very successful with other SIVs.

Finally, this report includes a suggested implementation plan to assist the government and the RIC to implement the proposed recommendations, should they be agreed to.

Yours sincerely

Wendy Craik AM

Acknowledgements

I would like to thank everyone who participated in this review of the Regional Investment Corporation (RIC). The cooperation and helpfulness of the RIC Board and staff, particularly the senior management, made the task of gathering information much easier. Stakeholders from the agriculture sector provided valuable perspectives on the current and future role and activities of the RIC. Others including First Nations representatives, bankers, the Rural Financial Counselling Service and a range of others with relevant information helped with their views and ideas. Government staff both Commonwealth and state assisted with information from their experiences and suggestions for improvement. Staff of the Department of Agriculture, Forestry and Fisheries (the department) were generous with their time and assistance. While I couldn’t canvass all views in the report, these contributions were valuable and considered as part of the Review process and, where relevant and appropriate, will be passed on to the department and/or the RIC to further consider in making improvements.

In particular I would like to thank the department Secretariat for the Review. Ably led by Gael Macnaughtan, the team of Andrew Woodyard, Abby Battersby, Stephen Bell, Laura Hall, Elena Iolovska, Michael Littley and Jayjom Owusu were unstinting in their efforts to organise meetings with stakeholders, prepare briefings, discuss issues and draft chapters. I enjoyed working with them tremendously.

Any errors in the report are mine.

Declarations of interest

My self-managed superannuation fund has non-material shareholdings in the former loan service partner to the Regional Investment Corporation, Bendigo and Adelaide Bank, and in other banks. The Climate Change Authority's (CCA) 2018 report *'Reaping the rewards: improving farm profitability, reducing emissions and conserving natural capital*' was produced while I was Chair of the CCA.

Wendy Craik AM

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Glossary

Term	Definition
ABA	Australian Banking Association
ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
ABN	Australian Business Number
ABS	Australian Bureau of Statistics
ACCU	Australian Carbon Credit Units
AI	Avian Influenza
AIFFP	Australian Infrastructure Financing Facility for the Pacific
ANAO	Australian National Audit Office
ANU	Australian National University
ANZ	Australia and New Zealand Banking Group
APS	Australian Public Service
ARENA	Australian Renewable Energy Agency
ATO	Australian Taxation Office
ATSI Act	*Aboriginal and Torres Strait Island Act 2005*
ATSIC Act	*Aboriginal and Torres Strait Islander Commission Act 1989*
BDM	Business Development Managers
Bendigo Bank	Bendigo and Adelaide Bank
CALD	Culturally and linguistically diverse
CBA	Commonwealth Bank of Australia
CCA	Climate Change Authority
CCE	Corporate Commonwealth entity
CEFC	Clean Energy Finance Corporation
CEO	Chief Executive Officer
CF-LRP	Carbon Farming and Land Restoration Program (Western Australia)

CFO	Chief Financial Officer
CRCDNA	Cooperative Research Centre for Developing Northern Australia
CRG	Credit Risk Grade
DAFF/the department	Australian Government Department of Agriculture, Fisheries and Forestry
DCCEEW	Australian Government Department of Climate Change, Energy, the Environment and Water
DCLS	Drought Concessional Loans Scheme
DLA	Delegated Lending Authority
DMP	Drought Management Plan
DRFA	Disaster Recovery Funding Arrangements
EC	Exceptional Circumstances
ECIRS	EC Interest Rate Subsidies
EFA	Export Finance Australia
Farm Business Plan	A tailored business plan developed by participants as part of the Farm Business Resilience (FBR) Program.
Farm business survey	An online survey conducted by the Review between December 2023 and January 2024 to seek farm business' feedback on the impact of RIC loans, views on the benefits and drawbacks of concessional loans and limits to concessional lending, as well as feedback on changes to RIC loans. 502 responses were received.
FBR	Farm Business Resilience
FDF	Future Drought Fund
FDF Act	*Future Drought Fund Act 2019*
FDF Funding Plan	*Future Drought Fund (Drought Resilience Funding Plan 2024-2028) Determination 2024*
FFCLS	Farm Finance Concessional Loan Scheme
FHA	Farm Household Allowance
Finance	Australian Government Department of Finance
FMD	Farm Management Deposit

FNFA	First Nations Finance Authority (Canada)
GBE	Government Business Enterprise
GST	Goods and services tax
IBA	Indigenous Business Australia
ILSC	Indigenous Land and Sea Corporation
LLVR	Loan-to-Lending Value Ratio
LGAs	Local Government Areas
LSP	Loan Service Partner
LV	Lending Value
M&E	Monitoring and evaluation
MEP2	Farm Business Loan Program Monitoring and Evaluation Plan Version 2.0
Minister	Minister for Agriculture, Fisheries and Forestry
MoU	Memorandum of Understanding
NAB	National Australia Bank
NAIF	Northern Australia Infrastructure Facility
NAAKPA	Northern Australia Aboriginal Kakadu Plum Alliance
NDA	National Drought Agreement
NEMA	National Emergency Management Agency
NFF	National Farmers' Federation
NHT	Natural Heritage Trust
NIAA	National Indigenous Australians Agency
NPP	New Policy Proposal
NRFC	National Reconstruction Fund Corporation
NRWC	National Rural Women's Coalition
NSW RAA	New South Wales Rural Assistance Authority
NTAIC	Northern Territory Aboriginal Investment Corporation
NWILF	National Water Infrastructure Loan Facility

OPA	Official Public Account
Operating Mandate	Regional Investment Corporation Operating Mandate Direction 2018
Passing interest rate	The commercial interest rate of RIC customer loans at time of settlement. The passing interest rate takes into account the individual risk associated with each loan, and so will be different for each RIC client.
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PIRSA	Department of Primary Industries and Regions, South Australia
QRIDA	Queensland Rural and Industry Development Authority
RACR	RIC Administrative Cost Review
RAF	Resource Allocation Framework
RAP	Reconciliation Action Plan
RAS	Risk Appetite Statement
RBA	Reserve Bank of Australia
RBDC	Rural Business Development Corporation (Western Australia)
RDC	Indigenous Research and Development Corporation
R&D	Research and Development
RFCS	Rural Financial Counselling Service
RIC	Regional Investment Corporation
RIC Act	*Regional Investment Corporation Act 2018*
RIC customer insights survey	Online survey conducted by JWS Research in July 2023. Some insights were published in the Farm Loans Customer Insights report 2023 (using a sample size of 504 existing RIC loan customers).
RRF	Rural Relief Fund (Tasmania)
Rules	Legislative Instruments prescribing programs for the RIC to administer.
Review	The Independent Review of the Operation of the *Regional Investment Corporation Act 2018*, which was undertaken between 25 October 2023 and 1 July 2024.
SCG	Security Cover Grade

SIV	Specialist Investment Vehicle
SME	Small to medium-sized enterprise
SoE	Statement of Expectations
SOP	Standard Operating Procedures
Survey interviewees	Interviews conducted with respondents to the farm business survey to explore responses, conducted between January and February 2024. Twenty-one interviews were conducted in total.
TLALC	Tamworth Local Aboriginal Land Council
VFASA	Vietnamese Farmers Association of South Australia
VFF	Victorian Farmers Federation

Executive summary

Since its establishment in 2018, the Regional Investment Corporation (RIC) has delivered 3,060 concessional loans to farm and farm-related businesses across Australia, totalling $3.3 billion as at 31 March 2024. The loans have saved businesses approximately $309.03 million in interest as at 31 March 2024 and have been used to help businesses get through hardship or support succession arrangements and new farmers.

The **Introduction** to this report outlines the purpose of this Review, its Terms of Reference and the consultation process undertaken to inform the Review. It also provides relevant background on drought policy and an overview of the RIC (including its legislative framework, products and previous reviews). The Review's findings and recommendations are then explored in chapters one to 9.

Effectiveness of concessional loans

Chapter 1 examines the effectiveness of concessional loans as a policy tool to support long-term viable farmers, particularly during drought. It finds concessional loans are effective, but notes considerably more robust program data collection and analysis is required, particularly to confirm that the loans are not impeding structural adjustment.

This chapter also examines the objectives and purpose of the RIC and each of its current loan products. The Review finds there is a need for the government to more clearly articulate the RIC's purpose – and this should include criteria to guide future product development and program improvements. It also notes that, while the policy objectives of the RIC's loan products are broadly appropriate, some minor adjustments are required – particularly to ensure alignment of the RIC's Drought Loan with the latest developments in drought policy, as well as in reframing the Farm Investment Loan to make its purpose clearer to clients. The Review also recommends further policy consideration and analysis be undertaken to determine if there is an appropriate role for government to play in facilitating inter-generational change in the agriculture sector, including through the RIC's AgriStarter loans.

Suitability of loan product parameters

Chapter 2 considers the parameters of RIC loans, examining whether they are still appropriate for the agriculture sector given changes over time. Based on strong stakeholder feedback and the absence of data suggesting otherwise, the Review recommends that the current loan term of 10 years be maintained. The current maximum loan amount of $2 million should also be maintained, but a monitoring mechanism related to changes in farm input costs should be developed and implemented to provide a robust evidence base for changing the maximum loan amount over time if needed. The Review also considers opportunities for some flexibility in the timing of interest only payments and recommends loan management flexibility be introduced in a manner consistent with options available to most of the states in managing the pre-RIC farm business concessional loan schemes.

This chapter also notes the consequences of the government providing interest-free loans through the RIC, particularly the negative impact on the RIC's service delivery capability and subsequent effect on farmers in hardship. The Review recommends that, in future droughts, the government not direct the RIC to implement another interest free loan program.

Using an established loan delivery agency

Chapter 3 notes the inevitable challenges in establishing new mechanisms to deliver on government policy objectives, including in the form of Specialist Investment Vehicles (SIVs). The Review recommends the government retain the RIC as an established mechanism to provide nationally consistent support to farm businesses, particularly during drought. It also recommends that the RIC and its legislative and governance frameworks continue to be reviewed on a regular basis to ensure they remain fit for purpose.

This chapter also considers opportunities to improve the efficiency and effectiveness of loan delivery and management, including with reference to other Commonwealth SIVs. Options, including the RIC remaining as a standalone agency or merging with (an)other SIV(s), are examined. This Review, strongly supported by stakeholder consultation, found that all SIVs are different, including in policy objective, target cohort, scope of financing mechanisms and quantum of funding per project and any amalgamation or merger would be to the detriment of the RIC's service delivery and support of farm businesses. Such action would likely cause far more angst, and comes with far more risk, particularly during a severe drought, than any efficiencies that might be perceived.

While the RIC is budget neutral, it appears to have a relatively high cost of operations, particularly compared with previous loan delivery approaches, and this Review recommends that a previously planned administrative cost review should proceed. This would ensure the RIC is operating efficiently and that savings arising from its recent in-housing of loan assessment and management functions can be passed onto the RIC's clients.

Effectiveness of the RIC's loan delivery

In **Chapter 4**, the Review finds that the RIC is performing effectively and targeting the right customer base given its policy objectives, but that there are some areas where it could increase its effectiveness. This includes through systematic data collection and reporting.

The RIC has failed to establish a program of collecting useful and analysable data across the loan portfolio. The Review outlines an approach for conducting a thorough monitoring and evaluation (M&E) exercise in the short term, as well as for effective ongoing M&E of the RIC's products. It also highlights the importance of Drought Management Plans (DMPs) as a risk management tool for farm businesses, recommending the RIC conduct a robust assessment of DMPs as it should with any loan criterion, seeking to improve their quality when needed and monitoring their implementation over the life of the loan.

Given the importance of government awareness of the severity and impact of drought conditions and other adverse events, improvements in quarterly reporting to Ministers are suggested. Reporting levels of loan demand, arrears, and reviews against forecasts and triggers to alert government to potential challenges, for example the impact of severe drought, are recommended. Chapter 4 also highlights the importance of annual loan reviews as a risk management tool for both individual loans and the loan portfolio. The Review recommends the RIC conduct annual reviews for all loans, while maintaining its risk-based approach. This is particularly important given the RIC is not a bank and does not have visibility over farm business trading and transaction accounts as commercial institutions do. The Review also recommends the RIC put management plans in place for higher risk loans and provide that information to the department.

Future activities and funding model of the RIC

Chapter 5 examines potential changes to the RIC's funding model, recommending the government consider the RIC having a recycled loan funding model (under which principal loan repayments come back to the RIC, rather than being returned, via the department, to consolidated revenue). This, coupled with moving the RIC's loan portfolio from the department's balance sheet to its own balance sheet, would provide more certainty to the RIC, removing the need for periodic government consideration of additional loan funding and annual loan funding appropriations. This approach does come with some risks though, particularly during an especially severe drought, both for the RIC and the government.

Chapter 5 also considers opportunities for future activities of the RIC, including potential new loan products. It recommends the government not direct the RIC to deliver a disaster loan product, noting that the Farm Investment Loan is, for the most part, appropriate for longer term disaster recovery beyond farmers accessing usual disaster relief assistance delivered by state and territory authorities mainly through grants. The Review also considers the merits of a loan aiming to improve the sustainability of farm businesses, noting the government needs to further consider relevant matters such as the RIC's purpose, a market gap, RIC capability and expertise. Should the government decide such a loan has merit, a pilot program would be appropriate.

The Review also recommends several amendments to the *Regional Investment Corporation Act 2018* (RIC Act) – removing a range of references to the now-terminated National Water Infrastructure Loan Facility and removing the RIC Board's advisory role to the Future Drought Fund.

First Nations engagement in agriculture

Chapter 6 considers opportunities for the RIC to enhance its First Nations capability, including both internally and building relationships with organisations with First Nations expertise such as Indigenous Business Australia, the Indigenous Land and Sea Corporation and the National Indigenous Australians Agency. The Review also recommends adding First Nations expertise to the list of relevant skills for the RIC Board, to enhance the RIC's capability at the most senior level and drive First Nations-related consideration and capability improvement from the top.

The Review also makes recommendations for the government to explore options to improve First Nations access to agri-finance, including a First Nations specific agribusiness loan, but notes that the RIC may not be the most appropriate channel to implement such initiatives.

Relationships with stakeholders

Chapter 7 explores the benefits of greater collaboration between the RIC and stakeholders, including on-the-ground engagement, closer links with the Rural Financial Counselling Service, and regular communication with commercial lenders who also finance RIC clients.

This chapter also considers opportunities for the RIC to better engage with women in agriculture, as well as culturally and linguistically diverse groups. It suggests further work on data collection for the RIC to better evaluate the impact of its loan programs on these groups.

Governance

Chapter 8 explores the RIC's governance arrangements and other possible entity types and governance models. The Review finds that the RIC's current arrangements are suitable given its functions and activities and the range of agricultural industries that must be considered by the RIC.

It also recommends a stronger relationship and understanding of roles between the RIC and the department be developed, which would be supported by the appointment of a senior executive (for example, Deputy Secretary, or First Assistant Secretary) from the department to the RIC Board (in line with a range of other SIVs). The Review notes that continuity is more important than seniority.

This chapter also recommends that, should changes to the RIC's legislative framework be made following this Review, the responsible Ministers should provide a Statement of Expectations on the implementation of any changes, as well as appropriate risk management and reporting requirements.

Implementation plan

Chapter 9 considers the implementation of the recommendations of this Review, including timeframes for the RIC collecting and collating data, improving reporting and strengthening M&E activities. This chapter also notes potential legislative changes as a result of recommendations, which could be implemented at the government's discretion.

Recommendations and findings

In the following table, recommendations are numbered and findings have a corresponding letter.

No.	Recommendation or Finding
A	Based on the available evidence, concessional loans are an effective policy tool to support long-term viable farmers and farm related small businesses in financial need, particularly during drought.
1	The government retain concessional loans as a policy tool to support the agriculture sector, particularly during drought. The RIC implement more comprehensive and robust data collection and analysis to assist the department to confirm policy efficacy, including that the RIC's loans are not impeding structural adjustment.
2	The government continue to target farm business concessional loans to those businesses that are viable in the long-term but in short-term financial need due to circumstances outside of their control, including prolonged drought, as the core customer base.
3	The government clearly articulate the RIC's purpose, including its target cohort, and the RIC ensure its communication and messaging and approach to loan delivery aligns with this purpose. To support a clear purpose for the RIC, the government develop a set of criteria to guide future product development and program improvements. These criteria should include: • alignment with government priorities and policies (including the new National Drought Agreement) • targeting gaps in the commercial market, including focusing on providing loans to businesses that are in financial need but still viable in the long-term • focusing effort where there is most benefit to the sector (e.g. drought) • appropriately and prudently managing risk given the use of taxpayer funds.
4	The government review the Introduction and Policy objectives within the RIC Operating Mandate Direction to ensure they reflect a clear and unambiguous purpose for the RIC reflective of its functions and align with the most recent developments in drought policy including an emphasis on resilience and self-reliance. The government review the Policy objectives for the RIC's drought loans (Drought Loan and AgBiz Drought Loan) to ensure they are consistent with any changes made to the Operating Mandate Direction, including to reflect the most recent developments in drought policy.
4.1	The RIC, in consultation with the department, make the following minor amendments to the framing of the Farm Investment Loan:

No.	Recommendation or Finding
	• Change the name of the loan product to better reflect that it is to assist farmers in financial need due to circumstances outside their control and, in doing so, it seeks to support farm businesses to build or maintain market diversity. • Reframe communication about the product to emphasise market diversification as a risk management tool to strengthen a farm business and potentially make it more resilient to future external impacts.
4.2	The department investigate if there is an appropriate role for government in facilitating inter-generational change in the agriculture sector and, if so, whether taxpayer funded concessional loans including the current AgriStarter Loan in financial need criterion are the most appropriate and effective mechanism for facilitating this change. This work to be undertaken in the next 18 months. The government consider the outcomes of this policy analysis, including any impacts on the AgriStarter Loan, by mid-2026. The AgriStarter Loan remain as an available RIC loan product while this further work is progressed.
4.3	The department, in consultation with the RIC, review the objectives of the RIC's loan products every 5 years, or more frequently when government policy is changing.
5	The government implement ongoing monitoring of the need to change the RIC's maximum loan amount and consider the maximum loan amount at least every 5 years. To support this ongoing monitoring and any decision by government to change the maximum loan amount, the department develop an appropriate metric within 12 months, for example, linked to input costs to farm businesses and reflective of the actual uses of RIC loans by farm businesses.
6	The government maintain the RIC's current loan term at 10 years.
7	The government amend the RIC's legislation to allow loan management flexibility as determined by government, consistent with amendments to the pre-RIC state delivered Commonwealth farm business loans applicable in most states.
8	The government amend the RIC's legislation to allow RIC customers flexibility around the timing of repayment of principal and interest over the 10-year loan period, provided the overall period for interest-only repayments does not exceed 5 years.
9	The government not direct the RIC to implement interest free loans.
10	The government continue to set the RIC's concessional interest rates for its loan products through legislation and responsible Ministers approving the RIC's interest rate methodology.

No.	Recommendation or Finding
	Interest rate/s continue to be based on the cost of capital and an administrative margin to cover the RIC's costs. The department, in consultation with the Department of Finance, review the administrative margin methodology (and the RIC's interest rate methodology and legislation as needed) to incorporate a small margin to reflect both the impact of repayment of some loans prior to maturity, and a small number of loans not being repaid.
11	The government retain the RIC as an established functioning mechanism for delivering a suite of nationally consistent concessional loans to farm businesses and farm-related businesses, especially during drought periods.
B	It is difficult to see any benefit in attempting to merge the RIC's functions into another entity, and attempting to do so is likely to result in a negative outcome for RIC clients, the farming sector and criticism of the government.
C	The RIC is not best placed to provide services to the other Specialist Investment Vehicles.
11.1	The government amend the *Regional Investment Corporation Act 2018* to make provision for ongoing 5-yearly reviews.
12	The administrative cost review (previously overtaken by events in 2020) be undertaken, consistent with its original principle of ensuring an efficient organisation. The administrative cost review is to be completed within 12 months post-Review, or earlier if required, to inform government costing processes about the RIC's ongoing future.
12.1	The department, in consultation with the RIC and the Department of Finance, progress implementation of Tune Review recommendation 22 to develop a Resource Allocation Framework within 6 months of this Review.
D	The RIC is targeting the right customer base.
E	The RIC is performing effectively, but could increase its effectiveness through comprehensive and systematic data collection and improved reporting.
13	The RIC include the following information in its quarterly reporting to responsible Ministers: • information on loan demand – both by applications and value vs forecasts • summary of loan review activity, including number conducted vs forecasts, type of reviews conducted and the trigger for that review • arrears greater than 30, 60 and 90 days, including commentary on the rate at which loans are moving through the arrears time phases, and actions the RIC is taking to remedy arrears • "watchlist" loans in danger of default and actions being taken

<table>
<tr><th>No.</th><th>Recommendation or Finding</th></tr>
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expected and actual credit losses
lapsed number of days in total, in addition to RIC handling days, for loan processing
information on loan declines – both the number and reason given
a graph showing loans settled per product per year.

Through quarterly reporting, the RIC should also clearly report actuals against forecast and/or triggers for arrears, loan demand and reviews to ensure responsible Ministers have clear forewarning of any potential difficulties or challenges.
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<tr><td>14</td><td>
The RIC Board ensure the RIC implements effective data collection, reporting, monitoring and evaluation (M&E), including to:

support appropriate oversight of the RIC's loan delivery and portfolio by the department
monitor and evaluate the extent to which the RIC and its loans are achieving their intended product, program and policy objectives, including in the medium to longer term
inform future policy development.

To support this:

The department, drawing upon existing work, determine the data it needs from the RIC, including to inform an assessment of whether concessional loans, as delivered by the RIC, are an effective policy tool, and provide these requirements to the RIC by 30 September 2024 (i.e. within 3 months of this Review).
The RIC to collect these data for the entire portfolio of loans, not just new clients, and provide it to the department by 31 March 2025 (i.e. within 9 months of this Review).
The department to analyse these data and provide findings to responsible Ministers by 31 October 2025 (i.e. within 6 months following receipt of the data from the RIC).

Data collection and reporting should be ongoing and cover the following:

The impacts of RIC loans on structural adjustment in the agriculture sector, including whether the applicant would have otherwise exited the industry without a RIC loan.
The reasons for ineligible, withdrawn and declined applications and report this monthly to the department.
The cause of financial need and purpose for which all loans are sought in a format that is readily reportable. This includes extracting loan purpose information for the entire portfolio, including for existing non-refinanced loans. Loan purpose to be reported to the department on a monthly basis and a summary provided to responsible Ministers on a quarterly basis.
Confirmation clients have spent loan funds on the intended purpose and report on customer progress in meeting loan objectives. This reporting to be provided to the Board and the department annually.
Use of customer loan reviews to update existing data and collect additional data on the loan and farm business enterprise in a format that is readily and routinely reportable.

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No.	Recommendation or Finding
	• The action loan recipients take after repaying their RIC loan (for example, refinance, get another RIC or other government-funded loan, no further borrowing). The reporting to be provided to the department quarterly. Should the RIC not collect and report on this data by 31 March 2025 (i.e. within 9 months of this Review), responsible Ministers should issue a Statement of Expectations to the RIC outlining expectations around the importance of data collection, reporting and effective M&E to justify continued taxpayer funding of RIC loans. In addition, the RIC commission independent evaluations to inform its M&E program, and provide these evaluations to the department, and publish key data about its loan portfolio on its website regularly.
15	The RIC, as a priority, comprehensively assess Drought Management Plans (DMPs) as one of the requirements (like credit and security grades) of the application process, including accessing appropriate expertise to do so if needed. Where the customer has participated in the Farm Business Resilience (FBR) Program and produced a Farm Business Plan which captures the same required information, the RIC accept the Farm Business Plan as meeting the DMP requirement. The RIC review existing customers' DMPs, to ensure they remain fit for purpose, and seek updates from customers on their implementation, as part of annual and other reviews, and report outcomes to the Board and the department on a 6 monthly basis. The RIC collect and record data on existing and future DMPs in a reportable format to be provided to the department every 6 months. Data to include: • the number of plans, with a breakdown of how many are Farm Business Plans • the number of plans that meet an appropriate standard • the number of plans that do not meet an appropriate standard and require follow-up and re-work by the applicant or client • the strategies farmers have or intend to implement and annual updates on their implementation and effectiveness. The RIC to implement comprehensive assessments, and commence reviews and seeking of updates within 6 months (i.e. by 31 December 2024), and provide reporting to the Board and department within 13 months (i.e. by 31 July 2025 – including data to 30 June 2025). The RIC update its DMP requirements to include and focus on strategic drought interventions. The RIC require a DMP or Farm Business Plan be provided by AgriStarter Loan recipients as part of the application process. The Plan is to be assessed comprehensively. The RIC to update DMP requirements, accept Farm Business Plans, and require DMPs or Farm Business Plans of AgriStarter applicants within 4 months of this Review (i.e. by 31 October 2024).

No.	Recommendation or Finding
	The RIC conduct an internal audit of its DMP assessment process, and report on the audit's findings to the Board and the department.
16	The RIC work with the department to identify how the RIC can factor climate change risk and adaptation into its loan program, particularly its loan application assessments and portfolio reporting, including identifying how the commercial banking sector takes this into account.
17	The RIC implement and record data from annual reviews for all loans in the portfolio, in addition to any milestone-based reviews. The RIC continue to use risk-based assessments to determine 'lite' versus 'full' reviews. The RIC ensure management plans are in place for higher risk loans and make this information available to the department.
18	The government consider having the RIC's loan funding sit on the RIC's balance sheet, rather than the department's balance sheet.
19	The government consider implementing a recycled loan funding model for the RIC.
20	The government not direct the RIC to deliver a specific disaster recovery loan product.
21	Should the government consider there is a need for, and merit in the RIC delivering, a Sustainability Loan, it test market demand and product effectiveness by implementing a small pilot (for example, available loan funding of $50 million). Implementation of such a pilot to be subject to: a) The RIC demonstrating it can successfully assess Drought Management Plans and Farm Business Resilience Plans, and their implementation by farm businesses, and report this information to the department. b) The RIC demonstrating it has access to appropriate expertise to assess the proposed sustainability-related activities and projects to be funded by the loan. c) The department and the RIC working together to consider whether the current RIC loan product criteria and parameters would be suitable for this product.
22	The government amend the RIC's legislation to remove references to the RIC's former role in delivering water infrastructure loans (i.e. grants of financial assistance) to states and territories under the National Water Infrastructure Loan Facility.
23	The government amend the RIC's legislation to remove the RIC Board's Future Drought Fund (FDF) advisory role to the Minister for Agriculture, with consequential amendments to remove the requirement from FDF legislation.
24	The RIC build a relationship with Indigenous Business Australia, the Indigenous Land and Sea Corporation, and the National Indigenous Australians Agency to build the RIC's cultural capability

<table>
<tr><th>No.</th><th>Recommendation or Finding</th></tr>
<tr><td></td><td> and understanding of First Nations agribusinesses, share information, and cross refer clients to the most appropriate agency. Concurrently, the RIC increase its capability in relation to First Nations engagement, including by interacting with First Nations people and enterprises, encouraging and supporting First Nations people to apply for RIC job opportunities, and finalising and implementing its Reconciliation Action Plan (including employment and Indigenous procurement targets). The government amend the RIC Act to add First Nations expertise as a relevant area of expertise for the Board. The RIC work with the department to consider what data could be collected to measure First Nations participation in its loan programs, and how best to collect and store such data in line with the Framework for the Governance of Indigenous Data. This data collection to be implemented within 12 months, with data and findings reported quarterly to the department and responsible Ministers and published periodically. </td></tr>
<tr><td>24.1</td><td> The government explore options to improve First Nations access to agri-finance in consultation with relevant and interested agencies, including: The possibility of a potential First Nations specific loan product, including considering the most appropriate delivery agency to deliver such a loan, noting such exploration may determine the RIC is not the most appropriate agency, and other options, such as existing delivery agencies with relevant First Nations experience may provide better alternatives for First Nations people and enterprises.
Providing revenue contingent loans as a way to support greater inclusion of First Nations people in agriculture, including businesses that are First Nations-led.
Providing funding to established First Nations organisations (e.g. Indigenous Business Australia and the Indigenous Land and Sea Corporation) to support applicants through the application process for agri-finance related programs.
Providing further funding to established First Nations organisations (e.g. Indigenous Business Australia and the Indigenous Land and Sea Corporation) for them to specifically support and grow First Nations agricultural enterprises.</td></tr>
<tr><td>25</td><td> The RIC continue and expand its use of regionally-based staff to improve on-the-ground outreach to a range of stakeholders including state and territory governments, including through participating in local and regional events. The RIC provide on-the-ground intelligence and insights back to the department on a regular basis. </td></tr>
<tr><td>26</td><td> The RIC continue to pursue closer links with the Rural Financial Counselling Service (RFCS) network, including through on-the-ground direct engagement via the RIC’s regionally-based </td></tr>
</table>

No.	Recommendation or Finding
	workforce. The department support this by facilitating closer links between RFCS service providers and the RIC. The RIC work with the RFCS service providers and engage with relevant First Nations, culturally and linguistically diverse, and women's organisations (such as Indigenous Business Australia and the National Rural Women's Coalition) to conduct a review of application forms and website guidance, to assist in making them more accessible to, and better understood by, all potential RIC clients.
27	The RIC increase collaboration and communication between its staff, the client, and the commercial lender including to ensure the best possibility of a smooth transition by RIC clients back to the commercial sector.
28	The RIC work with the department to consider appropriate data for collection to help in determining the gender impacts of its loan programs, and how best to collect such data. This data collection to be implemented within 12 months, with data and findings reported quarterly to the department and responsible Ministers, and published annually.
F	The RIC's current governance arrangements (a corporate Commonwealth entity overseen by a Board reporting to the Ministers for Agriculture and Finance) remain the most appropriate arrangements for the delivery of its functions.
29	The RIC and the department enhance their collaborative working relationship, commencing with a revision of the Memorandum of Understanding and reporting requirements between the two agencies.
30	The government amend the RIC Act to appoint a senior executive from the department to the RIC Board. The departmental representative would remove the need for a board member with senior Commonwealth public service experience.
31	Responsible Ministers provide the RIC with a Statement of Expectations providing further guidance on expectations on specific matters arising from this Review.
32	The government provide the department with additional resourcing to implement recommendations arising from this Review. The government also consider whether the RIC requires additional resourcing to implement recommendations arising from this Review, subject to outcomes of the administrative cost review (recommendation 12 refers).

Introduction

Purpose of the Review

The Regional Investment Corporation (RIC) was established by the *Regional Investment Corporation Act 2018* (RIC Act) and commenced operations on 1 July 2018 as a Corporate Commonwealth entity (CCE). The RIC is one of 8 Specialist Investment Vehicles (SIVs) created to deliver on specific policy purposes. It was established to provide a national body to administer $2 billion of farm business concessional loans and the $2 billion National Water Infrastructure Loan Facility (NWILF) from 2018–19. The aim of the RIC was 'to streamline delivery of loan arrangements, deliver national consistency and ensure farm business loans are speedily approved to help farm businesses in need, as well as providing loans to state and territory governments for the construction of nationally significant water infrastructure' (DIRD 2017). Funding to establish the RIC was provided in the 2017-18 Budget.

Section 53 of the RIC Act requires the Agriculture Minister to arrange for a review of the operation of the Act to be undertaken, with the review to be finalised on or before 1 July 2024. The review must consider:

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

Terms of Reference

In addressing the scope of the RIC's activities after 30 June 2026, and the appropriate governance arrangements for the RIC after that date, the Review was tasked to consider:

- 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
- the appropriateness of the *Regional Investment Corporation Operating Mandate Direction 2018*, rules made under the Act and eligibility criteria
- the customer base of the RIC and the case for supporting that customer base with publicly funded concessional finance
- the suitability and effectiveness of the RIC's products and services
- the suitability of the RIC's funding model and operations
- opportunities for the RIC to appropriately support the agriculture sector to meet current and future challenges in line with government policy objectives
- opportunities to support greater engagement and inclusion of First Nations people in agriculture, including facilitating activities that are First Nations-led
- opportunities to improve the efficiency and effectiveness of loan delivery and management, including with reference to other Commonwealth SIVs
- other matters relevant to the operation of the Act.

The Review's full Terms of Reference can be found at Appendix A.

Consultation

In line with its Terms of Reference, the Review sought to address the broad range of matters through an extensive consultation process, including written submissions, meetings with stakeholders, an online farm business survey and phone interviews.

The Review engaged with a diverse range of stakeholders to help inform its recommendations and findings. These included the RIC, agricultural industry representative bodies, farm businesses - including RIC clients, banks, Rural Financial Counselling Service (RFCS) providers, First Nations organisations, businesses and individuals, and Land Councils, Commonwealth departments, Commonwealth SIVs, state and territory governments, academics, advocacy groups, and individuals with experience in banking or state loan delivery agencies.

A full list of stakeholders can be found at Appendix B.

Meetings

Over 100 targeted stakeholder meetings were held throughout the Review with approximately 66 separate stakeholders, both in-person and online. As well as government agencies, the Review aimed to meet with stakeholders from different agricultural industries, the banking sector, groups and individuals representing rural women, and culturally and linguistically diverse (CALD) farmers, as well as representative organisations for First Nations people. While often covering similar topics, these meetings were tailored to seek views under the most relevant parts of the Terms of Reference and allowed stakeholders to raise issues most important to them.

Written submissions

The Review received 24 written submissions in which stakeholders could respond to an online discussion paper and also raise other matters they felt were relevant. Submissions were largely received from peak agricultural industry representative bodies, government entities and financial institutions. A list of submissions can be found at Appendix C.

Farm business survey

The Review received 502 responses to its online survey, from farm businesses and primary-production related small businesses (for example, those who had applied for and/or received a RIC AgBiz Drought Loan). The farm business survey was open from 8 December 2023 to 12 January 2024. Current and former RIC applicants and clients were invited to participate in the survey. Industry groups and Rural Development Corporations were also made aware of the survey to encourage participation by farm businesses who had not previously engaged with the RIC.

Further information about the survey, including analysis on the survey results can be found at Appendix D.

Phone interviews

Twenty-one targeted phone interviews were conducted to further explore responses to the farm business survey, including understanding the impact of RIC loans on businesses and suggested changes to the RIC loan program. Themes arising from the phone interviews can be found at Appendix E.

Concessional loans as a policy response to drought

Former iterations of Commonwealth concessional loans to support farm businesses occurred in the early 1980s (Treasury, 1980). However, the focus of Commonwealth concessional loans at the time the RIC was first announced in 2016 was primarily as a mechanism to support farm businesses in financial need to manage through and recover from drought.

History of drought policy

Drought has always been a part of Australia's climate and agricultural landscape, disproportionately impacting farmers and communities in regional and rural Australia. The Australian Government's current drought policy has been informed by the progressively shifting view from drought as an exceptional circumstance to an expected element of Australia's variable climate, and a risk for which farm businesses should be prepared.

In 1971, government policy recognised drought as a natural disaster, allowing impacted people to be supported through joint Commonwealth-state Natural Disaster Relief and Recovery Arrangements (DAFF 2021). In 1989, the Commonwealth removed drought from Natural Disaster Relief and Recovery Arrangements and commissioned a review of drought policy. The review found that, under disaster relief and recovery arrangements, Commonwealth assistance for drought had affected farmers by being poorly targeted, distorting farm input prices and worked as a disincentive for farmers to prepare and manage through recurring drought. As a result, the National Drought Policy was announced in 1992, the first time that proactively managing climate variability, rather than just recovering from it, was a key objective.

From 1992 to 2012, financial support in the forms of grants, interest rate subsides, and income support were provided to farmers in declared Exceptional Circumstances (EC) areas. For a drought to be declared an exceptional circumstance, it had to be rare and severe, have resulted in a severe downturn in farm income, and not be a predictable part of a process of structural adjustment (DAFF 2021). Successive reviews of this drought policy concluded that EC arrangements were inequitable, ineffective, and could result in farm businesses being less responsive to drought.

Interest-rate subsidies

In 1997, EC Interest Rate Subsidies (ECIRS) allowed farmers and farming businesses to access low interest-rate loans from banks, with the intent of providing struggling farms with assistance to meet interest repayments on debt. Crucially, the subsidy was calculated based on money already owing, and the lump sum payment was made directly to the farmer, rather than the institution/s holding the debt.

The 2009 Productivity Commission Inquiry Report into Government Drought Support found that 'ECIRS creates a number of perverse incentives and unintended outcomes'. The Productivity Commission noted that 'as the program provides the most assistance to those with the largest debt, these is an incentive for some to build debt and/or not reduce debt when faced with drought risk.' Drought responses of farms were not assessed prior to receiving the subsidy and the average farmer receiving the subsidy had an equity level of over 80% of the total farm asset value. Overall, the Inquiry found that incentivising ECIRS means 'farm businesses adopt less self-reliant strategies prior to droughts in belief that governments will help to maintain the business during droughts' and recommended that ECIRS should be terminated.

State-delivered loans

Following the decision to move away from ECIRS, the government focused on providing new tools that would drive better risk mitigation including Commonwealth-funded farm business concessional loans, primarily for drought support, that were delivered by the states and the Northern Territory from 2013-14 to 2017-18. The 2021 Independent Review of the RIC provides a detailed history of drought support during this period. In total, 1,676 concessional loans were approved nationally, valued at $916 million. Of these, 1,583 loans with funds worth $855.1 million were advanced to farm businesses, the difference of $60.9 million being approved loans that did not proceed to settlement.

Loan scheme delivery arrangements were negotiated bilaterally with jurisdictions, underpinned by a loan agreement and a service level agreement that outlined roles and responsibilities, reporting and performance requirements and the terms and conditions of the Commonwealth's loans. Separate scheme guidelines were developed with each jurisdiction for each scheme. In some jurisdictions farmers missed out on accessing loan schemes, particularly where a jurisdiction's policies did not align with those of the Commonwealth. For example, the Western Australian Government refused to deliver schemes with 10-year loan terms. Further, by virtue of being delivered by different state agencies, loans were assessed and delivered somewhat inconsistently between jurisdictions, resulting in different outcomes despite farmers being in similar situations of hardship. It also took significant time for the Commonwealth to negotiate with each state to deliver the loans, including agreeing operational funding to administer the schemes.

The move away from state-delivered loans to a national approach sought to provide consistent, fair and efficient financial support to famers in the form of concessional loans, particularly to support the agriculture sector through drought.

A more detailed overview of the history of farm business concessional loans and rationale for establishing the RIC, is available at pp. 1-3 and Appendix A of David Tune's 2021 'Independent Review of the RIC'. It is worth noting that, in considering the setup of a national concessional loan program, the option of calling tenders from banks to deliver the loans was not considered.

National Drought Agreement

Successive drought policies and intergovernmental agreements have increasingly emphasised long-term preparedness, sustainability, resilience and risk management. Common principles have underpinned the National Drought Policy throughout its evolution (Botterill 2021). The principles include:

- Drought is a normal part of Australia's climate.
- Under normal conditions agricultural producers are expected to manage the risk associated with drought.
- Australia's farmers are expected to be self-reliant.
- Government support should be available in extreme conditions.

A new National Drought Agreement (NDA) is expected to commence on 1 July 2024 and replace the agreement made in 2018. The NDA provides a framework for jurisdictions to work together on nationally consistent drought policy and programs. One goal of the NDA is for the agricultural sector and rural communities to be better prepared for and able to manage the risks associated with drought, climate change and variability, to enhance their long-term productivity, sustainability, well-being, and resilience.

In outlining the roles of the Commonwealth and the states and territories, the NDA seeks to reduce duplication in program delivery. The Commonwealth is responsible for providing the agricultural sector with continued access to incentives to manage risk, including through concessional loans. Each state or territory is responsible for administering and coordinating drought policies and programs in its jurisdiction. A joint responsibility under the NDA is to develop, promote, or implement useful capability and capacity building programs, tools and technologies to improve their decision-making and promote resilience.

In addition, a new Australian Government Drought Plan is currently being developed, with a consultation draft expected to be released in mid-2024. The plan guides drought policy at the Commonwealth level, articulating how the Australian Government will deliver on its commitments under the new NDA.

Current drought support

Terms such as 'resilience' have become more prominent in government drought policy, reflecting the importance now placed on drought preparedness and management. Today, drought policy seeks to build resilience to drought by enabling preparedness, risk management and financial self-reliance, while at the same time ensuring an appropriate safety net is always available to support those experiencing hardship. This approach recognises there can be times when even the most prepared and resilient may need support, and the safety net should always be available and not be triggered by localised drought declarations. In considering learnings from past approaches, this safety net must not disincentivise preparedness or undermine the efficiency or growth prospects of the agricultural sector.

The Future Drought Fund (FDF) was established in September 2019 as a secure and continuous funding source specifically for drought resilience initiatives to help farmers and communities prepare for the impacts of drought (DAFF 2024c). The FDF began with an initial credit of $3.9 billion and earnings are reinvested until the balance reaches $5 billion (expected in 2028-29). $100 million is made available each year to support Australian farmers and communities to prepare for and become more resilient to the effects of future drought. New legislation comes into effect every four years to guide FDF funding. The new *Future Drought Fund (Drought Resilience Finding Plan 2024-2028) Determination 2024* (FDF Funding Plan) came into effect on 9 February 2024. As noted in subsection 2(4) of Schedule 1 of the FDF Funding Plan, the benefits generated from FDF funding should be accessed and/or shared by many (i.e. provide public benefits), rather than be captured solely by individual businesses or industries for private commercial gain (i.e. private benefits).

The Australian Government also provides support directly to individuals or businesses when in hardship, including drought. To this end, concessional loans delivered by the RIC are seen as one tool in a suite of drought support measures. Other programs include:

- Farm Household Allowance (FHA), which has twin aims of providing financial assistance while the recipient is supported to make decisions to improve their financial situation. Unlike most previous programs, it is available to farming families experiencing financial hardship for any reason, including drought.

- Rural Financial Counselling Service (RFCS), which provides free and independent financial counselling to eligible farmers, fishers, foresters and small related businesses experiencing, or at risk of, financial hardship, for any reason including drought, biosecurity outbreaks, commodity downturns and natural disasters.
- Farm Management Deposit (FMD) Scheme, which allows eligible primary producers to set aside pre-tax income which they can draw on in future years when they need it.

A full list of existing farm support measures provided by the Commonwealth and state and territory governments can be found at Appendix F.

Other farm support

There is a range of other support mechanisms delivered by state and federal agencies to support farmers, farming businesses and rural communities through difficult circumstances. The Queensland Rural and Industry Development Authority (QRIDA) and the New South Wales Rural Assistance Authority (NSW RAA) provide financial assistance in the form of concessional loans, grants and rebates not only for drought resilience and recovery, but also for natural disasters, sustainability and innovation, and support for new farmers. The Western Australian Government recently announced a support package, including grants and interest free loans, for farmers impacted by drought conditions. Agriculture Victoria and Tasmania’s Department of State Growth also offer programs to support young farmers.

The National Emergency Management Agency (NEMA) also delivers a range of programs to reduce the impact of disasters and increase resilience across Australian communities. It administers the Disaster Recovery Arrangements to provide timely and targeted payments and support to individuals and families affected by major disasters throughout Australia, including loans and grants. Tax measures available for primary producers and small businesses in rural and regional areas can be found at Appendix G.

Overview of the RIC

The RIC is governed by an independent board, whose role is to ensure the proper, efficient and effective performance of the RIC’s functions. It has 2 responsible Ministers, being the Agriculture Minister and the minister who administers the *Public Governance, Performance and Accountability Act 2013*. These Ministers are currently Senator the Hon Murray Watt, Minister for Agriculture, Fisheries and Forestry and Senator the Hon Katy Gallagher, Minister for Finance.

The RIC was originally intended to administer funds relating to drought concessional loans, as well as the NWILF (Joyce 2016). Following passage of the RIC Bill in February 2018, its key functions are:

- to administer farm business loans
- to administer, on behalf of the Commonwealth, financial assistance to States and Territories in relation to water infrastructure projects, and
- to administer programs prescribed by rules.

The RIC has received $4.075 billion from the Australian Government for concessional loans and its loan funding is currently set to conclude on 30 June 2026, with approximately $250 million to $300 million per financial year in loan funding available over the next 2 years. A timeline of the RIC’s activities can be found at Appendix H. A summary of how RIC loan products operate and their demand since RIC establishment is at Appendix I. As at 31 March 2024, the RIC has delivered $3.3 billion in concessional loans via 5 concessional loan products (Table 1).

Table 1 RIC loan products, description and total loans settled and value since RIC establishment as at 31 March 2024

Loan	Description	Total number of settled loans	Total value of settled loans
Drought loan (available since 1 July 2018)	To help eligible farmers prepare for, manage through and recover from drought	2605	$2.84 billion
Farm Investment Loan (available since 1 July 2018)	To help eligible farmers build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas	163	$152.64 million
AgBiz Drought Loan (available since 20 January 2020)	Assist small businesses to manage through drought	119	$33.59 million
AgRebuild Loan (12 June 2019 – 30 June 2020)	To help eligible farmers to restock, replant and refinance after the Monsoon Trough experienced in North Queensland in early 2019	65	$179.78 million
AgriStarter Loan (available since 1 January 2021)	To encourage and support people in obtaining their first farming business, or to assist with farm business succession planning and giving effect to succession plans.	108	$92.09 million
Total	N/A	3060	$3.3 billion

Source: RIC (2024b)

The RIC's legislative framework

The RIC is underpinned by a legislative framework consisting of:

- The RIC Act, which establishes the RIC, its functions and arrangements for its governance and staff. The Act also identifies the constitutional basis for farm business loans, through the definition of a farm business loan.
- The Operating Mandate which sets out ministerial directions to the RIC about the performance of its functions. The directions include matters relating to the RIC's operations and reporting, as well as the policy objectives and key eligibility criteria for the two initial farm business loan products, the Drought Loan and the Farm Investment Loan.
- A series of *Rules* for subsequent programs (essentially loan products) to be administered by the RIC, outlining specific criteria and the constitutional basis for each program.

In addition, program guidelines for each loan product provide guidance to applicants on the eligibility criteria and evidence required, as well as eligible loan uses and loan terms. The RIC is responsible for drafting these and ensuring they are consistent with parameters set out in the legislative framework. The Operating Mandate and the Rules, require the RIC to develop and publish guidelines for each program of farm business loans in consultation with responsible Ministers.

With the exception of the Rules and having an Operating Mandate rather than an Investment Mandate, this framework is comparable to a number of other Commonwealth SIVs. It allows for a clear set of functions and objectives for the RIC through the Act and Operating Mandate, while providing the government with the flexibility for the RIC to undertake new programs through additional legislative instruments.

Previous reviews of the RIC

There have been two previous publicly available reviews of the RIC, assessing its establishment, operations, governance, and overall effectiveness. These prior reviews provided a range of recommendations. Appendix J provides the government and the RIC's responses to the recommendations provided for both prior reviews.

Design and establishment of the Regional Investment Corporation – June 2020

The Australian National Audit Office (ANAO) conducted an audit of the RIC in June 2020 to examine the effectiveness of the design and establishment of the RIC, including an assessment of whether lessons from prior programs were adopted in its design. The ANAO concluded that the design and establishment of the RIC was largely effective, the RIC's governance arrangements were partially sound, and that the RIC had established a largely effective loan delivery arrangement (ANAO 2020).

Independent review of the RIC – February 2021

In late 2020, Mr David Tune AO PSM was commissioned by the government to do an independent review of the RIC to make sure the initial settings and governance were appropriate. The review considered the suitability and effectiveness of the RIC's loan products, the suitability of the current funding model, and the overall risk portfolio of the RIC, with a focus on financial risk (Tune 2021). The review made 27 recommendations for the RIC, department and government to action (see Appendix J). There are similarities in the themes raised in the independent review of the RIC, and those raised in this Review, including on Monitoring and Evaluation (M&E) which is further explored in Chapter 4.

Related reviews

As part of the Productivity Commission's Review of Part 3 of the *Future Drought Fund Act 2019* (FDF Act), the RIC Board's advisory role under the FDF Act was raised. The Productivity Commission recommended that the RIC Board's legislated role should be removed, citing concerns raised about the costs and delays to the programs due to the requirement for seeking advice from the RIC Board (PC 2023). This Review discusses this function in Chapter 5.

In 2016, the ANAO found the delivery of concessional loans by the former Department of Agriculture, Water and the Environment to have several deficiencies and areas for improvement (ANAO 2016a). Although arrangements were established by the department to monitor and report on program performance, the ANAO noted that 'the effectiveness of these arrangements is, however, undermined by processes that provide limited assurance that the information reported by jurisdictions is complete and accurate'. M&E is further discussed in Chapter 4.

Structure and presentation of this report

This Review had to answer two fundamental questions – what the future activities of the RIC should be, and what are the appropriate governance arrangements. It also had to deliver on specific terms of reference related to the two overarching questions. The report broadly follows the premise that governance arrangements should be appropriate to support an organisation's function – so the first part of the report focuses on the RIC's activities, and the latter part of the report focuses on governance.

The report begins (Chapters 1 and 2) with a discussion of the effectiveness of concessional loans as a policy tool and the policy objectives and program level parameters that are set by the government. It reviews the loan program's objectives, including in the context of national drought policy, and assesses the effectiveness and appropriateness of the loan parameters.

The report then discusses the merits of having an established body to deliver concessional loans during drought, including the challenges in setting-up new mechanisms, such as SIVs, when a drought occurs. It also explores whether the RIC should provide services to other SIVs (Chapter 3).

Chapter 4 then looks at how effectively the RIC has delivered on policy and program objectives, focusing on the activities within the RIC's control. It also aims to explore the efficiency of the RIC in delivering its functions.

Chapters 5, 6 and 7 focus on the future activities of the RIC, its funding model, operations, activities, scope to better include First Nations people in agriculture, and its relationships.

Chapter 8 discusses current and future governance arrangements of the RIC.

Chapter 9 summarises the recommendations in an implementation plan and discusses funding implications of the Review's findings.

Recommendations

The recommendations have been drafted to include all details relevant to the recommendations, within the recommendation. This is to support comprehensive implementation of recommendations, where agreed by government.

RIC program data

RIC program data used within the report is correct as at 31 March 2024 and is sourced from the RIC's monthly data report to the department's RIC Policy Section, Farm Resilience Division. Some additional RIC data within the report has been specifically requested from, and provided by, the RIC for the purpose of this Review. In addition, references to policies in development in the report, are as at mid-June and may have progressed by the time of publication.

Chapter 1 – Effectiveness of concessional loans

This chapter explores the effectiveness of the RIC's concessional loans as a policy tool since establishment. It examines the impact of the high-level policy objectives of the RIC's loan program set by the government through legislation– as well as key eligibility criteria the government has used to establish the intended target cohort for the loans. It also considers the impact of concessional loans on structural adjustment in the agricultural sector. The chapter then looks at the role of the RIC and the effectiveness of each specific RIC loan product in achieving its policy objective.

1.1 Concessional loans as a policy tool

Concessional loans are a key policy tool used by the Australian Government to support farmers to manage risk. The RIC's Operating Mandate outlines the overarching function of the RIC as being to '*administer farm business loans'* providing *'streamlined and nationally consistent Commonwealth concessional finance supporting regional Australia.*' The policy objectives of farm business loans are to '*provide low-cost finance to farm businesses that are in financial need of assistance, to recover from short term hardship, but are assessed as financially viable over the long term and able to repay*'. Both the policy objectives and Schedule 1 to the Operating Mandate also states that farm business concessional loans seek to '*support the long-term strength, resilience and profitability of Australian farm businesses'.* While the Operating Mandate expressly states farm business loans are for, among other things, preparing for, managing through and recovering from drought, since the RIC's inception, this has not been the only circumstance in which businesses could access support. To summarise, through the RIC, the government intended to support businesses which are in financial need due to circumstances beyond their control (including drought), but which are financially viable in the long term, using nationally consistent low-cost finance. Through such finance, the RIC supports the long-term strength, resilience and profitability of Australian farm businesses, and regional communities.

Broadly, there is wide support for government funded concessional loans as a policy tool. This has been evidenced across written submissions, stakeholder meetings, farm business survey data and the RIC's customer feedback survey (conducted in 2023). Only one written submission, from the Australian Farm Institute, considered that concessional lending did not result in overall socioeconomic benefits and that public resources are better directed to other programs, including those which support farm management education and extension (AFI 2024). One agricultural stakeholder in the Northern Territory also did not support concessional loans as a policy tool to support farm businesses, noting that in times of drought concessional loans might solve short term problems but prolong poor practice in the longer term. Besides this, support was particularly unequivocal where loans are for those who have been impacted by an event outside of their control and are left in financial need, including due to drought. The National Farmers' Federation (NFF) noted that '*concessional lending is a fundamental pillar of Australia's drought policy and the NFF sees that it will continue to play an important role in ensuring the long-term resilience of Australia's agricultural sector'* (NFF 2024a). Almost all (98%) respondents to the farm business survey on concessional loans thought that the government should provide publicly funded concessional loans to farm businesses and farm-related small businesses. Over 90% considered that concessional loans support the long-term strength, resilience and profitability of farm businesses and farm-related small businesses. There was greater debate around whether the RIC should be involved in issuing concessional loans to a broader cohort – i.e. those that have not been impacted by an external event, for a specific loan use (for example, supporting investment in climate smart agricultural practices).

Stakeholders frequently highlighted the variability and risk involved in running agricultural businesses, particularly in Australia, and the need for support to aid recovery or smooth out periods of low or no income. Cheaper access to finance through concessional loans was highlighted by stakeholders as a cost-effective way to provide cash flow relief to generally productive businesses affected by adverse events. Written submissions from NFF, Australian Banking Association (ABA) and other stakeholders acknowledged that concessional loans support farmers to manage through volatility (NFF 2024a, ABA 2024). Agricultural businesses face a great deal of uncertainty when it comes to production due to the impact of weather and climate, and will increasingly face more severe weather events, including potentially longer drought (Falster et al. 2024). Income is only generated once significant capital has been expended and after plants / herds reach productive capacity, which may take many years. Following extreme weather events, agricultural businesses can be left without usual income for long periods of time (for example, several years in the case of needing to replant some fruit or nut trees). As a capital-intensive industry (AFI 2016), the rising cost of inputs add further financial pressures on farmers during these times. Agricultural businesses are also particularly exposed to commodity price fluctuations and trade restrictions (ABARES 2024b).

These factors lead to a business environment that is highly volatile in terms of income and returns, impacting on cash flow. This can drive agricultural businesses to seek out debt financing (Topp 2023 and PC 2021). Smaller businesses also often face higher borrowing costs than larger businesses (RBA 2023), further exacerbating financial pressures. RIC loans provide cash flow to businesses in financial need. Based on data if the entire loan portfolio provided by the RIC, 68% of RIC loans are used to refinance up to 50% of the client’s existing commercial debt, freeing up more cash flow from interest saved on existing debt and reducing existing debt repayments. Survey interviewees and farm business survey respondents noted that cash flow is often used to cover operating expenses (for example, paying bills, purchasing feed or other farm inputs). Respondents also noted that RIC loans contribute to better mental wellbeing by alleviating immediate cost pressures and providing breathing space to make better business decisions through difficult times.

There is some evidence that RIC loans have also supported the long-term resilience and profitability of farm businesses. The farm business survey suggested that almost 40% of RIC loans were used to make new capital investments on farm (either solely or in addition to refinancing existing loans), including purchasing water infrastructure, land, machinery or undertaking drought preparedness activities. Interviews with survey respondents suggested that additional cash flow gained from interest saved on existing debt was invested in the business to build productivity or to improve climate risk management and sustainability. One farm business survey interviewee who had refinanced existing debt and re-invested into their farm business described the behavioural impact of the RIC loan: ‘because it was money that was already budgeted to be spent on the business [on loan repayments] it made sense for the additional cash flow from refinancing to be spent on investing in the business. This money is treated differently from after tax income that you save for a rainy day.’ The RIC’s submission noted that its customer insights survey also showed that in 2023, 56% of the survey sample of RIC assisted farmers agreed that their loan helped them, or will help them, to purchase machinery or infrastructure (RIC 2024a).

In terms of whether RIC loans are improving drought resilience, there are many definitions of drought resilience. The FDF Funding Plan states that a key aspect of drought resilience is *'… the ability to adapt, reorganise or transform in response to changing temperature, increasing variability and scarcity of rainfall and changed seasonality of rainfall, for improved economic, environmental and social resilience*'. The Review of the 2018 NDA talks about the responsibilities of farm businesses in '*taking active steps to build resilience to, and manage farm-level risks associated with, drought*' (DAFF 2024e). This Review supports the FDF and NDA perspectives on drought resilience that focus on taking active steps or making investments that support the business's ability to adapt to increasing variability, scarcity of rainfall and changed seasonality of rainfall.

The farm business survey found that a commonly cited on-farm investment was purchasing and installing water infrastructure such as bores, dams, piping and irrigation equipment, supporting more efficient use and better access to water. Some RIC loan recipients capitalised on broader government investment in water infrastructure, such as the Newry pipeline, installing water piping to access more reliable water sources. Investment in commodity storage infrastructure, such as silos, was also cited by respondents frequently, helping farmers manage their exposure to the cost of fodder during drought. The injection of cash flow into a business that is then used to cover operating expenses to manage through drought could also be considered by some as supporting drought resilience. Farm business survey respondents said that loans supported the long-term strength, resilience and profitability of farm businesses by helping provide cash flow and smoothing out variability in income caused by adverse events. The RIC's Customer Insights Report also showed that in 2023, 83% of the sample of RIC assisted farmers agreed that their loan helped them, or would help them, to improve drought resilience (RIC 2023b). Beyond these insights, there is limited evidence at a program level on the impact of drought loans on drought resilience. Better data could be collected to assess the impact of RIC loans on drought resilience, for example, through more regular loan reviews that seek to explore these issues more thoroughly (see section 4.3 *Monitoring and evaluation* and 4.6 *Loan reviews*).

Box 1 Case study: Beef farmer, New South Wales

We received the RIC Farm Investment Loan around the 2020 drought and used it to refinance some of our existing debt, make on farm investments and undertake drought preparedness activities.

The interest saved through the RIC loan helped us manage through the drought by ensuring we could source feed and agistment for our cattle, so we didn't have to sell them in the middle of the drought, at a low price.

We also used this as an opportunity to drought proof our business by investing in water security. For example, we built troughs, put a bore in and installed water pumps for the dam and piping to improve our water storage. We also installed a feed shed to stockpile feed. This means we don't need to buy feed in the middle of a drought, which can be very expensive. We also planted some trees and put in fencing to reduce erosion.

Box 2 Case study: Beef farmer, Queensland

I received a RIC Drought Loan in 2020, which I used to offset an existing loan. The 2 years interest free period really freed up cash flow, allowing me to invest significantly in drought proofing measures.

I also produce fodder, I installed hay sheds, commodity sheds, bought feed mixers and a small roller mill. I now have the ability to efficiently feed 850 breeders for 2 years if it is necessary. And I did all of that from the interest I saved having to pay on my existing commercial loan. I am now confident that in the next drought or other natural disaster, we will be able to continue to meet our debt commitments.

Box 3 Case study: Orchard farmer, Queensland

I grow peaches, nectarines, figs and persimmons and received a RIC Farm Investment Loan in 2023. We suffered from drought in 2020 and then flooding in 2022.

We used the RIC loan to install a new dripping system which has already reduced our water usage, and an automated watering control system to reduce labour costs. Before, we had to physically go out and switch the water on and off and see how it was going. Now the job gets done better, faster and cheaper.

Other benefits of concessional loans noted by stakeholders included the impact on decision making. Farm business survey respondents said that alleviating immediate financial stress provided breathing space and allowed better, more long-term decision making. Respondents also highlighted some benefits associated with the RIC loan application process in that it forced them to reassess and understand their financial situation in more detail, also enhancing decision making.

Providing support to farm businesses also indirectly benefits the local community. Agriculture remains a dominant employer in rural and regional Australia, with 81% of the workforce living in regional areas (ABARES 2023) One stakeholder said that 'if you want to get money into local communities, going by the farmer's pocket is about as efficient as you get'. Farm businesses often spend locally, either on business supplies or services, or for non-business-related expenditure. Interestingly, over 98% of farm business survey respondents agreed that concessional loans to farm businesses support regional communities – more than the proportion agreeing that concessional loans support the long-term strength, resilience and profitability of farm businesses. The farm business survey found that RIC loans supported a lot of small to medium-sized farms, which are usually family farms (ABARES 2019). 86% of respondents with RIC loans had an annual turnover of less than $2 million and around half had an annual turnover of less than $750,000. Respondents elaborated that supporting family farms ensures these businesses (and households) continue to spend locally, provide employment and either directly or indirectly, support the provision of community services and events. One interviewee highlighted the role of the family farm in the local community – 'family farms provide the volunteer firefighters, the teachers, the nurses, the football coaches, and help to direct fundraising to where it's needed in local communities. Corporate farms don't do this'. The RIC's customer insights survey also found that the RIC's customer base was predominantly small to medium family farms and regional businesses.

In comparison to grants, loans have some clear benefits including that they are theoretically a cost neutral policy tool – although there are up-front costs associated with setting up a delivery agency and delivering the loans (which are later recouped through interest charged), as well as the opportunity cost that the government could have used the money for another purpose. Loans also emphasise mutual responsibility since the recipient must pay the money back. A number of farm business survey respondents and stakeholders with experience in delivering government loans highlighted this benefit. If extreme weather and droughts become more prevalent and severe, this policy tool is a more financially sustainable (in terms of impact on the government's finances) way of supporting farm businesses. A number of stakeholders noted the opportunity provided by loans in delivering sustainable funding, by allowing reinvestments of repaid money. By its design, this policy tool supports farm businesses which are viable and capable of paying back the loan. In theory, this should limit impacts of the policy tool on structural adjustment in the sector (see section 1.1.2 *Unintended consequences*). Given the private benefit associated with the expenditure under the current program parameters, loans also seem a fair way to allocate public money since the beneficiary pays for the costs associated with delivering and administering the loan (through the interest rate). Some stakeholders and farm business survey respondents also suggested that loans, compared with grants, can also encourage wiser spending behaviour. One stakeholder with extensive experience in a government loan delivery agency said, '*someone will always spend their own money more wisely than other people's money*.' The Productivity Commission's 2009 Inquiry Report into drought support found that 'interest rate subsidies and state-based transaction subsidies (i.e. those for fodder, water and livestock) can perversely encourage poor management practices', including because 'financial assistance increases the potential to spend money on additional variable inputs (such as fodder) to maintain production levels' (PC 2009). Lastly, farmers perceive loans as a more "respectable" form of government assistance, with farm business survey respondents often noting that loans are '*not a handout'*.

Finding A

Based on the available evidence, concessional loans are an effective policy tool to support long-term viable farmers and farm-related small businesses in financial need, particularly during drought.

1.1.1 Availability of data

The absence of available program level data has limited the Review's ability to make a fully informed assessment of the effectiveness of RIC loans. Most of the data used to inform the Review's findings has come from the Review's stakeholder consultation process., The RIC is yet to establish a robust M&E approach that supports an assessment of the extent to which policy objectives for the loans are being achieved. For example, the RIC does not collate and report on how the loan funds are being used, so it is hard to determine if farm business loans are contributing to the long-term strength, resilience and profitability of farm businesses. Point in time surveys tend to use a sample approach, are less objective (due to the nature of questions asked and personal biases in responses) and therefore, less robust. Section 4.3 *Monitoring and evaluation* covers this theme in greater detail.

To more comprehensively assess whether the RIC's concessional loans are effective will require further data to be collected over time, including a thorough analysis of the loan book since inception and annual loan reviews. Independent evaluation of the analysis will also be required.

Recommendation 1

The government retain concessional loans as a policy tool to support the agriculture sector, particularly during drought. The RIC implement more comprehensive and robust data collection and analysis to assist the department to confirm policy efficacy, including that the RIC's loans are not impeding structural adjustment.

1.1.2 Unintended consequences

Measuring unintended consequences should be a key aspect of M&E in every government program. Government has often contemplated whether concessional loans to farm businesses can delay exits from the sector, and therefore impede structural adjustment. The Operating Mandate specifies that the RIC '…should be mindful that the Commonwealth is not seeking to impede appropriate structural adjustment…'. Structural adjustment in this context refers to the gradual exit of inefficient producers, and takeover/replacement by producers who are better able to adapt to changing market circumstances. Structural adjustment is part of a strong economy and demonstrates resources going to their most efficient use. In Australia, structural adjustment has reduced the number of farms to 87,800 as at 2021-22 – resulting in larger, more productive farms (ABARES 2024b). Interestingly, smaller farms continue to dominate the agricultural landscape. The impact of RIC loans on structural adjustment has been difficult to assess due to the absence of data. The eligibility criteria of RIC loans target viable businesses only, limiting farm businesses likely to exit, from accessing loans. The farm business survey sought to understand whether RIC loans prevented exits from the industry by asking respondents about their alternative course of action had they not received the RIC loan. Only 10% of those who currently have a RIC loan said they would have sold the whole business – indicating a potential limited impact of concessional loans on decisions to exit.

A well targeted program should limit negative impacts on structural adjustment. As mentioned, RIC loans are for those in financial need due to circumstances outside of their control, and who are viable in the longer term – limiting the likelihood of approval of loans to farm businesses which are seeking to exit. The RIC has improved its targeting of the intended cohort (see section 1.1.4 *Targeting the right customer base*). Stakeholders, including farm business survey respondents, NFF, ABA, rural financial counsellors and agricultural industry groups, often cited how difficult it was to access a RIC loan due to the strict and narrow eligibility criteria. Over 70% of farm business survey respondents said that there were no negative impacts from concessional loans. Many respondents said that the eligibility and assessment process was robust enough to limit negative impacts (e.g. delaying exits), and if there were any negative impacts they would be minimal or 'only at the margins'. Some commended RIC staff on their thoroughness and sound additional questioning when assessing applications. GrainGrowers also flagged that the potential for concessional loans to have negative impacts was avoided due to the RIC's robust lending structure. Other farm business survey respondents said that if there was an impact, it would only be to delay an exit, and this could have positive impacts by leaving the individual in a better financial (and mental) position and, at the community level, would stagger exits to avoid severe economic and social effects on the local area. Other views shared included that those looking to exit wouldn't take on a concessional loan, due to the need to repay it – unlike a grant. Some considered that since RIC loans facilitate entry (through the AgriStarter Loan), this could have the opposite effect in that it facilitates appropriate structural adjustment.

Some respondents were concerned that concessional loans could reduce the incentive to make significant business decisions, including changing practices or exiting. The NSW RAA does not allow its concessional loans to be used to refinance existing loans as it considers this does not drive economic outcomes for the industry. The QRIDA also does not offer loans for refinancing. Interestingly, the farm business survey suggested that 34% of those who refinanced existing RIC loans also made capital investments on farm. As noted earlier, this could be using the RIC loan directly or using the additional cash flow provided through the money saved on interest. This illustrates that refinancing can stimulate additional spending in the sector and be used to make improvements to the business.

Other views included that RIC loans give competitive advantages to less profitable businesses to expand, preventing more profitable/efficient businesses from expanding. This issue could partially be addressed through clarifying the role of the RIC in supporting farm businesses in financial need to recover from hardship, including drought, rather than to support further growth of farm businesses, which in terms of finance is arguably the role of the banking sector (see section 1.2 *Clarifying the RIC's purpose*).

There were other negative impacts noted, that did not relate to structural adjustment. Many farm business survey respondents and stakeholders highlighted the negative impact of the significant resource burden involved in completing a RIC application and the length of time taken to approve loans. Interviews with survey respondents who were declined a RIC loan quoted that RIC loans took them about 12 months to complete the application, and that costs incurred were between $5,000 to $30,000, including accountancy fees and property valuation fees. The NFF specifically mentioned the need for the RIC to improve its reputation going into drought again due to the length of time applications took to process during the last drought. Lengthy decisions on loans can impact on business decisions and plans. The RIC has significantly improved its loan processing times since peak applications were received during the 2017-20 drought (see section 2.4 *Interest free loans*).

Overall, better data is required to make a full assessment of whether the RIC is impeding appropriate structural adjustment. The RIC is in the initial stages of building its M&E capability – particularly since it transferred all loan management processes in-house. It now has the ability to capture data more easily but there is also around $3 billion worth of loans that originated under the former external service provider arrangement that will need to be turned into analysable and reportable information.

1.1.3 Perpetual lending

Continuous access to concessional loans may exacerbate any negative impacts of concessional loans. It may also lead to similar perverse incentives that led to criticism of previous drought support programs e.g. interest rate subsidies – where there is a lack of incentive to change farming practices. There are mixed views from stakeholders as to whether farmers should have the ability to access multiple concessional loans, including over an extended period of time. Some consider farmers should be given access to multiple loan opportunities. Over 80% of farm business survey respondents considered that farm businesses and farm-related small businesses should be able to access government-funded concessional loans on an ongoing / consecutive basis. Over 70% said that there shouldn't be a limit to the number of times a business is eligible for a concessional loan.

Some respondents were concerned that limits would be unfair and difficult to justify, as it is hard to predict the number of times a business may require support due to circumstances outside their control. Some also said that access should depend on need, and if you meet the criteria, then you should be given the support. Some rural financial counsellors also shared the view that the eligibility criteria ensure access is based on need (i.e. if you get hit by another disaster, you are given access), and that the cap on lending (via the requirement to have 50% commercial debt) provides a sufficient limit. The NFF also supported this view, including that ensuring the RIC is not the lender of last resort – through its lending criteria – would sufficiently limit perverse outcomes. Some farm business survey respondents suggested subsequent concessional loans should be conditional on the behaviour and results of the farm business, and therefore subject to increased scrutiny. For example, some suggested that continued access to loans be allowed if the business /client is:

- meeting conditions of the loan (i.e. making repayments or if the loan purpose was achieved / implemented as planned), or
- spending the loan wisely, such as investing in resilience building and taking action to prevent being in the same situation again, or
- making a profit and growing, or
- seeking to invest in new opportunities (technology/future proofing).

There were some conflicting farm business survey views around continued access to loans for recovery from an external event. Some noted that since climate will become more variable, it is likely to become increasingly out of their control, while others considered that since these issues are known, they should be factored into sensible risk mitigation strategies. The FDF Funding Plan highlights that '*…drought is one of a number of risks which calls for active preparation and adaption*', which drives the funding approach of the FDF.

Stakeholders in favour of limits considered that limits encourage a competitive agricultural sector. Farm business survey respondents who hadn't engaged with the RIC in the past were more likely to consider limits to concessional lending, than those who had engaged with the RIC. GrainGrowers considered some limits might prevent delaying inevitable business change or decisions. Some farm business survey respondents said that if a business requires ongoing support, it is likely unviable. Other respondents discussed the need to prevent the system from being abused, the need to ensure government assistance was prioritised effectively across the sector, and that limits would encourage 'more responsible' use of a RIC loan. Some proposed limits included:

- only having one concessional loan at a time
- 2-4 times in a lifetime
- a frequency limit (e.g. 15 years out of 25 years), similar to how FHA operates, with access to up to 4 years of income support in every 10-year period.

If evidence was found that concessional loans impede structural adjustment, it is likely that perpetual concessional lending would only exacerbate this issue. To ensure government resources are being spent effectively to deliver on objectives, it would be sensible to suggest a strengthened assessment of a second loan application – for example, tied to demonstrated improvements to the business's resilience arising from the first loan. Some stakeholders quoted examples from disaster recovery assistance of the same farmer being impacted by the same type of disaster (e.g. flood) multiple times and using financial assistance to rebuild the same fences in the same place only to have them washed away again (and again and again). These examples illustrated the point that the provision of continued assistance may impact on the ability of farmers to make appropriate decisions to support the business's sustainability and long-term goals. Better data on likely impacts to structural adjustment would help inform the need for limits to concessional lending (see section 4.3 *Monitoring and evaluation*).

1.1.4 Targeting the right customer base

Historically, Australian agriculture has been a highly productive and profitable sector. Despite drought and other causes of short-term hardship, there will inevitably be periods when the Australian agriculture sector is predominantly experiencing positive on-the-ground and market conditions. In the 2022–23 financial year, the gross value of Australia's agricultural production was $94.3 billion (ABARES 2024b). The Australian Government endorsed the industry's ambition to become a $100 billion industry by 2030 (DAFF 2022).

Australian farmers constantly manage significant risk and variability. The RIC's defined target cohort (see Chapter 4 *Effectiveness of the RIC's loan delivery*) aims to balance the government's desire to assist farm businesses in need of assistance, due to an event beyond the control of the business, and restrict support to businesses that are viable in the long term. This seeks to ensure the government is not impeding appropriate structural adjustment, is filling a gap in the market and not competing with the commercial sector. It also seeks to ensure the government is not the lender of last resort, as stated in the RIC's Operating Mandate, and saddling taxpayers with uncollectable bad debt. To date only one RIC loan appears unlikely to be recoverable in full.

The top response from farm business survey respondents on why the government should provide concessional loans was due to the risky nature of farming, such as weather events, price impacts, regulatory impacts and natural disasters. These issues are beyond a farm business' control. Industry stakeholders generally support the government's role in delivering concessional loans to farm businesses in financial hardship.

> The NFF supports the Australian Government's ongoing responsibility to provide the agriculture sector with access to financial incentives and concessional loans to support farm businesses to prepare for, manage and recover from drought. NFF.

While the banks support the provision of concessional loans for drought, some were critical of the RIC's expansion into other products, such as AgriStarter. They also believe the target cohort should not be clients who can, but don't want to, pay commercial interest rates.

During the positive times of somewhat more stable climatic conditions, commodity prices and input costs, the RIC's pool of eligible applicants will shrink. This is appropriate as more farm businesses will be benefiting from generally favourable conditions and potentially increased levels of private investment. Stakeholders and the public should not misinterpret a reduced cohort as reflecting on the RIC's success or effectiveness. Conversely, it demonstrates the RIC's assessment processes are correctly identifying those in financial need, and that the government, through the RIC, is genuinely trying to address a market gap rather than compete with the banks and impede structural adjustment in the agriculture sector. Eligibility criteria such as 50% commercial debt demonstrates that the government requires RIC clients to maintain a relationship with their commercial bank and the RIC is not the lender of last resort.

The presence of the RIC not only provides support to businesses that meet the criteria, but its concessional loans also appear, at times, to incentivise the commercial banking sector to provide better interest rates and conditions to farmers if they decide to stay or return to their commercial bank. Although the frequency of this is unknown. During a consultation meeting, the NFF indicated that it was aware of instances in which farmers used their RIC loans to discuss refinancing with their commercial bank.

Recommendation 2

The government continue to target farm business concessional loans to those businesses that are viable in the long-term but in short-term financial need due to circumstances outside of their control, including prolonged drought, as the core customer base.

1.2 Clarifying the RIC's purpose

A number of stakeholders said the RIC needs a clear purpose and description of its role in the agricultural sector. Some RIC staff appear to frame the RIC as if it were a bank, but the government wants to assure banks that it is filling a market gap and not competing with them. Further, the RIC is not regulated by the Australian Prudential Regulation Authority as banks are, and potential clients should not be inadvertently misled about the regulatory and oversight frameworks to which the RIC is subject.

ABA noted the benefit of having an entity like the RIC to support farmers during drought, or in financial need, but questioned the RIC moving into other loan products where the applicant wasn't, in financial need. The NFF noted the importance of the RIC focusing on its capability to deliver efficient and effective drought support, particularly in the absence of further funding, and balancing this with remaining relevant to the agricultural sector.

The apparent lack of clarity regarding the RIC's purpose may be due to:

- the lack of guidance on the RIC's purpose and role in the RIC Act (which focuses on establishing the legal framework for the RIC, including setting out its functions and governance – similar to most SIVs)
  - noting this approach also provides flexibility for the government to task the RIC with delivering a range of programs as needed (for example, section 54 of the RIC Act allows the responsible Ministers to make rules – establishing new programs for the RIC to administer in line with its legislated functions, and subparagraph 8(5) of the Act allows rules to prescribe one or more programs to be administered by the RIC and sets out requirements for such rules).
- the range and scope of policy objectives and functions articulated in the Operating Mandate, including how they can be interpreted
  - for example, objectives that state '*help rural and regional communities achieve economic growth and agricultural productivity*', may not align with the direction provided by

objectives that state '*provide low- cost finance to farm businesses that are in financial need of assistance, to recover from short-term hardship'*.

- being tasked by the government to deliver a broader range of loan products than was envisaged at establishment over a relatively short period of time (some of which were, arguably, not as well-developed as they might have been), resulting in frequent changes to the RIC's loan products. This includes the addition of the AgRebuild, AgBiz Drought and AgriStarter loans – which go beyond the original intended farm business cohort.
- removal of the NWILF program and, more recently, the Plantation loan
- an overlap (actual or perceived) in functions between state-based loan delivery agencies (in states where they exist) and the RIC, and National Disaster Recovery Funding Arrangements that include grants and loans to support those impacted by natural disasters.
  - for example, while drought loans are also provided by some state governments, such as in NSW, they are not provided by all state governments. Through the DRFA, NEMA – in collaboration with jurisdictions – mostly provides funding for grants to assist with immediate recovery needs following natural disasters.
- messaging from the RIC suggesting loans can be used to 'grow' farm businesses (rather than support farmers during times of hardship) and suggesting a desire to expand its functions and loan products.

The Operating Mandate contains a number of directions regarding how the RIC is to conduct itself in discharging its legislated functions. These include:

- Undertaking ongoing engagement with relevant industry stakeholders to ensure loan products offered can respond to issues as they emerge, undertaking communication activities to drive demand of programs, and to work flexibly and constructively with Commonwealth entities in the implementation and ongoing administration of farm business loans to ensure consistency with broader government policy (section 15)
- Proactively advise the Commonwealth on matters that will improve the operating and policy outcomes of farm business loans, keep abreast of ongoing and emerging agricultural industry issues to manage demand for finance and ensure assistance is reaching the appropriate farm businesses, and provide advice to the responsible Ministers on certain matters on request (section 17)
- To not act in a way that is likely to cause damage to the Commonwealth's reputation (section 19).

These sections of the Operating Mandate relate to how the RIC communicates and engages with stakeholders, its role to be responsive to emerging issues and advising the Commonwealth on these matters, and the RIC's responsibility to act in a way that does not damage the Commonwealth's reputation. It may be that the RIC, through delivering on its mandate to '…drive demand of programs…', and '…keep abreast of ongoing and emerging agricultural industry issues to manage demand for finance…' has given a lesser focus to its mandate to ensure that '…ongoing administration of farm business loans are undertaken in a manner that is consistent with broader government policy…'.

This lack of clarity can result in misdirected resources within the RIC – for example, the RIC exploring opportunities to deliver more loans to boost demand, rather than ensure an effective and robust M&E framework is in place to measure the benefits and efficacy of its current loan products. Later chapters in this report flag functions related to the RIC's core business that can be strengthened (see Chapter 4 *Effectiveness of the RIC's loan delivery*). A further example is the RIC exploring opportunities to undertake additional work for other SIVs, rather than focusing on its existing client base and loan portfolio, noting all of the RIC's operational expenditure is covered by current clients through the interest rate (see Chapter 2 *Suitability of loan product parameters*), who arguably would not benefit from these explorations.

This lack of clarity can also impact on prospective applicants' ability to engage effectively with the RIC or create a concern that some of its products may not be well targeted. For example, when applying for an AgriStarter loan a new farmer might expect to meet all or most of the criteria; however, feedback received through consultation showed that a number of eligibility requirements may hinder new entrants from accessing this loan (see section 1.3.3 *AgriStarter loan).* Some interviewees who were declined a RIC loan relayed frustration and confusion regarding the RIC's product offering. The ABA flagged that the '*recent expansion of the RIC's remit…has seen the RIC steadily shift towards an operational model as if it were a commercial finance provider, rather than a form of targeted government assistance*' and stressed the impact this can have on the commercial market delivering positive outcomes.

1.2.1 The role of the RIC in drought support

The RIC was originally established with a core function in mind – to deliver concessional loans to farmers impacted by severe drought and other adverse events that impact severely on profitability. The then Minister, in his second reading speech for the Regional Investment Corporation Bill 2017, stated that '*concessional loans are an important element of the Commonwealth's drought policy framework…*'. The Operating Mandate specifies that the Corporation will deliver farm business loans that will, amongst other things, '*assist farm businesses to prepare for, manage through and recover from periods of drought.*' While both the second reading speech and the Operating Mandate specifically mention drought, they also articulate the role of the RIC in providing loans for farmers in financial need due to broader circumstances outside of the farmer's control. For example, the second reading speech discusses farmers impacted by fluctuations in commodity prices and high climate variability. Two key loan products were developed during establishment – the Drought Loan and the Farm Investment Loan.

Australia is the driest inhabited continent in the world and drought is a recurring feature of Australia's climate (Lehmann 2023). The RIC's Drought Loan is the most utilised product offered by the RIC, making up 85% of the RIC's settled and repaid loans (as at 31 March 2024). In part this is due to the impacts of the 2017-2020 drought leaving farmers in hardship soon after the RIC was established. It is also due to the provision of interest free loans which substantially increased demand for Drought loans (see *2.4 Interest free loans*). However, even prior to the RIC, drought was the major reason for clients accessing the Commonwealth funded loans delivered by state governments. The new NDA is expected to acknowledge that drought is one of a number of business risks that farmers and other businesses should actively prepare for and adapt to. Under the NDA, the Commonwealth is responsible for providing incentives that support farming businesses' risk management, including through concessional loans. When asked to prioritise 7 factors in terms of importance when delivering concessional loans, farm business survey respondents ranked '*having an established organisation that can deliver concessional loans efficiently and effectively in the event of a severe drought or disaster'* as third most important. When explaining why the government should deliver concessional loans, the topic covered most frequently by farm business survey respondents was the need for government to support farmers who have been severely impacted by factors influencing profitability that are outside their control, including weather. This key challenge provides a strong basis for the continued role of the RIC in drought support, and for government to reaffirm its prioritisation of drought support when delivering concessional loans.

The Review proposes that the RIC's purpose is to deliver concessional loans aligned with government policy to support farm and farm-related businesses, in particular to prepare for, manage through and recover from drought and other circumstances that are outside the farm business's control and have left them in financial need. To further support the core purpose of the RIC and efficient allocation of resources within the RIC, the Review proposes establishing criteria to prioritise future policy development and program improvements.

These criteria would also remind other stakeholders about the RIC's core focus and deliberately limited remit, without eliminating scope for the government to direct the RIC to deliver additional products on a case-by-case basis (as allowed under the legislation).

Recommendation 3

The government clearly articulate the RIC's purpose, including its target cohort, and the RIC ensure its communication and messaging and approach to loan delivery aligns with this purpose.

To support a clear purpose for the RIC, the government develop a set of criteria to guide future product development and program improvements. These criteria should include:

- alignment with government priorities and policies (including the new National Drought Agreement)
- targeting gaps in the commercial market, including focusing on providing loans to businesses that are in financial need but still viable in the long term
- focusing effort where there is most benefit to the sector (e.g. drought)
- appropriately and prudently managing risk given the use of taxpayer funds.

1.3 Currency of objectives

It has been 8 years since the election commitment to establish the RIC was announced and nearly 6 years since the RIC opened for business. This Review has therefore examined whether the current policy objectives for the RIC and its loan products remain relevant.

1.3.1 Operating Mandate

The RIC's Operating Mandate directs the RIC in relation to the performance of its functions, including by outlining objectives to be pursued. It is clear when referring to the original version of the Operating Mandate and its explanatory statement that the Operating Mandate's introduction and high-level policy objectives include some residual words that originally related to the former NWILF program. This program was discontinued by the government in October 2020 (see Chapter 5 *Future* *operations and activities*). The first policy objective of the Operating Mandate is to *'help rural and regional communities achieve economic growth and agricultural productivity'.* In the original Operating Mandate these terms were then used throughout in relation to the administration of water infrastructure loans. The then Minister's second reading speech for the Regional Investment Corporation Bill 2017 also referenced the water infrastructure loans as a mechanism to deliver the water infrastructure needed to help our agricultural sector reach its full potential, noting the construction of dams and priority water infrastructure projects would stimulate investment, economic growth and increased agricultural productivity in rural and regional economies.

It is unclear if the government explicitly intended to shift and apply these objectives to farm business loans in the post-NWILF context, which could seem counter-intuitive and may have caused confusion (see section 1.2 *Clarifying the RIC's purpose*). However, compared with the government's original intent, the RIC appears to have increasingly emphasised the 'economic growth' component of the policy objectives in considering and operationalising its overall functions and purpose over time, potentially leading to confusion when dealing with farmers in hardship. For example, the second statement readers will see on the RIC's website landing page (after an invitation to take a quick quiz to see if a RIC loan is right for them) is that the 'RIC offers low-interest loans to farm businesses to strengthen Australian agriculture and build thriving regional communities'. This message comes before a statement toward the end of the landing page about 'Getting to know the RIC' (accompanied by a video), which states 'RIC loans help Australian farm businesses recover and prepare in challenging times and support new and next-generation farmers to grow the agricultural industry'. While the references to recovery and challenging times are reassuring, it's interesting the RIC does not use straight-forward language for its farm loans as per the Operating Mandate (e.g. RIC loans help "farm businesses that are in financial need of assistance, to recover from short-term hardship…"). Most famers applying for a RIC loan will have the primary focus of alleviating their hardship and stabilising the business's financial situation before, in due course, potentially focusing on continued growth.

A misalignment in the intended policy objectives of the Operating Mandate and the RIC's focus when delivering loans could also potentially lead the RIC to stray outside the government's intended target cohort for the provision of RIC concessional loans. This could be the case particularly during times of positive on-ground conditions, when demand from farm businesses in genuine financial need may be much lower.

This Review finds that the Operating Mandate policy objectives should be amended to remove (or reframe) reference to achieving economic growth of regional Australia. The primary objective of the government through the RIC's delivery of concessional loans is to mitigate a farmer's financial hardship and build business resilience, rather than spur broader regional economic growth such as may occur through large water infrastructure development projects.

This Review notes there is also scope for the government to tweak the Operating Mandate's policy objectives to better align with recent developments in the government's broader drought policy, including the new NDA. This is also the case for the policy objectives of the RIC's two drought loans – the Drought Loan and AgBiz Drought Loan. This will further support the government to provide a clear purpose for the RIC, including clarifying its role as a safety net and providing support to farmers to achieve financial self-reliance. When addressing this, it is worth ensuring consistency between the approach taken with outlining farm business loan objectives in the Operating Mandate and in Schedule 1 of the Operating Mandate.

Recommendation 4

The government review the Introduction and Policy objectives within the RIC Operating Mandate Direction to ensure they reflect a clear and unambiguous purpose for the RIC reflective of its functions and align with the most recent developments in drought policy including an emphasis on resilience and self-reliance.

The government review the Policy objectives for the RIC's drought loans (Drought Loan and AgBiz Drought Loan) to ensure they are consistent with any changes made to the Operating Mandate Direction, including to reflect the most recent developments in drought policy.

1.3.2 Farm investment loan

RIC loans require a head of power to provide appropriate legislative authority to support direct delivery of Commonwealth funding to farm businesses. This is instead of Commonwealth farm business loans being delivered by the states or territories, as was the case for all pre-RIC loans. The relevant heads of power are identified through the definition of a Farm Business Loan in section 4 of the RIC Act, or expressly stated in Rules creating new programs (products) as required by subparagraph 8(5)(a) of the Act.

The policy objective for the Farm Investment Loan to *'build and maintain market diversity'* stems from the trade and commerce head of power. However, market diversity (in this case, solely or mainly trading into supply chains that are outside your state, or intending to do so) is not necessarily directly relevant to assisting a farm business in financial need due to an event outside their control, particularly from the perspective of a farmer in hardship.

The RIC, through its Farm Investment Loan medium-term product evaluation (see section 4.3 *Monitoring and evaluation*) has suggested a re-framing of the purpose of the loan product, to better reflect the name of the product. However, this Review disagrees. Instead, the product should be renamed, and communication reframed to better reflect the required policy objective of the loan product, which is assisting farmers in financial need due to circumstances outside their control (rather than investment to grow a business). Renaming the Farm Investment Loan, for example, the *Risk Management Loan* or *Farm Assistance Loan* will make it clearer that the loan product is targeted at farmers in hardship due to an event outside their control. Communication about the product should also make clear the relevant and necessary criterion of market diversity that the Commonwealth must rely on to deliver the loans directly to farm businesses via the RIC. Such communication might include emphasising market diversification as a risk management tool, making farmers more resilient to future external shocks, particularly where they are market-related.

Recommendation 4.1

The RIC, in consultation with the department, make the following minor amendments to the framing of the Farm Investment Loan:

- Change the name of the loan product to better reflect that it is to assist farmers in financial need due to circumstances outside their control and, in doing so, it seeks to support farm businesses to build or maintain market diversity.
- Reframe communication about the product to emphasise market diversification as a risk management tool to strengthen a farm business and potentially make it more resilient to future external impacts.

1.3.3 AgriStarter loan

In July 2020, the Australian Government announced an additional $75 million to the RIC for a new loan program to support first and next generation farm businesses, including succession arrangements. On 1 January 2021, applications opened for the AgriStarter loan program and in late 2021, the Australian Government announced an expansion to the AgriStarter loan eligibility, to include share farming and farm leasing. AgriStarter loans include two loan types (succession and first farmer) and can only be granted for particular purposes. For a succession loan, the purpose must be to support succession arrangements in respect of a farm business that is or will be an eligible farm business. For a first farmer loan, the purpose must (broadly speaking) be to support the purchase, establishment or development of a farm business, including a share or lease farming business, that is or will be an eligible farm business.

The agriculture, fisheries and forestry industry has the oldest industry workforce in Australia. The average age of workers in agriculture is 50 years (ABARES 2023) and ABS Census of Population and Housing data shows that in 2021 almost 30% of workers in agriculture, fisheries and forestry were aged 60 years and over, compared to 11% across all other industries (ABS 2022). These workforce demographics, plus the financial barriers facing new entrants poses a challenge for attracting and retaining new entrants.

Feedback from stakeholders was generally supportive of the role of government in assisting new entrants into farming. The public benefits of new farmers include more innovative farming practices, particularly in relation to adapting to climate change and reducing on-farm emissions. Stakeholders also highlighted the contribution of new farmers to regional, rural and remote communities. This includes raising families that sustain or grow the local population, shoring up the demand for, and provision of, local businesses, health and education services, contributing to community life, as well as growing the agriculture sector.

Throughout consultations, several stakeholders noted the limitations of AgriStarter for new farmers. Many noted the eligibility criteria to be restrictive, particularly with the increase in land values and farm input costs.

> The current requirements for AgriStarter are too onerous, and the $2 million limit, given the increase in agriculture land value, would only assist a person in a very specific circumstance. New South Wales Farmers Association.

> The AgriStarter loan needs to be more flexible and accept there may be vendor finance in a deal. Farm business survey respondent.

A common suggestion by farm survey respondents was for RIC loans to better support new entrants, including those who are not from multigenerational farming families. Some specific feedback included providing educational packages to assist new farmers and broadening AgriStarter criteria. Changes to loan parameters such as reducing or removing the commercial debt and off-farm income requirements, having longer loan terms, or higher maximum loan amounts, were suggestions raised by stakeholders for ways in which AgriStarter could better support new entrants.

> Particularly for young farmers and drought resilience – Longer terms to 20 years, reconsider the 50:50 loan restrictions. Farm business survey respondent.

> Why not allow 100% loans with RIC? Ditch the 50% remaining with a commercial lender. The amount of collateral I have to have to get the loan makes it unbelievably low risk for the taxpayer. Farm business survey respondent.

However, this Review recommends maintaining AgriStarter's current loan parameters until the government analyses the appropriateness of the product's policy objective in relation to facilitating inter-generational change in the agriculture sector. As noted by some stakeholders, commercial debt can act as a good indicator of an applicant's credentials and assists in setting-up and maintaining a relationship between the applicant and a commercial bank.

Many stakeholders see the maximum loan amount of $2 million from the RIC (plus $2 million of commercial debt) as not enough to purchase farming land, making it near impossible for new farmers to break into the industry as farm business owners. However, this Review notes that an increased maximum loan amount would potentially come with a greater risk, as new farmers may not have sufficient farm business experience to pay off a large loan, particularly if the applicant was also facing climatic circumstances outside their control. As per Recommendation 5 (see section 2.1.1 *Maximum loan amounts*), the maximum loan amount should continue to be monitored and linked to an appropriate indexation metric.

If the government wants to continue to support this cohort, then this Review has found that the current objectives of the AgriStarter Loan remain broadly appropriate. However, in addition to noting the product-related barriers described in the previous paragraphs, there is a broader question of whether this is an appropriate role for government. For example, whether there is a market gap in supporting new entrants or whether banks are backing worthwhile and viable new farmers. If there is found to be a gap, then it should also be considered whether taxpayer funded concessional loans are the most appropriate and effective means for achieving inter-generational change in the agricultural sector.

Whilst commercial banks offer agribusiness loan products that new farmers can access, there are limited specific products designed for new farming entrants. And whilst some state governments offer loans to help establish a primary production business, these products are not available nationally. Arguably, the RIC currently fills a market gap in providing a nationally accessible concessional loan to new farmers. However, the banks tend to view this differently, advising that any viable new farmer worth supporting will get their support.

Consultations raised some nuances when comparing the use of taxpayer money to support new entrants into farming compared with using concessional finance to support succession planning. For example, the use of concessional finance to support land acquisition or succession planning arrangements was viewed by some as predominantly benefiting individuals rather than the wider community. The Productivity Commission review of the FDF questioned the use of public funds for succession training programs (PC 2023).

First farmer loan

Under the AgriStarter Loan product, applicants can apply for a first farmer loan if they are seeking to purchase, establish or develop a farm business where they will hold the sole or controlling interest. Applicants can also apply if they are a share farmer.

Stakeholders generally supported the policy objective of providing government support to new farmers entering the industry. Stakeholders cited reasons such as increased input costs and land prices as justification for government supporting new entrants.

Financial institutions and peak industry bodies acknowledge the benefits new farmers can bring, whilst also noting the difficulty new farmers currently face in owning their own property.

> While young farmers can come with new ideas and a willingness to engage new technologies on the farm, banks are regularly faced with lower than preferred equity levels, a lower level of management experience and often require off-farm income to support these types of transactions. National Australia Bank (NAB).

> Because of the fast-rising cost of land and equipment, new entrants need to be encouraged to enter primary production industries. New entrants are challenged to demonstrate their eligibility against standard lenders criteria and to demonstrate capacity to repay any loans. Grain Producers SA.

However, there were also some stakeholders critical of using taxpayer funds to help new farmers purchase land. These stakeholders noted the other ways a new entrant can get into farming, such as through share-farming, and highlighted the notion that to be a ‘farmer’ does not necessarily mean you have to own your own land or businesses, and that there are other ways to work in agriculture. Further, one stakeholder noted the potential political risks for agriculture in Australia when considering the ever-decreasing number of Australian farmers. They noted a potential estimate that by 2050, there may be around 40,000 farmers who will - potentially with the government’s help - control approximately 58% of the continent. They posed the question of how this would play out politically in one of the most urban countries in the world?

> Given the presence of approximately 87,000 farm businesses and numerous new entrants, it becomes unclear why the government should extend financial support to select individuals, particularly when the business requires financial assistance before it even commences. Stakeholder submission.

Succession loan

Succession planning is an important part of Australian farming, allowing for farming families and businesses to plan for the future. Succession planning allows a farming business to be transferred to an incoming owner (often intergenerational) at an agreed price. This can be challenging if the incoming owner does not have enough capital to 'purchase' the business from the current owner. AgriStarter applicants can apply for a succession loan if their farm business is undertaking or has undertaken succession planning.

> This loan was very helpful in a time when I was trying to buy more land from relatives to secure a profitable area and to give some succession security. Farm business survey respondent.

> It gave us the opportunity to keep going with confidence, allowing us to meet our financial commitments and gave our bank the confidence to allow us to split the business as part of our succession plan. Farm business survey respondent.

Whilst the Review found a broad level of support and understanding for providing concessional loans to assist new farmers to develop a farming business, there was less support for assisting with succession matters. Whether public money should be used to facilitate succession arrangements, such as funding children to buy out their parents so the parents can move off the farm and retire, was commented upon by some stakeholders, including whether this has the same flow-on public benefits that supporting new farmers would have.

While AgriStarter Loan recipients must be 'in financial need of a concessional loan', this need is not required to relate to an event outside the farm businesses control that has a significant financial impact. In determining if a Succession loan applicant is in financial need, the RIC appears to primarily consider whether the applicant has a reasonable loan purpose associated with succession, as well as some assessment of whether the applicant has sufficient assets from which to fund the succession arrangements themselves. The RIC also seeks to ensure that the loan would put the farm business recipient in a better, rather than worse, position. While this is a supportive and advantageous approach for loan recipients, it seems possible that succession arrangements that could reasonably be supported by the commercial banking sector may be being supported by taxpayers through the RIC. This Review then questions whether this is an appropriate use of taxpayers' funds, particularly given cost of living pressures facing the general community. Broader awareness of this approach to the interpretation and assessment of in financial need may lead to negative feedback. However, a majority of farm business survey respondents who provided views on whether loans support regional communities see flow-on benefits of keeping family farms in the communities.

The Review notes there are other ways to encourage early succession planning, such as engaging an external consultant with specific expertise to mediate discussions. While the AgriStarter loan supports implementing succession arrangements, the government also currently provides support for succession planning through measures including:

- As part of the FDF, the Farm Business Resilience (FBR) Program provides access to subsidised learning and development opportunities to build the capacity of farmers to plan for and manage risk, including practical help on matters such as succession planning.
- The (RFCS) provides free financial counselling to farmers. While rural financial counsellors are unable to provide advice on succession planning, they are able to assist clients with identifying options and longer-term goals as part of a case management approach to service. This includes referral and assisting clients prepare for meetings with other professional advice including succession planning.

- FHA is an Australian Government support package available to eligible farmers and their partners experiencing financial hardship. FHA provides targeted assistance that gives farming families practical support to assess their situation and plan a way forward to long-term financial security. One element of the program includes a $10,000 activity supplement that may fund things such as advice for succession planning. Farm Household Case Officers can also provide assistance on succession planning.

If the government decided it needed to provide further support for this activity, a small grants program instead of large concessional loans could be appropriate.

Encouraging and facilitating intergenerational changes in the agriculture sector is challenging, and a broader issue for industry and government to work through. Industry stakeholders across all commodities raised the issues around succession planning and the aging workforce. Concessional loans such as AgriStarter can only do so much to support this transition. To address this issue properly, a comprehensive and layered approach is needed. This would likely need to involve industry and government, education and training institutions to facilitate courses, and possible alternative pathways into agriculture other than buying land, such as traineeships or mentoring programs. Agriculture needs to be framed to new entrants as an attractive and worthwhile career pathway, and where regional and rural Australia becomes an appealing place for people to live.

Given the issues outlined, the Review recommends the department undertake further policy consideration and analysis in this space to inform future decisions impacting the AgriStarter product. This should include examining the application and assessment of the in financial need criterion, particularly for succession loans, to ensure it is appropriate and targets a genuine market gap.

Recommendation 4.2

The department investigate if there is an appropriate role for government in facilitating inter-generational change in the agriculture sector and, if so, whether taxpayer funded concessional loans including the current AgriStarter Loan in financial need criterion are the most appropriate and effective mechanism for facilitating this change. This work to be undertaken in the next 18 months.

The government consider the outcomes of this policy analysis, including any impacts on the AgriStarter loan, by mid-2026.

The AgriStarter Loan remain as an available RIC loan product while this further work is progressed.

1.3.4 Regular review

The RIC’s broader operating environment will likely change over time, potentially impacting its purpose in delivering concessional loans and to whom it should deliver such loans. Changes may include updates to related policy frameworks such as the NDA, a shift in public attitudes towards support to farmers, and even global economic and environmental policies leading to a change in domestic policy or emphasis. It is hoped the productivity and resilience of the agriculture sector will grow over time as well, leading to less reliance on government support.

This Review believes that the fundamental purpose of the RIC in providing drought support will not change significantly in the foreseeable future. It is possible though, that the government’s drought policy and broader farm support policy, could shift. For example, the government may place an increasing emphasis on mutual responsibility, requiring farm businesses to improve their risk management, self-reliance and resilience over time to continue accessing government-funded support. For these reasons, the government, with input from the RIC, should continue to assess the relevance and appropriateness of the policy objectives of RIC loan products.

It is important to have an appropriate and transparent process that clearly explains and justifies any changes to stakeholders, including to the Parliament, for example, if changes to the Operating Mandate or Rules are required. Any decision to cease or significantly amend a loan product based on the outcome of the review of policy objectives would remain a decision for government.

Recommendation 4.3

The department, in consultation with the RIC, review the objectives of the RIC's loan products every 5 years, or more frequently when government policy is changing.

Chapter 2 – Suitability of loan product parameters

When making a decision about RIC loan products, whether that is to amend a current product, or deliver a new one, the government not only considers the policy objectives it is seeking to achieve (see Chapter 1 *Effectiveness of concessional loans*), but also the loan product parameters, or key loan settings, that should apply. Thus far, as directed through legislation and/or policy intent, the RIC's product offering, in terms of its key loan settings, has remained consistent across the product suite. This Review has considered these loan settings and whether they remain appropriate.

Further, under its Operating Mandate and Rules prescribing additional loan programs, the RIC is required to manage its loans prudently. Through its submission, the RIC has identified where it would like additional flexibility to manage its loan portfolio, and the Review has considered these matters, including in the context of the overarching need for the RIC to pursue and achieve national consistency (RIC 2024a).

2.1 Loan settings

The RIC currently delivers a number of loan products in line with the policy objectives in the Operating Mandate, as well as the specific purposes and objectives as outlined in the relevant Rules and/or program guidelines. A summary of these loan products can be found in the Introduction – *Overview of the RIC*.

Many of the key loan settings across these products are the same:

- the maximum loan amount is $2 million (apart from AgBiz Drought Loans which has a maximum of $500,000); and
- the maximum loan term is 10 years; and
- a concessional interest rate.
- the repayment structure is 5 years interest only, followed by five years principal and interest for the remainder of the 10-year loan term.

The RIC currently calculates principal repayments over a 15-year period (for most loans) – so that principal repayment amounts are set to remain the same throughout the life of the loan. For example, for a loan of $1.5 million - repayments calculated over 15 years sees annual repayments of $100K *plus interest.* This is more generous than the pre-RIC 10-year loans, where repayments were generally calculated over a 10-year period. As such, at the end of a 10-year pre-RIC loan, a client would have paid off about 1/2 their principal in the last 5 years of the loan. At the end of a 10-year RIC loan, they'd have paid off about 1/3 of their principal during the last 5 years – leaving 2/3 of the loan to be refinanced back to the commercial lender (or paid out via other means).

The consistency in loan terms across the products and loan recipients links back to the key rationale for the RIC's establishment to replace the previous, sometimes inconsistent and administratively burdensome delivery of Commonwealth schemes by the states. A key advantage of the RIC is that it provides an opportunity to ensure that applications are assessed in a nationally consistent way. It still allows for changes to loan products and settings over time to adapt if deemed necessary, provided that applicants are treated in the same way at a given point in time (the national consistency objective was also explored in section 2.1 of the Independent Review of the RIC by David Tune in 2021).

Through engagement with various key industry stakeholders, it is evident that, while RIC loans are largely perceived as fit-for-purpose and meeting their intended policy objectives, an evaluation of the RIC's current loan settings would be beneficial. As discussed in Chapter 3 *Using an established loan delivery agency* and Chapter 4 *Effectiveness of the RIC's loan delivery*, current data limitations impede the ability to undertake robust program and product - including loan setting - evaluations at this time. However, in line with industry, farm businesses (including RIC clients), and other stakeholder feedback, this Review has considered the RIC's loan settings and whether amendments should be made.

2.1.1 Maximum loan amounts

Currently, the maximum loan amount offered by the RIC to farm businesses is $2 million. During consultation, many industry bodies indicated that an increase in the maximum loan amount to $5 million would better support farmers in need. The grounds for such an increase were based largely upon the view that (generally) input costs, and particularly land prices, have significantly increased in recent years.

> The maximum loan amount of $2 million dollars is no longer fit-for-purpose when considering a combination of inflationary factors and rising cost-of production. This limit needs to be increased to a minimum of $5 million for RIC packages to maintain relevance and offer a viable alternative to commercial lenders. NFF.
>
> ... the VFF agrees that the current maximum loan amount of $2 million is insufficient. Increasing the maximum loan possible to $5 million would increase flexibility and enable larger projects to be funded. Victorian Farmer's Federation (VFF).
>
> Elevated costs of production since the end of the pandemic and high agriculture land prices make these smaller [loan] limits redundant. NSW Farmers Association.

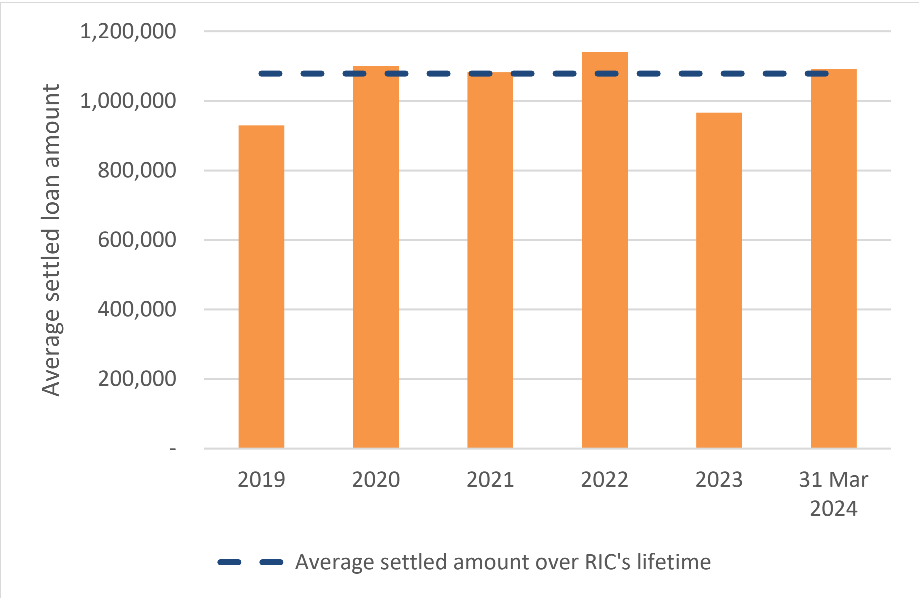
Despite many requests from stakeholders to increase the maximum loan amount – including from 38% of the 24 submissions (many of the 38% being industry bodies) but only 6 out of 502 survey respondents – detailed and robust data and analysis to support such an increase was lacking. Table 2 shows the average settled loan amount by loan product over the RIC's nearly 6 years of operation. The average settled loan for AgriStarter, Drought, and Farm Investment loan products does not come close to the maximum available loan amount of $2 million. The average settled loan amount for all loan products over the life of the RIC sits at $1.08 million, and peaks in 2022 at $1.14 million as shown in Figure 1.

Table 2 Average settled loan amount by loan product (as at 31 March 2024)

Loan product	Average settled amount
AgBiz	$282,250
AgRebuild	$2.77 million
AgriStarter	$852,661
Drought	$1.09 million
Farm Investment	$936,412

Source: RIC (2024b)
Note: the AgRebuild product was to help eligible farm businesses restock, replant and recover from the North and Far North Queensland Monsoon Trough from 25 January to 14 February 2019, and had a maximum loan amount of $5 million. This higher maximum was due to the large pastoral properties experiencing significant infrastructure damage and stock losses.

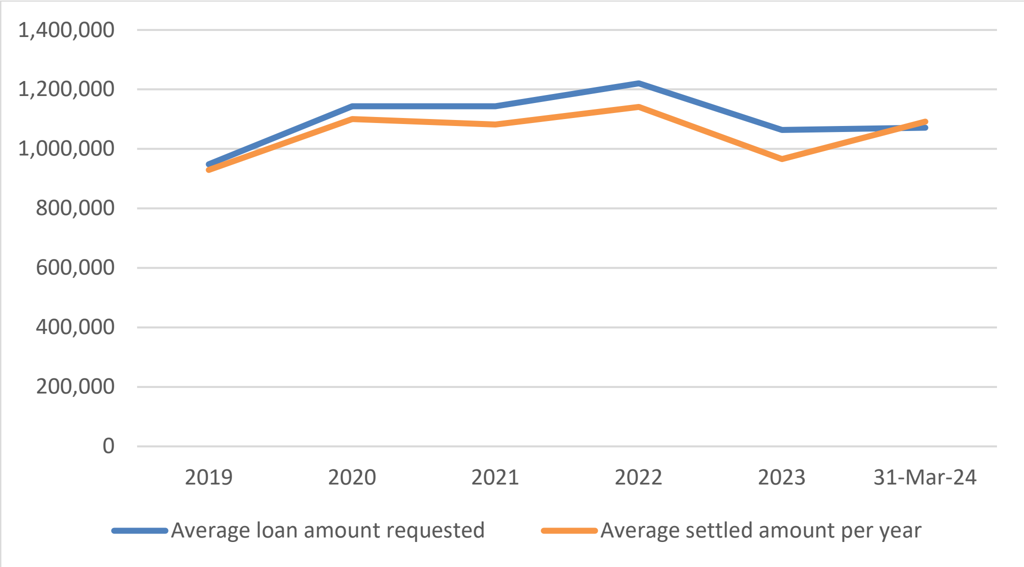
Figure 1 Average settled loan amount by year, from 2019 to 31 March 2024



Source: RIC (2024b)

Further, Figure 2 shows the average loan amount requested by RIC loan applicants over the RIC's nearly 6 years of operation. RIC loan amount requests do not appear to be increasing in-line with stakeholders reported recent increases to 'input costs and land prices'. The data does not demonstrate significant demand for $2 million loans (the maximum loan amount). Table 3 shows that although over half of the loan requests of $2 million were settled, the 710 settled loans of $2 million only make up 24% of the total number of settled loans.

Figure 2 Average loan amount requested and average settled amount, from 2019 to 31 March 2024



Source: RIC (2024b)

Table 3 Number of $2 million loans requested loans settled, from 2019 to 31 March 2024

Loan product	Number of $2 million loans requested	Number of $2 million loans settled	Settled loans as a percentage of loans requesting $2 million	Total number of loans settled	Percentage of total loans settled
AgBiz	1	0	0%	119	0%
AgriStarter	54	14	26%	108	13%
Drought	1017	664	65%	2605	25%
Farm Investment	137	28	20%	163	17%
Total	1209	706	58%	2995	24%

Source: RIC (2024b)
Note: AgRebuild was excluded as its maximum loan amount was $5 million.

Consistent with this, farm business survey respondents did not seem concerned with the $2 million loan limit. However, they acknowledged that limits were currently capped by client's commercial debt (since a client cannot borrow an amount greater than 50% of their commercial debt from the RIC), and that they would support reducing the commercial debt requirement in order to be able to borrow more from the RIC.

Further, the justification for increasing the loan amount to $5 million due to higher land prices was not substantiated by the available information on the stated purpose for loan funds. A review of the available data on the RIC's loan purposes, showed that only a small number of RIC loans have been used to fund land purchases. Loan use data from the RIC (as at 31 March 2024) indicates that:

- 68% of loans were purely for refinancing
- 23% of loans were for refinancing and working capital/capital expenditure combination
- 5% of loans were purely working capital/capital expenditure
- 3% of loans were for 'unknown' purposes.

A full breakdown of loan use by product is shown at Table 4.

Table 4 Loan use by product

Row Labels	Refinance	Refinance and Working Capital / Cap Ex	Unknown	Working Capital / Cap Ex	Total
AgBiz	50%	33%	1%	16%	100%
AgRebuild	77%	22%	0%	2%	100%
AgriStarter	61%	16%	1%	22%	100%
Drought	69%	23%	3%	4%	100%
Farm Investment	69%	16%	7%	8%	100%

Source: RIC data 2024
Note: Includes settled and repaid loans as at 31 March 2024.

While market failure may provide an accepted role for government to assist people to enter the industry (and the existence of market failure for new farmers is not entirely clear), there is an alternate view. Some stakeholders argued that farmers using the RIC to fund land purchases can have negative economic impacts and inflate land prices by giving "cheap" loans. While there may be merit to increasing the maximum loan amount in the future, there is a paucity of evidence to suggest that an increase to $5 million is warranted at this time. A suitable metric reflecting changes in costs to the farm sector over time should be developed to determine the need to change the maximum loan size. This would ensure that any potential future amendments are supported by evidence relevant to the purpose for which RIC loan funds are actually being used. In the absence of evidence, the Review has erred on the side of caution.

Recommendation 5

The government implement ongoing monitoring of the need to change the RIC's maximum loan amount and consider the maximum loan amount at least every 5 years.

To support this ongoing monitoring and any decision by government to change the maximum loan amount, the department develop an appropriate metric within 12 months, for example, linked to input costs to farm businesses and reflective of the actual uses of RIC loans by farm businesses.

2.1.2 Loan terms

Currently, the RIC offers a maximum loan term of 10-years for all its loan products, with the intention of returning RIC clients to their commercial bank in a better position following a period of hardship. It has never been the government's intention for loans to remain on the RIC's 'books' for longer periods of time or to 'retain' clients. The policy objective underpinning RIC loans is very different from commercial lenders seeking to maximise interest payments to contribute to profit and shareholder wealth.

In its submission to the Review, the RIC provided some suggestions for potential changes to current loan products (RIC 2024a). This included consideration of a longer loan term for its AgriStarter Loan (>10 years), as well as consideration of shorter loan terms for its Drought Loan and Farm Investment Loan products (<10 years) to support viable businesses through distress to recovery. These shorter loan terms were pitched at 5 years or aligned to one production cycle (RIC 2024). This Review initially saw merit in this option; however, consultation with farm businesses and the wider industry did not show significant support for such a recommendation.

In fact, approximately 70% of survey respondents considered that 10 years was the optimal loan term for a drought-related loan out of a choice between 5 years, 10 years, and 'other', and whilst 13% of submissions to the Review raised the notion of shorter loan terms, 38% of submissions, as well as multiple stakeholders from in-person meetings, actively called for consideration of longer loan terms for RIC products.

> Concessional lending terms could be more flexible to enable 10-year terms to be shortened or lengthened depending on the market need. Long term major infrastructure builds could be encouraged with a similar long-term repayment schedule by the RIC. Queensland Farmers' Federation.
>
> Particularly relevant to the AgriStarter loans, longer-term loans reduce the size of periodic payments and can further de-risk entrance to the industry. NFF.

Consultation via the farm businesses survey also revealed some demand for increased loan terms, with longer loan terms being the second most common change to RIC loans cited by 10% of survey respondents. Respondents noted that, all else equal, this would reduce regular principal repayments and be beneficial, particularly if hardship returns, or if starting out (e.g. for AgriStarter Loan recipients). Some of these comments were also made in the context of loans for broader purposes e.g. investments for environmental or climate outcomes or to allow greater flexibility at the end of the loan term.

The Independent Review of the RIC conducted by David Tune in 2021 recommended a shorter-term RIC loan product for operating expenses to assist farm businesses with managing through drought and the drought recovery process. The recommendation was noted, but ultimately not pursued by the government at the time.

The RIC's primary purpose is to deliver farm business loans and as outlined in the Operating Mandate, to "provide low-cost finance to farm businesses that are in financial need of assistance, to recover from short-term hardship, but are assessed as financially viable over the long-term and able to repay" (subsection 6(2)). Whilst 10-year loan terms may not be considered very long in the commercial agri-finance market, the aim of the RIC is to support farm businesses to recover from short-term hardship. A short-term investment by the government to support a farm business to get back on a sound commercial footing, including with its commercial lender, has been deemed a very effective means of assisting a farm business through hardship, whilst ensuring the government is not propping up non-viable businesses. Some stakeholders were concerned that concessional loan terms longer than 10 years would compete in the commercial space, and defeat the purpose of the RIC.

With feedback somewhat divided on this issue, and there being limited data to measure the impact of RIC loans, this Review recommends that, whilst there may be merit in the government exploring a shorter-term loan, a longer loan term is not supported, on the basis it does not align with current policy objectives. In relation to a shorter loan, there is currently no impediment to loan recipients repaying their loan early. It is also understandable that farm businesses, once through a period of hardship, would choose to focus on paying down debt at commercial rates sooner than that at concessional rates (assuming their commercial financing requires principal and interest payments, rather than interest only).

Recommendation 6

The government maintain the RIC's current loan term at 10 years.

This Review accepts that economic changes and industry shifts can have an impact on the suitability of the RIC's current loan settings and ongoing monitoring of such metrics would be appropriate. Further, as noted in section 4.2.1 *Reporting*, an increase in reporting on loan purposes and amounts sought and approved (including reasons for why some amounts sought were not approved) would greatly benefit any ongoing monitoring and decision-making by government in relation to the maximum loan amount or term.

Although stakeholders have different views on the maximum loan amount and loan term, as reported in section 1.1 *Concessional loans as a policy tool*, there was general agreement across all consultation mediums that:

1) the RIC is targeting the correct cohort with the current suite of products
2) RIC loans currently support the long-term strength, resilience and profitably of farm businesses
3) RIC loans allow the industry to manage through volatility.

This further supports the Review's recommendations to maintain the current loan amount and term maximums until appropriate data and evidence to the contrary can be analysed.

2.2 Loan management flexibility

To assist the RIC to better manage its loan portfolio and increase the likelihood of repayment of loans in full, loan management flexibility could be permitted at the end of the loan and during the loan term in limited circumstances. This includes having more options available to manage impaired loans and to support loan recipients facing short-term hardship during the loan period. For loan products created both under the Operating Mandate and under the "Rules" as allowed under the Act, the RIC must charge the same interest rate to all customers with that loan product. This restriction limits the RIC's ability to assist those experiencing hardship. It may also undermine the ability for the RIC to transition loans back to the commercial sector through the imposition of non-concessional and default rates that would otherwise incentivise repayment.

The RIC should have the ability, consistent with various pre-RIC state-delivered loan schemes, to charge non-concessional and default rates to loan recipients who are in default on their loan, both during and at the end of the loan term. These measures should only be used in limited situations once reasonable steps have been taken to work with the client to come to a payment arrangement in a suitable timeframe. The RIC will need to ensure it contractually has the ability to apply different interest rates to individual loans within the drafting of the existing loan agreements with farm businesses. An effective clause needs to be in place before the RIC applies any interest rate that is different from the concessional rate.

The RIC's current legislative instruments across all loan products could also be amended to allow variations to loan terms and conditions in a manner consistent with additional options now available to most of the contracted states in their management of the pre-RIC loan schemes. This includes permitting, under certain conditions, the RIC to implement government-agreed parameters that allow extensions and principal repayment deferrals. Grace periods could also be permitted in limited circumstances once the RIC was permitted to charge non-concessional and default rates. Having these loan management flexibility measures available would allow the RIC to manage loans more effectively, while maintaining a nationally consistent and equitable approach between clients.

2.2.1 **Flexibility within the loan term**

In its submission to the Review, the RIC outlined the need for further flexibility to manage customers in financial distress to reduce the risk of loan default and reputational risk for the government (RIC 2024a).

> 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. RIC.

An ability to more reasonably negotiate a personal response to loans including loan repayments would support farmers in difficult circumstances, while likely facilitating a greater chance of full loan repayment at the conclusion of the loan by not exacerbating hardship during the loan term. One stakeholder noted:

> We experienced the worst drought in our history followed by two flood years each recording the highest rainfall ever recorded. While unprecedented, businesses need the ability to negotiate a financial path forward…. Farm business survey respondent.

Amendments to the 10-year pre-RIC loan schemes are being undertaken to allow states (that opt in to the arrangement) to have discretion on the appropriate management of loans for loan recipients facing financial difficulty. A summary of changes that this Review considers should be made available to the RIC to assist its management of the loan portfolio is provided in the following paragraph. Further changes are discussed in section 2.2.2 *Flexibility at the end of loan term*):

- Allowing principal deferral or reduction as per pre-RIC schemes: amendments to 10-year pre-RIC state loan agreements between the Commonwealth and States allow for flexibility and variances in the principal repayment schedule in the second half of the loan term, subject to meeting certain criteria. A clause was introduced specifically for financially viable loan recipients who are facing short-term hardship and consequently seeking financial relief and support from their lenders. It allows an agency to defer or reduce principal repayment commitments across a 12-month period for eligible loan recipients. Any deferred or reduced amounts need to be repaid no later than the maturity date of the loan.

2.2.2 Flexibility at the end of loan term

The ability to apply both extended concessional terms and non-concessional interest rates at the end of the loan term would assist in minimising defaults and maximising the number of loans that are repaid or can transition back to the commercial sector. In addition to the RIC being given the ability to charge non-concessional and default rates, the following measures, consistent with the amendments applicable in most states to the 10-year pre-RIC schemes could be implemented for the RIC:

- Allow extensions to loan terms for no longer than two years from the original maturity date: 10-year pre-RIC state loan agreements permit extensions at concessional rates of interest where extenuating circumstances exist. This allows the farm business to get through their current tough period and potentially be in a better position for refinance at the end of the extension. The concept would be to offer 12 months at the concessional rate, before transitioning to a more commercial rate in the second 12 months. A default rate would apply to loans after the two year extension.
- Allowing grace periods where concessional loans have reached maturity: The purpose of this clause is to provide flexibility to the RIC if considered appropriate to allow a continued period beyond the maturity. This can occur where extenuating circumstances do not exist, but clearance of loan is likely. The loan recipient should actively still seek to clear the loan prior to maturity and be encouraged to do so by the RIC. This clause is intended to accommodate situations such as a delay in settlement or finalisation of documentation. During that period, a continued concessional interest rate may apply. The grace periods are intended only to be a short-term measure, and as such, the RIC will, after the expiration of the period, need to either enter into extended loan agreements where extenuating circumstances exist or take measures to actively enforce recovery of the concessional loan where extenuating circumstances do not exist.

Amendments to the 10-year pre-RIC schemes also provided further clarity on the application of commercial and default rates for those customers to close out their government loan as planned. In cases where loans have reached maturity, and the loan recipient has not entered an extended arrangement or grace period, it may be necessary to charge a commercial market or commercial default rate to account for the concessional loan period having ended. Where extended loan agreements are in place due to extenuating circumstances or grace periods apply, there should also be flexibility in the application of continued concessional interest rates as per the pre-RIC loan schemes.

A table summarising recommended loan management options that should be made available to the RIC is at Appendix K.

Recommendation 7

The government amend the RIC’s legislation to allow loan management flexibility as determined by government, consistent with amendments to the pre-RIC state delivered Commonwealth farm business loans applicable in most states.

2.3 Repayment flexibility

For simplicity and national consistency, the broad repayment structure for the RIC's loans is set by the government, consistent with the pre-RIC farm business loans. However, the frequency of repayments (e.g. monthly, quarterly, bi-annually etc) is negotiated by the RIC and client in line with the individual circumstances of their business. Interest only payments apply during the first 5 years and principal and interest payments are required in the second 5 years (excluding two years interest free that applied for AgRebuild loans and to drought loan applications received prior to 1 October 2020). Current repayment flexibility allows clients to pay back all or a proportion of their loan at any time without penalty, though any early principal repayments cannot be re-drawn.

The RIC's loans could be tailored in a way that further recognises that farm businesses experience fluctuations in cash flow over time, by allowing access to the interest only period at any time over the loan term, up to a maximum of 5 years. This additional flexibility would maintain the national consistency principle if it was made available to all RIC clients (even if not taken up by them). While this option was not available to the 10-year pre-RIC farm business loans, those loans have all extinguished their interest only period, noting that principal deferral can still apply in some cases (see section 2.2.2 *Flexibility at the end of loan term*). Repayment flexibility would support a proportion of clients to make earlier principal repayments at times that suited their business, therefore reducing their debt and enabling them to manage their cashflow depending on seasonal conditions and other factors. This would decrease the client's reliance on government support and also assist in managing loan portfolio risk.

Farm survey respondents on average ranked more flexible loan terms as one of the top 5 most important factors in delivering concessional loans. A number of respondents mentioned repayment flexibility in their response to the question on changes to current RIC loan products (or new financial products) to better support their business's long-term strength, resilience and profitability.

Recommendation 8

The government amend the RIC's legislation to allow RIC customers flexibility around the timing of repayment of principal and interest over the 10-year loan period, provided the overall period for interest-only repayments does not exceed 5 years.

2.4 Interest free loans

During the severe drought of 2017–2020, two-year interest free terms for the RIC's Drought and AgBiz Drought loans were announced in November 2019 (and made available, including to existing clients, from 1 January 2020 to applications received by 30 September 2020). This was 'to maximise support to farmers as the drought tightened its grip on the Australian agricultural sector' (RIC 2020a). Many stakeholders found this 2-year interest free period beneficial to managing their operations through the drought and the continuation of their farming business.

> In this [drought management plan] I detailed a plan to install significant water infrastructure on the newly purchased property to ensure that we were drought proof for water in the future… The 2-year interest and principal free period provided by the concessional loan allowed us to fund this significant capital infrastructure project.
> Farm business survey respondent.

> Access to a RIC loan has been fundamental in our ability to stay in Primary Production, the 2 years interest free for half our debt has let us recover somewhat from financial pressure and the rates of commercial banks. Farm business survey respondent.

The 2-year interest free period for drought loans resulted in unprecedented demand. Loan applications to the RIC increased from a total of 53 in October 2019 pre-announcement to a high of 1296 applications in September 2020 (Table 5). This level of demand severely and detrimentally impacted the RIC's service delivery and ability to assist farm businesses in need in a timely manner. At its peak, the median processing time stretched beyond 350 days (Table 6), meaning in many instances loans weren't received until the farm business's hardship had been resolved. It also resulted in loans being provided to some businesses which were outside the target cohort, further impacting the RIC's reputation.

Table 5 Applications by month of submission and loan product

Loan product	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020
Drought	44	79	205	191	235	257	242	173	173	126	188	1146	8
Farm Investment	6	5	1	1	1	5	3	4	5	4	1	8	5
AgRebuild	3	6	6	1	1	3	4	6	27	1	0	0	0
AgBiz	0	1	0	2	47	50	28	20	13	7	6	142	2
Total	53	91	212	195	284	315	277	203	218	138	195	1296	15

Source: RIC (2024b)

Table 6 Processing times (in median days, including weekends) for loan applications from lodgement to settlement up to 31 December 2020

Step	Category	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020
Total time	Time with RIC	213	231	279	324	337	352	309	286	284

Source: Tune (2021)

As noted by Tune (2021) the RIC's interest free terms for its drought loans were contrary to the RIC's budget-neutral model, with farmers not required to repay the interest revenue foregone at any stage (i.e. it was not capitalised into the loan). The RIC has calculated that the interest revenue foregone from its interest free terms equated to $165.2 million (as at 31 March 2024). It is also possible that interest free terms for an extended period undermined resilience in the sector. QRIDA noted that the interest-free period encouraged many people into the RIC, with approximately 50% of their loans being refinanced to the RIC.

Feedback received through this Review clearly demonstrates that residual reputational impacts and concerns linger around the RIC's service delivery timeframes, despite the RIC clearing its backlog of drought loan applications by July 2021 (i.e. nearly three years ago). While the RFCS noted loan assessment times have dropped significantly, it stated that assessment delays during the drought were detrimental and caused their clients to lose out on opportunities while they waited on a RIC decision.

> It took 2 years to actually receive the loan draw down. Farm business survey respondent.
>
> We nearly gave up due to the hassle and slowness and it did affect us buying the neighbours as interest rates had already started to rise before our approval came through. Farm business survey respondent.

Since then, assisted by lower demand including due to better on-ground conditions, the RIC has made significant progress in improving its service delivery, reporting that they are currently achieving average application processing times of 125 calendar days to settlement (YTD 2023–24 as at 31 March 2024). During this period:

- the shortest time to settlement was 81 days
- the longest time to settlement was 193 days.

While the RIC has plans and strategies in place to deal with increasing levels of demand, realistically these will only be effective to a certain point. Maintaining staffing at levels sufficient to meet its time targets in servicing demand means that the RIC's interest rate can be kept lower for farmers rather than if excess numbers of staff were maintained to cope with a potential surge in demand due to an interest free offering.

As previously noted, the cost of providing interest free periods has been borne by the taxpayer and not the loan recipient. This raises issues of opportunity costs in that public money which is being directed to farm businesses could be used for other purposes which may have a greater public benefit. It also raises equity questions in that wealth could be being transferred to farmers from other people who are generally less well off. Farm households on average have greater wealth in terms of assets (which includes farm assets) than households in the broader population (see Table 7).

Table 7 Average wealth comparison between farm households and all households 2013–14

Category	Farm households	All households
Total financial assets ($)	1,403,400	323,900
Total non-financial assets ($)	974,400	630,900
Total assets ($)	2,377,800	954,800
Total Liabilities ($)	88,900	144,900
Net worth of household ($)	2,288,900	809,900

Source: ABS (2017)

Interest free periods also present fiscal challenges since the RIC's budget-neutral model relies on interest rates to recoup administrative costs (i.e. the RIC's costs of operating) and the cost of capital (i.e. the cost to the government of providing the loan funding). Interest only period flexibility and hardship provisions in extenuating circumstances are alternative forms of additional assistance, in line with particular farm business needs. These options, which are being recommended, provide alternative methods of dealing with specific loans in hardship and managing cashflow rather than blanket interest free terms.

Recommendation 9

The government not direct the RIC to implement interest free loans.

2.5 Interest rate

It remains appropriate for the government to continue to set the RIC's interest rate for its loan products through legislation and the responsible Ministers approving the interest rate based on the established methodology. It is also fitting for the methodology to continue to include the Commonwealth's borrowing costs (calculated with reference to an average of the daily 10-year bond rate) and an administrative margin to cover the RIC's operating costs.

To further strengthen the robustness of the cost neutrality model under which the RIC is intended to operate (exclusive of the two-year interest free period – funded by taxpayers), it is recommended that the administrative margin also account for the following:

- a portion of loans that are repaid early, and
- a small number of loans forecast to be unrecoverable due to defaults.

In line with assumptions agreed by the government at the RIC's establishment, these factors are not currently considered in the department's calculations to determine the administrative margin component of the RIC's interest rate. However, in practice, these factors could have a material impact on the interest revenue available to cover the RIC's operating costs. The proposed margins to cover these factors should be reasonable, and based on available evidence, for example, data from the pre-RIC loan schemes. These margins should be revisited as new data becomes available. This could be done as part of the existing annual administrative margin review process. It is crucial that the interest rate adjustment does not diminish the concessional nature of the loan. It is worth noting that QRIDA is required to add 1% to the interest rate provided by Queensland Treasury to cover loan losses.

During consultation some stakeholders suggested that a combination of fixed and variable rates could offer greater flexibility and be tailored to individual farmer's needs.

> The RIC should explore… a combination of fixed versus variable interest rate loans. Farmers need increased flexibility to determine which loan is most suitable for their farm businesses and their unique financial circumstances. NFF.

Currently, the RIC's interest rate applies for at least six months, allowing greater predictability than commercial variable rates which can typically be changed monthly (Table 8). Often, the RIC's six monthly interest rate review (based on the 6-month daily average of the 10-year Australian Government bond yield) does not result in a change to the RIC's interest rate, nor does the department's annual review of the administrative cost margin, providing RIC clients with interest rates that may not change for a year or more.

Table 8 Changes to the RIC's interest rate and commercial interest rates since establishment

Interest rate type	Aug 2019	Feb 2020	Aug 2020	Feb 2021	Aug 2021	Feb 2022	Aug 2022	Feb 2023	Aug 2023	Feb 2024
RIC Interest rate	3.11%	2.11%	1.92%	1.77%	2.31%	2.31%	3.04%	4.52%	4.52%	4.99%
Commercial interest rate	5.74%	5.46%	4.80%	4.57%	4.05%	3.84%	4.46%	5.59%	6.51%	7.20%

Sources: RIC data 2024, RIC (2024b)
Note: The commercial interest rate was calculated by averaging the passing interest rate of the RIC's settled loans in the previous 6 months.

Introduction of fixed rates could potentially have adverse consequences if market rates were to decrease in a way that diminished or eliminated the concessionality of the RIC's interest rate. The requirement for the RIC and its programs to operate in a manner which is budget neutral means a variable interest rate is more suitable. Aligning the RIC's interest rate with the 10-year bond rate in regular intervals more closely recoups the Commonwealth's borrowing costs for the RIC's loan funding. The RIC's six monthly interest rate reviews, as required by section 8 of the Operating Mandate also do this in a clear and transparent way based on publicly available Reserve Bank of Australia (RBA) data.

Recommendation 10

The government continue to set the RIC's concessional interest rates for its loan products through legislation and responsible Ministers approving the RIC's interest rate methodology.

Interest rate/s continue to be based on the cost of capital and an administrative margin to cover the RIC's costs.

The department, in consultation with the Department of Finance, review the administrative margin methodology (and the RIC's interest rate methodology and legislation as needed) to incorporate a small margin to reflect both the impact of repayment of some loans prior to maturity, and a small number of loans not being repaid.

Chapter 3 – Using an established loan delivery agency

Government support to ensure farming business can prepare for, manage through, and recover from drought, including through concessional loans, will continue to be needed in the foreseeable future. Setting-up a delivery organisation from scratch, as experienced during the RIC's establishment and more recently the establishment of the National Reconstruction Fund Corporation (NRFC), takes considerable time and resources. Unlike any other Commonwealth SIV, the RIC is a unique loan delivery agency that offers a number of relatively low value concessional loans, supporting the agriculture sector. Given this, the government is best placed to continue to use the RIC to deliver its farm business concessional loans. A comparison of Commonwealth SIVs is at Appendix L.

3.1 Using an established delivery mechanism

Setting-up a new organisation like a SIV takes time, effort and resources. As outlined by the Finance's guidance on "Creating a new government body", the steps that must be taken to create a new government body include:

1) policy development reveals that a new body may be required to undertake a new activity
2) engage with Finance which will provide advice on the Governance Policy requirements
3) undertake a governance assessment (preliminary three-stage test, consideration of governance factors, and options analysis)
4) seek assurance (sign-off) from the Finance on whether the governance assessment meets policy requirements
5) seek government approval for proposals to create or change governance structures of existing primary body or secondary statutory body
6) Establish a new body (or make changes to an existing body). Report the details on the Australian Government Organisations Register.

Source: DOF (2022)

It also takes time for a SIV to become efficient and effective in delivering its functions and achieving its policy objectives. Recent examples highlight that it takes about two years for a SIV to be fully operational and make its first investment. Table 9 compares the establishment timelines for the RIC, the Northern Australian Infrastructure Facility (NAIF), and the NRFC, noting key milestones such as the initial announcement of the entity through to the first investment.

Table 9 Comparison of establishment processes of the RIC, NAIF and NRFC

Milestone	RIC	NAIF	NRFC
Entity announced	22 June 2016	12 May 2015	25 October 2022
Legislation passed	20 February 2018	1 July 2016	11 April 2023
First Board members appointed	29 March 2018	19 July 2016	9 August 2023
Substantive CEO appointed	13 December 2018	11 October 2016	1 February 2024
Commenced Operations	1 July 2018	10 August 2016	30 November 2023
First loan approved	10 January 2019	29 September 2017	N/A

Sources: ANAO (2020), Senate Economics Reference Committee (2018), RIC (2018a), RIC (2018b), RIC (2018c), NAIF (2016), NAIF (2017a), NAIF (2017b) and Husic (2022), NRFC (2023), NRFC (2023), NRFC (2024)

Even once a SIV is in operation and begins deploying capital, it takes a further significant period of time for it to reach momentum in the volume of loans, or other financial products, being delivered. For example, while the NAIF approved its first investment decision of $17 million in September 2017, it took until July 2019 for it to have approved $1 billion in funding – over 4 years since the government's initial announcement (NAIF 2019). Despite differing loan volumes, the RIC had a similar trajectory – 4 years following the government's initial announcement it had approved only $715 million in loans (RIC 2020a).

Noting these lengthy timeframes to establish a fully functional SIV, where government is seeking to provide financial support through an independent entity, there are benefits to using an established entity, as establishing a new entity from scratch is a resource intensive and time-consuming process. There are also benefits to maintaining a functioning entity with a clear policy focus on the agriculture sector, which is able to rapidly respond in the event of drought – rather than trying to quickly establish a new entity or negotiate a new program with state and territory governments.

The importance of loan delivery experience in the development and management of loan programs has been highlighted in the past by the ANAO. In its audit of the department's Administration of Concessional Loan Programs (ANAO 2016a), A lack of experience was cited as limiting the development of parameters for the program, as well as preventing the department from having a full appreciation of the implementation risks of such a program. The ANAO audit of the Design and Establishment of the RIC in 2020 noted that analysis of the effectiveness of prior loan programs would have aided the design process (ANAO 2020).

3.1.1 The need for continuing drought support

As discussed in the Introduction, government assistance available to farmers and farming businesses has changed over the decades, in line with developments in Australia's National Drought Policy. Drought is now viewed as an event to prepare for and manage through, rather than an exceptional circumstance or natural disaster. There will undoubtedly always be pressure on governments to act during drought, especially severe and long duration droughts, including action to support long-term viable farmers experiencing drought-related hardship. Having an established mechanism to support farmers through drought provides certainty about the type of assistance that would be available to them, and how to access it, if needed.

Using a Commonwealth mechanism also ensures national consistency in the delivery of loans to farm businesses. Prior to the RIC, when a new scheme was established, there was usually a 3 month delay for negotiation of agreements with states before loan funds could be delivered – with some outlier jurisdictions taking even longer to start delivering funds, or refusing to participate in a given program. This led to difficulties in achieving national consistency in the support offered to farmers during drought, which could occur again if the Commonwealth were to resume delivering loans through jurisdictions or other multiple providers (e.g. various banks).

Recommendation 11

The government retain the RIC as an established functioning mechanism for delivering a suite of nationally consistent concessional loans to farm businesses and farm-related businesses, especially during drought periods.

3.2 The RIC's legislative framework

It follows that, if an established entity is to continue to carry out a function on behalf of the government, its underpinning legislation should be examined to determine if it is operating as intended and needs any adjustment. This is a fundamental task for a statutory review like this one. Some amendments to policy objectives in the RIC's Operating Mandate have been recommended in section 1.3.1 *Operating mandate*.

Establishing new products through Rules provides the government with significant flexibility over the functioning of the RIC. However, the mechanism of Rules does carry some downside for the complexity of the RIC's legislative framework. Five Rules and the Operating Mandate were used to establish the RIC's current suite of products. This means that policy changes impacting all of the RIC's products would potentially require amendment to six different legislative instruments (the Operating Mandate and all the Rules) to take effect. It is envisaged that if the recommendations of this Review are accepted, amendments to the Rules and Operating Mandate, will occur. Where possible, drafting should seek opportunities to streamline Rules to reduce any duplication and assist in any future amendments.

Beyond the complexity of multiple Rules, this Review did not find any significant impediments to the RIC's operations in its legislative framework. While this Review identifies a number of sections of the RIC Act that could be streamlined (largely dealing with the now terminated NWILF, and the removal of the RIC Board's advisory role to the FDF – discussed in section *5.5 National Water Infrastructure Loan Facility*), the RIC Act enables the RIC's key policy aim of providing a nationally consistent loan delivery vehicle to support farm businesses. This view was largely supported by stakeholders throughout the Review. While many stakeholders suggested changes to the RIC's legislation (for example, changes to the definition of farm business loan, or amendments to eligibility criteria), most stakeholders did not recommend changes to the overall legislative framework or identify any major impediments in the RIC's legislation to achieving its policy goals.

3.3 Opportunities for consolidation with other SIVs

Noting that the Terms of Reference for this Review required consideration of "opportunities to improve the efficiency and effectiveness of loan delivery and management, including with reference to other Commonwealth SIVs", this Review sought to consider duplication between the RIC's activities and that of other Commonwealth SIVs.

In this consideration, one Australian Government stakeholder advanced a view that there was duplication between the RIC's functions and that of other SIVs, and that this Review should consider opportunities for the consolidation or merger of the RIC with other SIVs. Given the broad scope of the Terms of Reference, and the fact that those views were not raised by any other stakeholders consulted in the course of the Review, this Review considered opportunities for consolidation of the RIC in a broad sense.

While there has been some limited perceived duplication of the RIC's loan functions (primarily as a result of the now-terminated NWILF), the RIC operates in a unique space among Commonwealth SIVs. Discussion with stakeholders didn't note any duplication between the RIC and other entities at the Commonwealth level, although some observed a degree of overlap in some jurisdictions with state-based entities, such as the NSW RAA or QRIDA. While some stakeholders noted some sectoral duplication with SIVs such NAIF, Clean Energy Finance Corporation (CEFC), Export Finance Australia (EFA) and NRFC, all of whom can invest in agriculture, they also acknowledged that financing offered to those entities was sufficiently different (and such a small part of those entities' portfolios) that there is no overlap in the client bases of the RIC and those SIVs.

This absence of overlap was particularly true of other 'national development' entities (NAIF and the NRFC). NAIF has a mandate focused around the development of economic infrastructure in a limited geographical area (northern Australia), and to date has provided just $89 million in financing to three agriculture-related projects, all of which have focussed on the construction of infrastructure and value add processing (including a cotton gin and an abattoir). While NRFC has only recently been established, its agriculture, fisheries and forestry-related investment is also intended to relate to manufacturing and 'value-add' (whether to outputs from, or inputs to, primary production) rather than primary production itself. Such an input might include for example, onshore manufacturing of fertiliser.

As previously noted, the RIC services small to medium-sized farm businesses directly with a large number of relatively low value loans, rather than focusing on fewer larger investments. Other SIVs also provide a range of financial products – such as grants, equity or guarantees – while the RIC only provides relatively small value loans. Given the unique market segment in which the RIC operates, there appears to be little benefit in attempting to merge the RIC's functions into another SIV, as that SIV would need to establish a new function to deliver the type of loans the RIC offers. Even if a significant number of RIC staff are retained, such a merger is likely to be complex, time consuming, and involve significant implementation risk and impact to the RIC's service delivery, affecting its farm business clients who, by nature of the target cohort, are experiencing or recovering from hardship.

Since the RIC provides a large number of small value loans to a single sector rather than the fewer larger loans, guarantees and equity of the other SIVs, a merger of this nature has the potential to become a takeover – where the entity serving larger customers absorbs the new resources at the expense of the entity serving smaller customers. This is equally true for both private sector mergers, and Machinery of Government changes – even though government mandates the functions of an entity, the Chief Executive Officer (CEO)/Secretary who manages the day-to-day operations has discretion to allocate resources and can prioritise (or de-prioritise) particular functions. Cultural differences and workforce gaps can also influence outcomes.

There have also been similar difficulties across government from more limited mergers – such as the consolidation of back-office functions through shared services arrangements. ANAO audits of shared services arrangements have noted difficulties in achieving the initially planned results, with a 2016 audit of The Shared Services Centre finding that several years after establishment “departments have not yet determined if the arrangement is efficient and resulting in savings.” (ANAO 2016b). Similarly, a 2022 audit of the Operation of Grants Hub highlighted difficulties in the establishment and realisation of the benefits of such a facility, noting that “there is insufficient evidence to demonstrate the (Grants Hub) program improved the effective and efficient delivery of grants administration.” (ANAO 2022).

Any attempt at merging the RIC into another entity would also result in a perceived (and in the opinion of this Review, actual) reduced service to farmers, and a perception amongst stakeholders that something (a loan provider specifically for farm businesses) was being taken away by government. Stakeholders would also focus on staff retention and the location of headquarters and staff of a new entity – with any reallocation of resources from regional Australia being relocated to a capital city further alienating the farm sector. This would very likely result in significant criticism from major stakeholder groups such as the NFF, which would be particularly acute in the event of a significant drought – where the ‘closure of the RIC’ would be noted in any difficulties faced by farmers. Anxiety around any potential closure of the RIC was expressed by stakeholders upon announcement of this Review, and submissions from stakeholders such as the NFF indicated strong support for the continuation of the RIC (NFF 2024a).

The Review also considered the Expert Review into the establishment of the CEFC, conducted by a panel in March 2012 – a recommendation from which eventuated in the merger of Low Carbon Australia into the CEFC when it was set up. This recommendation also highlighted considerations related to the merger taking place – ensuring that the governance structures of the two organisations aligned and Low Carbon Australia’s expertise aligned with CEFC’s proposed model (CEFC 2012).

This Review found that this example bears little relevance to the RIC – the merger took place as the CEFC was established and was an evolution of the work being undertaken by Low Carbon Australia (aligning the expertise as per the Expert Review’s recommendation).

Should the government wish to consider the consolidation of SIVs further, it should be undertaken as a fully transparent process involving consultation with all relevant policy departments and their SIVs, and include a full cost-benefit analysis, risk assessment and have regard to the needs of key stakeholders and clients of current SIVs. This process should also identify a clear policy rationale for such consolidation to occur, and not seek to artificially group SIVs across different portfolios based on perceived overlaps or simply because they don’t appear to fit in other potential groupings.

Finding B

It is difficult to see any benefit in attempting to merge the RIC's functions into another entity, and attempting to do so is likely to result in a negative outcome for RIC clients, the farming sector and criticism of the government.

3.4 Services to other SIVs

Following the conclusion of the arrangement with Bendigo Bank, the RIC has brought in-house its entire loan management system – meaning that all loan origination, processing and settlement is undertaken by RIC staff and through the RIC's own systems. This positions the RIC as one of several SIVs with loan management capability, and the only SIV with capability to manage high-volume, relatively (compared with other SIVs) low-value loans (NAIF, EFA and CEFC all partner with another financier to deliver lower-value loans).

As new SIVs have been established, there has been an increased desire from the Commonwealth to use existing SIV capabilities to assist the business functions of new organisations. EFA has often been selected by the government to assist – with EFA providing loan management support to the NRFC, Australian Infrastructure Financing Facility for the Pacific (AIFFP), Housing Australia and initially to the NAIF. EFA also provides back-office support (payroll, HR, property, IT) functions to many of these organisations, in some cases with the Chief financial officer (CFO) of EFA designated as the CFO of another SIV. These functions are enabled under the *Export Finance and Insurance Corporation Act 1991*, which enables EFA to 'to assist Commonwealth entities and Commonwealth companies in performing their functions or achieving their purposes by providing services in relation to financial arrangements and agreements' as directed by their Minister (the Minister for Trade and Tourism).

While the RIC can undertake its own back-office, loan assessment and portfolio management services, it currently does not have a legislative basis for providing any of those services to other Commonwealth agencies. If this legislative limitation was overcome, the RIC would potentially be able to provide these functions to other SIVs, subject to capacity. However, there are risks that the RIC's services may not be appropriate for the size or types of financial products offered by other SIVs, and that offering these services may result in additional costs to farm businesses. Discussion with other SIVs throughout the course of this Review generated no interest in the RIC providing them with loan or back-office services or functions of any size or capacity. Further, EFA appears to have a well-established, structured standard offering to provide such services to other SIVs as needed. Provided those SIVs appropriately cover costs, including for additional staff in EFA to provide those functions as needed, there does not appear to be any sound reason or need for the RIC to be enabled (either through its legislation or its internal capability and capacity) to provide similar services.

Following this Review, the RIC is expected to continue to only offer relatively low-value loans to farm businesses. Comparable SIV organisations such as the CEFC, NAIF and NRFC offer a range of financial products beyond loans, and most NAIF loans generally several orders of magnitude higher than the RIC currently offers – NAIF generally considers loans above $10m, with its largest being $610m, while the largest RIC loan currently offered by the RIC is $2m (the RIC has previously offered loans of up to $5m through its now closed AgRebuild product). NRFC, being recently established, is yet to fund any proposals including through loans (as at 15 June 2024). As such, the RIC would likely need to significantly expand its skills base to offer higher value loans and other products (which are currently funded by other SIVs) and would generally be unsuited to managing these types of products as they are well outside the RIC's core agricultural remit.

The RIC offers its loans on a concessional basis, rather than the commercial terms used by organisations like EFA. As discussed, the RIC's operational costs are factored into the interest rates charged to loan recipients including farm businesses, meaning that any work undertaken on behalf of other SIVs would need to be carefully managed and costed throughout both development and delivery to ensure that farm businesses are not in any way bearing or cross subsidising the costs of the RIC providing services to other SIVs including with clients from other sectors. Transparency of costing would be essential to maintain the trust of the farm sector.

Noting these risks of significant functional differences between the RIC and other SIVs, cross-subsidisation of costs by farm businesses, and concerns around the RIC's ability to manage the suite of products required by other SIVs, this Review does not recommend amending the RIC Act to allow the RIC to provide services to other SIVs.

Finding C

The RIC is not best placed to provide services to the other Specialist Investment Vehicles.

3.5 Ongoing monitoring of the need for the RIC

The RIC is an important farm support delivery function for the agriculture sector governed by a complex legislative framework that provide parameters for its service delivery, including of the need for national consistency. For government to have assurance that the RIC is delivering on the intended policy objectives, and that the organisation is operating effectively, it is important to conduct regular reviews preferably required under the RIC's enabling legislation.

This is particularly relevant in the case of the RIC. While the RIC has been operating for almost six years, the majority of its loans are still in an interest-free or interest-only phase of repayment, which has provided this Review with limited data on the impact of the RIC's loans on the agriculture sector. Although 239 loans have been repaid to date, in another five years' time, it is expected that more loans will be fully repaid due to reaching the end of their loan term or in their interest plus principal repayment phase, and more fulsome data will be available on the success of the RIC in meeting its policy objectives. There should also be more data available to evaluate the RIC's effectiveness in managing the risks associated with its loan portfolio.

There is no data or anecdotal evidence to suggest that RIC loan approvals are delayed as a result of an ongoing review, but the RIC's ability to conduct long-term planning could be impeded by reviews, particularly regarding the RIC's funding arrangements. However, such reviews also provide an opportunity to examine the RIC's funding arrangements and policy objectives and ensure they remain aligned to government objectives.

While government could establish a review to cover all matters regarding the RIC, there are no guarantees that this would take place or be made public at the conclusion of the review if it is not a statutory review (i.e. in the legislation.)

To ensure that a review takes place and is fully transparent, the RIC Act should be amended to require the Minister for Agriculture to commission a review every five years considering the scope of the RIC's activities, as well as the RIC's governance. The next review should be concluded on or before 1 July 2029. If the government does not wish to establish ongoing reviews for the RIC, it should at the very least establish a mechanism for a review by this date.

In considering reviews of the operation of the RIC Act, the current requirements around the transparency of statutory reviews (including tabling of the reviews in each House of Parliament, and publication online) should be retained.

Recommendation 11.1

The government amend the *Regional Investment Corporation Act 2018* to make provision for ongoing 5-yearly reviews.

3.6 Cost effectiveness of the RIC's operations

As part of this Review, the efficiency and cost effectiveness of the RIC's loan delivery was considered and the RIC is perceived to be a comparatively high-cost model when compared to the previous delivery of Commonwealth farm business concessional loans via the states. This also appears the case when compared to entities with similar functions (such as QRIDA and NSW RAA), though it is more challenging to compare and confirm this, particularly with publicly available information.

Given that the RIC is a concessional lender with a policy remit that focuses on helping farmers in need, and seeks to operate under a budget neutral model, the cost effectiveness of the RIC is an important issue to consider. The RIC operating in both a cost effective and efficient manner is essential to ensure that farmers in hardship can be provided with the most concessional rate possible. Reductions in the RIC's operational expenditure and associated appropriations from the government can reduce the administrative cost margin, and subsequently reduce the RIC's interest rate charged to clients.

An internal review of the 5-year pre-RIC state-delivered farm business concessional loans schemes completed by the department as part of routine program evaluation estimated the cost to the Commonwealth to be approximately $20,000 per loan advanced (or $26,000 in real terms), with 835 loans advanced across the two schemes. The estimated cost to the Commonwealth of the Farm Finance Concessional Loans Scheme (FFCLS) and Drought Concessional Loans Scheme (DCLS) was $12.6 million and $4.4 million (nominal value), respectively. This includes administration funding paid to the states, the cost of capital, estimated departmental costs (which are likely to be underestimated) and any loans lost (including expected loans lost), as well as interest revenue received. It does not consider any additional costs that may have been borne by the states above administrative costs covered by the Commonwealth. More of the administrative funding is attributed to the FFCLS, noting this funding was used to establish systems and the skills necessary to deliver the FFCLS as well as subsequent Commonwealth funded state-delivered farm business concessional loans schemes (including the DCLS). The evaluation also estimated interest rate savings per loan recipient were $100k over the life of the loan, meaning for every one dollar spent by the Commonwealth, farmers who had the loan in place for the full five-year loan term received approximately a five-dollar benefit.

While this information is a partial comparator with that for the RIC's loans, comparison with the 10-year pre-RIC loans may be more useful. An internal analysis of the cost of delivering the 10-year pre-RIC state-delivered farm business concessional loans indicated that the RIC appears to be a higher cost model, when comparing the estimated cost of each of the programs. Key factors that explain the difference in cost include the difference in the interest rate margin (for example, pre-RIC FBCL is 40 basis points and the RIC is approximately 90 basis points) and the assumption of average loan size – noting that RIC loans are larger. Further, it is worth nothing that the 10-year pre-RIC loans funded a program, where the RIC loans fund the establishment and operations of an entity as well as the program. The pre-RIC loans funded a significant contribution to the states to deliver and manage the loans in their jurisdiction, with the respective states also contributing funding to deliver the program. The amount of the contribution of the respective states to the loan program is unknown and as such, is an important distinction when attempting to compare the pre-RIC state-delivered loans costs with the cost of the RIC.

Further, whilst this Review finds it important to ensure that a cost-effective, efficient program is being run by the RIC, particularly given it is taxpayers money being spent, there is an important real-world balance to be achieved between efficient service delivery and providing good client service. Often there will be trade-offs between the two. Providing a responsive service and robust loan assessments requires investment in staff and systems, which the RIC has done. Ultimately, providing an appropriate concessional rate to farmers is a key goal, as there is little point to the RIC if its costs are so high it needs to charge a commercial rate.

When considering cost efficiency, a bank stakeholder made the point to the Review that a bank already has the customer base and a national spread and that it would be hard to argue that the RIC could be more efficient than a bank in delivering concessional loans. However, the stakeholder also conceded that a bank was likely to be less trusted than a government sponsored delivery entity.

An analysis of high-level operational costs and performance using information published in QRIDA's, NSW RAA's and the RIC's 2022-23 annual reports indicates that QRIDA and NSW RAA approve a much higher number of applications than the RIC, noting these numbers can vary from year to year due to disasters and other schemes they deliver. However, it is important to note that these observations, though interesting, do not account for the fact that QRIDA and NSW RAA have much larger portfolios which include a range of other loans and grants, rebates and subsidies that in many cases are likely to be substantially faster and more straight forward to assess and approve than the RIC's fewer, larger loans. In addition, QRIDA and NSW RAA also administer a range of loans and grants for small businesses and non-profit organisations, not just primary producers, whereas the RIC primarily service primary producers only. Further, QRIDA and NSW RAA are well established delivery agencies that have operated for over 30 years with a much broader remit than that of the RIC, which is only 6 years into its operation. It is not unreasonable to expect that as delivery agencies mature and embed continuous improvement and invest in new systems (such as the RIC's recent in-housing), that this will lead to more operational efficiencies and increased savings in operational expenditure.

This Review also considered the recent in-housing project completed by the RIC which saw functions formally undertaken by a commercial service provider come in-house. These functions are now being undertaken by RIC staff. This in-housing project has delivered savings of approximately $1.5 million per year. These savings, or a significant proportion thereof, should be passed onto farm businesses and not simply accrue in the RIC's operational account, which may lead to spending on unnecessary or low priority activities that would not have been funded but for the savings. The RIC's CEO has also expressed his support for the RIC being as concessional as possible, noting that's the point of the RIC – to assist farm businesses in need. The RIC's relevance diminishes, the less concessional its interest rate becomes.

This Review notes that some former, incomplete initiatives should be finalised to enhance the RIC's efficiency in delivering its core functions and, importantly, being able to demonstrate this to the government and stakeholders. These initiatives – the RIC Administrative Cost Review and Resource Allocation Framework (RAF) – are further explored in sections 3.6.1 *Administrative cost review* and 3.6.2 *Resource allocation framework*. Given the RIC's recent in-housing of functions, this Review understands that the RIC now has access to workflow and time on task data that will make it much easier to analyse these processes with accurate and timely data.

3.6.1 Administrative cost review

During the establishment phase, the RIC's original chair sought to ensure the RIC was an efficient and streamlined agency in its operations, noting the direct link between the RIC's operating costs and the concessional interest rate it charged to clients.

Given some uncertainty around the true costs of doing business (noting the RIC's original operational appropriations were based on a costing process undertaken prior to the RIC coming into being), the chair proposed that a review of the RIC's administrative costs should take place after 3 years of operations.

Responsible Ministers agreed to the review, but requested it occur after 18 months of operation. The review commenced in December 2019 (instigated by the department) with the RIC providing a submission to responsible Ministers to inform this RIC Admin Cost Review (RACR) in February 2020. Detailed costing information to support the submission was provided to the department. Around the same time, the RIC was beginning to experience the service delivery impacts of the significant demand generated by interest free terms on its loans (announced by the government in November 2019 and made available in January 2020). Given the rapid increase in application numbers, impacts on service delivery, and need to substantially supplement the RIC's loan funding (by $2 billion) within a short period, the RACR was effectively abandoned, at the time overtaken by the need to prepare New Policy Proposals (NPPs) and supporting information for government's consideration of additional loan funding. Costing information provided by the RIC through the RACR process was drawn upon by the department and the Finance to inform the costing process that provided the RIC with additional operational funding of $50 million over 4 years (front-loaded), and additional ongoing operational funding for loan delivery and management functions associated with the additional $2 billion in loan funding.

Now the RIC has in-housed its loan management functions and can draw upon data on its operating costs under its new model, the RACR should be revisited. This would help inform appropriate ongoing operational funding for the RIC, taking into account both the savings realised through the in-housing of its functions, as well as the change in some of its activities into the future, including those arising from this Review.

Recommendation 12

The administrative cost review (previously overtaken by events in 2020) be undertaken, consistent with its original principle of ensuring an efficient organisation.

The administrative cost review is to be completed within 12 months post-Review, or earlier if required, to inform government costing processes about the RIC's ongoing future**.**

3.6.2 Resource allocation framework

A further useful input into any future NPP or costing process for the RIC would be completion of the RAF recommended in the Tune Review. Recommendation 22 of the Tune Review stipulated that 'the department, in consultation with Finance and the RIC, develop a RAF to support and streamline any future costings process' (Tune 2021).

The Tune Review noted that the RAF would include a work/resource allocation model which calculates the amount of funding required by multiplying the amount of activity the RIC is undertaking by the cost of its resources. It also highlighted that the RAF would require an assessment of the RIC's baseline costs (i.e. how much it would cost to keep the RIC operating even if it did not receive any loan applications), and a list of activities that its staff already, or will, undertake, the amount of time dedicated to each activity, and the cost of its staff at each level (e.g. Australian Public Service level 6 or EL1 equivalents).

The department, in consultation with Finance and the RIC, commenced development of a RAF to support and streamline any future costings processes following the government's response to the Tune Review. The RAF is intended to:

- function as a principles-based framework to guide the appropriate provision of operational funding for the RIC
- support an efficient allocation of resources, and
- provide guidance to the RIC about the scope and quantum of additional operational funding that should be sought to deliver new policy proposals in line with government expectations, thereby streamlining future costing processes.

The RAF, while seeking to provide a holistic view of the costs of the RIC's operations, including its baseline costs, focuses on simplifying calculation of the costs of additional RIC effort. Therefore, any additional resourcing that might be required, should the government instigate a new RIC-related policy proposal (for example, for a new RIC loan product) can be determined and negotiated quickly.

Previous costing processes for the RIC have involved significant back and forth amongst the three agencies to justify to an appropriate standard, and negotiate, additional resources sought by the RIC. These processes often happen within very tight timeframes and can require significant human resources. While the RAF is not seeking to replace or circumvent this robust process, it should assist in streamlining it, by providing an existing agreed framework to guide the resourcing that should reasonably be sought by the RIC, and therefore is more likely to be considered appropriate by the department, and ultimately agreed by Finance.

After some initial engagement and progress, particularly on suitable principles to apply, further development of the RAF was delayed until post the RIC's implementation of its in-housing project. Significant resources at the RIC were being directed towards in-housing, and so engaging on the RAF would not be the RIC's priority. Also, it was considered the RAF would have more utility if it was developed after in-housing occurred, as the costs for RIC functions and activities would reflect its new service delivery model.

The RIC advised that the new in-house system would offer several fundamental changes to the RIC delivery and administration model, and provide savings of $1.5 million per year. There is capacity with the new system to better assess workflow and include staff productivity measures. The RIC is confident that this, along with the in-housing investment in technology, will allow the RIC to manage scale and variability in loan demand and new loan products with greater efficiency and effectiveness.

Now that the new in-housing of functions has been in place since October 2023 and the RIC has had time to bed down and work with its new systems and processes, it is in a better position to recommence the RAF process with accurate and relevant data, costs, and resourcing information.

The RIC's required resourcing will always be dependent on its forecast and actual demand for its loan products. There are challenges associated with predicting demand for loan programs including due to market and climatic variability. In addition, the RIC may find further efficiencies in how it operates under its in-housing model as time progresses. The RAF should therefore be reviewed by the department internally (in consultation with Finance and the RIC) on an annual basis to consider further efficiencies and if there are any significant changes to the size or functions of the RIC.

Recommendation 12.1

The department, in consultation with the RIC and the Department of Finance, progress implementation of Tune Review recommendation 22 to develop a Resource Allocation Framework within 6 months of this Review.

Chapter 4 – Effectiveness of the RIC's loan delivery

The RIC has improved its effectiveness since establishment and overall is meeting the government's expectations and objectives, so far as can be assessed from the current evidence base. The RIC should continue to deliver concessional loans to farm businesses and farm-related businesses, with a clearer purpose, evidence base, and fit for purpose Risk Appetite Statement (RAS). This evidence base requires a robust M&E framework. Further, there are some aspects of its program delivery that require attention including in relation to the assessment of DMPs and conduct of loan reviews.

4.1 Effectiveness of the RIC

4.1.1 Product growth and performance

Over the nearly six years of the RIC's operation, its product suite has grown in number, including, according to some stakeholders, beyond its initially intended drought-focused remit.

Table 1 shows that (as at 31 March 2024) the RIC has delivered 3060 loans, valued at $3.3 billion. Of these, 86% have been Drought Loans, valued at $2.84 billion.

This Review has found that the RIC has commenced all RIC-related recommendations from the Tune Review, and partially or completely addressed the majority. The RIC has also implemented additional practices to improve its loan assessment, loan delivery, and reporting. Its service delivery has recovered from the detrimental impacts of the interest free period, though the reputational impacts linger with many stakeholders raising poor service delivery timeframes that primarily relate to that period.

> While it is important to acknowledge that excessive loan application processing times and complexity diminished the value of the RIC during severe drought conditions, the overall impact of the RIC since 2018 has been extremely positive. NFF.

4.1.2 Stakeholder views on the RIC

Stakeholder feedback on the effectiveness of the RIC was largely positive and supportive of the RIC as a delivery agency for Commonwealth farm business concessional loans. The RFCS indicated the RIC is a good mechanism to provide drought support. It appreciated its permanence in comparison to other types of support that may be more reactive, and strongly believes RIC loans pump money into local regional businesses and economies.

> Concessional lending is a fundamental and effective part of Australia's drought policy approach, and the RIC is an appropriate vehicle to deliver farm business concessional loans. The RIC's objectives remain relevant to the agriculture sector's needs now and into the future. It is therefore important the RIC continues beyond June 30, 2026, to also continue building on work done to achieve national consistency in the availability of loans and treatment of applicant farm businesses. Australian Pork Limited.

> The VFF strongly supports the continuation of the RIC's activities after 30 June 2026. Concessional loans are a vital element of Australia's drought policy, and they will continue to play a key role in ensuring the long-term resilience of Australia's agriculture sector. VFF.
>
> RIC staff were awesome and government should be proud of their exceptional service. Farm survey respondent.

4.1.3 The RIC's policies and procedures

To support the RIC's application assessment and loan management functions, it has a comprehensive suite of policies which cover application requirements through to settlement, non-performing loans, and arrears management. These are informed by a RAS (see section 4.2 The *RIC's target cohort*) which is set by the Board and reviewed by an Audit committee. Sitting below policies are procedures, guidance notes and work guides to provide sufficient information for staff to accurately apply the policy.

The RIC has advised that its internal policies and procedures have had to evolve significantly since establishment, and particularly more recently since the RIC in-housed its loan management (see section 4.1.4 *In-housing service delivery*).

The RIC's most recent approach to developing, refining, and defining responsibility for its policies is captured in a Policy Framework that the RIC Board approved in August 2023. Under this framework, policies are categorised as Corporate or Program Delivery policies and responsibility for approval and ownership assigned to different levels of the organisation (for example, Board, CEO, Executive Director, Corporate or Program Delivery etc). Policies are scheduled for regular review with frequency related to their content.

A general examination, rather than an expert technical review, as has occurred in previous reviews, has been undertaken of a broad suite of the RIC's policies under the Policy Framework, including asking clarifying questions of the RIC and seeking additional information to ensure understanding. This Review considers they are fit for purpose. The Review further notes that the RIC continues to undertake a body of work to apply further rigour and prioritisation to the RIC's policy environment. To this end, some Program Delivery policies are in the process of being withdrawn, amended, or merged with other policies including to reflect the RIC's changed way of working (i.e. without Bendigo as its loan service partner) due to its insourcing of loan management functions and systems. The RIC is well-progressed in this work, with a number of key policies on track for completion, final review and/or approval in June and July 2024."

4.1.4 In-housing service delivery

Most significantly, in October 2023, the RIC disengaged its loan assessment and management processes from the loan service partner (LSP) and brought assessment, settlement and ongoing management functions in-house. This was a significant project which required the development of its own operating structures, processes, additional guidance materials, and supporting IT programs and systems. This change has provided the RIC with significantly greater control than before over the loan assessment process. The RIC has introduced its own call centre which can field and answer a wide range of general enquiries and assist customers in the pre-application phase. Once applications are received, the RIC assigns a single contact to the customer so they can discuss their application with the same person throughout the entire process. In-housing has streamlined the assessment process, reducing the average time a loan application takes to be decisioned. Before in-housing, the average number of days to loan settlement was as high as 423 in the 2020–21 financial year. In 2023–24, up to 31 March, the average is 136 days.

More specifically, in the five months preceding in-housing from 1 May to 30 September 2023, the average number of days to loan settlement was 198 (with 69 loans settled during this period). For the five months following in-housing from 1 November 2023 to 31 March 2024, the average number of days to settlement was 177 (with 89 loans settled during this period). This data shows a 22-day improvement in processing times. From 1 October to 31 March the RIC processed 19 loans entirely under its in-house service delivery model, from submission to settlement. The average number of days to settlement for these loans was 108, suggesting overall average timeframes may decline further as more loans are processed completely within the RIC’s new system.

The RIC now has enhanced visibility of its customers’ information and has systems which allow information to be appropriately extracted, analysed, reported on, and monitored. The benefits of the RIC’s in-housing also extend to its workforce management. The RIC is more easily able to respond to increases and decreases in loan demand due to real time monitoring of workflow and flexibility in the organisational structure. It can move appropriately skilled staff between program delivery functions according to the greatest need (for example, new application assessments versus variations to existing client contracts). The RIC can also effectively measure individual and program delivery productivity and intends to use this information to improve its efficiency.

Noting the role of RIC loans as part of the government’s suite of measures to support farmers in hardship, the RIC will be judged on its ability to provide timely, efficient, and effective support to farmers during such times, including severe drought. The RIC has established processes to scale up in times of high demand, which identifies organisational escalation points based on loan application volume and/or loan approval value. These trigger points indicate the need for additional resources to appropriately manage demand. Credit assessment is a skill that requires experience, and the RIC advised it can take five months to find, onboard, and train new staff. To access trained staff quickly, the RIC has introduced its own Credit School to upskill staff in other parts of the organisation who can assist when necessary. In addition, the RIC has its ‘Delegated Lending Authority (DLA) Ready Program’ allowing staff who have been through the program DLA holder status. This means, in a situation of high demand, an existing RIC Agri Lending Specialist (who has been through the Program and has extensive knowledge of the RIC) could be rapidly elevated to an Agri Lending Manager role. The RIC views its training strategy as an effective way of having staff hit the ground running during times of high demand, by flexibly moving existing staff with relevant skills and experience to areas of need, while recruitment processes and onboarding are concurrently undertaken (where required).

The RIC also indicated it can draw upon merit lists from previous recruitment to hire staff quickly. This is a potentially risky strategy depending on the labour market at the time. Other farmer support programs have implemented their own strategies to scale up. For example, the RFCS retains a group of retired rural financial counsellors that can rejoin the RFCS at short notice on a part- or full-time basis depending on the need. The RIC may wish to consider a similar strategy to complement its existing approach. Also, while new applications represent a significant source of increased demand, increases in loan variations and loans in arrears are also triggers. The Review notes the RIC is identifying thresholds and processes to manage these potential events in isolation or simultaneously. Regular reporting against these triggers will be of value to the RIC and the department. The Review also notes that the RIC must scale up (or down) to meet demand within a framework reflecting its annual loan funding appropriation. If it looks like demand will exceed the available annual loan funding, the government needs to decide whether to provide additional (or bring forward) loan funding and, if needed, commensurate operational funding so the RIC can meet that demand. Needing to provide as much advance notice as possible to government of such demand reinforces the need for reporting against thresholds and triggers.

4.2 The RIC's target cohort

During the RIC's establishment, the department consulted widely to inform appropriate implementation of the entity's objectives and initial products, ensuring the government, through the RIC, was targeting the right customer base. This consultation confirmed that the intended target cohort (farm businesses in financial need, but which are viable in the long term) should remain consistent with the state delivered pre-RIC concessional loans. During this Review, stakeholders generally agreed that this group should continue to be the RIC's focus.

> RIC loans are designed to support producers who have demonstrated long-term viability but have been temporarily thrown off-track by circumstances beyond their control e.g. drought or natural disaster. RFCS NSW.

Some stakeholders in the banking sector noted that the RIC's expansion into products like the AgriStarter Loan and the AgBiz Drought Loan are beyond its original remit.

> While the ABA acknowledges these additional loans categories may be valuable to eligible farmers, we note the RIC was first set up for the purpose of supporting drought affected farmers who may not have access to other financial lines. ABA.

Whilst some suggest these loans are beyond the RIC's original remit, it is important to note that other stakeholders raised interest in the RIC delivering these products. Some stakeholders were also very supportive of the possibility of the RIC offering loans for sustainability or innovation, even though this may not align with the RIC's original remit of having to be in financial need due to an event outside the farm business's control. This is further explored in section 5.3 *A RIC 'Sustainability loan'*.

4.2.1 Better targeting of the intended cohort

The RIC's Operating Mandate outlines the RIC's target cohort. The eligibility criteria set out in the Operating Mandate and the relevant Rules, together with the program guidelines made under those instruments, seek to identify the farm businesses within that cohort. The Tune Review noted that between July 2018 and December 2020, the RIC applied a more liberal approach to the assessment of financial need, and it appears some loans may have been approved to applicants with the capacity to secure additional commercial finance on reasonable terms (Tune 2021). Similarly, it appears a small number of loans were approved and provided to applicants who had little capacity to repay the loans, or limited security for the RIC in the event of a default. In December 2020, responsible Ministers issued a Statement of Expectations (SoE) to the RIC which included the expectation that the RIC ‘manage delivery within available loan funding’ and target loans to ‘businesses in most financial need and viable into the future’ (Tune 2021).

In response to this, the RIC tightened its loan risk assessment profile and subsequent assessment processes (for a detailed discussion see pp 50-55 of Tune 2021). Guidance material has been developed to facilitate accurate and consistent loan assessments. Survey respondents and phone interviewees confirmed that the assessment process is rigorous and requires the provision of detailed documentation. While the majority of the RIC’s loans have only recently moved from interest free to interest payments, there are relatively few loans on its watch list or in arrears. The RIC reports that (as at 31 March 2024) 56 customers (out of 2749 loans) were in arrears by more than 90 days, totalling $1.3 million. Most of these customers are Drought loan customers and 50% of customers in arrears are in approved arrangements. Only one loan to date looks likely to be unrecoverable in full, which also generally supports a sound approach to loan assessment in line with the target cohort.

The RIC uses Credit Risk Grades (CRGs) and Security Cover Grades (SCGs) to appropriately define its risk appetite in relation to lending. The application of these to lending decisions has been refined, working in conjunction with the RIC’s assessment policies and guidance materials to ensure RIC loans are largely within the identified risk appetite (the green shaded area in Figure 3), as well as targeting the intended cohort (represented by loans falling within the black shape in Figure 3). Ninety-eight per cent of committed funds for the total loan portfolio (see Figure 3) and 100% of funds committed by the RIC in FY24 (as at 31 March 2024 - see Figure 4) are within the acceptable risk appetite. This is an improvement from FY23 when 99% of funds committed in the financial year were within the credit risk appetite (RIC 2023a). The few loans that are outside of the RIC’s risk appetite were approved prior to August 2021. The RIC no longer approves loans which are assessed to be outside of the acceptable risk appetite illustrated at Figure 3.

In terms of target cohort (being in financial need, but viable long term), 88% of committed funds for the total loan portfolio appear to be targeted at the right cohort (see Figure 3). This is an improvement since December 2020 when around 30% of approved loans appeared to have been provided to applicants beyond the intended target cohort (Tune 2021). In FY24 (as at 31 March 2024 – see Figure 4), it appears that less than 1% of loans have been approved outside the intended target cohort (as represented by the black shape in Figure 4) with a risk rating of CC (though it is within the acceptable risk appetite).

Figure 3 Approval within risk appetite* credit matrix (committed* funds) – % of total loan portfolio**

Credit Rating	Security Rating: A	B	C	D	E	F	Total
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
B	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%	0.3%
C	0.9%	1.2%	8.1%	0.8%	0.0%	0.0%	10.9%
D	2.0%	4.0%	39.8%	3.9%	0.2%	0.0%	49.9%
E	1.0%	2.1%	28.1%	0.9%	0.0%	0.1%	32.2%
F	0.1%	0.2%	4.8%	0.2%	0.2%	0.0%	5.5%
G	0.1%	0.1%	0.4%	0.1%	0.1%	0.0%	0.7%
H	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.5%
Total	4.1%	7.6%	81.8%	5.9%	0.5%	0.2%	100%^

Figure 4 Approval within risk appetite* credit matrix (committed funds) – FY24 percentage**

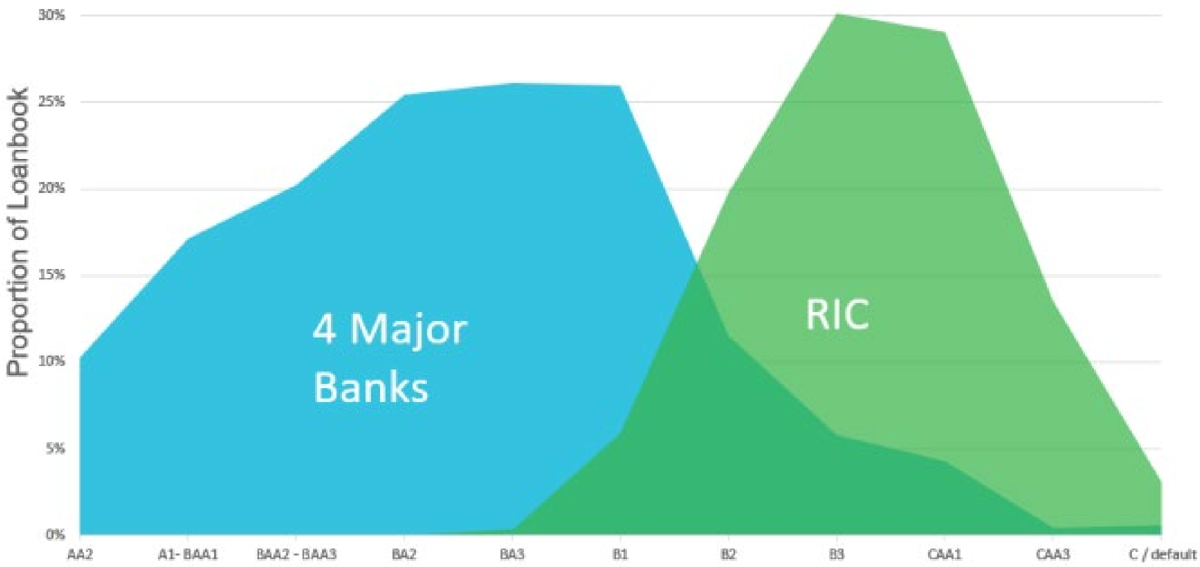
Credit Rating	Security Rating: A	B	C	D	E	F	Total
A							0.0%
B							0.0%
C			0.7%				0.7%
D	4.1%	3.4%	53.4%	3.4%			64.4%
E		0.7%	23.3%	2.7%			26.7%
F		0.7%	7.5%				8.2%
G							0.0%
H							0.0%
Total	4.1%	4.8%	84.9%	6.2%	0.0%	0.0%	100.0%

Source: RIC data 2024
*Credit Risk Appetite is reported twice a year to the RIC Board and re-calibrated for each financial year
**Loan funding is committed once approved and a formal offer made to customer
^Addition of subtotals is greater than 100% due to rounding errors

Figure 5 compares loan book credit ratings between the 4 major banks and the RIC. This data was provided in the RIC's submission to the Review and illustrates that a greater proportion of RIC loan recipients have a higher risk profile compared to other agri-lending customers (RIC 2024a). The RIC also noted in its submission that its modelling demonstrates that a RIC client will improve on average 1 credit grade and 2 security grades at the end of their loan term.

> 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. RIC.

Figure 5 Weighted average of respective corporate & business loan risk profiles of the 4 major banks v. the RIC.



Source: RIC (2024a)

Table 10 shows a comparison of broadacre and dairy farms with RIC loans and those without a RIC loan based on the Australian Bureau of Agricultural and Resource Economics (ABARES) Australian Agricultural and Grazing Industries Survey and Australian Dairy Industry Survey (ABARES 2024a). The data shows that farms with RIC loans had less income than those without RIC loans, and experienced losses in drought years (2018–19 and 2019–20). From 2020–21, farms with RIC loans had an equal, if not greater, farm cash income compared with other farms. Farms with RIC loans were also more profitable than those without RIC loans in non-drought years (2020–21 and 2021–22). This suggests that RIC loans were targeted to farms which experienced a period of financial difficulty but that were able to recover and regain viability. The interest free period and improved climatic conditions would also likely have contributed to the substantial turnaround in profitability. Farms with RIC loans in drought years were significantly larger (in terms of area operated) than farms without a RIC loan. These farm sizes then became only slightly larger in the non-drought years. Farms with RIC loans also had greater farm business closing debt compared to all remaining farms but were able to reduce debt from 2019–20 to 2021–22 while debt for all remaining farms increased over this period.

Table 10 Selected estimates for broadacre and dairy farms (average per farm)

Category	Year	Area operated (ha)	Farm cash income ($)	Farm business profit ($)	Total opening capital ($)	Total farm business closing debt ($)
Farms with RIC loans	2018–19	7,967	116,210	-107,180	8,073,760	1,871,810
	2019–20	6,568	109,050	-163,380	9,155,490	1,976,020
	2020–21	6,552	429,140	320,420	10,657,710	1,930,960
	2021–22	6,524	375,690	448,530	12,441,580	1,746,420
All remaining farms	2018–19	4,752	229,270	14,760	7,967,080	1,253,050
	2019–20	5,876	209,220	1,640	8,148,360	1,133,810
	2020–21	6,311	332,260	219,310	9,333,860	1,246,610
	2021–22	6,490	388,730	306,280	11,578,350	1,322,880

Source: ABARES (2024a).
Note: All financial estimates are expressed in 2023–24 dollars.

Finding D

The RIC is targeting the right customer base.

4.3 Reporting

The RIC provides a series of reports to the department which provide a range of information on loan status and value, product, geography and industry, while also providing a high-level overview of the RIC's loan portfolio. The current reporting framework for the RIC includes:

- monthly reports to the department including a range of information to support monitoring of the loan portfolio, advice to the Minister for Agriculture, and broader government reporting (for example, on drought assistance measures)
- quarterly reports to responsible Ministers (as required by the Operating Mandate and the Rules)
- annual report to responsible Ministers, for presentation to the Parliament (as required by section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act))
- a corporate plan at the commencement of each financial year, setting out objectives for the year (as required by section 35 of the PGPA Act). This report must be provided to responsible Ministers and published on the RIC website by 31 August each year
- advice to responsible Ministers on the outcomes of 6 monthly interest rate reviews.

Of particular interest are the monthly reports provided to the department (in the form of a multi-tab spreadsheet with relevant information) and the quarterly report provided to Ministers (which has a higher production value with information presented more graphically). While these reports are broadly useful in providing visibility of the RIC's activities, the department has raised concerns around the relevance and timeliness of the information provided by the RIC through its reporting – particularly relating to the risks of the RIC's loan portfolio.

As a legacy from the RIC's arrangement with its LSP, monthly reporting is agreed to be delivered on the 15th business day of each month. While the RIC was contracted to the LSP, this report was regularly late – in some cases arriving at the start of the month after the agreed delivery date.

Following the conclusion of the LSP contract, there have been delays due to the RIC performing data validation and implementing work arounds when issues are found, Once the RIC's loan management system has stabilised, this due date could be revisited to ensure the RIC provides reporting to the department in a timelier manner.

Beyond the timeliness of data, there have also been concerns raised regarding the accuracy of some data – with the department noting it relies on its own reporting for reconciled cash figures rather than the reporting provided by the RIC due to discrepancies.

While reporting from the RIC is in some ways extensive, there is a range of data that is either not captured or reported on by the RIC.

For example, as the RIC's portfolio matures and clients from the interest-free period are commencing repayments, loan arrears will become a greater concern in ensuring the RIC is appropriately managing the risks of the portfolio. However, the information provided on arrears in the reports is very high level, and could potentially obscure growing risks within the RIC's portfolio.

- In the monthly report, all arrears (<30 days, <60 days, <90 days and >90 days) are shown in both dollar amounts and the number of loans. The only commentary on these figures is a note reporting how many clients in arrears have approved arrangements.
- The quarterly report tracks changes in arrears over time as a percentage of the RIC's portfolio and the dollar value in arrears. It also provides some commentary on arrears, including potential causes and the types of arrangements put in place to address those arrears. However, the quarterly report only provides information relating to arrears >90 days, noting that loans <90 days in arrears "are an operational matter".

While this gives the department and Ministers some visibility of arrears, detail and analysis is only provided for a subset of arrears, with further detail deemed an "operational matter". Any risk of loan defaults or foreclosures is a matter of concern for the department, Ministers and the government more broadly, and presenting only partial detail of arrears could cause difficulties where an increase in arrears is not sufficiently reported or is reported but inadequately explained. It would be valuable to have arrears (numbers, value, product arrangements) for loans in arrears for <30, <60, <90 and > 90 days plus the rate of transition through these periods reported.

Finding E

The RIC is performing effectively but could increase its effectiveness through comprehensive and systematic data collection and improved reporting.

As loan management becomes a stronger focus for the RIC and government, advice from department(s) to enhance the quality of the RIC's quarterly reporting will play a role in providing comfort that the RIC is undertaking prudent loan management and reducing the risk of a default on loans. As such, in addition to the noted improvements to reporting on arrears, this Review has identified a number of other key data points that it would be valuable to include in the RIC's quarterly reporting to Ministers. These include:

- information on loan demand – including both by applications and dollar value compared to forecasts. Where this demand exceeds internal RIC triggers around staffing and remaining loan funding, this should also be included in the quarterly report
- a summary of loan review activity – the report currently provides a 12 month comparison, but this could be supplemented by additional context and metrics (such as the proportion of files reviewed in a 12 month period, and the level of review which was applied) reporting against triggers for staffing challenges should also be reported
- loans in arrears greater than 30,60, and 90 days and the rate of transition through those time periods. Actions the RIC is taking to ensure payment and arrears against triggers for staffing and recovery challenges should also be reported.
- a “Watchlist” of loans in danger of default, including any action the RIC is taking to manage the loan. This should also include any past reviews of that loan undertaken, including the detail and outcomes of those reviews
- total elapsed handling days – currently the RIC only provides ‘RIC handling days’, which doesn’t provide the Minister with an indication of how long it takes for an applicant to receive their loan. Noting that this time is often outside of the RIC’s control, this information should still be provided to the department and Ministers on a regular basis
- information on loan declines – including a proportion of application declines per program (currently included in monthly reporting) and analysis of the reasons for application declines
- a graph showing settled loans per product per year – while this is less of a ‘quarterly’ metric, it can demonstrate to Ministers and other audiences the activity of the RIC’s different products over different years.

Recommendation 13

The RIC include the following information in its quarterly reporting to responsible Ministers:

- information on loan demand – both by applications and value vs forecasts
- summary of loan review activity, including number conducted vs forecasts, type of reviews conducted and the trigger for that review
- arrears greater than 30, 60 and 90 days, including commentary on the rate at which loans are moving through the arrears time phases, and actions the RIC is taking to remedy arrears
- “watchlist” loans in danger of default and actions being taken
- expected and actual credit losses
- lapsed number of days in total, in addition to RIC handling days, for loan processing
- information on loan declines – both the number and reason given
- a graph showing loans settled per product per year.

Through quarterly reporting, the RIC should also clearly report actuals against forecast and/or triggers for arrears, loan demand and reviews to ensure responsible Ministers have clear forewarning of any potential difficulties or challenges.

4.4 Monitoring and evaluation

The RIC has implemented a few key M&E activities, namely product evaluations, customer satisfaction surveys, and ad-hoc issues-based consultation processes. It has also commissioned two M&E consultancies by Grosvenor Public Sector Advisory and commenced its response to the M&E-related Tune Review recommendation.

The RIC has implemented a M&E program which seeks to undertake regular evaluations of its loan products. To support this, it has retrospectively developed program logics. To date, the RIC has completed three product evaluations – a short-term evaluation of the Drought Loan in August 2022, a medium-term evaluation of the Farm Investment Loan in January 2023, and a short-term evaluation on AgRebuild in July 2023. It has recently concluded a short-term evaluation of the AgriStarter Loan, which is currently being reviewed internally.

The RIC conducts these evaluations internally, which generally have involved a desktop review of relevant legislation and other documents; focus group sessions with RIC employees, the department's RIC Policy Section, the LSP, and on some occasions, RIC customers; as well as some limited data analysis. Generally, the evaluations provide a good overview of the loan product and evaluation methodology. However, they don't contain robust analysis of evidence and data, which can in turn impact the veracity of subsequent findings and relevance of recommendations. This may be due to the absence of relevant data, an issue with which this Review has grappled. The evaluations produce findings and recommendations, generally for the RIC but also for the Australian Government. They are not provided to the responsible Ministers or published on the RIC's website. There is no established process for the recommendations for the Australian Government to be considered, with reports being provided to the department only. The Board receives ad hoc reporting on the progress of implementation of recommendations. The department monitors opportunities for evaluation outcomes and relevant recommendations to be considered by the Australian Government, with government consideration of this Review being the most likely next available opportunity.

In recent years, the RIC has undertaken consultations on specific issues, including a client survey on AgriStarter and its settings in 2021, the RIC's definition of a 'farm business' in its guidelines and eligible industries in 2021/2022, and a farm business loans product consultation in 2023.

Finally, the RIC has contracted JWS Research to conduct annual customer satisfaction surveys over the past four years. The surveys have included RIC-assisted farmers, declined applicants and repaid loan customers. Participants are asked a series of questions on awareness, knowledge, and perceptions of the RIC; experience and satisfaction with the RIC; loan application process; and the impact of RIC loans. As a result, the RIC is building a strong base of customer experience data.

Due to the various challenges associated with establishment, interest free-related demand, and in-housing loan operations, the RIC has found it difficult to appropriately resource and prioritise implementation of M&E. In doing so, it has missed opportunities to embed the necessary data collection, collation, reporting and analysis, as advised by external expertise and requested by the department, to ensure effective M&E can occur. In particular, there is an absence of data to determine if medium to long term policy objectives have been met. The RIC has a Product and Evaluation specialist, whose primary role is to lead loan product M&E activities and reporting. This includes the RIC's internal loan product evaluations which commenced in 2022. Since in-housing, other areas of the RIC are supporting the Product and Evaluation Specialist to collect and report data. This increased focus on M&E should be commended, however, this Review's assessment is that the RIC is only at the beginning of its M&E journey. Of note, this Review has found a substantial history of M&E related work, reviews, and resulting recommendations that don't appear to be completed or progressed as intended, or indeed needed, to support effective M&E of the RIC's loan program. This includes:

- the original farm business loans M&E plan, which was drafted by departmental officers seconded to the RIC during the establishment phase and provided to the RIC Board for consideration in July 2018, prior to any loans being issued. The Board approved the plan in the same meeting and also requested service delivery metrics be added. The Board considered and approved the updated M&E plan in December 2018. It outlined three performance outcomes and around 15 evaluation questions to help determine if the RIC is achieving short-, medium- and long-term outcomes. It appears the RIC did not implement this plan. If it had, it's likely that valuable data and analysis would be available to this Review to answer fundamental questions relating to effectiveness of the loans.
- the ANAO's Design and Establishment of the Regional Investment Corporation Report in June 2020 (ANAO 2020). The report recommended the RIC update performance measures for the farm business loan scheme and implement baseline data and evaluation methodologies as required. The RIC agreed to this recommendation, subsequently engaged expert advice to identify improvements, and reported baseline data in its Annual Report. However, the department is yet to see improved data collection and outputs to support current and future evaluations. This Review notes that the RIC's in-housing and enhanced data collection and reporting under its new IT systems is likely to improve this into the future.
- Grosvenor Public Sector Advisory's Farm Business Loan Program Monitoring and Evaluation Plan (MEP2) in June 2020 provided a more comprehensive M&E strategy than that developed at establishment. The strategy included evaluations at three points over the life of a loan product, which the RIC has adopted. The report also outlined relevant data collection and assessed the RIC's data collection capability at the time. It noted that roles and responsibilities relating to data collection were unclear and widely dispersed across the organisation. Since then, the RIC's data collection is more streamlined, largely due to the in-housing project. However, it's unclear if the RIC is collecting the suggested data.
- the Tune Review's M&E recommendation in February 2021. The review recommended the RIC work with the department on M&E to ensure the impact of RIC loans against government policy objectives can be measured and fed into future policy development, drawing on the RIC's identification of current and future industry needs. The RIC has advised it is in the process of addressing this recommendation, however it is not clear what it has done or will do to complete it.
- Grosvenor Public Sector Advisory's Implementation Evaluation of the RIC Farm Business Loan Program in September 2021. The RIC engaged Grosvenor to deliver a first stage evaluation of the Farm Business Loan Program. The report from September 2021 outlined a suite of outcome related KPIs and associated data needs for the RIC's action, many of which were

flagged in MEP2. It does not appear that the RIC has implemented these KPI and data related actions arising from either Grosvenor report.

In addition to this work, there have been other reviews that relate to data, while not M&E specific, which have recommended the RIC improve its data management.

The slow progress of this work has resulted in little data and information provided to the department and responsible Ministers on the use of public funds. Until very recently, apart from high-level infrequent and ad-hoc point in time snapshots, the department did not know for the loan portfolio the purpose for which loans are sought or used, including refinanced versus new finance loans for working capital or capital expenditure. While the RIC collected this information for individual loans, it was not collected in a reportable format. Information for the whole loan portfolio on specific customer activities and, through verifiable financial data in addition to client feedback, the impact of the loans is not yet available. Given the approach to date for implementing M&E related initiatives has proved broadly ineffective, it is appropriate and imperative the RIC Board takes responsibility to ensure the RIC has effective M&E for the organisation and its loan program. This includes adequately addressing recommendations in a timely fashion; and having appropriate infrastructure and processes in place to extract, collate and report relevant data to accurately inform its own M&E activities, and those of the department and government.

Further to data collection, loan applications are currently the primary source of information about RIC loan expenditure. This includes income, on and off farm assets, and liabilities. However, over a ten-year loan period a lot can change, and these changes are important to document, monitor, analyse and feed back into the policy development process to make improvements where appropriate. There are existing opportunities to improve the updating and collection of new data. The RIC currently conducts lite loan reviews at key milestones for its low-risk customers, and full reviews for its higher risk customers (see section 4.6 *Loan reviews*). These reviews create ready-made opportunities to update and collect new information from customers and should be used to improve the RIC's M&E, including collecting information on loan use, progress in implementing strategies outlined in business plans, and impact of the loan including through verifiable financial information demonstrating an improvement in the strength and profitability of the business. The RIC's new in-housing system should greatly facilitate the collection of loan application and review data from mid-October 2023 onwards. However, the RIC needs to collect data from its entire portfolio to provide a complete picture. This will require extracting information from any previous systems, including pdf documents. The RIC has advised it is already considering how it will undertake this work and aims to complete it by the end of the 2024 calendar year.

It is important that regular product evaluations continue to be undertaken. Thorough assessments with relevant and meaningful data can provide a sound evidence base for future policy development. As previously discussed, the current internal evaluations are light on data and analysis. On occasion, the RIC presents recommendations that are significant shifts from current policy, but don't seem grounded by robust evidence. An independent evaluation would help to review the logic and manage the perceived and/or actual conflict of interest.

The department should support the RIC to undertake its M&E activities by outlining the data it needs to assess the effectiveness and impact of concessional loans as a policy tool for reporting to responsible Ministers.

Where appropriate, key data about the RIC's portfolio and the outcomes of evaluations should be available to stakeholders and the public for their general information, and to help them participate in reviews such as this. This might include drought preparation activities and common types of farm investments. During the consultation phase of this Review, stakeholders commented that they couldn't find information and data to inform their submissions. This lack of transparency subsequently affects the way they can engage with the RIC's products, including to effect change. There is precedent for providing M&E transparency where appropriate. Other SIVs indicated they try to publish whatever possible. For example, the Australian Infrastructure Financing Facility for the Pacific said it publishes information so its performance can be scrutinised. This Review encourages as much transparency in this regard as possible.

Both the RIC and the department will need to be appropriately resourced to undertake these increased functions, wither through existing staff and funding, or new resourcing.

Recommendation 14

The RIC Board ensure the RIC implements effective data collection, reporting, monitoring and evaluation (M&E), including to:

- support appropriate oversight of the RIC's loan delivery and portfolio by the department
- monitor and evaluate the extent to which the RIC and its loans are achieving their intended product, program and policy objectives, including in the medium to longer term
- inform future policy development.

To support this:

- The department, drawing upon existing work, determine the data it needs from the RIC, including to inform an assessment of whether concessional loans, as delivered by the RIC, are an effective policy tool, and provide these requirements to the RIC by 30 September 2024 (i.e. within 3 months of this Review).
- The RIC to collect these data for the entire portfolio of loans, not just new clients, and provide it to the department by 31 March 2025 (i.e. within 9 months of this Review).
- The department to analyse these data and provide findings to responsible Ministers by 31 October 2025 (i.e. within 6 months following receipt of the data from the RIC).

Data collection and reporting should be ongoing and cover the following:

- The impacts of RIC loans on structural adjustment in the agriculture sector, including whether the applicant would have otherwise exited the industry without a RIC loan.
- The reasons for ineligible, withdrawn and declined applications and report this monthly to the department.
- The cause of financial need and purpose for which all loans are sought in a format that is readily reportable. This includes extracting loan purpose information for the entire portfolio, including for existing non-refinanced loans. Loan purpose to be reported to the department on a monthly basis and a summary provided to responsible Ministers on a quarterly basis.
- Confirmation clients have spent loan funds on the intended purpose and report on customer progress in meeting loan objectives. This reporting to be provided to the Board and the department annually.
- Use of customer loan reviews to update existing data and collect additional data on the loan and farm business enterprise in a format that is readily and routinely reportable.

- The action loan recipients take after repaying their RIC loan (for example, refinance, get another RIC or other government-funded loan, no further borrowing). The reporting to be provided to the department quarterly.

Should the RIC not collect and report on this data by 31 March 2025 (i.e. within 9 months of this Review), responsible Ministers should issue a Statement of Expectations to the RIC outlining expectations around the importance of data collection, reporting and effective M&E to justify continued taxpayer funding of RIC loans.

In addition, the RIC commission independent evaluations to inform its M&E program, and provide these evaluations to the department, and publish key data about its loan portfolio on its website regularly.

4.5 Drought management plans

4.5.1 Purpose and criteria

Evidence suggests that farmers who enter drought with a well-considered and fit for purpose plan on how they will manage, are more resilient (Day, 2019).

For this reason, DMPs have been a key part of the RIC's Drought Loan eligibility criteria since commencement. A DMP must outline the activities a loan will be spent on. As required by the RIC's Drought Loan Guidelines, the DMP must also include drought preparedness, management, and recovery activities a farm business will undertake. This criterion is consistent with the government's overarching drought policy objective of building resilience to drought by enabling preparedness, risk management and financial self-reliance. DMPs were a requirement in the pre-RIC Commonwealth drought concessional loan schemes. They were supported by industry, state governments, and delivery agencies during consultation on the RIC's initial Drought Loan product during the RIC establishment phase. They are also consistent with the NDA principles to support businesses' risk management and the Australian Government's current and proposed Drought Plans.

4.5.2 Current approach and stakeholder feedback

Stakeholder feedback from this Review was very positive about the need for DMPs. The NFF commented that DMPs are sensible and align with requirements to access government programs, even though farmers can sometimes find it difficult to quantify the unpredictability that comes with farming. The RFCS stated developing a DMP gives clients the time and space to think about their current situation and genuinely consider what they have been doing and what they could do better. GrainGrowers stated that DMPs force conversations about decisions that may need to be made and require farmers to take the planning process seriously. A RIC employee noted that DMPs absolutely help farmers and, while they might change their plan, they won't panic. The WA Rural Business Development Corporation (RBDC) indicated DMPs are important and will become critical in the long term as we experience greater variability in the climate.

The RIC currently provides a DMP template which seeks input on drought preparedness, management, and recovery. The section on drought preparedness requires information on steps the farm business has or will take to prepare for the effects of drought and, where possible, evidence these activities have been completed. Example activities provided include use of weather and seasonal forecasting products, proactive water management measures, water efficient cropping, and stock management strategies. Similarly, the sections on drought management and drought recovery require information on activities the farm business undertakes and/or is likely to undertake to manage through and recover from drought, respectively. The RIC also accepts DMPs on other templates or broader business plans with drought management content.

In addition to providing guidance on the DMPs, the government expects the RIC to assess this eligibility criterion adequately and ensure that all Drought Loan recipients have an appropriate plan in place, including to manage risk. Accordingly, the RIC was funded to undertake loan assessment, which includes this function. However, as the RIC openly admits and this Review has found, the RIC does not do this, nor does it contract a third party to undertake an assessment of the adequacy of DMPs. The RIC advised it does not have the expertise, for example in agronomy, nor the required resources. Further, the RIC does not see it as its role to assess applicant DMPs, rather considering its assessors' role to be one of primarily reviewing the financial information provided by clients in their application, noting their credit assessment expertise. As a result, the detail and quality of DMPs vary across clients, and the RIC advised it has not declined a loan because the DMP 'is not up to scratch.' Stakeholders seemed aware of the RIC's laissez faire approach to DMP assessment. The NFF stated that further consideration should be given to whether the RIC's assessment of DMPs is sufficient. The RFCS suggested the RIC DMP process seemed to be more transactional than a holistic exercise. Another stakeholder close to the RIC suggested the RIC regarded the assessment of DMPs as a box ticking exercise.

DMPs are an important tool for farmers to capture their intentions and decision points. They could be considered an extension to the long-term viability test (another RIC loan criterion) because their existence (and quality) can provide an indication as to the extent of detailed thought a farm business has given to their future, given our changing climate and the inevitable and recurring nature of drought across much of Australia. The absence of a quality DMP is an unacceptable risk for the government. Failing to assess this eligibility criterion appropriately also sends the wrong message to applicants, undermining the government's intent to build resilience to drought through enabling preparedness, risk management and financial self-reliance.

Not only does a farm business need a quality plan in place, but stakeholder feedback also indicated it needs to be regularly reviewed to ensure it remains fit for purpose. The RFCS said that if a DMP is developed and never used or reviewed, it's a pointless exercise. Another stakeholder drew comparisons to a state-based concessional loan provider that had a follow-up process that included a farmer survey to determine if they had met their goals and culminated in an internal report with useful and relevant program data.

The RIC does not review the plan to determine its continued appropriateness or require that the client do so. It does not record and track progress against identified activities. Much like the previous M&E discussion, loan review meetings provide readymade opportunities for the RIC to have meaningful discussions with its customers about the DMP currently in place, its appropriateness given climatic forecasts, progress against current activities, implementation of outstanding and new activities

4.5.3 Alternative format

With reference to the DMP format, stakeholders were very supportive and complementary of the FDF's FBR Program business plans as a potential alternative plan due to their holistic approach and greater focus on strategic interventions. The FBR Program is implemented via state and territory governments to give farmers the tools to manage the uncertainties and complexities of farming including strategic business management, farm risk management, decision-making, natural resource management, and personal and social resilience. A key output of the program is a detailed Farm Business Plan which, also considers drought and, in many cases, broader climate risk. While Farm Business Plans vary in format and content, consistent with the intention for each farm business to develop a tailored plan that fits their circumstances, the FBR Program provides related learning and development along with the opportunity for professional support and review which adds further assurances to the suitability of resulting plans. A RFCS service provider advised that its service is putting a lot of effort into Farm Business Plans and given the crossover with DMPs, Farm Business Plans could provide a good alternative for RIC customers. The NFF stated creating a link to the FBR Program would make a lot of sense.

4.5.4 Data capture

Consistent with this Review's focus on the need for timely and accurate data, the RIC should not only assess, review, and seek client updates of DMPs, it should record and report on this work to its Board and the department. This will further support M&E efforts by gaining information on the effectiveness of the DMP criterion, provide insights on how the RIC can refine guidance to applicants and produce insights for government into farmer resilience and approaches to drought.

The RIC is aware it needs to improve DMP quality and reporting. The RIC's short term evaluation of its Drought Loan recommended it 'provide applicants with clearer direction on what is required… to avoid disparity in quality' and 'develop a clear framework to identity and collect critical data points which demonstrates the implementation activities listed in DMPs'. The recommendation has not been completely addressed yet. However, the RIC has identified actions including a new DMP template, providing additional training to its program delivery staff, reviewing and updating all DMP-related parts of the Drought Loan application, and to develop DMP data collection requirements to support Annual Review processes and incorporate these into its in-housing project. The bulk of the in-housing process was completed in October 2023, however the data capture elements are yet to be incorporated. The RIC should be commended on identifying these areas for improvement. This Review's recommendations should complement activities the RIC has already sought to undertake and is progressing.

4.5.5 Application to AgriStarter loan

DMPs are currently only required for Drought loans. However, drought planning is useful for all farmers. This would be particularly so for AgriStarter applicants who may be newer to the industry, and therefore potentially more vulnerable to climatic changes and variability and, as such, can be higher risk RIC customers. AgriStarter applicants are already required to have a business plan as part of their application; a section on drought management planning would enhance their preparedness and establish the discipline of appropriate planning early in their farm business ownership. As for Drought Loans, AgriStarter applicants should have the option of providing a Farm Business Plan where it provides the same required information as a DMP, and the plan should be assessed comprehensively and thoroughly.

Recommendation 15

The RIC, as a priority, comprehensively assess Drought Management Plans (DMPs) as one of the requirements (like credit and security grades) of the application process, including accessing appropriate expertise to do so if needed.

Where the customer has participated in the Farm Business Resilience (FBR) Program and produced a Farm Business Plan which captures the same required information, the RIC accept the Farm Business Plan as meeting the DMP requirement.

The RIC review existing customers' DMPs, to ensure they remain fit for purpose, and seek updates from customers on their implementation, as part of annual and other reviews, and report outcomes to the Board and the department on a 6 monthly basis.

The RIC collect and record data on existing and future DMPs in a reportable format to be provided to the department every 6 months. Data to include:

- the number of plans, with a breakdown of how many are Farm Business Plans
- the number of plans that meet an appropriate standard
- the number of plans that do not meet an appropriate standard and require follow-up and re-work by the applicant or client
- the strategies farmers have or intend to implement and annual updates on their implementation and effectiveness.

The RIC to implement comprehensive assessments and commence reviews and seeking of updates within 6 months (i.e. by 31 December 2024) and provide reporting to the Board and department within 13 months (i.e. by 31 July 2025 – including data to 30 June 2025).

The RIC update its DMP requirements to include and focus on strategic drought interventions.

The RIC require a DMP or Farm Business Plan be provided by AgriStarter loan recipients as part of the application process. The Plan is to be assessed comprehensively.

The RIC to update DMP requirements, accept Farm Business Plans, and require DMPs or Farm Business Plans of AgriStarter applicants within 4 months of this Review (i.e. by 31 October 2024).

The RIC conduct an internal audit of its DMP assessment process, and report on the audit's findings to the Board and the department.

4.6 Embedding climate change risk

The Review was tasked to explore opportunities for the RIC to appropriately support the agriculture sector to meet current and future challenges in line with government policy objectives. In its Annual Climate Change Statement to Parliament, the government committed to increasing Australia's capacity to adapt to the climate crisis (Bowen 2022). In 2023, the government agreed to the Climate Change Authority's (CCA) Annual Progress Report recommendation to 'secure agreement with all levels of government on a framework to ensure that climate change risk and adaptation are factored into all policies and programs and their implementation' (DCCEEW 2023a). To meet this recommendation, the Department of Climate Change, Energy, the Environment and Water (DCCEEW) is developing a National Climate Risk Assessment and a National Adaptation Plan (the plan). Both are due to be delivered by the end of this year. Together, they aim to understand the risks and impacts to Australia from climate change and provide a framework to drive change.

A key objective of the plan is for climate adaptation to be considered everyone's responsibility – both the private and public sector – and that all government programs are reviewed to determine the climate risks and how they are best managed. For the RIC, this could mean reviewing whether its loan program and application process supports RIC farm businesses to be more adaptable to climate risks. Recommendation 15 (see section 4.4 *Drought Management Plans*) supports the intention of the National Adaptation Plan by strengthening the assessment of DMPs. This will support farm businesses with Drought loans to implement meaningful changes and investments throughout the loan period to improve their long-term resilience to drought, regardless of the purpose of the RIC funding. Recommendation 21 to pilot a RIC Sustainability loan (see section 5.3 *A RIC Sustainability loan*) could also further support the intention of the National Adaptation Plan by directly funding farm businesses to adapt their practices to build resilience to a changing climate. There may be further opportunities to consider in the future for example, by considering how climate risk is factored into a business's viability assessment or into subsequent lending decisions. This is likely to depend on the availability of long term national-level climate vulnerability data for commodities, which is currently unavailable.

The Australian Government is also improving the way the APS identifies and manages its climate risks and opportunities by integrating consideration of climate risk into policy development and decision making. DCCEEW has established a capability uplift program – the Climate Risk and Opportunity Management Program – to support public servants to develop the skills required to identify and manage climate risks and opportunities relevant to their work (DCCEEW 2024a). The Program includes guidance documentation to assist Commonwealth entities to undertake climate risk and opportunity assessments, online learning and development modules to increase knowledge and maturity across the Commonwealth and an online Climate Risk Digital Tool – which guides users through undertaking a climate risk and opportunity assessment. It is an expectation of the government that climate risk and opportunity management will be incorporated into decision-making processes, business as usual enterprise risk management, and key corporate documentation, and that all entities are conducting organisation-wide climate risk assessments.

Finance is leading the development of standardised, internationally-aligned climate-related reporting requirements for Commonwealth entities and Commonwealth companies under the Commonwealth Climate Disclosure Reform (DOF 2024). Departments of state will be required to publish limited climate disclosures within FY2023-34 annual reports as a pilot. SIVs, alongside the largest Commonwealth entities, controlling corporations under the *National Greenhouse and Energy Reporting Act 2007*, and those that have responsibility for climate change or climate risk policy design or implementation, will be required to commence climate disclosures in FY2024-25 annual reports. The climate risk assessments conducted under the Climate Risk and Opportunity Management Program will provide entities with the tools required to disclose their climate risks and opportunities within their annual reports, when these requirements become mandatory.

While the specific reporting requirements are still being finalised (expected mid 2024), it would be timely for the RIC to start considering their implications, including for its resourcing and capability planning. The Commonwealth Climate Disclosure requirements will align with the climate disclosure standards set internationally by the International Sustainability Standard Board and nationally by the Australian Accounting Standards Board. However, there will be specific tailoring to account for the differences in the structure, objectives and functions of Commonwealth entities and Commonwealth companies (DOF 2024). It is worth noting that all non-corporate and corporate Commonwealth entities have been required to publicly report on scope 1 and 2 and operational scope 3 emissions since FY 2022-23 annual reports (DOF 2023), which the RIC included in its 2022-23 annual report. It may be helpful for the RIC to work with the department on identifying, assessing and managing climate risks and opportunities of the RIC concessional loans program – given responsibility for the program is shared. When identifying possible actions to factor climate risk into the program, minimising applicant burden should be considered.

Recommendation 16

The RIC work with the department to identify how the RIC can factor climate change risk and adaptation into its loan program, particularly its loan application assessments and portfolio reporting, including identifying how the commercial banking sector takes this into account.

4.7 Loan reviews

As stated in section 8 of the RIC Act, in administering farm business loans, one of the RIC's functions is to periodically review loans provided to clients. Further, as directed under the Operating Mandate, the RIC must undertake all aspects of its loan management in a prudential manner to minimise the risk of default. For applications that are approved, this entails ensuring that they are appropriately documented, and risk is appropriately managed throughout the life of the loan.

Previously, ongoing monitoring and review of the RIC's loans was intended to be undertaken by a contracted LSP. Under this model, it was envisaged the LSP would undertake an annual review of a client's loan to be signed off by the RIC. The review was either streamlined or subject to a 'full review', dependent on the risk of the loan and/or the number of years the loan had been in place. However, though this function technically sat with the LSP, during the early years of the RIC, loan reviews were not completed. In general, reviews were not relevant until at least 12 months following the settlement of a loan, with the first settlement being in early 2019. Though many approved loans stipulated requirements that they be reviewed every 12 months, or some even every 1, 3 and 5 years, it is unclear if these went ahead. This failure to undertake reviews was likely the result of the backlog caused by the interest free period, given the RIC had other priorities at that time.

In June 2023, the RIC terminated its contract with the LSP and moved these functions in-house and as such, the activity of ongoing reviews of client's loans now sits directly with the RIC.

The following sections explore how the RIC is executing this function.

4.7.1 Current RIC practice

Type of review

The RIC currently undertakes two types of reviews, a 'Lite Review' or a 'Full Review'. The type of review to be conducted is in accordance with the client's/borrower's assessed CRG and SCG. Further information on how a client's CRG and SCG are determined can be found in Appendix M. Dependent on a client's CRG and SCG they are further classified as either 'low', 'medium' or 'high' risk (as detailed in Figure 6). Once the borrower's risk category is identified, the ongoing type of review to be conducted is determined.

In the quarterly report to Ministers for the Oct 2023 – Dec 2023 period, it is noted that approximately 97% of reviews conducted by the RIC were ‘Lite’ Reviews.

Figure 6 RIC Risk Category Chart

		Security Cover Grade (SCG)						
		A	B	C	D	E	F	U
Credit Risk Grade (CRG)	A	Low	Low	Low	Low	High	High	High
	B	Low	Low	Low	Low	High	High	High
	C	Low	Low	Low	Low	High	High	High
	D	Low	Low	Low	Low	High	High	High
	E	Low	Low	Low	Medium	High	High	High
	F	Medium	Medium	Medium	High	High	High	High
	G	High	High	High	High	High	High	High
	H	High	High	High	High	High	High	High

In accordance with this procedure, if the client/borrower is assessed as ‘low’ risk, barring information being brought to the RIC’s attention that may materially affect the associated assessed risk of the client/loan, such as not meeting repayment commitments or a request for variation, a ‘Full Review’ essentially does not need to be conducted throughout the life of the loan. Instead, the client/loan would not require a review until a milestone event occurred (e.g. conversion from interest only payments to principal and interest payments). This Review could be a ‘Lite Review’ which entails a conversation with a client to look for ‘red flags’ with no additional information required, meaning no reassessment of the Credit Risk Rating is undertaken (at present, only high risk clients are required to have a review at least annually). Alternatively, a ‘Full Review’ would entail a full, fresh assessment and re-origination, covering all material credit risk arrears to the Delegated Lending Authority (DLA) holder’s satisfaction. At a minimum, the type of information required would include updated financial statements (all entities), stock schedules, updated Year in Year out forecast, details of any material changes to farming operations, updated statement of position, Australian Taxation Office (ATO) portals, potentially valuation of loan security, and more. Though the type of review conducted is determined by the risk category assigned to the client/borrower and ‘lite reviews’ may be sufficient in some cases, this Review notes that to manage the ongoing risks, the RIC should consider completing ‘full reviews’ for all loans where possible, at appropriate intervals.

There is an argument to be made that in the second half of the 10-year loan, where principal repayments are required, that this offers a form of quasi review of the farm business. To some degree this is true, in that principal payments being met implies sufficient cashflow to reduce debt, and if payments are not being met, then there is not sufficient cashflow available. However, if payments are being met, there is still a risk that the farm business is meeting principal repayments by selling off farm assets or relying on cash injections from other lenders or family to meet those repayments. While debt reduction does reduce risk to the Commonwealth, an unsustainable strategy could lead to other problems for the client and the Commonwealth further down the road.

This Review considers that the decision to undertake no annual reviews throughout the life of the loan does not necessarily sufficiently manage risk, and carrying forward a credit risk rating without reassessment is considered inadequate. Though the RIC has stated that with full loan variations, it is expected that each loan will be looked at during some point of the life of the loan, policy needs to specifically state this to ensure adequate risk management as not all variations necessitate a full review of a client's financial position. The client's risk rating should determine the intensity (lite or full) of the review, but it is important that a review occurs annually and 'Full Reviews' are conducted at appropriate intervals throughout the life of all loans. Consultation with other entities with similar functions, such as QRIDA, also explored this issue and it is understood that all of QRIDA's loans undergo annual reviews, with higher risk loans generally having a management plan to lower their risk and/or assist the borrower with options.

Frequency of reviews

The decision by government in November 2019 to provide interest free terms for RIC loans generated a significant backlog of applications to assess, and subsequently approved and settled loans on the loan book to manage. It appears this in part led to the RIC implementing its 'milestone' approach to reviews (rather than annual reviews), though the RIC maintains the backlog was not an influence on its approach to developing its Loan Review policy. The milestone approach has continued (despite there no longer being a backlog).

The RIC's 'Review Policy' dated January 2024, details the RIC's current milestone/risk-based approach to loan reviews. This approach consists of 'triggers' for reviews:

- '<u>Material Events</u>' - The RIC becomes aware of information that may materially affect the associated assessed risk of the client/loan and a review is triggered; or
- <u>'Milestone Events'</u> – A loan is converted, triggering a review (e.g. conversion from interest-free to interest-only payments after two years), or
- <u>'Annual Events'</u> – High-risk clients should be reviewed at least once annually.

The RIC has advised that, in addition to these triggers, it maintains other levels of account management through monitoring of account conduct (i.e. whether repayment commitments are being met), and through variations (about one third of the portfolio annually) that, in many instances, require a full assessment. The RIC considers its review process, on a risk-based basis, is designed to capture those customers that have not required any assessment through these events.

The RIC is not a bank and does not have transaction and/or overdraft accounts with its clients which would give a bank more visibility of a farm business's financial operations and whether there are any areas for concern. While the RIC notes that a customer's account conduct is essentially assessed and managed in line with its Arrears Policy on a monthly basis, it is possible that the RIC's first milestone event triggering a review is when a client switches from interest free terms to interest repayments. This means that there is potentially and quite likely to be a two-year period where the RIC has no contact with its client, including no need for the client to make any payments. Even with a client making interest only repayments, in the event of no information on changed risk of the client, it could be 5 years before the RIC reviews the loan. As previously noted, the RIC reports that variations to loans means that most loans will be reviewed sometime during the life of a loan, however this is not a policy certainty. While the RIC continues with risk-based/milestone reviews, the RIC should also ensure that all loans are appropriately reviewed at least annually.

As outlined in the 'Review Policy', a DLA holder (decision-maker) appears to have considerable discretion in providing 'exceptions' to client/loan review timeframes. For example, the policy states that review dates can be extended at the discretion of the DLA holder outside of instances where a forthcoming milestone is due, or a variation is pending. A maximum timeframe that a review date can be extended is not stated, and as such, this provides a rather grey area wherein a review timeframe could be extended for a seemingly unlimited period. Further, the policy also dictates that a 'strategic program management decision' can be made to (temporarily) suspend reviews and/or revise 'Full Reviews' to 'Lite Reviews', with the intention of giving the RIC flexibility to proactively target risk in the loan portfolio, e.g. areas affected by natural disaster Although circumstances may require the RIC to amend policies, there seems to be no justification or management explanation within the policy as to how risk to the Commonwealth is handled when loans identified as 'high' risk are not subject to loan reviews in-line with the policy, based on a written policy exception that a 'strategic management decision' can be made to suspend them (for an unspecified amount of time).

4.7.2 Sufficient security

Among other things, loan reviews can be used to determine if sufficient security remains available to the RIC, for example, if needed in the event of a default. From a risk perspective, this is of particular importance for monitoring the overall loan portfolio when there may be a number of loan recipients who are experiencing drought, and where it's possible asset values could decrease. In addition, particularly for riskier loans, regularly checking that income will be sufficient to make loan repayments is a central part of prudent loan management by ensuring the ongoing capacity of the business to meet the terms and conditions of the loan.

As part of the initial assessment of a RIC loan application, sufficient security to secure the loan must be provided. This assists the RIC to mitigate against loss, should recovery and foreclosure action occur. As part of assessment, all security values are subject to discounting the market value of the security type/asset class (e.g. farmland, residential property, livestock, etc.) through applying an 'extension ratio' that is based upon the relative risk associated with the particular asset class or security type, to generate a Lending Value (LV) (Box 4). Then, the quantum of LV available to the RIC is calculated against the total debt position to generate a Loan to LLVR which determines the SCG in relation to the loan, reliant on the security. Based upon the LLVR and the SCG, the RIC can then determine if acceptable security is provided to approve the loan. This procedure is an effective method of determining the relative strength of the RIC's security position and in turn, its capacity to mitigate the risk of loss.

It is worth noting that some industries, such as the aquaculture industry, may have issues with securing a RIC loan due to the nature of their assets being considered insufficient as security. For example, one stakeholder from the tuna industry noted that fishing quotas cannot be used as security since fishers do not technically own the quota – they own the licence which is issued by government. Likewise oyster leases owned by governments make it challenging for oyster farmers to demonstrate sufficient security.

Box 4 Example of Lending Value Calculation

A farmer has farmland with a market value (MV) of $1 million and a $350,000 loan with a commercial lender.

The Farmer then approaches the RIC for a $350,000 loan.

Total debt would be $700,000.

The RIC has a policy of lending 70% against farmland, therefore the MV of the property - $1 million = Lending Value (LV) of $700,000.

Available lending value (ALV) = $700,000 LV – first lender debt ($350,000 commercial debt)

ALV = $350,000.

Loan to Lending Value Ratio calculation (LLVR) = (total debt position ÷ LV) x 100

LLVR = $700,000 ÷ $700,000 x 100 = 100% LLVR (sufficient security)

During drought, farm businesses can be subject to a myriad of issues that decrease the value of the security type/asset class provided upon initial assessment of security. Loan reviews provide the RIC with a timely opportunity to ensure that the LLVR and SCG for higher risk loans are reviewed and recalculated at relatively regular intervals, to ensure that sufficient security is available, should it be needed in the event of default.

As per current RIC policy, a review of the of the security of all clients would not be necessary every year. This Review understands that generally, commercial bank credit policies tend to require security revaluations at a minimum of every 3 years or when other significant loan increases occur (if less than 3 years). The RIC may consider adopting a similar practice to assist with prudent risk management of its loan book, for example, by ensuring all loans undergo a 'Full Review' at least once every 3 years.

4.7.3 Benefits of annual loan reviews

As well as better managing the risk of the loan portfolio and utilising the funding provided to the RIC for such a purpose, annual loan reviews also provide ready-made opportunities for the RIC to collect additional and updated information from customers on loan use, business plans etc, and do so over the life of the loan to build a detailed picture of the use and impact of funding.

The idea of requiring annual reviews of all loans in the portfolio also ensures that risk is appropriately managed throughout the life of the loan and subsequently, financial risks to the Commonwealth are minimised. For example, they provide an opportunity to understand or forecast any repayment difficulties and to work with the client on minimising losses and improving customer outcomes. One interview respondent compared the relationship with their commercial bank to the relationship with the RIC, noting the lack of opportunities to proactively discuss repayment capability with the latter.

Recommendation 17

The RIC implement and record data from annual reviews for all loans in the portfolio, in addition to any milestone-based reviews. The RIC continue to use risk-based assessments to determine 'lite' versus 'full' reviews.

The RIC ensure management plans are in place for higher risk loans and make this information available to the department.

Chapter 5 – Future operations and activities

In considering the scope of the RIC's activities after 30 June 2026, this Review has considered stakeholder feedback and related matters, such as having a clear purpose for the RIC, as discussed in Chapter 1. The Review finds that there is merit in the government considering the RIC's delivery of some new loan products in due course. However, prior to considering new activities for the RIC, the RIC needs to demonstrate capability in effectively assessing all criteria for its existing loans, including drought management plan requirements, and implementing a robust M&E program (see section 4.3 *Monitoring and evaluation* and section 4.4 *Drought Management Plans*). This chapter discusses how the RIC should operate in terms of its funding model. It also notes some proposed new loans that the Review considers not worth pursuing, or requires further investigation, as well as some existing functions in the RIC's legislation that do not serve a useful purpose and should be removed.

5.1 Funding model

5.1.1 Balance sheet

The RIC's loan portfolio is currently accounted for on the department's balance sheet. The RIC is funded by an appropriation through an Act of Parliament and any funding received for administrative expenses must only be used for that purpose.

The RIC is responsible for ensuring that it collects all loan repayments when they are due and, as per the requirements set out in the Operating Mandate and Rules, these repayments are then remitted to the government as soon as reasonably practicable. The RIC is also required to report on repayments in an accurate and timely way, as prescribed by the legislation. Further, as a CCE, the RIC, at present, cannot recognise monies collected on behalf of the Commonwealth, as the authority to do so is not present in its legislation (this is a requirement under the Financial Reporting Rule).

This arrangement means that the RIC does not bear the risks and rewards of ownership of these assets (being loan funding and loan receipts) and the risk of loss sits with the department, rather than with the RIC. Subsequently, the loans provided by the RIC, as well as the associated interest and principal transactions, are accounted for in the administered accounts of the department, i.e. the loans 'sit' on the department's balance sheet, not the RIC's.

From the department's perspective, this situation has both benefits and challenges. The benefits include the financial accounting and reporting requirements of the department mean it necessarily requires, and has access to, information about the RIC's loan portfolio. This provides visibility to support monitoring of the portfolio. A major challenge, or downside, is that the department bears the risk of loss but has no direct control over, nor responsibility for, how the RIC originates or manages its loans. As an independent entity, this is the responsibility, and indeed a core function of, the RIC. The RIC is staffed with appropriately skilled staff to undertake this function. Section 11 of the Operating Mandate outlines the Loan management requirements for the RIC, including:

1) The Corporation must undertake all aspects of its loan management in a prudential manner to minimise the risk of default.

2) The Board must ensure that prudential and arrears management policies and procedures are developed and applied by the Corporation. The Board must ensure at all times the loan management, arrears management, recovery action, foreclosure arrangements, waiver of debt, write-offs and dispute/complaints handling are undertaken in accordance with those policies and procedures.

In line with the Operating Mandate, despite bearing the risk of loss, the department (unless it specifically requests it) does not have visibility of, input to, or approval of, the RIC's loan management policies and procedures. Nor does it have visibility of how the Board ensures loan management and related matters are undertaken in accordance with the RIC's policies and procedures as required by the Operating Mandate. In effect, the department is a by-stander, bearing the ultimate risk for something it doesn't control.

In terms of further challenges, the department has noted some difficulties and delays in acquiring the required data from the RIC to accurately report on its concessional loans. Similarly, both the RIC and the department have acknowledged that functions related to data provision and financial reporting that are outlined in the Memorandum of Understanding (MoU), are not being performed by the RIC.

To help address these issues, this Review recommends that consideration should be given to amending the legislation to allow the loan portfolio to sit on the RIC's balance sheet. This would better align risk, reward and responsibility for origination and ongoing management of the loan portfolio, assigning these to the most appropriate entity – i.e. in this Review's opinion, the RIC. To enact such a change and allow the RIC to report on its books (either solely or under a dual reporting arrangement), among other things, would require the risks and rewards of ownership to be addressed in the Operating Mandate. This could potentially be achieved in a number of ways, including through the Operating Mandate providing for the RIC to use repayments of principal for further loans (i.e. not requiring loan funds to be remitted back to the Official Public Account (OPA) on receipt). Rather than drawing down additional funding, the RIC would benefit and incur risk from the receipt of repayments in the pursuit of its objectives (i.e. to provide further loans with a risk of providing fewer loans if current loans default). This option has also been explored in recommendation 19 pertaining to the RIC adopting a recycled funding model.

In any case, further action by government is required to ensure any and all legislative amendments required to enact such a change are appropriately considered and deemed suitable to support the RIC's ongoing operation and policy objectives.

Recommendation 18

The government consider having the RIC's loan funding sit on the RIC's balance sheet, rather than the department's balance sheet.

5.1.2 Recycled loan funding

The RIC's current loan funding, totalling $4.075 billion, is profiled to conclude on 30 June 2026. $3.3 billion has already been drawn down for settled loans (as at 31 March 2024). Currently, annually appropriated loan funds are drawn down, as needed, from the OPA and transferred to the nominated RIC account via the department, for pending loan settlements. Loan repayments (and interest payments) are then repaid to the OPA via remittance to the department, within a few days of the RIC receiving the funds. The current annual appropriation model provides a level of certainty given the funding remains available for expenditure for up to three years, or until another government decision is made, rather than being reviewed each year. A recycled funding model could be more appropriate if the government agreed that the RIC should continue as a mechanism for delivering concessional loans on an ongoing basis, rather than seeking to have programs of a finite duration which are reviewed in advance of closing.

A recycled loan funding model under which, for example, loan (principal) repayments are returned to and retained by the RIC to be used for future concessional loans, could provide a more sustainable funding model. Recycling funding would minimise the need for the Minister for Agriculture to seek further appropriations for additional loan funding, including beyond 30 June 2026. It would also provide primary producers with certainty about ongoing access to support including through inevitable droughts, which will likely be more frequent and of greater severity (Lehmann 2023). In addition, having loans on the RIC's balance sheet rather than that of the department (see section 5.1.1 *Balance sheet*), would create a clearer link between responsibility, including the RIC's risk management of the loan portfolio, and reward, through the RIC's 'ownership' of the receipt of loan repayments.

A number of industry bodies were supportive of a recycled funding model.

> A sustainable funding model will ensure the RIC's existence into the future, provide the industry with long-term policy certainty in the face of an increasingly challenging operating environment, and continue to support the long-term profitability of Australia's agricultural production. NFF.
>
> A revolving facility could be established through the retention and reallocation of repaid loan funds. This should in effect, provide a cost-neutral model to government whilst ensuring the long-term existence and viability of this valuable service. Queensland Farmers' Federation.

In its submission to the Review, the RIC supported a recycled funding model, highlighting the economic benefits the RIC's concessional loans have on regional communities and the certainty this model would deliver (RIC 2024a). The recycled model the RIC sought involved the re-use of loan funds following principal and full loan repayments. The RIC also noted the model would reduce administration efforts and costs for government and provide a readymade practical funding mechanism for future droughts.

$281 million in loan funds (311 loans) have been repaid (as at 31 March 2024) and returned to the Australian Government. The RIC estimates that by 30 June 2026, a total of $869 million will have been repaid. This projection of funds repaid at July 2026 equates to approximately 3 years of loan funding at current levels (with $858 million in loan funding provisioned between 2023–24 and 2025-26). The RIC's modelling assumes that repayments will occur either ahead of time or as scheduled principal repayments. Further modelling would need to be undertaken to determine the quantum of any estimated shortfall in funds should a significant event such as a severe drought occur. This may result in a number of existing loan payments being delayed, while demand for new loans increases. While the RIC can reduce the level of its lending to some extent, it is essential that the RIC have sufficient funds to assist the sector to respond to particularly adverse events like a severe drought, as this is its fundamental purpose.

There are a number of different ways a recycled loan funding model could be implemented. For example, principal loan receipts could be held in a special account to be used for future loans rather than remitted back to the OPA, or the RIC could be given an annual appropriation equal to loan receipts from the previous financial year. This Review does not seek to prescribe a particular recycling mechanism, rather an appropriate mechanism for implementing a recycled funding model should be determined following relevant modelling, and based on the government's objectives for the RIC.

Importantly, the loans should remain concessional and over-arching responsibility for setting interest rates, including the administrative margin component, should remain with the government, as per the current legislative framework and interest rate methodology (as recommended in Chapter 2.5 *Interest Rate*). Continuing annual appropriations for operational funding has the benefit of maintaining government scrutiny of, and agreement to, the RIC's operational costs which are charged to farmers through the RIC's interest rate/s. A recycled loan funding model could also be accompanied by safeguards such as the government requiring the RIC to set aside a certain amount of capital in case of a severe drought where there is a spike in demand. Further, Ministers could direct the RIC (e.g. through a SoE) to prioritise the assessment and settlement of drought loan applications at such a time, over other loan products. There is also a risk that if, for example, a higher than anticipated number of RIC loans are not repaid or are not repaid on time as expected, that the sustainability of a recycled funding model could be eroded. Regular reporting including tracking of demand, arrears and reviews relative to escalation triggers should be undertaken to provide the government with appropriate warning (see section 4.2.1 *Reporting*). In extreme circumstances such as a severe, prolonged drought affecting much of the agricultural sector, additional funding requests may need to be considered if demand and loan repayments cannot be managed within the loan funding available. Any loan funding adjustments would need to be approved by the government through usual budget processes.

Historically, the pre-RIC loans, including schemes supporting farmers in times of drought did not exceed the funding allocated (see Appendix N). The RIC was provided with additional funding for drought loans ($2 billion in loan funding in 2020–21, and an additional $50 million in operational funding over 4 years from 2020–21). However, this could be attributed to the interest-free terms offered as discussed in section 2.4 *Interest free loans*.

A reliance on loan repayments to fund future loans would give the RIC greater ownership of both the risks and rewards inherent in loan origination, ongoing management to repayment and, as needed, recovery. Once the total pool of appropriated capital is loaned to clients, further loans would become dependent on existing loans being repaid. The RIC would not have to seek additional loan funding from government through the Minister for Agriculture except, possibly, in a particularly severe drought (or other major event) that cannot be managed within the existing arrangements. Having a departmental representative on the board (see section 8.4.2 *Commonwealth representation on the Board*) will provide additional oversight of the RIC's management of loan funding to ensure the government remains aware of the potential implications for achieving policy outcomes.

Further exploration into a recycled funding model for the RIC is needed to ensure assumptions are robust and that benefits exceed the potential costs (both financially and administratively). Should the government decide to consider implementing such a model, this Review notes that extensive consultation would need to be undertaken with relevant government agencies, such as the Finance and the Treasury, including to determine the most appropriate implementation mechanism.

Recommendation 19

The government consider implementing a recycled loan funding model for the RIC.

5.2 Disaster loan

While the RIC's primary focus is offering support to drought-impacted farmers, it has generally not provided targeted support to farm businesses impacted by specific disasters. The exception to this is the AgRebuild Loan, which was provided to farm businesses impacted by the North and Far North Queensland Monsoon Trough in early 2019.

Beyond the RIC, there is generally a wide range of support options available for communities and businesses following a natural disaster, which can be implemented fairly quickly through existing agreed Commonwealth (through NEMA) / jurisdiction disaster recovery arrangements. In such cases, states and territories use their own delivery agencies, which are closer to the on-the-ground impact. This support takes the form of grants or concessional loans depending on the scale of the disaster.

Previous examples, such as the National Bushfire Recovery Fund, have noted lower than expected uptake of concessional loans compared to grant programs as a form of disaster relief. The availability of both concessional loans and grant support could create confusion from stakeholders, who may not realise that loans would need to be repaid.

Given the ready availability of disaster relief, there appears to be little need for the RIC to provide an additional avenue of disaster-related support. The RIC's experience in providing support through AgRebuild had some challenges, with the average AgRebuild loan taking over 300 days to be processed. This timeframe is far too long to provide immediate benefit to businesses following a disaster. While these timeframes were exacerbated by the RIC being at capacity, processing interest free drought loans, this Review is confident that small amounts of disaster support could be delivered faster through existing jurisdiction-based mechanisms.

Once a business affected by disaster has passed the initial response phase (with or without government support), further recovery or disaster resilience could be provided to affected farm businesses through the RIC's Farm Investment loan. A renaming and reframed communication around the intentions of the Farm Investment loan product (see section 1.3.2 *Farm Investment Loan*) could incorporate this, as the RIC has already started to do in relation to the 2023 New South Wales floods.

While it's possible that some affected farm businesses may not be able to meet the specific Farm Investment Loan criteria (i.e. mainly trading into supply chains that are outside their home state, or an intention to do so), there currently is no evidence base of data to support this, or the need for a separate disaster loan. This is in part due to gaps in the RIC's data collection (e.g. being able to report on the cause of financial need for Farm Investment loan funding, including whether it is due to a natural disaster, as well as corresponding data on why applicants have had loans declined). This data collection and reporting may be improved as the RIC's M&E capability improves (see Chapter 4 *Effectiveness of the RIC's loan delivery*).

Further, while the government could seek to establish a Disaster loan through a Rule, with the program to be activated by the RIC for a specific disaster at the direction of government, doing so would likely build expectations from farmers and communities that such a loan program would be activated for every disaster (and therefore attract criticism if it is not). If activated, a disaster loan would also require the diversion of RIC resources (for the promotion of the loan and processing of applications), when it may not, in fact, be needed given the other assistance available, as well as the availability of the Farm Investment Loan.

It should also be noted that in the aftermath of many recent disasters (including the 2023 New South Wales floods), there was not a significant demand from stakeholders for loans from the RIC, indicating that other avenues of support are the priority for farm businesses impacted by a disaster, including available grants.

Recommendation 20

The government not direct the RIC to deliver a specific disaster recovery loan product.

5.3 A RIC 'Sustainability loan'

5.3.1 The drivers

In exploring opportunities for the RIC to appropriately support the agriculture sector to meet current and future challenges in line with government policy objectives, the Review looked at the merits of developing a RIC loan product to support uptake of sustainable farming practices, including measures to assist emissions reduction. This type of loan product was a key proposition outlined in the RIC's submission (RIC 2024a).

The need for the agricultural sector to adapt its practices to meet the challenge of climate change is clear, given the sectors' exposure to the impacts of climate, its contribution to greenhouse gas emissions and the large role farmers play in land management. Anthropogenic climate change has reduced global agricultural total factor productivity by about 21% since 1961 (Ortiz-Bobea et al. 2021). The Australian Government has made clear commitments to address climate change, including legislating its target to achieve net zero greenhouse emissions by 2050 and developing sectoral plans to guide efforts, including for agriculture and land. Developing a sustainable agriculture sector has also been a key priority of this government.

Many industry groups including Meat and Livestock Australia, GrainGrowers and Wine Australia have their own plans to reduce emissions. The NFF supports an economy-wide aspiration of net zero emissions by 2050. Agricultural stakeholders consulted during the Review and respondents to the farm business survey are cognisant of the need to contribute positively to change in the industry in support of net zero objectives, and for the ongoing sustainability and profitability of agriculture in Australia. The CCA's 2018 report *'Reaping the rewards: improving farm profitability, reducing emissions and conserving natural capital'* also highlighted the multiple benefits that investing in activities that support emissions reduction can have. For example, participating in a carbon market project (such as planting native trees) could provide a significant revenue source from carbon sequestration for the rural sector (and support emissions reduction), while also enhancing on farm productivity. However, the CCA found the capital required to fund these activities often acts as a barrier to their uptake and recommended establishment of a body to issue loans for these activities.

During the Reviews' consultation process, the RIC, along with a number of industry stakeholders (including NFF, GrainGrowers, Grain Producers and Australian Pork Limited) called specifically for a RIC loan to assist producers to address climate challenges and improve their sustainability. Survey respondents also highlighted the need for more financial support in this space.

Prior to committing to a sustainability loan, it is important the government rigorously assess whether there is gap in the commercial agribusiness finance market, particularly given the ABA advised that banks have a strong appetite to support sustainability activities of farmers and are not aware of reluctance to lend towards these activities. Further, if a gap is found, the government will need to assess whether a RIC loan would help this transition (or whether other developments in the market need to happen first). It must also assess whether the RIC has the capability and expertise to deliver this type of loan, given the nature of it would be somewhat different from its current loans.

5.3.2 Considerations

The RIC's current suite of farm business loans target a market gap on the premise that these applicants would struggle to access sufficient commercial capital at an affordable price, due to their financial position. This approach provides a safety net to farmers in financial need, while not competing with the commercial market.

Currently, RIC loans can be used for a broad range of purposes, including new capital investments on farm that may help the business to be more resilient to climate, or simultaneously support emissions reduction and improve on farm sustainability and profitability. However, data provided by the RIC shows that 68% of RIC loans are used for refinancing. The key reason for this is likely due to the target cohort of the RIC loan program. Those who are in financial need tend to use loan funding to address more immediate needs to manage through, or recover from, hardship, rather than make large investments in activities that have climate and farm productivity benefits.

To encourage farmers to make such investments, the current RIC loan 'in financial need' criterion would likely need to be redefined to not focus on being impacted by an external event or removed entirely as outlined in the RIC's submission (RIC 2024a). However, if it is removed or redefined, the government, through the RIC, is very likely to compete directly with the commercial finance market and it may lead to perverse market outcomes. This could include the breakdown of existing client relationships with commercial banks, crowding out the private sector, and not spending tax-payer money efficiently (since the loans may be available to businesses who may be profitable enough to access loans for such purposes at a reasonable commercial rate).

Currently, several banks offer loans to support investment in climate smart projects or practices on farm, as well as for equipment and vehicles. For example, the Commonwealth Bank of Australia (CBA) offers the CBA Agri Green loan and CBA efficient car and equipment finance, and the NAB offers the NAB Agri Green loan and the NAB Finance for Green equipment loan. While not all the loan conditions and eligibility requirements are available on their websites, these banks are generally offering small concessions under these loan programs. For example, CBA provides up to 1% p.a.

discounts off standard rates for its efficient car and equipment financing (CBA 2024). Some products appear to have a minimum loan amount (e.g. NAB Agri Green loan) (NAB 2024) and some have additional eligibility requirements such as CBA's Agri-Green loan which requires applicants to have a cash balance or loan balance of more than $1 million to access the loan. This particular loan seems to be targeting larger and more profitable farm businesses compared to the RIC's current target cohort. Some stakeholders expressed cynicism as to whether commercial sector 'green loans' were primarily just for marketing purposes, due to concerns around greenwashing in the financial sector. A better understanding of the eligibility requirements for these loans (as well as the uptake of these loans), would help assess whether a RIC loan in this space would be filling a market gap or competing. Such an assessment would be difficult to undertake, however, without banks agreeing to provide the department with relevant data and information.

The CEFC is the Australian Government's vehicle for facilitating increased flows of finance into the clean energy sector and facilitating the achievement of Australia's greenhouse gas emissions reduction targets. While CEFC mostly funds larger scale investments, it delivers smaller programs that fund the uptake of clean energy technologies through co-financiers. The CEFC's asset finance programs support smaller scale investments in a diverse range of proven technologies that can help businesses across agriculture, industry, property and transport, better manage their energy usage and improve their carbon footprint (CEFC 2024). Eligible projects include small scale rooftop solar and battery storage, energy efficient manufacturing and farm equipment, improved building insulation, heating and cooling demand management systems and low emissions vehicles. For example, the CEFC and Australia and New Zealand Banking Group (ANZ) each contribute 0.25% toward a 0.5% discount on standard asset finance rates through its business vehicle and equipment finance. Projects are typically valued up to $5 million, with an average investment of some $100,000 and 1-5 year loan terms. A potential gap exists since these loans only fund equipment and focus on changes to energy usage.

Interestingly, some state governments have loans for farm businesses with broad eligibility that would support greater investment in climate-smart practices and technologies or improvements in natural resource sustainability. QRIDA issues a Sustainability loan, NSW RAA issues a Drought Infrastructure Fund loan, and the Tasmanian State Growth department issues the TAS AgriGrowth Loan Scheme (QRIDA 2024, NSW RRA 2024, TDSG 2024). Loan funding can also be used for a wider variety of purposes beyond those that provide environmental outcomes, for example, for diversification (QRIDA Sustainability loan) or equipment upgrades (TAS AgriGrowth loan). The WA RBDC delivers the Carbon Farming and Land Restoration Program (CF-LRP) Australian Carbon Credit Units (ACCU) Plus, providing grants to farm businesses to establish new vegetation and soil carbon farming projects registered with the Clean Energy Regulator (DAF 2024). Once ACCUs are earnt by the recipient, they must return an agreed number back to the WA RBDC – similar to the approach used by the Queensland Government's Land Restoration Fund (Queensland Government 2024). A better understanding of the uptake of these programs, their impacts (if any) on the commercial market, and learnings would be necessary before considering a similar RIC product.

The Natural Heritage Trust (NHT) established in 1997, is the Australian Government's primary tool for investing in sustainable agriculture, natural resource management and environmental protection. Most recently, the Trust funded a $302.1 million Climate-Smart Agriculture Program from 2023-24 to 2027-28 (DAFF 2024a). The program, through a number of grant and procurement investment steams, is driving agricultural sustainability, productivity and competitiveness by supporting farmers to adopt climate-smart practices that manage emissions, build resilience to climate change, improve soil health and protect natural capital. Open-competitive grant opportunities include - Partnerships and Innovation, Capacity Building and Small Grants - with available grant amounts varying between $10,000 and $5 million. These grant rounds are encouraging the development of new and innovative sustainable agriculture tools, increasing awareness and skills of best practice climate-smart and sustainable practices and investing in on-ground projects. All funding streams under the NHT must primarily deliver public good outcomes and cannot be used for major capital expenditure, water infrastructure, activities related to on farm energy use and efficiencies, or activities related to sustainable agriculture practices that are already well-established best or common practice.

While the program runs until 2027-28, due to the ongoing nature of the NHT, funding of these types of programs will likely continue. It is worth exploring the likely demand for a RIC Sustainability-type loan while such grants are available, and whether a funding gap exists for projects that miss out under this program due to the activity being ineligible.

The Australian Government has also funded $9 million towards the development of the Australian Agricultural Sustainability Framework (AASF 2024). This is led by the NFF and the Australian Farm Institute and aims to support industry develop consistent sustainability credentials so the sector can access and grow export markets and capture rewards for sustainable agriculture practice. The Australian Agricultural Sustainability Framework will help government and industry communicate the sustainability status and goals of Australian agriculture to meet trade and consumer expectations overseas and locally. The framework outlines a shared understanding of sustainability objectives through a standard set of themes, principles and criteria. The high-level themes include environmental stewardship, people, animals and community, and economic resilience, which are aligned to environmental, social and governance factors. Further work is underway to improve how these outcomes are measured. It would be worth considering how this framework can be embedded into the design of a Sustainability loan, including assessment processes, and M&E.

Depending on the type of activities funded under a RIC ‘Sustainability’ type loan, the RIC would require the appropriate capability to assess eligible activities. It would also need processes in place to ensure loan funding is actually spent on the eligible activity. It is critical that the RIC improves its capability around assessing DMPs (see section 4.4 *Drought Management Plans*), to demonstrate it can robustly assess all criteria for its loans, including those that go beyond a financial assessment. This would also be an initial step in building expertise relevant to assessment of a Sustainability loan’s funded activities.

There are also significant developments happening in the market for investing in natural capital, which may impact on the design and demand for a RIC ‘Sustainability’ type loan. The *Nature Repair Act 2023* came into effect on 15 December 2023. It establishes a framework for a national, voluntary biodiversity market, providing options for businesses to invest in nature repair and rewarding landholders who restore and protect nature (DCCEEW 2024c). Over the next 12 months, DCCEEW and the Clean Energy Regulator are developing processes and systems to administer the scheme. The market was informed by two Agriculture Biodiversity Stewardship Pilots. These are the Carbon + Biodiversity Pilot and Enhancing Remnant Vegetation Pilot. Both are managed by DCCEEW. In particular, the Carbon + Biodiversity Pilot trialled how a market arrangement for landholders could create new income from plantings that deliver biodiversity improvements and carbon abatement (DCCEEW 2023c). Participating landholders delivered long-term biodiversity improvement through planting native trees and shrubs in conjunction with an ACCU Scheme registered environmental plantings project. Typically, these projects included upfront costs of less than $150,000 and provided an alternative income source for landholders while improving natural capital. Using existing ACCU scheme methodologies assists with quantifying the value of environmental projects.

Other developments include mandatory climate-related financial disclosure requirements for the private sector, including financial institutions, which may influence the availability of green loans in the commercial market. These requirements will include reporting on scope 3 emissions (i.e. emissions that occur up or down their supply chain and emissions associated with their financing or investment activities) and are proposed for implementation by 2024-2025 (Treasury 2024). Some stakeholders suggested that competition between banks around scope 3 emissions may encourage banks to develop more green loans.

Lastly, there is work happening to improve natural capital accounting. The Farming for the Future initiative is aiming to deliver national-scale evidence that connects natural capital management and farm profitability (FFF 2024). It provides evidence and practical support to producers to understand the costs and benefits of investing in their natural capital to support their farm management decisions. Some banks have already made progress in this area. For example, NAB supports its Agri Green Loan customers to have a better understanding and report on the impact of their sustainability practices, using blockchain technology. Rabobank have also worked with Melbourne University to educate clients on how to conduct their own carbon accounting. Australian Sustainable Financial Institute is also helping to support the commercial sector build natural capital into the valuation of businesses (ASFI 2024). Such initiatives are likely to be strengthened with the establishment of the Nature Repair Market and may encourage better loan products for this purpose in the commercial market.

5.3.3 A staged, pilot approach

Should the government consider there is a need, a staged and measured approach would be required to developing a RIC 'Sustainability-type' loan. The market for investing in natural capital is developing quickly and should be monitored for emerging green loan products, government programs that support similar investments, and other initiatives that strengthen how the market operates.

Further analysis should be undertaken to determine:

- whether delivering such a loan would be consistent with the RIC's purpose
- whether there is a gap in the market
    - if there is a gap, the likely demand for a RIC loan based on current uptake of similar products and developments in the Nature Repair Market
- any changes needed to the RIC's loan criteria or settings for such a product (for example, in financial need, commercial debt requirement, length of loan term, interest rate options), and
- whether the loan could catalyse and crowd in or would rather crowd out the private sector.

In addition, the RIC's capability in assessing DMPs and Farm Business Plans would need to be demonstrated (see recommendation 15 in section 4.5 *Drought Management Plans*), as well as progress on review recommendations regarding its core business, before a new product could be considered. These include recommendation 14 regarding M&E (see section 4.4 *Monitoring and evaluation*), and recommendation 17 regarding annual loan review (see section 4.7 *Loan reviews*).

If the government then does decide to implement a RIC Sustainability loan, a small pilot should be used to test market demand and product effectiveness. This is similar to the approach taken by other banks, such as NAB, when they launched their Agri Green loan pilot. GrainGrowers suggested an initial loan program size of $50 million. Learnings could be taken from similar existing loan products, as well as the Climate Smart Agriculture grants to help inform the pilot's design. This would help ensure the RIC builds understanding and expertise and allow time for the implementation (and establishment) of the Nature Repair Market, and related market developments.

As a starting point, consideration should be given to a RIC loan product funding projects registered with the Clean Energy Regulator, to leverage expertise and ensure projects provide a measurable, credible benefit (similar to the Carbon + Biodiversity Pilot approach and to Western Australia's ACCU Plus program (CF-LRP) and the Queensland Land Restoration Program). Other learnings can be taken from these programs and fed into the development of the pilot, for example, whether there is an opportunity for the RIC to fund larger scale on-farm projects than those funded under the Carbon + Biodiversity Pilot to provide greater benefits.

An alternative approach suggested would be for the department and the RIC, in consultation with industry, to determine a list of sensible activities (i.e. loan purposes) that could be funded by a RIC Sustainability loan that are agreed would improve on-farm environmental sustainability, and/or contribute to emissions reduction. This would not necessarily require baseline or other measurement, nor Clean Energy Regulator approval of a project in line with established methodologies and would likely simplify the application assessment process. The quid pro quo is that limited data would be available around the effectiveness of the loan scheme (for example, estimated emissions reduction and the contribution made to net zero targets of the sector or increased biodiversity and nature repair). The government might wish to pursue such a (simpler) option if it was seeking to catalyse on-farm action in this space in the short-term. Some stakeholders suggested that due to a fear of being accused of greenwashing, as well as the complexity of coming reporting and regulatory frameworks, many banks were nervous to move too quickly in this field.

When considering consultation on either the business case for a Sustainability loan or the development of the pilot, government could consider advice from the Nature Finance Council, which it recently established to increase private sector financial flows to benefit nature and position Australia as a global leader in nature finance (DCCEEW 2024b).

Recommendation 21

Should the government consider there is a need for, and merit in the RIC delivering a Sustainability Loan, it test market demand and product effectiveness by implementing a small pilot (for example, available loan funding of $50 million).

Implementation of such a pilot to be subject to:

a) The RIC demonstrating it can successfully assess Drought Management Plans and Farm Business Resilience Plans, and their implementation by farm businesses, and report this information to the department.

b) The RIC demonstrating it has access to appropriate expertise to assess the proposed sustainability-related activities and projects to be funded by the loan.

c) The department and the RIC working together to consider whether the current RIC loan product criteria and parameters would be suitable for this product.

5.4 Consideration of possible eligibility gaps

A variety of agricultural industry stakeholders were consulted to inform this Review. While most key agricultural industries would appear to be able to meet the RIC's eligibility criteria, it has become apparent that some farm businesses in certain industries, due to the nature of their operations (including in relation to supply chains), may not be eligible for a RIC loan. This is despite them being able to meet key criteria relevant to the purpose of RIC loans, namely being in financial need due to events outside their control and also viable in the long term. For example, intensive livestock - such as chicken growers, are largely unable to apply for RIC loans as they are unable to meet some of the eligibility requirements. Farmers in the chicken meat industry are often affected by drought in different ways from those in other industries and, as such, are unlikely to qualify for a Drought Loan. For example, when there is a drought, the grain harvest drops in quantity and quality. Poor quality grain – called feed grain – sells at low prices into intensive industries (such as poultry meat, eggs and pork). Given the drop in grain quality due to the drought, a smaller harvest often includes a higher percentage of feed grain, usually due to unfilled or poorly filled grains. As such, feed grain costs tend to hold or even reduce a little, reducing input costs for poultry producers. So, drought is less of an issue for intensive livestock farmers and, in the short term, may actually provide a small benefit. Then, as the drought gets worse, everybody suffers because the quantity decreases. As such, drought response is quite different in intensive industries as there tends to be a 'lag phase' and it's also very dependent on the type of recovery. Similarly, chicken meat growers' eligibility for Farm Investment Loans is limited by the criterion that requires them to trade their product into supply chains that are outside their state or intend to do so. Chicken meat growers largely sell their product as fresh rather than frozen (primarily based on consumer demand), and due to the lability of the goods, very little chicken meat goes interstate.

Chicken meat farmers also experience other forms of financial need and business disruption that are not covered by RIC products, such as needing to effectively prepare for a biosecurity incursion. Joanne Sillince – acting CEO of the Australian Chicken Growers' Council commented on the increasing concern of Avian Influenza (AI), noting that it is a constant and increasing threat that has been on the rise, and one new strain has been decimating poultry industries worldwide for the past 5 years. Given that this new, evolved strain of AI is relatively non-specific and affects 140+ species of birds and 50+ species of mammals and humans, an incursion in Australia could be catastrophic to the industry.

Joanne noted that though chicken farmers may qualify for 'hardship' on biosecurity grounds, it is likely not until the incursion has already happened, and by then, it is too late. She noted that funds need to be available prior to an incursion to be effective in assisting with biosecurity preparedness.

Additionally, an agricultural stakeholder in the Northern Territory noted that low RIC loan uptake in that jurisdiction could be due to many agricultural businesses operating in the Northern Territory being headquartered in other jurisdictions, despite having operations in the NT, or not having a financial need due to the size of enterprises, especially cattle enterprises in the NT.

5.4.1 Government consideration

As discussed in the Introduction, the RIC is able to administer new programs prescribed by Rules but the RIC Act requires such Rules to address the constitutional basis for each program. Some long-term viable farm businesses currently cannot access a RIC loan due to eligibility criteria related to relevant heads of power (as outlined in the definition of a farm business in section 4 of the RIC Act) or constitutional bases for programs prescribed in Rules (for example, section 5(3) of the Regional Investment Corporation (Agristarter Loans) Rule 2019), for example, most chicken meat growers. This Review suggests the government could give further consideration to this issue to ensure any related eligibility criteria gaps are known and addressed, if possible. The government could explore options to determine if there is a way these gaps can be addressed. This could potentially include the development and delivery of an appropriate new loan product, specifically targeting products/cohorts that would otherwise miss out due to the current eligibility criteria of the current suite of RIC loans, which otherwise this Review has found to be broadly appropriate. If it is not possible, for example because additional RIC programs must address the constitutional basis for each program, the government should endeavour to point affected industries to other support programs that may be available, whether they be Commonwealth or funded and delivered by states and territories.

5.5 The National Water Infrastructure Loan Facility

In addition to its farm business loans program, the RIC was also established to deliver the NWILF, an existing $2 billion funding program to assist state and territory governments to construct major water infrastructure, such as dams, through Commonwealth co-funding via loans (a Commonwealth grants program was also available, but not administered by the RIC). The relevant function for this program under the RIC Act is set out in subparagraph 8(1)(c) of the RIC Act.

Following extensive engagement by the RIC with jurisdictional governments, the NWILF ultimately did not attract any applications. In some cases, jurisdictions could borrow funding at a cheaper rate than the RIC interest rate for the program (which varied from 3.12% to 1.46% over the life of the program). Jurisdictions also noted a preference for the grant funding, rather than loans.

Following this lack of interest, the NWILF program was terminated by the government during the 2020-21 Budget (deferred to 6 October 2020). Subsequently, the *Regional Investment Corporation (Water Infrastructure Project Agreements) Rule 2018* was repealed, and amendments were made to the *Regional Investment Corporation Operating Mandate Direction 2018*, including repealing Schedule 2 which contained detail on the NWILF's policy objectives, eligibility requirements and mandatory assessment criteria. At the time, it was noted that the circumstances surrounding water infrastructure had changed since the NWILF was announced, through prolonged drought and the impact of the COVID-19 pandemic on regional Australia (RIC 2020b).

The NWILF has not been available for a number of years; however, the RIC Act has not been amended to remove the numerous references to water infrastructure or grants of financial assistance to states and territories (the legally appropriate manner in which NWILF loans were to be delivered under contractual arrangements). While this has not had an impact on the RIC's day-to-day operations, it has caused confusion among stakeholders, some of whom have perceived water infrastructure, including projects with state and territory governments, as one of the RIC's core functions. It has also caused some confusion in broader government SIV-related processes, with comparisons of SIV legislative frameworks implying potential scope for cross-over and duplication with other SIVs' functions that does not exist in practice (for example, the NAIF's potential role in funding water-related infrastructure projects in northern Australia).

Stakeholder consultation did not reveal a desire to re-activate the NWILF or have the RIC involved in financing large-scale water infrastructure projects with state and territory governments. Discussions with the National Water Grid Authority within DCCEEW confirmed there was still little appetite from jurisdictions for loans to fund water infrastructure, and that the Commonwealth had a range of tools to support water infrastructure projects beyond the RIC.

Should the RIC Act be amended following this Review, references to water infrastructure and grants of financial assistance to states and territories should be removed to streamline and refocus the RIC Act around its current functions of farm business loans. A list of relevant sections of the RIC Act relating to water infrastructure is included at Appendix O.

Recommendation 22

The government amend the RIC's legislation to remove references to the RIC's former role in delivering water infrastructure loans (i.e. grants of financial assistance) to states and territories under the National Water Infrastructure Loan Facility.

5.6 The RIC board's advisory role to the FDF

Under subparagraph 15(1)(e) of the RIC Act, the functions of the RIC Board include any functions conferred by the FDF Act. In practice, this function takes the form of the RIC Board providing advice to the Drought Minister, which subsection 28(1) of the FDF Act requires the Drought Minister to request from the RIC Board before making an arrangement or grant or entering into an agreement under that Act.

The RIC Board's role is intended to be a check on whether FDF funds are being used consistently with the current FDF Funding Plan. It is noted that the Drought Minister is not bound by the advice provided by the RIC Board.

The RIC Board's advisory role has been previously considered by David Tune's Independent Review of the RIC, and the Productivity Commission's Inquiry into Part 3 of the FDF Act. Both reports recommended that the RIC Board's advisory role to the FDF be removed, as the requirement appears to be falling short of its intention.

The Tune Review noted that "in practice, the role is at best somewhat awkward and at worse problematic. In addition, it is questionable whether it is achieving its objectives as originally envisaged and potentially creating governance issues of its own for the RIC Board."

Both Reviews, as well as discussions with the RIC and FDF, have highlighted two key issues with the current advisory role:

- The timing of RIC Board advice following other significant processes and advice means that limited, if any, additional value is provided; and
- a significant overlap with RIC Board members expertise and their involvement in FDF related activities, resulting in RIC Board members frequently abstaining from voting on FDF advice due to conflicts of interest'.

Advice from the RIC Board is only sought at the end of the process of establishing an FDF grant or arrangement. Prior to this, government has gone through a robust, independent process consisting of multiple steps. This includes the FDF Consultative Committee (FDF CC) providing advice to the Drought Minister on whether the proposed design of the program of arrangements or grants to be made is consistent with the Drought Resilience Funding Plan (s36E(2) refers). Further, decisions to enter into grants and arrangements are governed by the Commonwealth Procurement Rules and the Commonwealth Grant Rules and Guidelines – both of which impose obligations to ensure effective and accountable use of public funds. The RIC Board has limited scope to provide useful input at this late stage, and advice to date from the RIC Board reflects this, as the Board has found that there has been no evidence to suggest proposed projects are inconsistent with the FDF Funding Plan.

While the RIC Board comprises people with expertise across the agribusiness and finance sectors (amongst others), the timeframes for providing advice on FDF programs, and their limited direct understanding of the programs themselves, also limits the RIC Board's ability to provide meaningful advice.

In addition to concerns regarding timing, advice by the RIC Board is often faced with one or more members of the RIC Board abstaining due to a conflict of interest. Members of the RIC Board is required by subparagraph 17(2)(a) of the RIC Act to include have qualifications, skills or expertise experience in one or more areas such as agribusiness, drought resilience and "issues concerning rural industries and communities", many of which overlap with the FDF's mission. While the RIC Board members abstaining where conflicts of interest arise is good governance, it does bring into the question the value of the RIC Board's advice if it is coming from a reduced number of members, particularly if, arguably, the most relevant members (by virtue of their knowledge and experience) are the ones abstaining. In addition, the process has added considerable delay to FDF processes in getting funds to the beneficiaries of the FDF.

Ultimately, the current arrangements for the RIC Board's advice provide limited benefit in addition to the already significant accountability and assurance processes in place. The arrangements also require resourcing from both the RIC and the Department which could be better used elsewhere.

As noted above, there is also potential for greater collaboration between the RIC and the FDF in other ways, including in alignment with initiatives of the FDF – for example considering business planning developed through the FBR Program in loan applications (see section 4.4 *Drought*

Management Plans). This collaboration could still take place even if the RIC Board's current role was removed from legislation.

Recommendation 23

The government amend the RIC's legislation to remove the RIC Board's Future Drought Fund (FDF) advisory role to the Minister for Agriculture, with consequential amendments to remove the requirement from FDF legislation.

Chapter 6 – First Nations participation in agriculture

This chapter explores the current barriers to First Nations participation in agriculture. It considers options available to the RIC to work with existing First Nations organisations to actively build its cultural capability and support ongoing, meaningful engagement with First Nations people. It also considers broader options for government consideration, including potentially beyond the RIC, that may support increasing the inclusion and participation of First Nations people and businesses in agriculture.

6.1 First Nations involvement in agriculture

The Indigenous Estate is estimated to cover 57% of Australia's landmass (DAFF 2024b) and First Nations people make up 3.8% percent of the population (ABS 2022). However, it is estimated that only 1.8% of the agricultural workforce self-identifies as Aboriginal or Torres Strait Islander (ABARES 2023), contributing over $85 million to the agribusiness sector in 2018-19 (KPMG & NFF 2023). As stated by the Vice-President for First Nations at the Australian National University (ANU), Professor Peter Yu, "the opportunity for First Nations people to participate in primary production industries is being missed by governments and businesses across Australia" (ANU 2022). As stated in the discussion paper for this Review, "greater First Nations participation in agriculture may not only contribute to sustainable land and sea practices, but also play a role in achieving the goal of $100 billion in farm gate output by 2030 set by the NFF and supported by the Australian Government." This Review considers the barriers to First Nations involvement and recorded participation in agriculture and seeks to identify if there are opportunities for the RIC to assist First Nations people in that endeavour.

6.1.1 Barriers and opportunities

Stakeholders outlined barriers to First Nations participation and engagement in agriculture, most notably access to infrastructure, finance, capability, and sufficient security (that would be widely accepted under current financing arrangements, e.g. mortgage over land). As reported in the Indigenous Business Sector Strategy – supercharging Indigenous Business Start-Up and Growth 2018-2028 developed by the National Indigenous Australians Agency (NIAA), "many Indigenous businesses are unable to receive finance from banks because of lower collateral and limited access to personal wealth. For example, Indigenous rates of home ownership are less than half the rate of non-Indigenous Australians and home equity is often used to secure finance" (NIAA 2018) Not only is personal and business finance difficult to access, but Indigenous Australians are also less likely to have access to general banking. As reported in the Banking Code Compliance Monitoring Committee's special report on 'Access to banking services by indigenous customers', "Indigenous Australians are around twice as likely as non-Indigenous Australians to be financially excluded – that is, to lack access to appropriate and affordable banking services and products" (BCCMC 2017). These disparities make it difficult for First Nations agri-businesses to gain a foothold to access commercial finance.

Access to finance is not just limited to commercial opportunities, it's also apparent in the ability to borrow or inherit from family and friends. Stakeholders indicated that the lack of intergenerational wealth is a significant barrier. This experience is supported by First Nations businessman, Morgan Coleman, who recounts his friends and family laughing at him when he asked them for a $5,000 investment, in his article 'Indigenous business lacks investment visibility' (Coleman 2021).

European farming practices dominate Australian agriculture. In this context capability was raised as a barrier to First Nations agribusinesses. A stakeholder pointed out that a capability barrier doesn't mean lacking ability, but an absence of experience [in Western farming practices]. Many [non-Indigenous] farmers grow up on a farm owned by their parents and there is history. A banking representative also discussed the lack of intergenerational agricultural knowledge, which often provides the foundation of a business. The report by the Cooperative Research Centre for Developing Northern Australia (CRCDNA) on the agricultural capacity of the Indigenous estate analysed five case studies and identified several common themes, including capacity building. The report describes it as a 'decadal process and ongoing', potentially providing further evidence of the challenge (McArthur et al. 2022). However, the case studies demonstrate that First Nations agriculture and fisheries enterprises can deliver significant economic benefits to First Nations communities and Australian primary production, when supported by appropriate infrastructure.

With respect to the RIC's current loan products, commercial debt and sufficient security for existing models were seen as the primary challenges. Lending organisations generally prefer security in the form of mortgage over land or business assets of high value. In some cases, they may also accept inventory and accounts receivable. Possessing sufficient security for existing models and commercial debt were broadly regarded as potentially difficult criteria for First Nations agri-businesses to meet. Further, communally held land title is not able to be employed as security for an individual loan. The Review notes that the Australian Law Reform Commission has recently been tasked by the government with investigating any inequality, unfairness or weaknesses in the Native Title regime which governs how development projects can occur on land subject to Native Title.

Despite these challenges, there are many examples of successful, First Nations agri-businesses. The CRCDNA report discusses the commercial nature of the case study businesses, their focus on caring for Country, and the significant collaboration between First Nations groups. These qualities are observed in other thriving First Nations agri-businesses, and demonstrates the range of opportunities for greater inclusion and participation.

- Firesticks Alliance Indigenous Corporation supports communities to incorporate cultural burning into their land management strategies as it helps to keep Country healthy, nurtures native wildlife, and can bring damaged Country back to life (ORIC 2022). Firesticks was established in 2018 and hit the ground running (ORIC 2022). The Office of the Registrar of Indigenous Corporations reports that in 2019, "its income grew from zero to over $300,000 through a combination of fee-for service work with communities, and partnering with communities in governments and sponsorships… In the year ending June 2021, Firesticks' income was $1.74 million and it had 9 employees." Firesticks not only provides its experience and knowledge on cultural burning, it connects communities and builds resilience for the future (ORIC 2022).
- The Northern Australia Aboriginal Kakadu Plum Alliance (NAAKPA) is a consortium of Aboriginal Corporations which harvest Kakadu Plum across northern Australia (ANSTO 2021). In 2019

NAAKPA represented 40-45 percent of the Kakadu Plum produced in Australia, with a retail market value of $1.7 million (Janke & Melrose 2022). NAAKPA consortium member, Mamabulanjin Aboriginal Corporation, is working to expand its own operations by planting orchards (instead of harvesting wild trees) and engaging in research and development to increase yields (Terri Janke and Company 2022). The corporation plans to plant 25,000 trees on 30 hectares, where each hectare could bring in $150,000 (ORIC 2021b). It is also partnering with the Australian Nuclear Science and Technology Organisation and IP Australia to develop methods of communicating information about the provenance of the plums (Janke & Melrose 2022). The department and the Indigenous Land and Sea Corporation (ILSC) have supported this work. (Janke & Melrose 2022).

- Beemurra Aboriginal Corporation is an intergenerational family business which specialises in backgrounding cattle. It's also the only First Nations-run cattle backgrounding business in Western Australia (ORIC 2021a). Backgrounding is the practice of gradually preparing cattle to entre a feedlot in a way that maintains their physical health and minimises any potential distress (Janke & Melrose 2022). Both ORIC and the Indigenous Land Corporation (now ILSC) supported Beemurra through governance training and funding to pivot the business to cattle agistment and backgrounding (ORIC 2021a). The Department of Agriculture and Food Western Australia (now Department of Primary Industries and Regional Development) also supported Beemurra through its Indigenous Landholder Program (Beemurra 2024). A Beemurra Director has stated "the cattle and the business are thriving." The organisation now hopes to focus on caring for Country and regenerative agriculture (ORIC 2021a).

Stakeholders consulted as part of this Review broadly supported finding opportunities to increase participation of First Nations people in agriculture. These are further discussed in this chapter (see sections 6.3 *First Nations Commonwealth Agencies* onwards). The NFF stated that "First Nations agriculture should be an area of growth. As the agriculture sector is anticipated to grow, and as First Nations people have title to vast stretches of the Australian land mass, there is a great opportunity for First Nations people to capture the value from Country and apply their unique cultural and intellectual property more broadly." During consultation stakeholders, including the NFF, IBA and the Australian Government pointed to work underway.

The NFF has established a set of principles to guide its engagement with First Nations people, agreed on focus areas for engagement around opportunities to realise mutual benefits, and formed an internal Working Group to provide ongoing advice on this engagement. A key initial priority is building cultural capacity and competency within the NFF and its members to ensure First Nations people feel safe and respected both within the structures of the organisation and as it reaches out in engagement. In May 2023 the NFF and KPMG delivered the report 'Realising the Opportunity', which aims to unlock the economic potential of Indigenous agriculture. Then NFF Acting President, David Jochinke, said that "there is a very real and direct connection between reaching growth ambitions, the economic empowerment of Indigenous peoples and Closing the Gap across the full range of social outcomes. To unlock that potential, we need to do better at attracting Indigenous Australians to the industry, and supporting and promoting Indigenous agribusinesses" (NFF 2023). The NFF has also recently hosted a series of roundtables, in collaboration with DAFF and the ILSC, to define First Nations agricultural products. Initial consultation with key stakeholders identified five characteristics as critical to the definition of an Indigenous agricultural product: connection to culture, connection to Country, sustainability, collective benefit, and economic self-determination (NFF 2024b). The subsequent roundtables focused on confirming support for the five characteristics, seeking input on a proposed working definition of an Indigenous agricultural product, and testing interest in establishing a supporting credential system (NFF 2024).

IBA has signed an MoU with NAB to collaborate on the design and development of an Indigenous Business Guarantee product to help First Nations businesses access commercial finance (IBA 2023). The MoU also outlines how IBA and NAB will work together to provide Indigenous business with access to mainstream banking services and improve financial education and training for Indigenous business owners. As NAB stated in its media release, it has set a new target 'to more than double our lending to First Nations Businesses and community organisations to at least $1 billion over the next three years' (NAB 2023). While this is not limited to First Nations agri-businesses, they will also be able to benefit from the product.

The Australian Government recognises the benefits of working closely with First Nations people in agriculture. For example, the FDF Funding Plan acknowledges First Nations peoples' strong and continuing connection to land and sea, and the importance of working in partnership to address the challenges of drought and a changing climate. The Funding Plan supports a more systemic approach to ensure First Nations Australians' voices are a part of the design and delivery of FDF programs, and that they are supported to participate in, and benefit from the FDF. To achieve the outcomes set out in the Funding Plan for First Nations Plan, the 2024 Federal Budget included funding for First Nations initiatives:

- $15 million over 4 years from 2024-25 to work with First Nations people and communities to support connection to Country through management of drought and climate risks
- A pilot program to facilitate place-based, First Nations-led activities and dedicated funding to support activities that seek to improve opportunities for Indigenous participation in FDF drought and climate resilience activities
- Additional departmental funding will establish a First Nations Advisory Group to provide advice to the government on issues relating to drought climate resilience.

6.2 RIC capability

The RIC has acknowledged its current limited cultural capability and experience in engaging with First Nations people. The RIC is in the process of drafting its first Reconciliation Action Plan (RAP) to strengthen relationships with First Nations people. Reconciliation Australia has provided initial feedback, which the RIC is currently addressing. The RIC currently employs fewer people who identify as Aboriginal or Torres Strait Islander than the three percent target outlined in the Commonwealth Aboriginal and Torres Strait Islander Workforce Strategy 2020-24. It is unclear if the RIC has First Nations loan applicants or current clients as it does not collect this data. It also has not implemented any specific strategies or undertaken activities to promote the RIC to First Nations businesses and groups. The RIC admits it is at the beginning of this journey and will require a significant capability uplift to undertake build and cultivate relationships with First Nations people. It has, however, planned cultural awareness training for its staff, which will also be provided to future new starters. It is worth noting that a similar cultural capability uplift is happening across the APS, including within the Department of Agriculture, Fisheries and Forestry, in line with the government's priority to work in genuine partnership with First Nations people for better outcomes.

In contrast, this Review notes there are existing Commonwealth agencies which have decades of relevant experience, and whose responsibilities include investing in the development and growth of First Nations agricultural businesses, such as IBA and the ILSC.

6.3 First Nations commonwealth agencies

IBA is a CCE established under the *Aboriginal and Torres Strait Island Act 2005* (ATSI Act). It was created to assist and enhance the economic development opportunities of Aboriginal and Torres Strait Islander peoples. It does this by accumulating and using a substantial capital asset for the benefit of Aboriginal and Torres Strait Islander peoples. The IBA was originally established as the Commercial Development Corporation under the *Aboriginal and Torres Strait Islander Commission Act 1989* (ATSIC Act) to achieve a similar objective. Its name changed to IBA in 2001 following several reviews and inquiries related to Indigenous economic development programs. Further changes in 2005 abolished the ATSIC Act, created the ATSI Act, and provided additional functions to IBA.

In practice IBA provides access to finance including grants, loans and equity, alongside significant support and wrap around services (if needed). Its wrap around services are tailored to the individual and/or business, and can include internal and external business support such as training, education, mentoring, providing relevant expertise and capability partners. Collectively these services aim to provide customers with the tools they need to succeed, beyond finance (Olmack 2023). IBA has three programs: Business Solutions, Investments, and Housing Solutions. Business solutions provides capability building workshops, business support and finance. It is available across many sectors including agriculture. IBA's Investments program includes direct investments, largely through equity and loans. The Housing program consists of a range of products and services to assist with home ownership. IBA deploys its financial products and wrap around support services through relationship managers who work very closely with customers to provide guidance, check in on their progress, and identify and address any early signs of stress, often via direct on-the-ground engagement. The relationship managers are an important part of IBA's offering. IBA (and its predecessor) has spent almost 35 years building its cultural capability, capacity, and connection with communities. Feedback to this Review was very positive about its achievements and that it would be a useful resource for the RIC to build its cultural capability.

Box 5 Case study: IBA / Yamatji / 4 Ways

In Mid-2022 IBA, Yamatji Enterprises Limited, and 4 Ways Fresh Produce signed an agreement to form Yamatji Fresh Produce to grow continental, Lebanese and green cucumbers primarily for the hospitality industry (Bortoletto 2024). IBA Chief Executive Officer, Kirsty Moore, said the establishment of a cucumber farm near Geraldton would create a legacy for Traditional Owners and "IBA's role is part of our overall investment strategy to co-invest with Indigenous partners to provide economic empowerment" (Bortoletto 2024).

IBA and Yamatji Enterprises acquired parcels of land near Geraldton adjacent to the existing 4 Ways Fresh Farm and commenced construction of 100 greenhouses at the beginning of 2024, which are almost complete (Bortoletto 2024). An additional 100 greenhouses are expected to be constructed in 2025 with more to follow in the future. An IBA representative advised in May 2024 that in total, Yamatji Fresh Produce will develop 300 greenhouses to grow cucumbers, which will make it the largest grower in Australia (IBA 2024). The company will have the capacity to produce 1,700 tons of cucumbers per year in the near future and its Operations Manager said the project would create up to 100 casual jobs and 15 permanent positions.

Planting is already underway, with this year's harvest estimated to be over 300,000 cucumber plants, as advised by an IBA representative. Noting the eight-week period from planting to harvest, the company expects its to harvest around mid-June 2024 (Bortoletto 2024).

In addition to the creation of an Indigenous-owned venture with the capacity to provide employment for many others, Yamatji Fresh Produce contracted a First Nations company to do the fencing work around the block. Ms Moore said this is the first of many First-Nations led contracts this project expects to secure and deliver (Bortoletto 2024).

Work has also commenced to construct a dam to provide reliable and efficient irrigation to support the growth of the cucumber crops. The company also intends to install a solar system to make production as sustainable as possible. Yamatji Fresh Produce will consider growing other crops such as tomatoes, eggplants, and capsicum to fill the national supply gap.

IBA worked with Yamatji to assess the investment opportunity and develop an Indigenous Engagement Strategy. Together with 4 Ways Fresh Produce and Yamatji Enterprises, they are owners of the farm and Yamatji Fresh Produce "This is what IBA is all about – creating economic empowerment for generations to come", stated Ms Moore.

The ILSC is another CCE established under the ATSI Act. Its purpose is to assist Aboriginal and Torres Strait Islander peoples to own and manage land and water. Initially, the ILSC acquired land and drove employment and training opportunities for First Nations people in sectors including agriculture and tourism through running commercial operations on the land. During consultation, the ILSC advised it had one of the ten biggest cattle herds in Australia, at one point. However, around five years ago, the ILSC changed its strategic direction and now prioritises the return of Country back to Traditional Owners. While it still retains a number of properties, it also deploys its capital to support the development and operation of other properties.

The ILSC invests in land and water related interests primarily through its competitive funding program, Our Country Our Future. Its investments can take the form of loans, equity and grants to fund, purchase, and develop land or water. In addition to financial support, it also provides advice and capability support including information, knowledge, training, and systems to develop and deliver projects. Feedback to this Review suggested the ILSC is highly involved in agriculture and would be a helpful resource for the RIC.

Box 6 Case study: ILSC / Trelawney Station / Tamworth Local Aboriginal Land Council (TLALC)

Trelawney Station is a 766 hectare mixed farming property near Somerton and Tamworth with irrigation, grazing paddocks and access to the Peel River, part of the Namoi catchment within the Murray-Darling Basin.

The ILSC returned Trelawney Station to Traditional Owners in February 2019 following a five-year partnership with the TLALC to establish training, employment and social programs at the station. Together they also developed and implemented a 10-year property management plan and put the property in a viable financial position for divestment (ILSC, 2022).

The former Chairperson of the TLALC, Harry Cutmore, said "the handover of Trelawney gives the Aboriginal community important access to traditional Country. Over the past five years, we have been able to use the facilities extensively for our school holiday programs, cultural learning days and training programs for high school students, as well as other community events. The assistance we received in putting our farm management plan and business plan in place will ensure the TLALC's ongoing ability to use the land to its full potential" (ILSC 2022).

Given the infrastructure and facilities on the property, agriculture remains a focus for the land use. TLALC has leased a portion of the land to a local First Nations farmer, who primarily farms cattle and wheat. The farmer is in his fourth year of the arrangement with TLALC, and during his time has contributed to, and overseen, the continual development of the land for agriculture. The relationship with the ILSC has continued beyond divestment, including a grant to TLALC for the installation of fencing around the property.

Beyond agriculture, Trelawney Station is the site of accommodation and conference facilities which host a steady stream of visitors for cultural and sporting events and have created employment opportunities for locals.

In addition to IBA and ILSC, the Review identified other First Nations organisations with relevant experience and/or related offerings with which the RIC could build relationships to support its capability uplift, including the NAIF, Northern Territory Aboriginal Investment Corporation (NTAIC) and the North Australian Indigenous Land and Sea Management Alliance.

Stakeholders agreed that successful First Nations service provision is built on strong relationships with First Nations people. NTAIC indicated that in the Northern Territory (at least) on-the-ground, more personal relationship-centric models are very important. Agriculture Victoria's First Nations unit advised that a key learning from setting up programs was forming good relationships. NAIF spoke about its Indigenous Engagement stating that "10-12% of its staff comprise the organisation's Indigenous engagement team whose core responsibility is to build and maintain relationships with First Nations people, noting it can take years of work to develop strong relationships."

Noting the significant experience of IBA and ILSC in First Nations engagement and crossover in product offering, stakeholders were overwhelmingly supportive of the RIC working with these organisations (and others) to build its cultural capability. In turn, this will provide the basis for culturally appropriate and effective service delivery. During consultation, both IBA and ILSC spoke about the value of strategic partnerships, which help them to meet their respective goals and contribute to broader First Nations self-determination objectives. IBA and ILSC have a MoU with the NIAA and NAIF to share information, expertise, and potential opportunities to support economic opportunities for Frist Nations people. IBA also has an MoU with EFA to improve access to financial services and support First Nations Australians to pursue export and trade opportunities. This Review found there would be value in the RIC building a relationship with IBA, ILSC and other First Nations organisations, whether that be through informal relationships initially, potentially leading to MoUs, to build its expertise and cultural capability, share relevant information and learnings as well as cross refer clients to the most appropriate organisation.

6.4 First Nations representation within the RIC

To help build its First Nations engagement, the RIC should commit to internal corporate activities, including completing and implementing its RAP and creating a workplace that is culturally attractive to First Nations people. The RAP should consider how the RIC can reach both APS First Nations employment and procurement targets. The NAIF discussed its process of developing a meaningful RAP, which involved two committees and every person in the organisation to make the plan relevant to them. The NAIF CEO believes its current RAP is a significant improvement on the previous version and provides a solid basis for First Nations engagement. The RIC could draw upon NAIF's learnings in finalising and implementing its RAP. Stakeholders, including the NFF, also agreed that it would be beneficial for the RIC to engage more First Nations staff to help cultivate a connection with communities and build cultural awareness. Yarpa Hub stated that it's important for organisations, particularly government organisations, to be representative of the communities they represent and ensuring the inclusion of First Nations people within the workplace, can help to effect change. NTAIC also supported a real and genuine effort to employ First Nations people.

The RIC could further develop its cultural capability through First Nations expertise at the RIC Board level – an approach which received broad support amongst stakeholders. First Nations involvement on the Board is likely to promote greater awareness and consideration of opportunities for First Nations inclusion and engagement. The NAIF complemented the First Nations expertise on its board, stating it is absolutely beneficial and challenges the organisation to do better. Another stakeholder stated boards are stronger when they are diverse, and the ILSC said that if the RIC wants to identify First Nations outcomes, they need expertise internally. While supportive, The CEO of NTAIC, Elly Patira, suggested an advisory committee may also be an effective way to capture the diversity of views amongst First Nations people. In this context, an advisory committee could comprise First Nations people with experience in agriculture (both mainstream and native foods and botanicals) and relevant First Nations organisations to represent their collective views and interests, and identify issues. Yamatji Enterprises Limited believed First Nations experience and knowledge on the Board would be important to improve the understanding of challenges and First Nations style governance, which can be very different from the mainstream. Noting the overwhelming support for First Nations expertise on the RIC Board, this Review recommends that the government include First Nations expertise to the list of appropriate qualifications, skills, or experience for Board members in the RIC Act.

While greater cultural capability, a meaningful RAP, more First Nations staff, and a Board member with First Nations experience are individually important, they will be more effective if implemented as a package. Together they can provide a more holistic approach to the RIC's cultural capability uplift, ensure the responsibility for improving First Nations outcomes is a responsibility of all within the organisation, and ultimately assist the RIC to effectively serve the First Nations agri-business community.

6.5 First Nations data collection

To complement an increase in First Nations inclusion and engagement, the RIC will need to consider collection of relevant data, both to assess its own progress and contribute to whole-of-government and AFF portfolio reporting and policy making processes. The RIC does not currently collect any data. Careful consideration would need to be given to what to collect and how, noting RIC applicants are farm businesses which can involve ownership structures involving multiple individuals. In any case, guidance on best practice for First Nations data collection on Commonwealth programs should be sought, including alignment with the APS Framework for the Governance of Indigenous Data, which the NIAA and Finance developed with non-APS/First Nations partners (NIAA 2024a). The Review understands the RIC is currently considering how it may capture relevant First Nations data.

Recommendation 24

The RIC build a relationship with Indigenous Business Australia, the Indigenous Land and Sea Corporation, and the National Indigenous Australians Agency to build the RIC's cultural capability and understanding of First Nations agribusinesses, share information and cross refer clients to the most appropriate agency.

Concurrently, the RIC increase its capability in relation to First Nations engagement, including by interacting with First Nations people and enterprises, encouraging and supporting First Nations people to apply for RIC job opportunities, and finalising and implementing its Reconciliation Action Plan (including employment and Indigenous procurement targets).

The government amend the RIC Act to add First Nations expertise as a relevant area of expertise for the Board.

The RIC work with the department to consider what data could be collected to measure First Nations participation in its loan programs, and how best to collect and store such data in line with the Framework for the Governance of Indigenous Data. This data collection to be implemented within 12 months, with data and findings reported quarterly to the department and responsible Ministers and published periodically.

6.6 Additional areas for government consideration

6.6.1 First Nations specific loan

Arguably the most significant barrier to First Nations inclusion and engagement in agriculture is access to capital. The standard eligibility criteria of the RIC's many loan products include commercial debt and security requirements as features that are likely to be prohibitive for First Nations people. A stakeholder stated that while larger businesses have commercial debt, smaller businesses do find it more difficult to access loans from banks. A First Nations Farmer stated there aren't a lot of First Nations people with commercial debt. The Agriculture Victoria First Nations policy area said "the commercial debt link and security would likely be challenging criteria to meet. If there was the opportunity to combine sources of income such as loans, grants, investment, commission, then this may make it easier for First Nations people to meet the RIC criteria than just one source of commercial funding such as a traditional bank loan." On the contrary, a First Nations agribusiness indicated that commercial debt was not their main challenge, rather it was securing Indigenous employees due to where they are based.

As a result, many stakeholders expressed support for a First Nations specific loan product with appropriate criteria for the intended cohort. The NFF stated there would be merit in developing a separate product and it would challenge assumptions about the resulting loans being higher risk. Other indigenous stakeholders were very positive about such a product including suggesting that it could contribute to Closing the Gap outcomes. While there was broad support, one stakeholder indicated that a separate loan with different criteria would be unfair, alleging "First Nations farmers don't really run commercial operations."

Although there was general support for a First Nations-specific loan, there was some uncertainty about the current demand for such a product. One stakeholder indicated there would likely be interest. Another stakeholder indicated a specific loan would be useful to explore, especially given the opportunity for partnerships between relevant organisations. They also said there is a need for a loan product; however, potential demand would need to be investigated further. Peter Yu indicated that even if there isn't a current pipeline of demand, there is plenty of opportunity and potential. He noted it will take time to achieve economic self-actualisation, these things are incremental, but we do need to start somewhere. If the government decides to pursue a First Nations specific loan, stakeholders encouraged meaningful consultation to ensure an appropriate loan product and to minimise the risk of duplication. A stakeholder suggested a working group may be necessary to discuss the options and focus on getting it right from a First Nations perspective, because it is very complex.

6.6.2 First Nations revenue contingent loan for agri-businesses

Stakeholders identified revenue contingent loans as a specific type of First Nations loan that would provide appropriate assistance. This type of loan only requires repayment once the loan recipient's income reaches a certain threshold, much like the Higher Contribution Education Scheme (HECS) loans available to tertiary/university students. A revenue contingent loan would provide patient capital at a lower entry point and remove the pressure to make repayments until business earnings reach a certain threshold. The lower entry point could be determined through a set of criteria that provide both greater opportunities for First Nations agricultural enterprises to access capital and ensures the responsible lending of public funds. Peter Yu indicated that Canada has developed loan guarantee arrangements for First Nations people through the First Nations Financial Authority (FNFA) set up under the 2005 Canadian First Nations Fiscal Management Act. The FNFA is a First Nations owned and operated organisation that provides Firsts Nations governments access to affordable financing which is tailored to meet individual needs. Financing options can include low interest loans and flexible repayment terms (up to 30 years) (FNFA 2022). Peter Yu said that similar loan arrangements in Australia would lower the hurdle and ensure there is access for First Nations agri-businesses to get long term finance on a concessional basis. CEO of the Aboriginal Sea Corporation, Robert Carne, stated that revenue contingent loans "may be one of the only ways to get anything real to happen in this space." He also suggested a potential condition of a revenue contingent or concessional loan could be to only fund proven technologies with strong business cases.

Noting the support for wrap around services, a First Nations-specific loan, including a revenue contingent repayment term, should be accompanied by similar support to provide a solid foundation for First Nations businesses and enable First Nations people to graduate to a future commercial loan. Consideration of a revenue contingent loan should include consultation with relevant First Nations organisations and businesses especially those that are First Nations led, and individuals.

6.6.3 Application support

In addition to access to finance and capability, the agri-finance application process was identified as a barrier to greater First Nations engagement and inclusion in agriculture. Application forms, whether for concessional support or commercial finance, require a level of financial literacy, significant amounts of information, and potentially, professional support from an accountant or financial advisor. While stakeholders were often confident about the acumen of First Nations clients and/or the potential of their businesses, they did note that they spend significant time assisting their First Nations clients to produce high quality applications. The ASC CEO indicated that he had seen many examples in the past of applications that could have benefitted from some support and guidance. He added that his organisation is cognisant of this general need and is looking into how they can assist others develop business plans. Funding for existing organisations specifically for application support will allow them to further invest in the support they provide and improve the application skills/financial literacy of their clients. The need to review accessibility of application forms is covered in Chapter 7.

6.6.4 Additional funds to existing First Nations organisations

The RIC is one of a few organisations that provides concessional support to agri-businesses. As previously discussed, the IBA and ILSC also operate in this space. They are established First Nations organisations with longstanding connections to communities, high levels of cultural capability and existing programs with significant wrap around services. An option to support the growth and development of First Nations agri-businesses is to further support these existing organisations with specific funds to be made available to agri-businesses. As they already have the tools required to deliver effective support, providing these organisations with additional funds to provide finance to First Nations agri-businesses is an efficient way to improve access to capital. Stakeholders were generally supportive of this suggestion.

6.6.5 Other options for support

Stakeholders provided additional ideas during consultation including scholarships specifically for First Nations students. Currently, Charles Sturt University offers a number of scholarships for First Nations university students pursuing agricultural studies, including the AGcessibility First Nations Scholarship, CO2 Australia Regional Professionals Scholarship, Eurofins First Nations Agriculture Scholarship, and the Riverina Oils First Nations Agricultural Initiative Scholarship. They range from a one-off payment of $8,000, to $30,000 across three years (CSU 2024). Universities should consider giving and/or increasing the value of scholarships and grants for First Nations students to undertake agricultural studies.

First Nations farmer and advocate Josh Gilbert suggested an Indigenous Research and Development Corporation (RDC) to operate similarly to existing RDCs whereby members pay a levy which is matched by the Commonwealth government. This idea is discussed in further detail in the Australian Farm Institute's Farm Policy Journal (Gilbert et al. 2023)

Employing more First Nations people in agriculture will also increase First Nations engagement and inclusion in agriculture. The independent panel report of the Phase out of Live Sheep Exports by Sea identified key Australian Government initiatives in place to support employment opportunities for First Nations Australians including the Local Jobs Program (Glyde et al. 2023). The Australian Government has committed to a new Remote Jobs and Economic Development Program which will create 3,000 jobs in remote communities and will be developed in partnership with First Nations people (NIAA 2024b).

Noting some states and territories have existing programs and policies to support increased engagement and inclusion of First Nations people in agriculture, the Australian Government may like to consider how it can better support their work.

Recommendation 24.1

The government explore options to improve First Nations access to agri-finance in consultation with relevant and interested agencies, including:

- The possibility of a potential First Nations specific loan product, including considering the most appropriate delivery agency to deliver such a loan, noting such exploration may determine the RIC is not the most appropriate agency and other options, such as existing delivery agencies with relevant First Nations experience may provide better alternatives for First Nations people and enterprises.
- Providing revenue contingent loans as a way to support greater inclusion of First Nations people in agriculture, including businesses that are First-Nations led.
- Providing funding to established First Nations organisations (e.g. Indigenous Business Australia and the Indigenous Land and Sea Corporation) to support applicants through the application process for agri-finance related programs.
- Providing further funding to established First Nations organisations (e.g. Indigenous Business Australia and the Indigenous Land and Sea Corporation) for them to specifically support and grow First Nations agriculture enterprises.

Chapter 7 – Relationships

This chapter discusses how the RIC can enhance its stakeholder outreach, including reference to working with other programs (e.g. RFCS). It also discusses the important interface between the RIC, its clients and their commercial lenders. The RIC's role in supporting gender equality in line with the government's policy priority, including to support advancing women's economic empowerment, and the importance of collecting data is also canvassed.

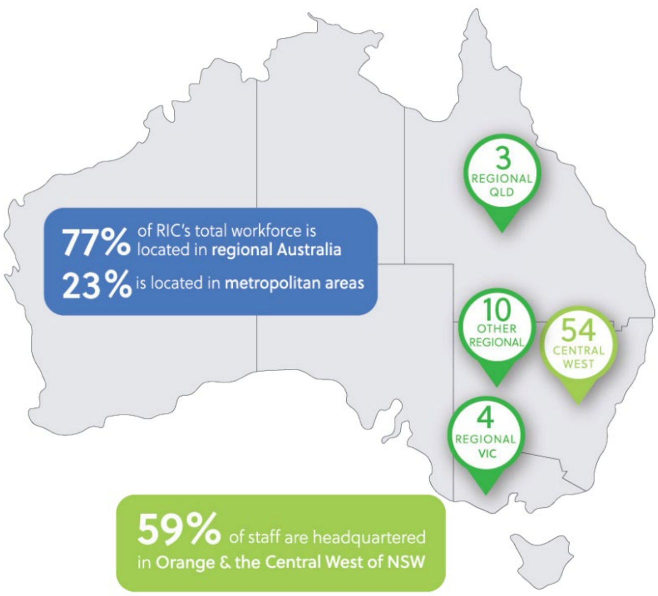
7.1 Outreach and on-the-ground engagement

RFCS, state governments and industry stakeholders have flagged the need for, and usefulness of, a more localised, on-the-ground RIC contact to improve awareness of products and their requirements. This would be an excellent intelligence source for both the RIC and government. The government is often somewhat 'removed' from the direct recipients and intended beneficiaries of the programs it funds, in this case, concessional loans via the RIC. As such, it is vital that 'on-the-ground' intelligence from the RIC's outreach activities is fed into the department in a timely manner, and not socialised only within the RIC, or only within parts of the RIC. This kind of on-the-ground intelligence can help build a picture that influences broader policy frameworks and advice to government. When coupled with intelligence from other programs, including as to whether a suite of support measures is sufficient to deal with a current industry situation or challenge, directly relayed information about on-the-ground conditions and farmer insights can be invaluable to both shaping, and assessing achievement of, government objectives.

The department has previously sought this type of information from the RIC, including during weekly meetings. These requests have been deemed by the department as relatively ineffective to-date. Whilst the department is not indicating that the RIC is not forthcoming about such 'on-the-ground' insights, it appeared that the RIC didn't seem to be proactively canvassing this feedback and passing it back to the department. Any information provided was dependent on staff availability and other RIC priorities that were deemed more important, essentially leading to an absence of valuable data and insights being provided regularly (noting this doesn't necessarily have to be weekly, and the RIC has flagged this level of frequency is not optimal). To provide a more formal basis for these requests, if it is thought that would elicit a more forthcoming response, it may be necessary to include such intelligence and on-ground insights sharing in the department's MoU with the RIC.

The RIC previously employed Business Development Managers (BDMs) who had an on-the-ground stakeholder engagement function which was seen as valuable by many stakeholders with whom the Review consulted, including rural financial counsellors and state governments. The RIC has advised that, whilst these positions were effective at canvassing their own network (including the RFCS in some cases), the value obtained versus cost of these positions was sub-optimal. The BDMs were assigned broad geographic regions and were located in those regions. At one time there were 4 BDMs (then reduced to 3) who supported the RIC's entire on-ground operation, which the RIC noted was 'just not enough to do them justice'. The positions were expensive and the value-add was not apparent. Instead, the RIC now periodically utilises its regionally based staff to continue aspects of this function, where possible. For example, the RIC sends locally based, experienced staff from its assessment team to field days and other events to provide information about RIC products, and leverage and expand local relationships and networks. The Review commends the RIC's efforts in this regard and recommends it expand the use of its regionally based staff in this way. These staff could, to some extent, fill the engagement gap left by the previous BDMs (a gap noted by stakeholders), but in a more cost-effective manner. This on-the-ground outreach approach should be about information sharing, awareness raising, on-the-ground intelligence gathering, and useful cross-referral of support programs for the benefit of clients and prospective clients. This function should not be seen as a means of 'drumming up business', which this Review understands was part of the former BDM role and is certainly implied by the positions' title. It is important to note that the RIC is not a bank and should not be concerned with 'market share'. Rather, it is a delivery agency delivering a government program that seeks to support farmers in hardship. For this reason, it is crucial farm businesses in hardship (or that could potentially be in hardship at some stage) know about the RIC and its loans and where to get more information should they require support. This Review acknowledges the current efforts being made by the RIC to further this goal by utilising its regionally based staff, and encourages the RIC to continue these efforts, and expand on them where possible, including actively improving communication and outreach with state governments to further its visibility.

Figure 7 RIC workforce location as at 30 June 2023



Source: RIC (2023a)

Recommendation 25

The RIC continue and expand its use of regionally-based staff to improve on-the-ground outreach to a range of stakeholders including state and territory governments, including through participating in local and regional events.

The RIC provide on-the-ground intelligence and insights back to the department on a regular basis.

7.2 Closer collaboration with the RFCS

A key area recommended by stakeholders for greater engagement from the RIC was with the RFCS. While some rural financial counsellors commented they had strong engagement with the RIC, others noted a lack of engagement, or that they previously had engagement with the RIC through individuals, rather than the organisation itself. While personal relationships provide benefits, as demonstrated in discussions with the RFCS, it can lead to a breakdown in that engagement when that particular individual no longer works with the organisation, including the former BDMs.

Given many RFCS clients can be potential RIC clients, for instance - in their submission to the Review, the Southern and Central NSW RFCS provider noted that approximately 1/3 of their 927 clients are involved with the RIC in some form, there are advantages to regular communication between the RIC and RFCS service providers (RFCS NSW 2024). In particular, the RIC may be able to use on-the-ground intelligence from RFCS counsellors in their forecasting – where there is a sudden influx of RFCS clients, an increase in RIC loan applications may follow – particularly where the RIC doesn't have regional staff presence to feed such information in themselves. To their credit, the RIC has sought assistance from the department in seeking insights from RFCS service providers about their client inquiries (including about RIC loans), as an indicator of likely increases in applications and loan demand that may come the RIC's way (and from which regions and industries). The department, RFCS providers and the RIC continue to work through the best way of obtaining and disseminating such insights.

The RIC has also recently pursued collaboration with the RFCS service providers as part of an application form streamlining project. This involved seeking feedback from the RFCS counsellors on current challenges and duplication in the RIC's current loan application form, with intentions to reduce customer effort and timeframes of completion. The RIC advised that the whilst the RFCS counsellor's feedback was largely centred around the technical challenges and usability of the form, it was of the opinion that, given farmers are accessing government-funded concessional loans, they should be required to undertake a higher level of rigour and demonstration of their need when compared to applying for a commercial bank loan. The RIC have advised that the feedback received was very useful and was taken into consideration when drafting the revised form. The RIC are set to attend the RFCS conference in July 2024 to showcase the first draft of the revised application form to the RFCS Chairs and Executive officers.

RFCS counsellors also indicated that collaboration between the RIC and the RFCS could include more transparency around loan assessment procedures and clarity around eligibility criteria to ensure that RFCS counsellors can effectively support clients and ensure they are not recommending a RIC product for which the client is not eligible. Stakeholder feedback also supports this notion, with 43% of submissions to the Review noting that the RIC's eligibility criteria are often unclear and not easily understandable to clients. Farm survey respondents also frequently flagged the excessive application process and lack of clarity around the application requirements. To support this idea, and to assist both RFCS clients and non-RFCS clients, the then Tasmanian Minister for Primary Industries and Water, Jo Palmer MLC, in her submission to the Review, recommended it would be valuable for the RIC to work with the RFCS to review its applications forms, website guidance and other related communication materials to assist in making them more accessible to, and more easily understood by, farmers in hardship (Palmer 2024). Rural financial counsellors should be able to provide valuable insights on how the loan criteria and the RIC's messaging might be refined or made clearer to ensure that the average farmer can understand the requirements, without requiring financial expertise or incurring additional costs to secure such expertise. Both the RFCS and the RIC have shown interest in this idea. Since it was raised in the context of this Review, the RIC has pursued this idea with the RFCS, holding workshops in April.

To further this recommendation for more accessible, user-friendly application forms and other related communication materials, this Review recommends that the RIC also engage with other appropriate First Nations, gender and CALD organisations to seek assistance and guidance on how best to ensure the RIC's materials are accessible to all those who may apply for a RIC loan. Engagement with organisations should allow adequate time to consider relevant material and provide advice and where appropriate, remuneration for time and expertise should be considered. Further exploration on how the RIC might better support women in agriculture is considered in section 7.4 *Supporting women in agriculture*.

The RFCS may also want to explore whether communications with applicants who are declined a RIC loan are appropriately sensitive, and that the grounds of the decline and options for decision review are clear. This could include the RIC allowing RFCS service providers to review decline letters, to ensure that the communication is appropriately detailed and sensitive to the applicant. A few farm business survey interviewees suggested they were not satisfied with this process (see Appendix D). Requirements around internal review also feature in the RIC's Operating Mandate.

The department, as the responsible policy agency for both the RFCS program and the RIC, should facilitate closer links between the RIC and the RFCS where helpful. Some suggestions of where the department might facilitate such engagement include:

- the RIC potentially attending the monthly departmental/RFCS Executive Officer meeting, on a quarterly basis, to strengthen the relationship between the two organisations and discuss ideas and areas of common interest, such as issues that have arisen in clients preparing and submitting RIC loan applications.
- the RIC potentially attending the service provider staff conferences so that it can engage with rural financial counsellors directly on issues relating to the RIC. This would be a useful opportunity for the RIC to engage with the RFCS, given that all RFCS counsellors are in attendance.
- Alternatively (or, as well as), the RIC may wish to facilitate the meetings with RFCS counsellors, perhaps on a quarterly basis, with nominations facilitated by the RFCS executive officers. That way, issues that the RIC are facing/foresee can be brought forward by the RIC for discussion at appropriate junctures.

Recommendation 26

The RIC continue to pursue closer links with the Rural Financial Counselling Service (RFCS) network, including through on-the-ground direct engagement via the RIC's regionally based workforce. The department support this by facilitating closer links between RFCS service providers and the RIC.

The RIC work with the RFCS service providers and engage with relevant First Nations, culturally and linguistically diverse, and women's organisations (such as Indigenous Business Australia and the National Rural Women's Coalition) to conduct a review of application forms and website guidance, to assist in making them more accessible to, and better understood by, all potential RIC clients.

7.3 Relationship between the RIC, client and commercial lender

A key pillar of the government's policy intention behind the RIC is to fill a market gap and avoid directly competing with the commercial sector. This is reinforced by the eligibility criteria for RIC loans, which require clients to have existing commercial debt and the support of their commercial lender to the proposed RIC loan.

In line with this policy intention, an over-arching objective is that RIC clients return to their commercial lender at (or before) the end of the 10-year loan term.

While this Review suggests mechanisms to encourage clients to return to their commercial lender at the end of the loan term, it is also important that the RIC develop and maintain constructive relationships with commercial lenders to ensure the best possibility of a smooth transition by RIC clients back to the commercial sector.

This relationship has the potential to provide other benefits to the RIC. For example, throughout consultation it was apparent that there were differing perspectives on the drivers of, and responsibility for, the time taken to negotiate and establish deeds of priority as part of the client providing security for the RIC loan. This is viewed as a key factor in the length of time it takes to finalise (settle) RIC loans. In addition to supporting clients' transition back to the commercial sector, strong relationships with commercial lenders could assist in reducing this friction around deeds of priority (which determine whether the bank or the RIC gets priority on security in the event of a loan default), speeding up loan processing times and improving the RIC's service offering.

There was mixed feedback on how best to approach this issue. One option suggested was revisiting and reinvigorating the Standard Operating Procedures (SOPs) previously negotiated between the RIC and major agribusiness lenders on a bilateral basis, that cover interactions to progress deeds of priority. One bank noted it had recently worked with the RIC to revise and update the SOP and this had been helpful. The RIC's view was that the operating environment had changed since the SOPs were developed and they were no longer needed, with other engagement processes and stronger relationships in place. The RIC also noted that the former SOPs were aligned to Bendigo Bank's deed of priority processes, not the RIC's. While the RIC admitted the previous process could take months, it advised this Review that, depending on the type of file or bank, deeds of priority could now be finalised within a day.

Remaining delays in bank-related processing could, in part, be due to the multi-faceted engagement between the RIC and commercial lenders. This Review notes that the RIC has good links into the ABA, as well as the Agribusiness heads of several major banks, but that it would be impractical for the RIC to maintain relationships with local bank and regional managers. While the RIC continuing to pursue stronger relationships with commercial lenders might not completely solve these issues, they may assist in speeding up the process of finalising deeds of priority and any other bottlenecks that occur during the application assessment phase, or when client loan variations need to be actioned involving multiple lenders.

Beyond the obvious loan processing issues, an ongoing relationship with commercial lenders could provide other benefits. This includes more on-the-ground knowledge and outreach – using the local branches of commercial lenders to build awareness of RIC products in times of drought and other localised or regional hardships. This could also assist the RIC with risk management, as commercial lenders have a more direct relationship with clients, that can include on-farm visits and visibility of transaction and trading accounts. While privacy considerations would need to be adhered to, strong relationships with commercial lenders may be able to provide the RIC with additional information or context to inform the RIC's loan reviews.

The RIC could also obtain some of this information by seeking accreditation through the Australian Competition and Consumer Commission as a Consumer Data Right recipient. While data shared under the Consumer Data Right is at the discretion of RIC customers, it could allow for more information on client's other banking products to be securely provided by commercial banks to the RIC.

In addition to relationships with commercial lenders directly, the RIC should continue their relationship with the ABA, which (where appropriate and relevant) will allow them to be involved in discussions regarding the entire banking sector, and assist them identifying opportunities to improve processes and relationships with commercial lenders.

Recommendation 27

The RIC increase collaboration and communication between its staff, the client, and the commercial lender including to ensure the best possibility of a smooth transition by RIC clients back to the commercial sector.

7.4 Supporting women in agriculture

7.4.1 Gender equality

Under the Terms of Reference, the Review was tasked to explore opportunities for the RIC to appropriately meet current and future challenges in line with government policy objectives. The Australian Government is committed to improving gender equality and published its Strategy for Gender Equality in March this year (PMC 2024b). According to the Workplace Gender Equality Agency, an industry is gender segregated where one gender comprises 60 per cent or more of the workforce (PMC 2024a).

Females made up 33 per cent of the agricultural workforce in 2021 (ABARES 2023). In 2023, the RIC customer insights survey found that 40 per cent of RIC clients were female. Currently, 48 per cent of the RIC's staff are male and 52 per cent are female (as at 31 March 2024). Its Board is composed of 4 females and 1 male. While the RIC cannot solve the issues of gender equality in agriculture, it can support progress or at least not inadvertently perpetuate inequalities– either through communication of its products, the eligibility criteria or other processes. The Review engaged with the National Rural Women's Coalition (NRWC) to better understand the likely impacts of the RIC program – if any – on gender equality and identify how the RIC could positively contribute to this space.

The NRWC highlighted that there are many structural reasons for women's limited participation in agriculture. For example, rural women's restricted access to resources and services, such as finance, can limit their participation. One reason for this is that historically women have not been land or asset owners and they are often not equally considered for succession arrangements. A lack of land or assets might make it difficult for women to access a RIC loan to start a farm business given the need for security and existing commercial debt. Non-generational farmers looking to access RIC loans to start their first farm business also face these barriers (see section 1.3.3 *AgriStarter Loan*).

Feedback from a survey conducted by NRWC also found that many women are not listed as business owners, when they do in fact contribute to a business, for example, women in a family run farming enterprise might contribute their labour or through their off-farm income. While the RIC program cannot solve this issue, it can ensure that its eligibility criteria do not inadvertently disincentivise women from being listed as businesses owners or disincentivise women from having off-farm income. One of the RIC loan eligibility criteria requires an assessment of the business owners off-farm income. Where more than one person owns the farm business, under normal circumstances, at least one farm business owner must contribute at least 75% of their labour (50% of labour for the AgriStarter Loan) and derive at least 50% of their income from the farm business. It is positive that the RIC only applies this criterion to one member of the farm business and only considers a spouse's off-farm income if they are directly part of the farming enterprise. This information is used primarily to assess loan serviceability and financial need. The Review considers this approach is appropriate, ensuring that the RIC program does not disincentivise women from being listed as business owners or from pursuing off-farm income.

NRWC highlighted communication barriers around potential access to RIC loans. It noted that women can feel intimidated by the process of applying for a loan, and often the wife manages the accounts for the business. NRWC highlighted the importance of making women feel comfortable talking to people about finances, including providing options for women to be able to ask questions privately. Less than 50% of rural women who participated in the NRWC RIC survey felt comfortable to speak to the RIC regarding their financial situation. While it might seem counterintuitive that women feel intimidated speaking to loan providers when they often manage the accounts for the business, confidence in financial literacy is a common area of development for women in NRWC's leadership programs. This could be a perceived or actual lack of skills in the area, noting the difference in financial literacy required to apply for loans compared to doing the accounts for a business. Applying for loans also may require bigger financial decisions and the female partner may not be the key decision maker in the business. The RIC could also consider seeking the views of women on the RIC's loan application form to ensure its accessibility. NRWC suggested that the poor visibility of female participation in the sector and a lack of awareness about the RIC, could also hinder women's access to RIC loans. The survey NRWC conducted found that 50% of respondents did not know about the RIC.

Further feedback from the NRWC survey found that, due to the competing demands of work and the primary burden of family responsibilities still falling on women, the RIC's detailed and time-consuming application process further disincentivises women to apply. Any efforts to simplify the process of applying for a RIC loan, including those mentioned in section 7.2 *Closer collaboration with the RFCS*, would further support this cohort. Engaging with the NRWC on efforts to simplify the application process could also provide further insights into how to reduce communication barriers.

The RIC could demonstrate its commitment to supporting the government's agenda to improve gender equality by considering some of the following actions (informed by the NRWC):

1) Implement an online or face-to-face information group specifically for women in agriculture who are accessing RIC products – for example, to facilitate asking questions about the loans (or to the extent that is consistent with their mandate, more broadly to support agribusiness women to develop or navigate their business).
2) Publish case studies highlighting positive stories of women in agriculture who are recipients of RIC support.
3) Consider how outreach and communication could increase awareness of the RIC and its loans to women in agriculture, including communication channels, language, images etc.
4) Consider its own organisational gender balance, including the benefits of dedicated female officers (including those with agribusiness experience) in customer facing roles (contact centres, outreach, credit assessment officer) as well as other program delivery roles. This may assist some women to feel more comfortable to approach the RIC and discuss their financial situation.
5) Consider the ‘Economic Equality Taskforce, 10-year plan to unleash the full capacity and contribution of women’s full participation in the Australian Economy’ (PMC 2023) and the government’s Strategy for Gender Equality in future directions.

7.4.2 Data

The collection of gender data is an important first step in assessing the impact of programs on gender. Within government, there are initiatives underway to support improvements to gender equality across Australian society (PMC 2024b). However, the RIC currently does not collect gender-related data in relation to its loan programs. While it would be challenging for the RIC to provide gender impact data at this point, collecting gender data could be a first step to moving in this direction. The National Rural Women’s Coalition also noted the importance of improved reporting on women who access RIC support, including reporting on women who have applied for a RIC loan, and reporting on those who were successful and unsuccessful applicants, to improve visibility of women in agriculture or identify participation barriers.

The RIC and the department should work together to agree on the purpose of collecting the data (i.e. to inform service delivery, for regular reporting or program evaluation), the data that should be collected and how the data will be collected (including from existing clients). When working on this, the department and the RIC should refer to the ABS Standard for Sex, Gender, Variations of Sex Characteristics and Sexual Orientation Variables (ABS 2021). This provides best practice guidance on the data to collect, and how to collect it in a way that is relevant and sensitive. Information should be voluntarily provided and when asking for this information in application forms, the RIC needs to articulate why it is collecting this information – for example, that the government is seeking to improve gender equality in the agricultural sector and needs data from its farm support programs to inform its approach. Since RIC applicants are farm businesses, the RIC will also need to consider how to collect this data in the context of multiple people, rather than individuals. Mandatory reporting on business gender composition required by the Workplace Gender Equality Agency for businesses over 100 people may provide some guidance on this.

Recommendation 28

The RIC work with the department to consider appropriate data for collection to help in determining the gender impacts of its loan programs, and how best to collect such data. This data collection to be implemented within 12 months, with data and findings reported quarterly to the department and responsible Ministers, and published annually.

7.5 Culturally and linguistically diverse backgrounds

People from CALD backgrounds represent at least 6.7 per cent of all persons employed in agriculture, fisheries and forestry industries in Australia (Kancans et al. 2010). They are particularly highly represented in the vegetable growing industries making up 28.9 per cent of total persons employed. The Review engaged with AusVeg, the Vietnamese Farmers Association of South Australia (VFASA) and an aquaculture farmer to gain perspectives from farmers from CALD backgrounds. Some potential barriers to the uptake of RIC loans raised included:

- awareness of the RIC – both stakeholders (including the VFASA's members) were unaware of the RIC
- reluctance to engage with the RIC since it can be seen as the government and authorities
- potential issues with completing RIC loan applications due to the need for interpretation services and complexity of RIC loan applications
- difficulties in communicating the business case for the loan and the lack of an existing business relationship
- meeting the commercial debt criterion for those starting up a business (see section 1.3.3 *AgriStarter Loan*).

VFASA described the transient nature of horticulture businesses in the Northern Adelaide Plains due to the next generation being reluctant to take over the family farm. Those who take over are usually the next wave of migrants, meaning the raised issues would likely be repeated. AusVeg noted that part of the programs and services it provides to CALD growers is getting content translated (e.g. research and development content) and some parts of the country have a dedicated Vietnamese officer.

To assist in addressing these barriers, the RIC could consider initiatives similar to those discussed in section 7.4 *Supporting women in agriculture*, such as:

- Implement an online or face-to-face information group specifically for farmers from CALD background who are seeking to access RIC products to facilitate asking questions about the loans. The RIC could consider engaging interpreters for key language groups to facilitate sessions.
- Consider how outreach and communication could increase awareness (and trust) of the RIC and its loans to farmers from CALD backgrounds.
- Publish case studies highlighting positive stories of farmers from CALD backgrounds who are recipients of RIC support.
- Consider its own workforces' cultural diversity.

Similarly, efforts to simplify the process of applying for a RIC loan through collaboration with the RFCS (see section 7.2 *Closer collaboration with the RFCS*), could consider the needs of this cohort, including the benefits of translating guidelines or forms. Bilingual engagement officers, using culturally appropriate communication and building trust and personal relationships with CALD groups were also suggested by ABARES to improve engagement of CALD groups in primary industries (Kancans et al. 2010).

The collection of data on the cultural diversity of its clients and organisation, or to better understand the demand for RIC loans from potential clients, would assist in implementing initiatives to support farmers from CALD backgrounds access RIC loans. For example, it may help to decide which key languages to translate loan guidelines or application forms into if it’s found there is sufficient interest in RIC loans.

Chapter 8 – Governance of the RIC

The Review found that the RIC's current governance arrangements (including its Board) are appropriate, enabling the entity to deliver on the government's policy objectives. There are also opportunities to improve alignment and understanding between the department and the RIC, including through the addition of a senior Commonwealth agriculture department executive to the RIC Board.

8.1 Current governance of the RIC

The RIC's current governance arrangements are determined by the RIC Act, which establishes the RIC as a CCE and outlines its functions. It also prescribes that the RIC has two responsible Ministers – the Agriculture Minister and the Minister who administers the PGPA Act (i.e. the Finance Minister).

Further, the Act requires that the RIC must have an independent Board consisting of a Chair, and 2 to 4 other members, all of whom are appointed by the Minister for a maximum of five years. The RIC Board is the accountable authority for the RIC under the PGPA Act and is responsible for the RIC adhering to PGPA Act requirements in relation to corporate governance, reporting and accountability. Guided by the RIC Act, Operating Mandate and Rules, the Board approves and oversees strategies and policies to be followed by the RIC, defines the RIC's risk appetite and otherwise ensures the proper performance of the RIC.

The RIC Board also oversees loan decisions at arms-length from the government of the day, minimising reputational risk to government. The only individual loan-related action that requires government involvement is the need to consult responsible Ministers, and take into account their views, before waiving any unpaid farm business loan debt. The Board approves and oversees relevant policies of the RIC within the framework of the RIC Act, Operating Mandate and Rules. The responsibilities of the Board and its committees are set out in the RIC Board Charter, which covers the roles and responsibilities of board members, duties and liabilities, board performance and meeting conduct. The Board's performance objectives are informed by a range of best practice corporate governance frameworks, including PGPA and the Australian Institute of Company Directors.

The Board Charter is reviewed on an annual basis, with two out of three reviews conducted externally. The Board also captures a matrix of the skills of Board members and their alignment to the requirements of the RIC Act, and conducts a review of Board performance on an annual basis – these are similarly conducted externally for two out of every three years.

To manage oversight and assurance of their internal policies, the Board has established a Risk and Audit Committee, which includes a mix of Board members and external experts. This committee is governed by its own charter, and practices a 'three lines of defence' approach to assurance – where policy oversight is audited by line managers, an internal audit function and finally the audit committee. The Board also considers further assurance measures on a case-by-case basis, depending on the circumstances (for example, the Board is currently considering additional assurance needs following the in-housing of loan management).

This Review has considered a range of governance arrangements for the RIC, including adjusting the size of the RIC Board or reforming the RIC organisation into a different type of entity, such as a Government Business Enterprise (GBE) or a Statutory Agency run by a commissioner. A Statutory Agency was one of seven organisational options considered prior to the RIC's establishment as a CCE (ANAO 2020).

Some of the alternate governance options have the potential to reduce the cost of the RIC – for example, reducing the size of the RIC's Board or replacing the Board with a statutory commissioner would reduce the administrative costs of the RIC. However, given the emphasis from stakeholders that the RIC Board have sufficient members with expertise to support Australia's diverse agricultural industries and regions, changing the RIC's governance in this way would also create a risk that the RIC could not service Australia's agricultural communities as effectively. This also mirrors feedback given during the RIC's establishment, where the size of the RIC Board was increased as a result of stakeholder feedback on the RIC Bill.

Reforming the RIC into a GBE would leave the RIC still independent of government but require the RIC to take on a more commercial focus. This would see the RIC playing in a space outside its defined market gap, likely competing with the banks, reducing its effectiveness at mitigating the effects of drought and other external shocks on farm businesses. The RIC would also and be in conflict with its core objective of providing concessional finance to long term viable farm businesses in financial need. In addition, there would almost certainly be criticism of the government should it be seen to be making money from farmers in hardship through the RIC's loans (or other financing mechanisms).

While a statutory commissioner would be independent of government, the staff of such an organisation would not, an important point in the issuing and management of loans.

Ultimately, this Review found that operating as a CCE with only minor adjustments to the composition of its Board was the most suitable model given the current, and proposed future, functions of the RIC.

Finding F

The RIC's current governance arrangements (a corporate Commonwealth entity overseen by a Board reporting to the Ministers for Agriculture and Finance) remain the most appropriate arrangements for the delivery of its functions.

While there isn't a need to make significant changes to its overall governance arrangements, the Review also considered the relationships between the RIC and its key stakeholders, and noted some opportunities for better alignment and efficiency in how the RIC operates.

8.2 Roles and responsibilities

As previously noted, the RIC Board's responsibilities are outlined in the RIC Act, Operating Mandate, and Rules, and require it to ensure the proper, efficient and effective performance of the RIC's functions.

Beyond that, the RIC Act articulates a number of specific functions for the RIC itself to undertake. These include the administration of farm business loans and other programs prescribes by rules. The

RIC Act also outlines two specific functions to be undertaken by the RIC CEO – being able to sign loan agreements on behalf of the RIC, and to be otherwise responsible for the day-to-day administration of the RIC.

The RIC's Operating Mandate also directs the RIC regarding a range of matters including policy objectives, funding arrangements, loan management, service provision, stakeholder engagement, reporting and corporate governance. In performing these functions, the RIC is required to act in a proper, efficient and effective manner.

The department is considered the lead policy agency in relation to the RIC, and manages the legislative and policy environment that underpins the RIC's service delivery. In practice, this involves leading on the development of new policy, including drafting advice and submissions to support ministerial and government consideration and actioning any legislative changes. The department is also responsible for supporting the Agriculture Minister as a responsible Minister for the RIC.

The department's Finance and Investment Division also oversees funding matters relating to the RIC, including the flow of loan and operational funding, accounting recognition of the loan portfolio, and ongoing financial assurance activities.

The relationship between the department and the RIC is underpinned by a MoU (see Chapter 4 *Effectiveness of the RIC's loan delivery*), which was established in January 2020 to articulate these roles and responsibilities, as well as reporting requirements to appropriately manage RIC funds.

Finance also has a policy role in supporting the Minister for Finance as a responsible minister for the RIC. In this role, the Minister for Finance has joint responsibility for issuing written directions to the RIC and appointing RIC Board Members.

8.3 Relationship with the department

The RIC and the department have a range of avenues for engagement between the two agencies. This includes a monthly meeting between the RIC Executive team and the relevant divisional Executives in the department, as well as an operational level weekly meeting. At a more senior level, a strategic discussion forum at deputy secretary level has recently been initiated by the RIC with the first one scheduled for August 2024, once the outcomes of this Review are published. In addition to these regular forums, there is also regular communication on particular issues between relevant officers, including fortnightly meetings on data and (separately) fortnightly to monthly meetings on M&E related matters.

It appears that the two entities originally had a very close relationship, facilitated by the department's role in establishing the RIC and a large number of seconded departmental staff forming the RIC's original workforce. As the RIC transitioned to its own staff with relevant commercial expertise (for example in agribusiness or the banking sector), the relationship naturally and appropriately evolved into more distinctly separate roles. For example, those roles within the RIC being undertaken by the new staff with their relevant background and experience, but without the benefit of the knowledge and experienced gleaned through the establishment journey, on matters such as policy intent, target cohort, legislative matters and the need for an efficient organisation to assist farmers in need with a concessional rate. As such, during these early stages of a largely new RIC workforce, learnings ensued about the roles and responsibilities of program delivery by the RIC versus the department's policy development and advice role, including to support the Agriculture Minister as a responsible Minister of the RIC. Working through such necessary learnings was occasionally the source of debate and possibly frustration on both sides. Relationships between key staff remained close though, facilitated in some cases by a small number of RIC staff having an understanding of government processes gleaned from Commonwealth (or state) public sector experience. Similarly, the department ensured it retained staff with commercial agribusiness banking expertise to assist understanding of RIC-related matters.

At the height of loan delivery challenges caused by interest free loans, interactions were very frequent and for the most part constructive, as the agencies worked closely together to support government consideration of additional loan and operational funding. While there has been some continuity in staff within both entities, there has also been turnover, resulting in loss of corporate knowledge and the need to reestablish, or build new relationships (an issue with which most organisations have to grapple). Operational issues around interest-free loans examined by the Tune Review have been worked through, allowing focus on other matters and a more regular cadence and business as usual engagement to occur. Sometimes less intensive engagement and not being in the trenches together provides less opportunity to work with and better understand each other, as each party gets on with its respective core business. The Review noted a range of areas where there is scope to improve the mutual understanding of each agencies' operating contexts, in order to consistently ensure effective cooperation to achieve the best policy outcomes.

Transparency and the flow of information was of particular concern, in regards to both the flow of information around broader government processes to the RIC, and the detail of the RIC's reporting to the department (see Chapter 4 *Effectiveness of the RIC's loan delivery*).

The development or revision of RIC products also appeared to have room for improvement. From the department's perspective, it can appear that the RIC doesn't clearly understand the differences between the operations of government, especially those of a policy department and the important role of ministers as part of the Executive Government and particularly Cabinet, as opposed to a delivery organisation. The RIC appears at times to focus on wanting to expand its product suite, appearing to move closer to the commercial banking realm while its legislated role is implementing government policy through the issuing and management of concessional loans to farmers.

While, at a simple level, the department's role can be viewed as policy and the RIC's role as delivery there is a valuable in-between role, described by Housing Australia as "design" in which both parties need to collaborate to produce the best outcome. To this end, there are examples of the RIC and the department working well together, including as intended by David Tune's recommendation that 'the department draw upon the RIC's operational experience as early as possible in the policy development process for new products and/or significant amendments to existing products, to better inform government decision-making' (Tune 2021).

Across engagement with other SIVs, it was noted that some friction between SIVs and their policy agencies was not uncommon, particularly as SIVs commence and develop in their role, with the relationship improving as both the SIV, and the department's engagement with the SIV, matures. In considering the RIC's governance, some changes are recommended to ensure that both entities are able to build a genuine understanding of each party's role and focus, and to develop a more productive and transparent relationship between the entities.

Some of the friction in the relationship between the RIC and the department may also be attributed to the current funding model. As noted in section 5.1.1 *Balance sheet*, while the RIC has decision making authority on the loans, the loans remain on the department's balance sheet. With the department bearing the risk of these loans, the department has a greater incentive to be well informed about the state of the portfolio to ensure the loans are prudently managed and to meet audit and assurance requirements. Similarly, the balance sheet being somewhat removed from the RIC may mean that it does not fully appreciate the audit requirements (because they are not its responsibility).

This misalignment was most acutely felt during the development of the RIC's system to manage their loan portfolio in-house following the conclusion of their LSP contract. Throughout this development, the department's Finance and Investment Division sought, and would have welcomed, a greater level of consultation and more opportunities for input to ensure developments would meet departmental requirements. This resulted in the initial reporting following the changeover lacking key information the department required (such as commitment date balances), requiring manual workarounds by the RIC, resulting in data integrity issues.

While the transfer of the RIC's loans to the RIC's balance sheet may assist in removing some of the difficulties in the relationship between the two entities, the relationship needs to work well for the RIC and the department to perform their functions effectively. While the RIC is an independent entity overseen by its Board, there are many instances of other SIVs which have established a trusting and productive relationship with their department that allow them to work effectively together whilst maintaining appropriate independence.

As a first step to improve the relationship, the department and the RIC should revise their MoU to ensure that the reporting requirements reflect the needs of both agencies following this Review. In addition to improvements to reporting mentioned in section 4.2.1 *Reporting*, areas that should be considered in revising the MoU include:

- opportunities for the RIC to provide industry insights from RIC clients and applicants based on geography and/or market changes
- clarifying roles and responsibilities, particularly around communication on sensitive information such as foreclosures, budget announcements or changes to loan parameters
- more robust loan forecasting and modelling
- data provided by the RIC, with a focus on providing more information regarding risk and arrears.

Both agencies should also work towards improving the understanding of their mutual roles and responsibilities in delivering farm business loans, with a focus on transparency and collaboration in delivering on the common objective of supporting farm businesses in need.

Recommendation 29

The RIC and the department enhance their collaborative working relationship, commencing with a revision of the Memorandum of Understanding and reporting requirements between the two agencies.

8.4 The RIC board

8.4.1 Expertise of the board

As noted in section 8.1 *Current Governance of the RIC*, the RIC has a board consisting of a Chair and 2-4 other members. Eligible members must have appropriate skills, qualifications or experience in one or more of:

- Agribusiness and the financial viability of businesses within the agriculture sector
- Banking and finance
- Water infrastructure planning and financing
- Issues concerning rural industries and communities
- Economics
- Financial accounting and auditing
- Government funding programs or bodies
- Law
- Drought resilience
- Expertise in an area that is relevant to a program prescribed by a rule.

As recommended in section 6.5 *First Nations data collection*, this Review also recommends the addition of First Nations expertise to this list of skills.

The current board has a range of experience across these areas, particularly finance and agribusiness. Following a recommendation by the Tune Review that intended to expand the skillset of the RIC Board by bringing first-hand experience in and understanding of Australian Government processes, a former APS Deputy Secretary was also appointed to the RIC Board to provide the Board with senior Commonwealth public service experience.

Submissions from stakeholders did not recommend any significant changes to the structure or composition of the RIC Board. However, many stakeholders identified a need for the RIC to retain strong ties with agribusiness and the agriculture sector, such as AgForce which recommended 'the RIC continue to adopt a governance model and board matrix representative of all agriculture sectors for which RIC lending occurs' (AgForce 2024).

Other stakeholders expressed other views on the skills and experience of desired Board members, suggesting that the Board should have representation from across Australia, gender diversity and experience in succession planning and emissions reduction.

While some stakeholders suggested that the RIC Board could be increased in size to ensure representation from all jurisdictions and industries, the Review found that an increase in the number of RIC Board members would not bring a significant benefit given the variety in industries and jurisdictions, and that they are unlikely to equally be impacted by drought. Instead, the RIC Board should be able to gain insights regarding specific locations or industries based on advice from its organisation or external stakeholders as is appropriate.

Similarly, the Review didn't find there was a need to reduce the size of the RIC Board. Noting the wide range of skills the Board is required to have expertise in, and the expectations of stakeholders, it would be difficult for the RIC to encompass such a range of activities with reduced membership.

8.4.2 Commonwealth representation on the board

Throughout the Review it was noted that, while having a former senior APS representative on the RIC Board brought benefits and enhanced understanding of government, the role did not enhance the synergies between the RIC and the strategic objectives of the government of the day, nor did it always enhance the RIC's understanding of government processes and priorities.

The Review also noted that several other SIVs (including EFA, ARENA, NAIF and AIFFP), other Commonwealth organisations (including the Foreign Investment Review Board and the RBA) and comparable state-based organisations (such as QRIDA) have government representatives from the relevant policy departments on their Boards.

Government representation on independent boards is not without risk, as it has the potential to undermine the independence of the organisation or create a conflict of interest for the government representative. Despite these risks, government representation on SIV Boards is reported to have provided benefits including a stronger relationship between the entities and giving the SIV first-hand knowledge of government's perspective in terms of strategic direction, relationship within government, priorities, risk, policy development, accountability and transparency. Both the majority of departments, and SIVs, believed that the departmental appointments had improved functioning of, and the relationship between, the organisations. Conflicts of interest are reported to be appropriately managed.

In particular, the NAIF noted that since an ex-officio member had been appointed to its Board in 2021, the partnership between the Department of Infrastructure and the NAIF had strengthened – allowing the two agencies to have better line of sight on opportunities to collaborate, and to help provide the NAIF insight into the department's views on particular issues. The Chair of the NAIF Board, Ms Tracey Hayes, noted that the addition of a Commonwealth representative to the NAIF Board had no significant impact on the Board's independence and that, from a whole of government perspective, the relationship added value. Similar positive reports of the value of a departmental board member were provided from SIVs consulted. While Commonwealth public sector experience on the RIC board has enhanced the RIC's knowledge of government frameworks and processes and its working relationship with the government, this Review believes the collaborative relationship between the department and the RIC could be strengthened and the impact of relevant government priorities improved by the addition of a senior executive (Deputy Secretary or First Assistant Secretary level) from the Commonwealth agriculture department to the RIC Board. This would allow the RIC to benefit from the department's visibility of government initiatives and opportunities for the RIC, while also assisting the department's visibility of the RIC's operations, risk management and reporting. This would also add another layer of engagement between the department and the RIC to improve their overall partnership.

In establishing a Commonwealth departmental board member, the arrangement should be modelled on the successful arrangement of ARENA, EFA and NAIF – where a senior executive is taken to be part of the RIC Board. In practice, that role is delegated, such as to the relevant Deputy Secretary or other Senior Executive to ensure a consistent representative where possible, noting that continuity in this position is more important than seniority.

To support the Commonwealth departmental board member, the department would need to develop a strategy to appropriately manage any conflicts of interest or other risks associated with the position. This strategy could be informed by other departments' approaches to Commonwealth departmental board members, and include guidance on types of decisions the Commonwealth departmental member may wish to abstain or recuse themselves from (such as voting on foreclosures).

Should a Commonwealth departmental board member be appointed, there would not be a need for a Board member with Commonwealth government experience (as recommended by the Tune Review). As Board member terms expire, alternative skills could be added to the RIC Board as required.

Recommendation 30

The government amend the RIC Act to appoint a senior executive from the department to the RIC Board.

The departmental representative would remove the need for a board member with senior Commonwealth public service experience.

It is the strong recommendation of the Review that the government add a Commonwealth representative to the RIC Board. In the absence of that occurring a less preferred but viable option could be to create a Government Relations role within the RIC. The CEFC has a "Head of Government and Stakeholder Relations" role to provide a central point for engagement with other Commonwealth agencies as well as state and territory governments. In discussion with both the CEFC and DCCEEW, this role was credited as one of the key elements in the collaborative relationship between the two agencies.

The closest role the RIC has had to a Government Relations role was the former "Executive Director Transformation and Engagement" position, which had a very broad remit including all forms of stakeholder engagement, communications and media, M&E and project management for transformation, including in-housing. This role was vacated in February 2024, with most functions merged into the "Executive Director Corporate Governance"– which is an even broader role overseeing the RIC's corporate functions. In selecting a person for the role, there should be an emphasis on experience in government, particularly at a Commonwealth level (whether departmental, ministerial office or both).

To enhance its engagement with the department and other Commonwealth agencies, it would be ideal for the RIC to increase its understanding of government/Ministerial roles, and processes (including Cabinet and Budget cycles). While the RIC has experience with some of these elements (particularly through its Finance area, which has had to provide input to costings to inform government decision making), it could build upon this by developing an understanding of the broader government context in which it operates.

8.5 Statement of expectations

In addition to their legislative framework, many SIV Boards have a ministerial SoE which is an opportunity for the responsible Minister(s) to provide greater clarity on the governments priority policies and objectives. While the handling of SoEs varies across organisations, SoEs are generally published online and responded to by the SIV's Board with a Statement of Intent – outlining how they intend to action the Minister's expectations.

To date, the RIC has been provided with one SoE in August 2020 following the need for the government to provide an additional $2 billion in loan funding due to unprecedented demand for interest free loans.

As this Review is recommending a suite of changes to the RIC's legislative framework, it would be prudent for responsible Ministers to issue a new SoE with potential context around these changes, and how the RIC is expected to implement them. Ideally, this should be issued following changes to the framework, in order to encompass any issues identified during legislative drafting processes and provide the RIC with guidance on how to manage them. If prompt issuing of a SoE following this Review is desirable, responsible Ministers may wish to consider the option of a subsequent, updated SoE to encompass legislative matters.

If the Minister(s) wished to provide the RIC with a SoE prior to changes to the RIC's legislative framework, topics that could be incorporated include:

- Reporting to the department and Ministers – including the information reported (as recommended in section 4.2.1) and the frequency of reporting.
- Loans reviews, including the expectation that all loans will be reviewed on an annual basis.
- How the RIC is expected to manage risk (including updating of its RAS, and management of higher risk/problem loans).
- Monitoring of loans and their associated outcomes (including DMPs).

Recommendation 31

Responsible Ministers provide the RIC with a Statement of Expectations providing further guidance on expectations on specific matters arising from this Review.

Chapter 9 – Implementation plan

This Review has outlined a number of recommendations that require action from both the RIC and the department over the next 18 months. These can be assigned into 4 categories:

- data, reporting and M&E
- policy analysis
- legislation, and
- strengthening relationships.

Figure 8 outlines the tasks ahead for the RIC and the department and shows the indicative and preferred timeframes within which tasks are to be completed, as stated in each recommendation. Throughout implementation, it will be important for the RIC and the department to work collaboratively – particularly regarding the data, reporting and M&E recommendations.

Additional resourcing will likely be required by both the department and the RIC to implement the recommendations of this Review. While the RIC is likely to be able to absorb these costs through savings created by its in-housing program, or by drawing upon its significant retained earnings estimated to be around $12.66 million as at 30 June 2024 (DAFF 2024d), the department will likely require additional funding and resourcing.

However, noting the RIC will not have had an opportunity to assess the resourcing required to implement this Review's recommendations (should the government agree to them) prior to this report being finalised, the government should also consider, as necessary, resourcing requirements for the RIC.

Recommendation 32

The government provide the department with additional resourcing to implement recommendations arising from this Review.

The government also consider whether the RIC requires additional resourcing to implement recommendations arising from this Review, subject to outcomes of the administrative cost review (recommendation 12 refers).

9.1 Data, reporting, and M&E

A number of recommendations relate to improving the data and reporting generated by the RIC, and strengthening its M&E programs to better measure the impact of its loan products. Much of this work can commence immediately, and be built into the RIC's existing functions.

9.2 Legislation

There are several recommendations that relate to changes in the RIC's legislative instruments, such as the Operating Mandate and the Act. These tasks include:

- amending the RIC's legislation to allow loan management flexibility, including allowing RIC customers flexibility around timing of repayment of principal and interest

- amending the RIC Act to make provision for ongoing 5-yearly reviews
- amending the RIC's legislation to remove references to the RIC's former role in delivering water infrastructure loans, and the RIC Board's FDF advisory role
- amending the RIC Act to add First Nations expertise as a relevant area of expertise for the Board
- amending the RIC Act to appoint a senior executive from the department to the RIC Board.

Timing for implementing these amendments, should the government agree to the relevant recommendations, are dependent on broader government processes. They are therefore not included in Figure 8.

9.3 Policy analysis

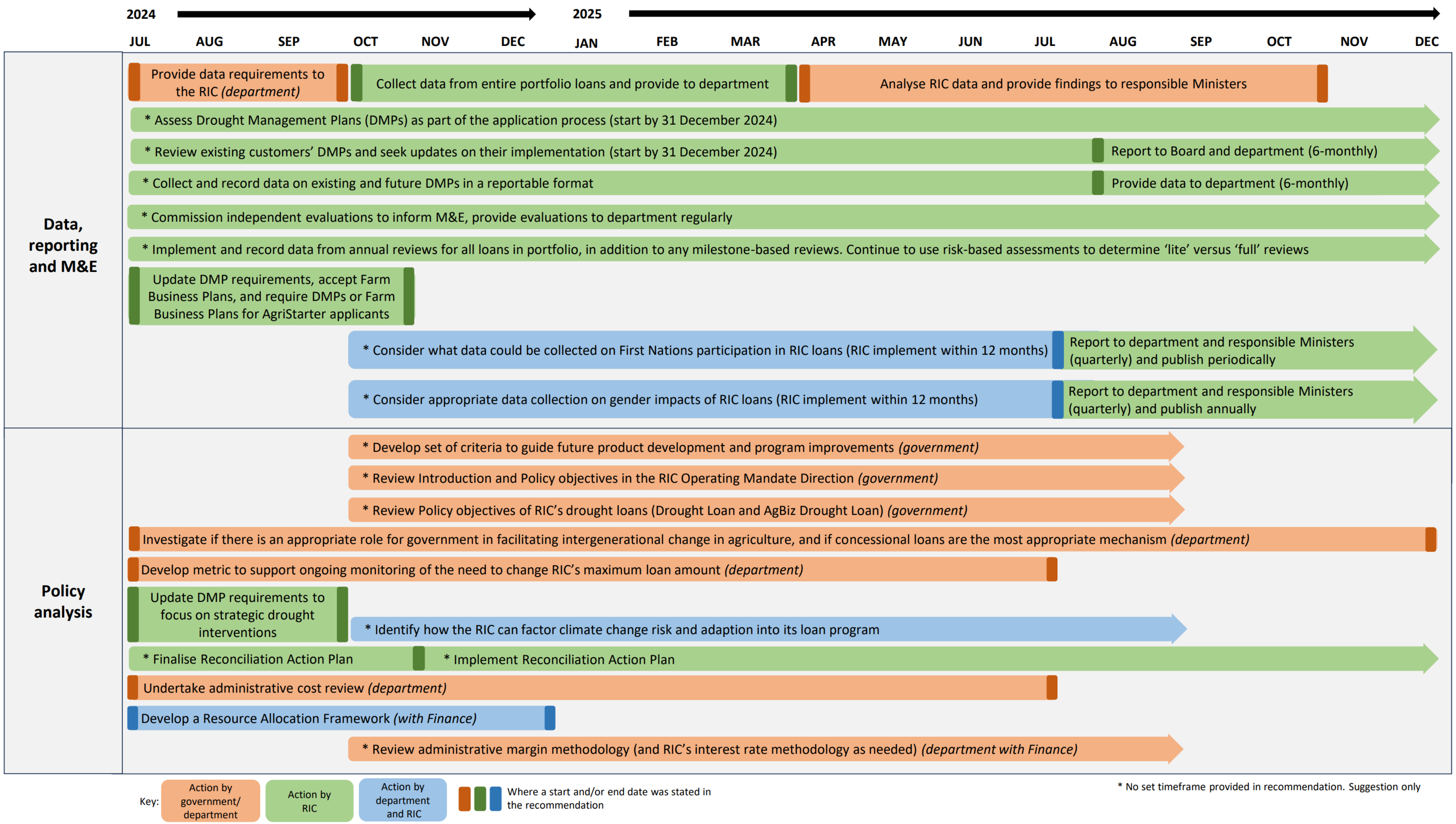
A further group of recommendations relate to policy analysis and the refining of RIC program elements. This includes the department considering and providing advice on an appropriate role for government in facilitating intergenerational change in agriculture, and the RIC incorporating climate change risk into its loan program. These policy-related processes can be conducted in tandem with M&E work.

These recommendations also include tasks relevant to determining appropriate operational funding of the RIC going forward, including a review of the RIC's administrative costs to be completed in early 2025, to feed into a review of the RIC's administrative margin and interest rate methodology.

9.4 Strengthening relationships

The final group of recommendations relate to the RIC's relationships with other entities, such as the department, commercial lenders, the RFCS, IBA and the ILSC. While work can commence on building and strengthening these relationships immediately, it would not be appropriate for this Review to outline a timeframe in which such efforts should be conducted or concluded, noting relationships build and evolve over time. This is particularly true for organisations where the RIC does not have strong existing links, such as with First Nations organisations.

Figure 8 Implementation plan



Appendix A – Terms of reference

Matters to be considered by the statutory review

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:

- 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
- the appropriateness of the *Regional Investment Corporation Operating Mandate Direction 2018*, rules made under the Act and eligibility criteria
- the customer base of the RIC and the case for supporting that customer base with publicly-funded concessional finance
- the suitability and effectiveness of the RIC's products and services
- the suitability of the RIC's funding model and operations
- opportunities for the RIC to appropriately support the agriculture sector to meet current and future challenges in line with government policy objectives
- opportunities to support greater engagement and inclusion of First Nations people in agriculture, including facilitating activities that are First Nations-led
- opportunities to improve the efficiency and effectiveness of loan delivery and management, including with reference to other Commonwealth Specialist Investment Vehicles
- other matters relevant to the operation of the Act.

The Review must include consultation with relevant stakeholders.

The final report should include recommendations on the activities and governance arrangements of the RIC after 30 June 2026.

Timing

The Review is to be finalised and a written report provided to the Agriculture Minister on or before 1 July 2024 (subsections 53(2) and (3) of the Act).

Appendix B – List of stakeholders

Throughout the Review, approximately 100 meetings were held with stakeholders. Consultation was conducted both in-person and virtually.

Sector	Stakeholder
Commonwealth government	Department of Agriculture, Fisheries and Forestry (DAFF) – Farm Resilience Division
	DAFF – Loans, Tax, Financial Frameworks & Compliance section
	DAFF – Climate Policy Branch
	DAFF – Australian Bureau of Agricultural and Resource Economics (ABARES)
	DAFF – First Nations Branch
	Department of Finance (Finance) – NRFC, NAIF and RIC section
	Department of the Treasury (Treasury) – Rural Unit, Industry and Infrastructure Branch
	Treasury – Housing Finance Branch
	Department of Climate Change, Energy, the Environment and Water (DCCEEW) – Nature Finance & Capital Markets
	DCCEEW – National Water Grid Infrastructure and Investment Branch
	DCCEEW – Clean Energy Technology Finance Section
	DCCEEW – National Adaptation Policy Office
	Clean Energy Regulator
	Department of Infrastructure, Transport, Regional Development, Communications, and the Arts (DITRDCA) – Northern Australia Investments and Projects Branch
	DITRDCA – David Mackay and Lisa Rauter
	Department of Industry, Science and Resources – National Reconstruction Fund (NRF) Policy & Liaison
	National Emergency Management Agency
	Department of Foreign Affairs and Trade (DFAT) – Export Finance and Strategic Investment Branch
RIC	The RIC Board, CEO, Executive Leadership Team, Senior Program Delivery staff
Other SIVs	Clean Energy Finance Corporation
	Northern Australia Infrastructure Facility
	Australian Infrastructure Financing Facility for the Pacific
	Export Finance Australia (EFA)
	National Reconstruction Fund
	Housing Australia
	Jo Evans – ARENA Board member
State government	Office of the Victorian Rural Assistance Commissioner
	Agriculture Victoria, First Nations Programs
	Queensland Department of Agriculture and Fisheries

	Queensland Rural & Industry Development Authority
	Rural Business Development Corporation, Western Australia (including Western Australian Department of Primary Industries and Regional Development as observers)
	Tasmanian Department of State Growth
	Department of Natural Resources and Environment Tasmania
	Northern Territory Department of Industry, Tourism and Trade
	New South Wales Rural Assistance Authority (NSW RAA)
First Nations	National Indigenous Australian Agency
	Indigenous Business Australia
	Indigenous Land and Sea Corporation
	Northern Territory Aboriginal Investment Corporation (NTAIC)
	Aboriginal Sea Company
	Landcare First Nations Working Group
	Northern Australian Indigenous Land and Sea Management Alliance
	Tamworth Local Aboriginal Lands Council
	Yamatji/4 ways
	Yarpa Hub, New South Wales
	Joshua Gilbert
	Peter Yu – Australian National University First Nations Portfolio
	Suzanne Hullick – Group Head of Diversity Equity and Inclusion, Westpac and Board Member, NTAIC
Agriculture industry	National Farmers' Federation
	Primary Producers South Australia
	GrainGrowers
	Cattle Australia
	AUSVEG
	Australian Chicken Growers Council
	Seafood Industry Australia
Banking industry	Australian Banking Association and Agribusiness members
	Bendigo and Adelaide Bank
	Rabobank
	ANZ
	Chris Stewart (RBA)
RFCS	Rural Financial Counselling Service providers (Executive Officers and counsellors)
CALD	Vietnamese Farmer's Association SA
Other	National Rural Women's Coalition
	David Tune AO PSM
	Alexandra Gartmann
	David Palmer (former Chair, NSW RAA)
	Dustin Kemp - Young Farmer, Victoria

	Tim Yeend (former EFA government Board Member)
	Lukina Lukin, Dinko Tuna Farmers
	John Newcombe – Former Director, NSW RAA
	Dr Alexandra Heath

Appendix C – List of submissions

Twenty-four written submissions were received as part of the Review's consultation process. Five were provided on a confidential basis and are therefore not listed in this appendix.

Public submissions are anticipated to be published prior to the release of the Review and will be available on the Review's Have Your Say webpage.

1. AgForce QLD
2. Aus Grape and Wine Inc
3. Australian Banking Association
4. Australian Farm Institute
5. Australian Pork Ltd
6. Cooeeyana Unit Trust
7. Grain Producers SA
8. GrainGrowers
9. Minister for Primary Industries & Water (TAS)
10. National Australia Bank
11. National Farmers' Federation
12. National Rural Women's Coalition
13. NSW Farmers Association
14. NT Cattlemen's Association
15. Department of Primary Industries and Regions (PIRSA), South Australia
16. Queensland Farmers' Federation
17. Regional Investment Corporation
18. Rural Financial Counselling Service NSW
19. Victorian Farmers Federation

Appendix D – Farm business survey

Design and methodology

An online survey of farm and farm-related small businesses was conducted between 8 December 2023 and 12 January 2024. It aimed to:

- understand the impact of Regional Investment Corporation (RIC) loans
- seek views on the benefits and drawbacks of concessional loans, including limits to ongoing concessional lending
- seek feedback on changes to RIC loans.

The survey was sent directly to current and past RIC clients, including individuals who had been declined a RIC loan, totalling 3,127 farm businesses. To target farm businesses who may not have previously engaged with the RIC, the survey was also sent to industry groups and Research and Development Corporations to forward on to members.

The survey consisted of 20 multiple-choice questions and 11 additional free text questions. All respondents were asked about their views on the benefits and drawbacks of concessional loans and changes to RIC loans. Respondents were asked different questions around the impact of RIC loans on their business and decision making, depending on their prior engagement with the RIC.

Most multiple-choice questions were mandatory, besides questions on income. Follow-up questions asking respondents to elaborate on multiple-choice questions using free text were optional.

To further explore responses received through the farm business survey, interviews were conducted with 21 respondents between the end of January 2024 and end of February 2024 (see Appendix E).

Responses

A total of 502 responses were received from the following cohorts:

- RIC engaged: those who have engaged with the RIC or currently have, or have had, a RIC loan (444). This cohort includes those who have:
  - engaged with the RIC but have not applied for a loan (9)
  - applied for a loan and are waiting for a decision (6)
  - a current RIC loan (includes those with approved but not settled loans) (407)
  - repaid their RIC loan (22).
- RIC declined: those who had their RIC loan declined (47).
- RIC not engaged: those who have not engaged with the RIC at all (11).

While there were minor differences in the results within each cohort, the general findings were similar.

High level findings

Role of government

- 97.8% think the government should provide publicly-funded concessional loans to farm businesses and farm-related small businesses.
    - The top two reasons respondents gave were: the need for farmers to be supported due to the volatility in their business environment that is often out of their control (e.g. weather and price fluctuations); and that the agricultural sector provides basic needs – food and fibre.
    - While responses from the cohort not engaged with the RIC were limited, they were more supportive of the government providing publicly-funded concessional loans than the RIC engaged and RIC declined cohorts.

Impact of concessional loans

- 93.8% think that concessional loans support the long-term strength, resilience and profitability of farm businesses and farm-related small businesses.
    - The top reasons respondents gave were that concessional loans helped them to: manage, recover, and prepare for drought and other adverse events; improve cash flow; smooth out variability in income; and provide breathing space.
- 98.4% think that concessional loans for farm businesses and farm-related small businesses help to support regional communities.
    - The top reasons respondents gave were that concessional loans helped to keep family farms in the region and therefore: supported spending locally; provided employment opportunities; and supported the provision of community services and social events.
    - In turn, these benefits created happier, more resilient and vibrant communities.
- 71.3% do not think there are negative impacts from concessional loans.
    - The top reasons respondents gave on why they thought there were no negative impacts included that the assessment process and eligibility criteria limit loans to those likely to remain in farming, and they reiterated the benefits that loans provide to businesses and regional communities. Others noted that those likely to exit farming or farm-related small businesses will exit anyway, with or without a RIC loan.
    - Those who considered there were negative impacts said that loans could delay or prevent exits, which would keep inefficient operators in the sector. It could also promote poor practices or delay crucial business decisions.
    - Those who had not engaged with the RIC were more likely to think that there were negative impacts from concessional loans.

Loan use

- 429 respondents who have ever had a RIC loan provided details on how they used their RIC loans.
- Multiple-choice options, of which more than one response could be selected, included activities that suggested new capital investment on farm and options that did not suggest new capital investment.

- From the 429 respondents:
  - 352 (82%) flagged they used the RIC loan for refinancing, which echoes the top reasons why respondents considered loans supported farm businesses.
  - 168 (39%) noted they used the RIC loan for an activity that suggested investment of new capital into the farm business (either solely or in addition to refinancing).
- Some respondents provided further details around the specific use of their RIC loan.
  - The most frequent response was paying for operating expenses, followed by investments in water infrastructure (e.g. built dams, water pumps, piping, bores, water tanks, or other irrigation equipment).
- Exploring loan uses in interviews showed that while many RIC loans were used for refinancing, the interest saved from refinancing was re-invested into the business for capital improvements. It is unclear how many respondents who only selected refinancing also re-invested into the business using interest saved.

Limits to concessional lending

- Views on limits to concessional lending varied across the cohorts.
- Across all cohorts, on average 68% considered there should not be a limit to the number of times a business is eligible for a concessional loan.
  - Those who had not engaged with the RIC were more likely to consider limits were appropriate.
  - Respondents against limits considered it would be difficult to justify and unfair since everyone's circumstances are different. Respondents noted that the eligibility criteria ensure access is based on need and would limit negative impacts.
  - Some suggested that subsequent lending be conditional on behaviour and results of the farm business, and therefore subject to extra scrutiny.
  - Respondents who considered there should be a limit said that limits would encourage a more competitive agricultural sector and ensure public resources are put to most efficient and effective use.
- 84.1% considered farm businesses and farm-related small businesses should be able to access government-funded concessional loans on an ongoing and/or consecutive basis (whether Commonwealth and/or state/territory government funded).
- When asked how long a business should be able to access government funded concessional loans on an ongoing consecutive basis, the top response was 20 years.

Views on RIC loans and loan delivery

- On average, respondents considered that having the lowest interest rates possible was the most important factor in delivering concessional loans, followed by quick decisions on loan applications.
  - Having an established organisation to deliver concessional loans efficiently and effectively in the event of a severe drought or disaster was ranked third most important across all cohorts.

  - Additional factors that were important to respondents included a simple application process and helpful, knowledgeable staff that understand the agribusiness and rural landscape.
  - More flexible loan terms and more flexible loans were not in the top three priority factors for any cohort.
  - Aside from those who had not engaged with the RIC, national consistency was ranked on average around sixth in terms of importance.
  - Cost to taxpayers was least important among all cohorts.
- 69.9% considered that 10 years was the optimal term for a drought-related loan. Those who had not engaged with the RIC were more likely to consider 5 years was appropriate.
- 330 respondents answered the optional question relating to suggested changes to RIC loans.
  - Around 30% of those respondents said they would not change anything.
  - The top suggestions included improvements to the application process, longer loan terms, and changes to better support new entrants.
- The top themes covered in the additional comments provided by respondents included: positive feedback on the RIC – its benefits and the quality of staff; as well as negative feedback that the application process is excessive; and loan decisions weren’t timely.

Survey responses across all cohorts

About the respondents – primary farming activity and location

Survey respondents represented a range of industries from across Australia. Beef cattle was the most common primary farming activity among survey respondents (23.8%). Around 47% of respondents were from New South Wales, followed by Queensland (22.7%) and Victoria (12%) (Figure D1 and Figure D2).

Figure D1 Primary farming activity of respondents.

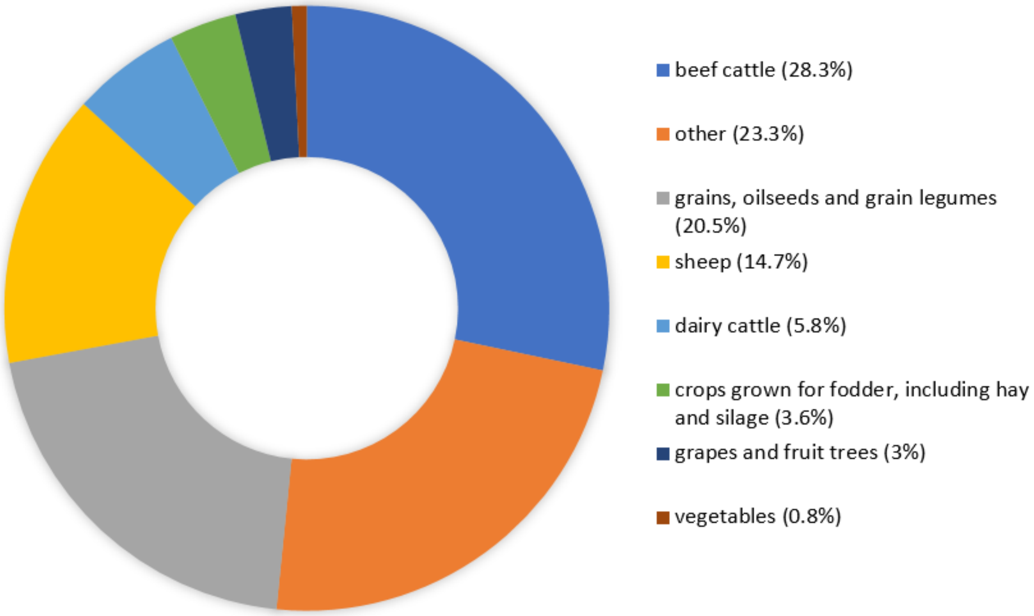
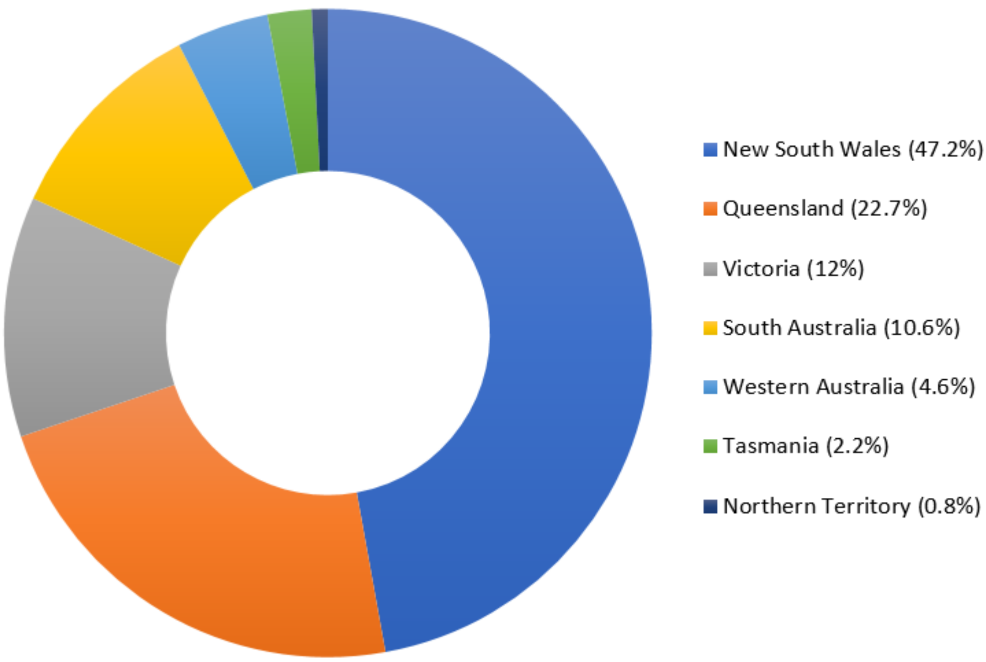


Figure D2 Location of respondents by state and territories



Note: due to rounding, the percentages do not total 100%.

Role of government

97.8% think the government should provide publicly-funded concessional loans to farm businesses and farm-related small businesses.

484 respondents explained why they thought governments should provide concessional loans. Responses included that:

- famers operate in a high risk business landscape (due to uncertainty caused by weather, price fluctuations, regulatory impacts, climate change and natural disasters) and loans assist recovery in times of need (105)
- famers produce food and fibre – a basic need (91)
- agriculture contributes significantly to Australia’s GDP and economy (32)
- family farms are vital for rural and regional communities and economies. They spend locally, provide a workforce for other industries through off-farm employment, support schools and medical services, support volunteer roles like the fire fighters and coaches, and create vibrance through their participation in social events and fundraisers (32)
- young people/new entrants need help getting into agriculture as they face high costs in establishing a farm business, particularly if they not from a farming family (32)
- Australia has one of the least subsidised agricultural sectors in the world and is competing against other more subsidised farmers internationally (18)
- farmers have high input costs (14)
- farmers are price takers (13)
- farmers have high debt to income ratios, the cost of borrowing is high, and banks are reluctant to lend to the rural sector (11)
- farmers play a large role in land management (8)
- loans are better than grants (e.g. because they encourage investment in resilience and money is repaid and not ‘welfare’) (7).

Impact of concessional loans on agricultural sector

93.8% think that concessional loans support the long-term strength, resilience and profitability of farm businesses and farm-related small businesses.

- 3.6% are unsure
- 2.6% do not think they do.

429 respondents explained their views on whether concessional loans supported the long-term strength, resilience and profitability of farm businesses and farm-related small businesses. These included positive impacts on:

- ability to manage, recover and prepare for drought (51)

- profitability (38), long term strength, including stability of the industry (32), resilience, including financial, climate, drought, and mental (27), viability (16), productivity (7), growth (28), sustainability (3)
- ability to recover following adverse events (28)
- cash flow (15) and smoothing out income variability (26)
- mental health (5), including by providing 'breathing space' (15), easing financial pressure (7) and help with servicing debt (18)
- ability to implement change and take on opportunities (6), invest in the business (39), including in new technologies and machinery (5), infrastructure (14), capacity to adapt to climate (7), diversify the business (4)
- confidence (8), including knowing support is available for tough times and feeling cared for (as an industry and as an individual)
- decision making (8), including due to the application process and the opportunity that the additional cash flow provided – for example to seek expert advice (2)
- funding options to businesses, since banks are not as supportive during times of hardship (14)
- succession (8) and young/new farmers looking to enter farming (13)
- maintaining or developing skills/knowledge in the sector (6).

Others suggested that loans help to 'level the playing field' with larger corporates who can access loans at better interest rates.

Impact of concessional loans on regional communities

98.4% think that concessional loans for farm businesses and farm-related small businesses help to support regional communities.

442 respondents explained their views on whether concessional loans supported regional communities. Respondents who felt that concessional loans do support regional communities specifically highlighted the flow-on benefits of keeping family farms in the community:

- Farmers spend locally – on retail purchases, on-farm contractors and across other industries (189).
  - One respondent specifically noted paying creditors in the area, while another suggested that $1 spent in agriculture is $9 spent in a regional town.
- Farmers provide employment opportunities directly, such as on-farm labour, or using farm-related businesses as suppliers/contractors, and indirectly through engagement with non-farm related industries (86).
  - One farmer said that one farm business employs around 10-15 people directly and the same again indirectly.
- Famers support the provision of community services (e.g. health, education, financial) and social events and fundraisers. This could be either directly through engaging in off-farm employment or volunteer work, or indirectly through keeping people (including children) in the local community to ensure services continue to be provided (40).

  - Several respondents noted that easing financial burden means less spouses/farmers need to seek off-farm employment, allowing them to contribute more to volunteer roles.
  - Another respondent noted that financial support stops large scale collapse of many businesses due to a single (often prolonged) event, which could significantly impact the community.

These positive impacts in turn create further regional benefits:

- They build happier, more resilient and vibrant communities, giving a sense of 'liveability' to regional areas, and helping communities get back to 'normalcy after difficult times' (15).
  - One respondent said, 'do not underestimate the psychological impact [of concessional loans].' Another said, 'concessional loans have a cushioning effect on rural businesses, and this has long term implications for these businesses and the general community.'
- They encourage new farmers and younger people into regional communities, further amplifying the positive impacts (7).

Many flagged that these positive social and economic impacts would not be realised if family farms were sold to larger corporates. As one respondent commented:

> '*Family and small business in rural areas [are] foundational to sustain rural communities. Rural towns are fuelled by local people contributing their time, goodwill and investing long term in their communities. Corporates may donate here and there to local charities but you need people to run these charities, sports clubs and activities. Corporate donations may even be large at times but they are done to buy goodwill not keep towns going. The long-term residents, invested in their land and environments, are what keep towns going across generations.*'

Those who considered that concessional loans do not support regional communities felt:

- the opportunity cost of supporting a non-viable farm businesses is less money spent in the community, than if another more viable farm business had replaced it after exiting (2)
- that farm businesses do not spend most of the funds locally (2).

Negative impacts of concessional loans

71.3% do not think there are negative impacts from concessional loans.

- 10.8% think there are negative impacts from concessional loans.
- 17.9% are unsure if there are negative impacts from concessional loans.

427 elaborated on their views around whether concessional loans have negative impacts. Views from those who felt the loans do not have negative impacts were diverse:

- The assessment process and eligibility criteria already prevent loans from going to those who are not viable and looking to exit (103). Some noted the high competence of current RIC staff in asking the right questions, and the value in assessors specifically asking about plans to exit.
- Loans are mostly beneficial for the sector and for the country, and that there is a role for government in this space regardless of negative consequences (100).

- The RIC loan improves business's viability by allowing farmers to make better business decisions (supported through the application process and 'buying time'), and by supporting on-farm capital investments (32).
- Farmers seeking to exit would not take on a loan (as they still need to repay them, unlike grants, and they are resource intensive to apply for) (28).
- Farmers who want to exit would still exit, so the concessional loan would not be preventing this (31).
  - Some suggested there may be delays to exits but this might be a good thing for the individuals' financial and mental position and to stagger the broader community impact (where exits occurred due to industry-wide challenges, such as drought).
- The resource intensiveness of the application process deters people who are looking to exit from applying (15).
- The loans would not impede structural adjustment (14). Some reasons provided were that:
  - there were other forces at play that would encourage structural adjustment
  - the loans are not big enough to have a measurable impact
  - the farmers remaining are very competent
  - loans support structural adjustment through facilitating entry and supporting expansion.
- Other respondents said that loans do not have negative consequences if used for the short term and that they do not have negative consequences because they do not impact market prices.

Views varied among those who felt concessional loans had negative impacts:

- Loans could delay or prevent exits (some suggested this would keep inefficient operators in the industry) (24).
- There may be negative impacts depending on the business/circumstances/use of RIC loan (22).
- Loans could 'prop up' poor businesses/practices (9), or delay or prevent crucial business decisions, like selling part of a business or changing management practices (6).
- Loans can drive up price of land (4).
- The effort and resources required to submit a RIC application, and the wait and subsequent rejection, can have negative impact (e.g. missing out on the opportunity to purchase the block next door) (2).
- Loans can reduce the incentive to make business changes (2).
- It may load unviable farmers with more debt (2) or generate a false sense of security in being able to service debt after starting interest repayments.
- Loan parameters not supporting non-generational farmers or smaller family farms.
- One respondent noted that banks were uninterested in refinancing smaller portions of loans (i.e. if using RIC loans for refinancing) and another respondent commented that loans are for politicians to appear to be doing something.

- Others noted that loans can prevent expansion by more profitable businesses by giving competitive advantage to less profitable farmers, rewarding high risk investments and distorting markets. RIC loan recipients were also considered riskier clients by the banks.

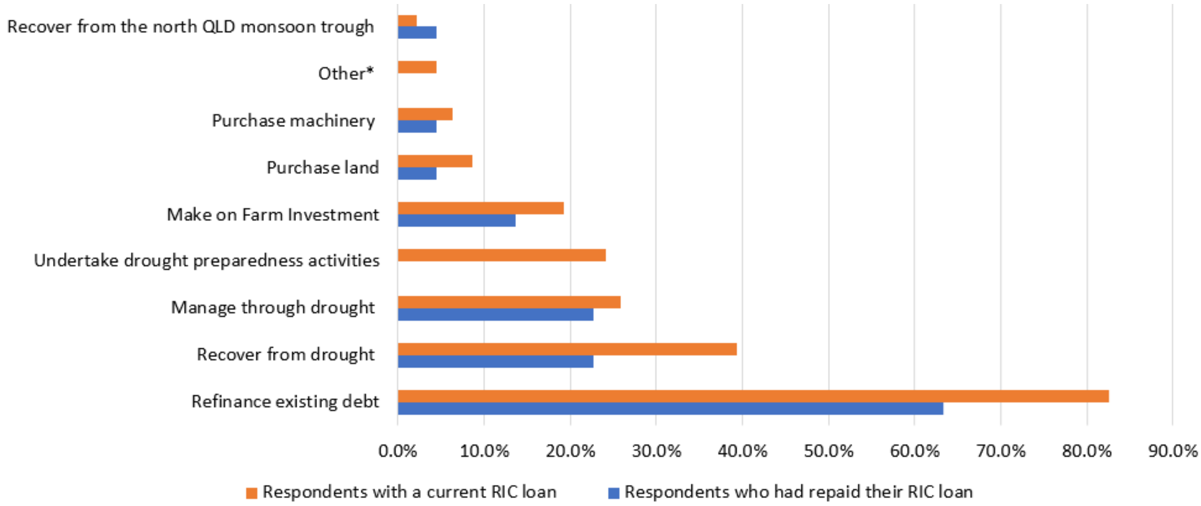
Loan uses

The 429 respondents who currently have, or have had, a RIC loan were asked how they used the loan. They could select multiple activities from a list of options (Figure D3).

- 352 (82%) used the RIC loan for refinancing, which echoes the top reasons why respondents felt that concessional loans supported farm businesses.
  - 231 selected activities that did not suggest new capital investment. That is, they used the loan for refinancing only, or refinancing and other activities that didn't suggest investing new capital into the business (such as the 'recover from drought' or 'manage through drought' response options).
  - 121 selected activities in addition to refinancing that did suggest capital investment (such as to make on-farm investments or to purchase machinery).
- 77 (18%) nominated loan uses that were not refinancing.
  - 30 noted activities that did not suggest new capital investment.
  - 47 noted activities that suggested new capital investment.

Exploring loan use in interviews showed that while many RIC loans were used for refinancing, the interest saved from refinancing was re-invested into the business. It is unclear how many respondents who only selected refinancing also re-invested saved interest into the business.

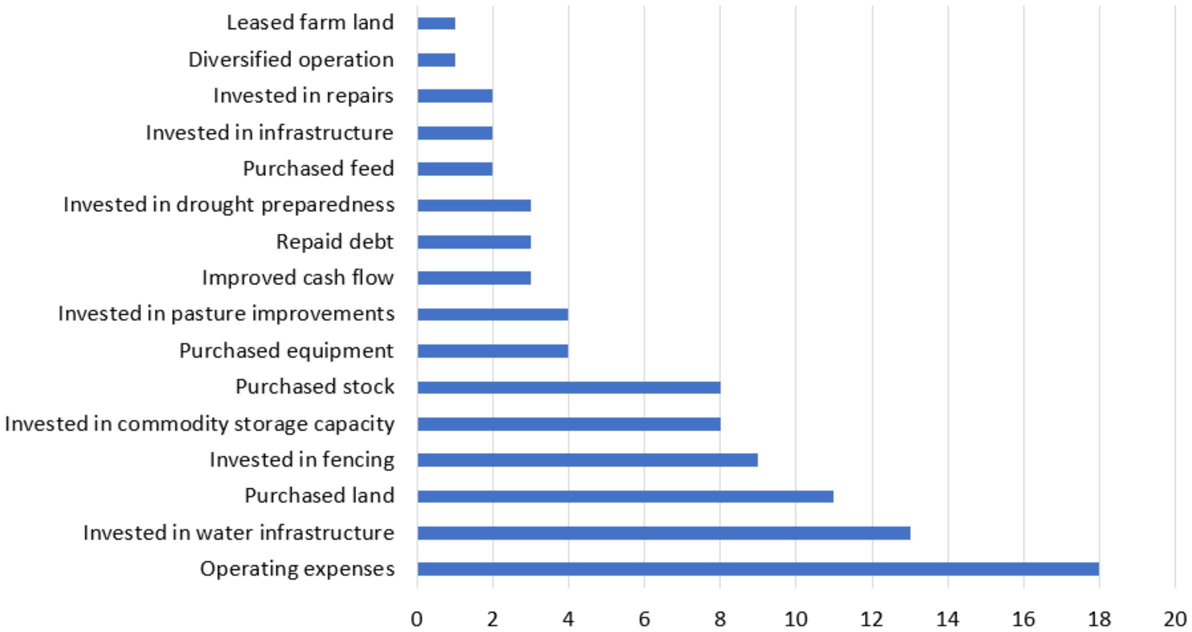
Figure D3 How respondents used their loan



* Other includes purchase cattle/stock, increase working capital, diversify, succession, take on lease, meet boundary fence obligations, recover from other financial impact (price collapse, fires). Note: The sum of the percentage is higher than 100, as the survey allowed for multiple responses.

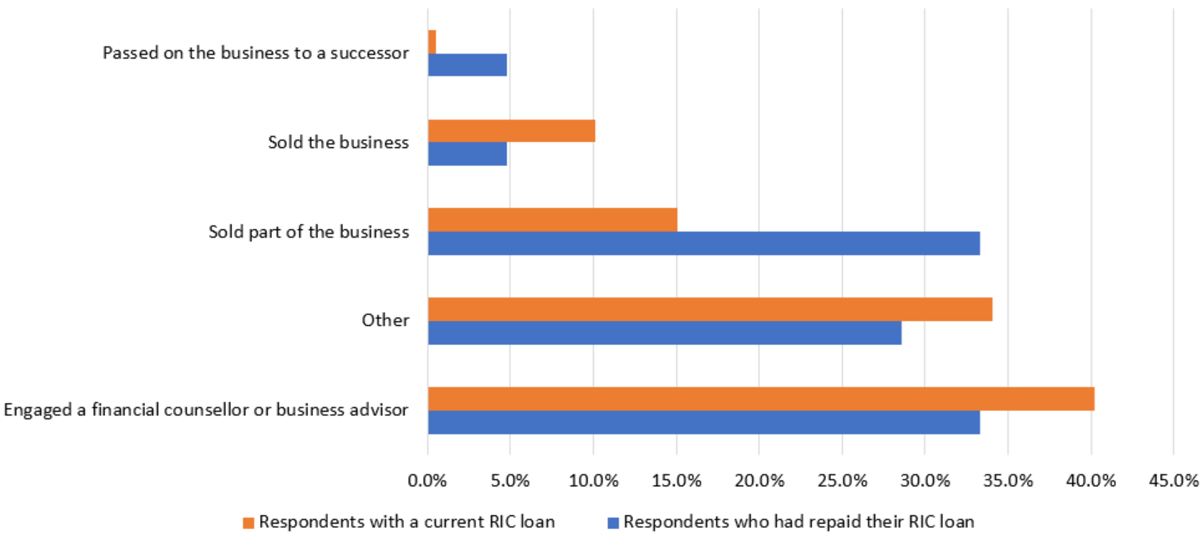
Further, 70 respondents specified exactly what they used the loan for. Multiple uses were often cited, including operating expenses, investment in water infrastructure and land purchases (Figure D4).

Figure D4 Exact use of the RIC loan



Respondents were also asked what they would have done if they had not received a RIC loan. A large proportion indicated they would have engaged a financial counsellor or business adviser, while others said they may have sold part of the business (Figure D5).

Figure D5 Respondents on if they had not received a RIC loan what they would have done instead



Note: Due to rounding, the percentages do not total 100%.

Important factors in delivering concessional loans

Respondents were asked to rank the importance of seven factors – including lowest interest rates possible and quick decisions on loan applications – in delivering concessional loans for farm businesses and farm-related businesses. A ranking of one was the most important and seven the least (Table D1).

Table D1 Important factors in delivering concessional loans for farm businesses and farm-related businesses

Options	Average rank
Lowest interest rates possible	1.99
Quick decisions on loan applications	3.05
Having an established organisation that can deliver concessional loans efficiently and effectively in the event of a severe drought or disaster	3.90
More flexible loan terms	4.06
More flexible loan uses	4.68
Loan products that are nationally consistent in terms of loan settings (e.g. loan terms, interest rates) for all farmers across the country	4.96
Lowest cost to taxpayers	5.37

261 respondents specified other factors important to them, including:

- simplicity in the process (e.g. a single point of contact for applications, simpler eligibility, shorter applications and removing duplicative information requests, and access to better assistance through the process) (30)
- staff who are helpful, accessible and understand the agribusiness and rural landscape (16)
- more new entrant support, such as supporting non-generational famers and considering pre-approval from banks for RIC loan applications (11)
- that the mere presence of support is good for farmers’ confidence (5), and the RIC having a better on-ground presence would be positive (1)
- earlier/more sensitive communication of rejections (4)
- loan use flexibility (3), including longer loan terms (3) and longer interest free terms (1).

Loan term

Respondents thought the optimal term for a drought-related loan that aims to help farm businesses and farm-related small businesses was:

- 10 years (69.9%)
- 5 years (13.9%)
- Other (16.1%)

Note: due to rounding, the percentages do not total 100%.

Limits to concessional lending

More than 68% of respondents felt there should not be a limit to the number of times a business is eligible for a concessional loan. Nearly 32% felt there should be a limit.

422 respondents elaborated on their views around whether there should be a limit. Feedback varied from those who considered there should not be a limit:

- Putting a limit would be unfair and difficult to justify as it is hard to predict the number of times a business may require support due to circumstances outside their control (given the risks farm businesses face) (124).
- Access to concessional loans should be based on need. If you meet the criteria, then you are viable but in financial need and should be supported (57).
- Subsequent concessional loans should be conditional on the behaviour and results of the farm business, and therefore subject to increased scrutiny (i.e. case by case assessment rather than absolute number limits) (32). For example, continued access to loans if:
  - the business is making a profit and growing
  - clients are spending the loan wisely, such as investing in resilience building
  - seeking to invest in new opportunities (e.g. technology or future proofing)
  - clients have repaid the first loan
  - the loan purpose was achieved as planned
  - actions have been taken to prevent being in the same situation again.
- There were some conflicting views around continued access to loans for recovery for those who have been impacted by circumstances outside of their control and loans used for other purposes with longer term benefits.
- There will always be a role for government in supporting the agricultural sector (because of reasons outlined in respondents' responses to why government should deliver concessional loans), including the public benefit of agriculture to regional communities and food security (19).
- There should be no limits where the farm has been passed on to another owner/manager (6).
- The complexity of the application process is already a deterrent for those looking to abuse the system (4).
- Others considered that limits would just add more complexity (e.g. since business can structures change), that limits were unnecessary because farmers do not want to be supported forever, and that there should be leniency for new entrants.

Views were equally diverse from those who considered there should be a limit:

- Limits encourage a competitive agricultural sector (by not relying on support all the time and not supporting farm businesses who are unviable) (46). Some of these respondents considered that if you need continuous support, then likely you are unviable anyway and should exit.
- Limits ensure the system is not abused (14).
- Limits would encourage more responsible use of the RIC loan (12).
- Limits would help ensure support is prioritised for those most in need and who would benefit most given government resources are limited (12).
- Some proposed limits including:
  - 2 in a lifetime (6 respondents)
  - 1 at a time (5 respondents)
  - 3-4 times (2 respondents)
  - 2-3 times (1 respondent)

   – frequency limits (e.g. 15 years out of 25 years) (1 respondent).

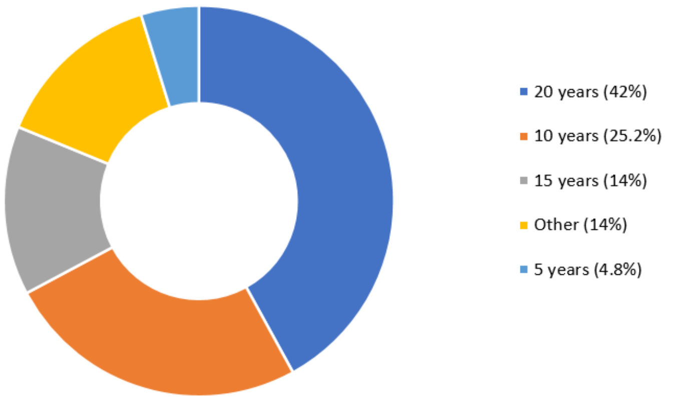
- Others considered that limits should apply to those who have not repaid their loan and act as a deterrent to not repaying the loan, while some suggested that limits should apply to total loan amounts rather than number of loans.

Respondents' views on whether farm businesses and farm-related small businesses should be able to access government-funded concessional loans on an ongoing/consecutive basis (whether Commonwealth and/or state/territory government funded) were:

- 84.1% considered they should be able to
- 15.9% considered they should not be able to.

When asked how long a business should be able to access government-funded concessional loans (whether Commonwealth and/or state/territory government funded) on an ongoing and/or consecutive basis, 42% of respondents felt 20 years was appropriate. This was followed by 10 years (25.2% of respondents) and 15 years (14%) (Figure D6).

Figure D6 Respondents' views on time frame to access government-funded concessional loans



339 respondents elaborated on why they selected these time frames.

A range of comments were received from those who considered 20 years was appropriate:

- Farm businesses have a unique structure, with a large asset base required to get started and the potential for income to be quite variable – this means it takes a while to get established and be in a strong position. Funds are usually for longer term assets which need a longer repayment period.
- This time frame would better support succession arrangements. The price of land is so high (along with interest rates) that it takes a long time to get established/pay off. Some likened it to buying your first house.
- It would better support business planning and resilience to future challenges (due to more consistency and being able to continue to implement farming projects).
- Agriculture should be supported due to the public benefits it provides (and because it's not as subsidised as other agricultural industries internationally).
- It would help provide a dual benefit to farm businesses – i.e. recovery and development of the business. Longer term loans can allow money to be spent on infrastructure and farm improvements rather than just on reducing debt.

- Droughts can last a long time and recovery can be quite slow.
- It puts less pressure on repayments in a manageable time frame.
- Previous/other schemes allowed this, so it should be allowed again.
- It would support family farms to compete with corporate farms.

Those who considered 15 years was appropriate made similar comments:

- This time frame would better match what is provided by commercial lenders.
- If a farm business cannot stand without support in 15 years, then it is not a viable business.
- This time frame should be sufficient to recover and implement business changes to support resilience.

Those who considered 10 years was appropriate also made similar comments to those who said 20 years:

- This time frame should be sufficient to recover and build resilience.
- Experience has shown that there can be below average years for about 5 years, so at least 10 would be helpful.
- The loans can always be repaid early.
- Most farms would not experience adverse conditions for more than 10 years.
- In an average 10-year cycle, the rural industry normally goes through 3 or 4 seasonal cycles, so 10 years is about right to ride out the peaks and troughs.
- Recovery in some industries takes much longer than 5 years e.g. breeding livestock.
- Should be able to build a resilient business in 10 years.
- 10 years is a good balance. It should allow time to recover and future proof, but not grow complacent.
- Should be eligible for 2 rounds of 5 years – in case of a second severe impact. Extensions to loans should be granted where improvements have been made to the business and where there is a strong business case for the second loan.
- This is a good amount of time to reassess the financial state of the business.

Those who considered 5 years was appropriate said:

- loans should be there to support people through short term need
- farm businesses need to be viable with minimal assistance
- if a business still needs support after 5 years, then they should reconsider farming.

Those who selected ‘Other’ said subsequent lending should be considered:

- for more than 25 years
- as long as needed or on a case-by-case basis
- as long as the client is meeting repayments and the business is viable

- regardless of previous loans since the criteria restricts eligibility enough to those in need
- as long as business is growing and expanding
- that it is hard to put a limit since circumstances are so variable
- that it depends on the age of borrower, loan purpose and circumstances.

Changes to RIC loans

330 respondents provided comments about changes to current RIC loan products (or new financial products) to better support their business's long-term strength, resilience and profitability. While 97 respondents indicated that they would not change anything, responses from those who would make changes included:

- improvements to the application process, frequently noting the excessive time and resources it took to complete an application (35). Some specific feedback included:
  - more clarity on the eligibility criteria, including off-farm income
  - clarity around the impact of value adding within the farm business on eligibility
  - clarity around the type of commercial debt and security the RIC accepts
  - clarity on evidence expectations and earlier screening processes
  - simplifying the process so you don't have to spend so much money on professional advice to assist
  - having people on the ground to help
  - dealing with fewer people (or single point of contact)
  - streamlining bank relationships
  - better communication of application progress
  - less duplication across loan documents.
- longer loan terms – including the possibility of extending the loan at the end of the term. For example, if adverse conditions return or only making longer loan terms/extensions available to those who have demonstrated effective use of the loan for long term farm improvements (34)
- changes to better support new entrants, including non-multigenerational farmers (27). Some specific feedback included:
  - providing educational packages to assist new farmers, such as resources relating to starting a business, or farm management practices
  - broadening the AgriStarter criteria, including reducing commercial debt and off-farm income requirements
  - longer term loans.
- interest rate enhancements and improvements through:
  - interest-free periods – including being able to go back to interest-free if drought impacts again (19)
  - lower interest rates – including maintaining these in the future (15)
  - longer interest-only periods (8)
  - fixed interest rates (3)
  - interest rate subsidies at times of drought for limited period (1).
- Increasing repayment flexibility (16), including:

  - being able to do ad-hoc repayments when the business is doing well
  - repaying pre-tax
  - monthly repayments
  - end of loan term flexibility, such as, a slightly less than commercial rate for loan extension to ease transition to commercial bank
  - pre-paying interest.
- loans for sustainability or productivity purposes – including longer terms for these investments (14)
- broader eligibility (13)
- customer service improvements, including better online banking services (e.g. real time loan balances, electronic statements, ability to change details and communications) (9)
- reducing commercial debt requirements (in the context of new starters or for refinancing or to allow greater borrowing from the RIC) (9)
- larger loan amounts, including increasing the proportion you can refinance with the RIC (6)
- easing the off-farm income requirements (6)
- redraw facilities (5) and overdraft facilities (2)
- loan use flexibility (5)
- Other comments included staff understanding and only supporting Australian-owned farms.

Other feedback

343 respondents provided other feedback for the reviewer:

- Positive comments about the RIC, its benefits and need, and the quality of staff (personable, professional, helpful and knowledgeable) (172).
- The excessive process and length of time to get decisions on loans (59). Time frames quoted included between 6 and 30 months. Respondents also often quoted the need for:
  - assistance with the application, either via accountants or business advisors, which cost money – many mentioned receiving valuable assistance from the Rural Financial Counselling Service
  - a better early triage and vetting process to ensure time and resources are not wasted on an application where applicant is ineligible
  - better communication throughout the process, including on application assessment progress
  - greater understanding from the RIC (‘farmers may not be as skilled with bookwork but are amazing farmers’)
  - some flexibility where applicants meet most of the policy intent
  - more evidence to apply for RIC loans than required for bank loans or other concessional loans
  - improvements to the online application system – for example, the ability to upload zip files and save partial applications, and to more clearly identify where attachments should be provided in the application

  - sensitivity in communications with clients
  - avenues for appeals to be clear to applicants
  - sharing of information with either banks or state loan delivery agencies to reduce duplication
  - single point of contact for applications
  - ability to speak directly to assessors to clarify understanding of application requirements (including regarding the assessment of separate farming entities that operate together).
- The need to support farmers and agriculture due to nature of farming – including that banks are not serving the industry well enough and the need to support family farms. Otherwise, farmers will exit and food security will be an issue (20).
- Issues with clarity of eligibility criteria, such as in the case of boutique agricultural industries, off-farm income, and treatment of Farm Management Deposits (9).
- Other comments included:
  - seeking improvements to online customer systems
  - that loans should be for Australian farms only
  - having the banks deliver concessional loans through a subsidy arrangement
  - the need for ongoing professional business support to the applicant to ensure goals are being achieved
  - providing funding for agriculture-related research where commercial interest fails.

Appendix E – Farm business survey interview

Design and methodology

To further explore responses received through the farm business survey (Appendix D), interviews were conducted with 21 respondents between the end of January 2024 and end of February 2024. Interviewees were asked to provide some background to their business, their engagement with the Regional Investment Corporation (RIC), the use and impact of the RIC loan (if relevant) and to expand on specific comments made in the survey (e.g. around suggested changes to RIC loans).

Interviewees

The 21 survey respondents interviewed included:

- 16 current clients
- 4 declined applicants
- 1 previous client
- respondents from across NSW, QLD, VIC, SA, TAS, WA
- respondents from beef, grains, dairy, sugarcane, sheep, grapes and fruit trees, cropping and aquaculture industries.

High level themes

Interviewing 21 people naturally limited some diversity of perspective and experiences in the themes explored. This resulted in some of the high level themes reflecting only one or two viewpoints.

Loan use

- Mostly included refinancing, but also recovery activities and capital investment on farm, such as:
  - improving water infrastructure, e.g. bores, piping to access more water, better pivots, automated watering systems, dams
  - investing in commodity and feed storage, and other feed infrastructure, e.g. mixers and troughs
  - investing in growing own feed, e.g. by buying property for growing feed or using existing land
  - preventing erosion, e.g. planting trees and fencing
  - restocking, buying feed, and repairing fencing.

Application process

- Highlighted costs and time involved in application preparation:
  - ‘Took about 12 months from start to finish.’
  - Costs quoted ranged from $5000 to 30,000, including fees for valuations and accountancy/advisory services, to prepare application requirements.

  - Outlined personal time taken to prepare applications: quoted between 20-200 hours.
- Flagged that it would be very hard for new entrants, or those starting a farm business to complete applications.
- Flagged the importance of the Rural Financial Counselling Service (RFCS).
- Highlighted the need for single point of contact for applications, including from when you start an application.
- Questioned the relevance and expectations associated with some application requirements, e.g. forecasts.
- Flagged issues with the online application form, e.g. timing out and inability to save.

Other programs

- RFCS cleared up a lot of eligibility questions and clarified expectations of the application, e.g. the level of detail required in forecasting.
- Feedback on the Business Resilience Program training that it was very basic.

RIC communication and outreach

- The RIC's communications do not show how loans are relevant to aquaculture. For example, drought is not always relevant to aquaculture, but biosecurity is, such as with Pacific Oyster Mortality Syndrome (POMS) in oysters. Communications should not be exclusively about agriculture.
- Oyster industry is not aware of the RIC.
- The RIC should talk to the Regional Development Board to support in outreach. (Note – the interviewee may be referring to Regional Development Australia as they mentioned that these regional committees could help raise awareness of the RIC).

Declines

- Highlighted the lack of clarity on reasons for loan declines and the lack of escalation pathways.
- Some feedback highlighted potentially insensitive communication from the RIC, given the resource invested in applications and personal circumstances.

Eligibility criteria

- Oyster farms cannot be used as security, limiting access to RIC loans by oyster industry.
- Flagged the need for an early vetting process, prior to committing to the application process.
- Noted declines due to issues with business structures, off-farm income for new entrants and debt to equity ratios above 60%.

Loan parameters and customer service

- $2 million maximum loan amount is not considered enough these days due to rising cost of land.
- One suggestion that a $10 million maximum loan amount is more appropriate.
- End of loan term flexibility is needed if the client is unable to repay and there has been no routine contact with the RIC.

- Amount you can borrow from the RIC is capped by 50% commercial debt requirement, which can limit capital investment into the business.
- Ability to have a redraw/offset account, and to make repayments on different days of the month like a commercial bank, would be good.
- Clients are unable to see their bank balance in real time, noting having to wait one month to see this in the statement.

Role for government and benefits and drawbacks of concessional loans

- Government should not just support those in hardship. It should support farmers to make improvements to their farm to aid resilience, profitability, productivity.
- Government should not support farmers through disaster and drought as farmers should be prepared for this – unless it is their first time going through such circumstances in the case of new farmers.
- Droughts are easier to prepare for compared to floods.
- Loans provided following disaster and drought can support bad practices.
- The application should demonstrate a strong business case that the farm and community will be better off with the loan.
- Loans are better than grants as they are more likely to be used for productive investments since they need to be repaid.
- Loans may be driving up price of land.

Sustainability and perpetual lending

- Need to incentivise practices/investments with dual benefits (e.g. investments with both productivity and environmental outcomes).
- Need longer term loans – patient capital (i.e. 30 years).
- Subsequent lending should consider whether farming is sustainable in that area. Environmental sustainability should be considered in farm viability assessments.

New entrant support

- Need to support younger people in the sector.
- Younger farmers and farming families play a big role in regional communities.
- RIC loan process and communications could better support new farmers through supporting linkages to resources to help with business management as well as on farm management practices.
- The 50% commercial debt eligibility requirement id difficult when starting out.
- AgriStarter loans often support land purchases indirectly i.e. loans were used to refinance existing loans from parents or commercial loans, with one interviewee noting the RIC was too slow so they had to get commercial loan). All were succession arrangements.

Supporting regional communities

- Supporting family farms supports regional communities e.g. through volunteer roles, off farm employment, schools, employing more people than corporate farms would.
- Supporting young farmers helps maintain the social atmosphere of regional communities.
- Need to support those living in regional areas as not everyone can live in major cities.

Appendix F – Existing Commonwealth farm support measures

Program	Funding	Sector	What is provided	Category	Eligibility criteria
Farm Business Resilience Program (Future Drought Fund)	$65.1 million (2020-24) plus up to $80 million (2025-29)	Commonwealth	Subsidised learning and development (training, coaching, events) in areas including strategic business skills, risk management, natural resource management, and personal and social resilience. Support to develop a Farm Business Plan, tailored to the farm business and situation, including professional input and feedback.	Drought	be the owner, manager, or employee of an eligible farm business (2 subsidised from each farm business) be a primary production business (agriculture, horticulture, pastoral, apiculture, or aquaculture) be a sole trader, trust, partnership or private company be a viable farm business
Rural Financial Counselling Service	$101.3 million from 2021 to 2026 (current round)	Commonwealth	Access to free financial counselling	Financial Hardship	be a primary producer or small related enterprise be experiencing or at risk of financial hardship
Small Business Bushfire Counselling	$3.5 million	Commonwealth	Access to free telephone financial counselling	Financial Hardship	be a small business or sole trader are experiencing, or at risk of, financial hardship due to the impacts of bushfire
Farm Household Allowance	Uncapped and demand driven program – funding adjusts according to need 2023-24 budget is $49.1 million	Commonwealth	Access to: social security payment & ancillary allowances Farm Financial Assessment Supplement of up to $1,500 activity supplement of up to $10,000 a Farm Household Case Officer to help improve clients' financial circumstances	Financial Hardship	be a farmer or partner of a farmer meet the income and assets test limits meet mutual obligation requirements
Farm Management Deposits (FMD)	Not applicable (foregone revenue)	Commonwealth	The FMD Scheme assists primary producers to deal more effectively with fluctuations in cash flows. The scheme allows eligible primary producers to set aside pre-tax income which they can draw on in future years	Financial planning	be a primary producer earn less than $100,000 in off farm income be a sole trader or a partner in a partnership

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			when they need it, such as for restocking or replanting when conditions start to improve Income deposited into an FMD account is tax deductible in the financial year the deposit is made. It becomes taxable income in the financial year in which it is withdrawn (repaid)		
Tax averaging for Primary Producers	N/A	Commonwealth	Tax averaging allows primary producers to even out their income and tax payable over a maximum of 5 years to take good and bad income years into account. This ensures they don't pay more tax over time than taxpayers on similar, but steady, incomes.		be a primary producer average income is less than your basic taxable income
Taxation of Australian carbon credit units for primary producers	N/A	Commonwealth	If you are an eligible individual primary producer, you will receive concessional tax treatment for any: - eligible ACCUs you start to hold on or after 1 July 2022 as a result of an eligible offsets project associated with your primary production business - income attributable to eligible ACCUs you receive from a partnership or trust that carries on a primary production business - eligible ACCUs or eligible income you received from a qualifying arrangement with a carbon service provider.		be a primary producer* *the concessions are available only to eligible individuals, and the conditions you need to meet depend on whether: - you are carrying on a primary production business as a sole trader, or as a partnership - you are the beneficiary of a trust that is carrying on a primary production business - an arrangement with a carbon service provider (CSP) is involved.

Appendix G – List of tax measures

Taxation measures for primary producers and small businesses in rural and regional regions, as at 14 May 2024

Measure	Type	What is provided	Eligibility[i]
Disaster relief payments	Tax offset[ii]	The tax treatment of disaster relief payment varies. Most one-off assistance payments following a disaster event are tax-free. However, some payments including Disaster Recovery Allowance and Natural Disaster Relief and Recovery Arrangements payments are generally taxable. Regular income support payments are taxable.	depends on which are announced by government as being tax-free
Double wool clip proceeds	Tax offset	Allows the deferral of the profit on the sale of the second wool clip in an income year to the next income year if sheep had to be shorn earlier than usual because of drought, fire or flood.	primary producers
Income tax averaging	Tax offset	Ability to even out tax payable over a maximum of 5 years, ensuring primary producers do not pay more tax over time than taxpayers on comparable but steady incomes. This is achieved by making a 'tax adjustment' each year in which averaging applies.	primary producers with fluctuating incomes
Insurance recoveries for timber or livestock	Tax offset	Allows a primary producer who has an assessable insurance recovery for loss of livestock or for loss by fire of trees that were assets of a primary production business carried on in Australia, to elect to include the amount in assessable income in equal instalments over 5 years.	primary producers
Profit from the forced disposal or death of livestock	Tax offset	Allows the spread or deferral, over a period of up to 5 years, of profit from the forced disposal or death of livestock. This includes if pasture or fodder is destroyed by fire, drought or flood and the profits will be used to buy replacement stock or maintain breeding stock for the purpose of replacing the livestock. It also includes if the livestock are compulsorily destroyed under an Australian law for biosecurity purposes.	primary producers
Research and Development (R&D) tax incentive	Tax offset	Encourages companies to engage in R&D benefiting Australia, by providing a tax offset for eligible R&D activities by either a refundable tax offset for certain eligible entities whose aggregated turnover is less than $20 million, or a non-refundable tax offset for all other eligible entities.	R&D corporate entity Incurred total notional deductions of at least $20,000
Temporary Loss Carry-back	Tax offset	Corporate entities can offset tax losses made in the 2019–20 to 2022–23 income years against previous years' profits on which tax has been paid. It is a refundable tax offset, which may result in a cash refund, a reduced tax liability, or a reduction of debt owed to the ATO.	corporate entities with up to $5 billion turnover. Other entities such as sole traders are not eligible

Measure	Type	What is provided	Eligibility[i]
Zone tax offsets	Tax offset	Provides people who have lived or worked in a remote or isolated area of Australia with a tax offset in the form of a fixed amount and a percentage of a base amount.	all people living in what are designated as remote areas
Accelerated depreciation	Tax deductions	Allows accelerated depreciation of: Fencing assets: from 12 May 2015, claim an immediate deduction in the income year in which you incurred the expense (excluding stockyards, pen or portable fence). Fodder storage assets: from 19 August 2018, allows immediate deduction for capital expenditure on a fodder storage asset. It must be used primarily for the purpose of storing fodder. Fodder refers to food for livestock, such as grain, hay or silage. Water facilities – also applies to irrigation water providers: allows a deduction for the capital expenditure on water facilities (includes plant or a structural improvement) in the year it is incurred. Water facilities include dams, earth and underground tanks, concrete, plastic and metal tanks, bores and wells, irrigation channels, pipes and pumps, water towers and windmills. Horticulture plants: allows a deduction for the decline in value of horticultural plants at a rate of 7% to 40% per year depending on the effective life of the type of plant Landcare operations – also available to other users of rural land: Provides a deduction for capital expenditure on Landcare operations in the income year it is incurred. Landcare operations can include eradicating or exterminating animal pests or plants from the land, preventing or combatting land degradation, erecting fences and constructing drainage to control salinity or assist in drainage control. Carbon Sink Forests: allows a deduction for capital expenditure in the year it is incurred for an initial 5 year period starting 1 July 2007, or a concessional capital write-off (7% per year) from 1 July 2012 onward. Forestry Managed Investment Scheme (MIS): allows deductions for contributions to forestry MIS that started on or after 1 July 2007, encouraging expansion of commercial plantation forestry in Australia by the establishment and tending of new plantations for felling.	depends on the class of deduction, but generally apply to primary producers, noting that some may apply to non-primary producers only
Electricity and phone connections	Tax deductions	Allows small businesses to deduct, in equal instalments over 10 years, for capital expenditure incurred in connecting: mains electricity to land on which a business is carried on or in upgrading an existing connection to such land, or	primary producers

Measure	**Type**	**What is provided**	**Eligibility**[i]
		a telephone line brought on or extending to land being used to carry on a primary production business.	
Farm Management Deposits (FMD)	Tax deductions	Allows primary producers to make tax-effective deposits in higher income years, deferring the tax liability until the deposit is withdrawn – typically in a lower income year. It can be used in addition to income tax averaging.	be a primary producer earn less than $100,000 in off farm income be a sole trader or an individual partner in a partnership or an individual beneficiary of a trust
Simplified depreciation rules	Tax deductions	Includes an instant asset write-off for assets that cost less than the relevant threshold, and a general small business pool, which has simplified calculations to work out the depreciation deduction. Instant asset write-off is an immediate deduction for the business portion of an asset in the year the asset is first used or installed ready for use. This measure can be used for multiple assets if the cost of each individual asset is less than the relevant threshold and be applied for both new and second-hand assets. The threshold amount for 2023–24 and 2024-25 is proposed to be for assets up to $20,000 (this is not yet law). This threshold amount has changed over time from the base level of $1,000.	small businesses
Tax concessions	Other	Concessions include: Concessional tax treatment on Australian carbon credit units (ACCUs). ACCUs may be issued to primary producers under the *Carbon Credits (Carbon Farming Initiative) Act 2011* in relation to eligible offsets projects they undertake. Concessions are available for projects after 1 July 2022 including: For the purposes of the Farm Management Deposit Scheme and accessing income tax averaging rules, the proceeds from the sale of eligible ACCUs will be treated as primary production income and related deductions will be treated as primary production deductions. The change in value of ACCUs will not be assessed each year, but only on the proceeds from sale. Flexible livestock valuations: allows primary producers to value their livestock on hand at the start and end of the financial year either at cost, market selling value or replacement value.	depends on the class of concession, but generally apply to small businesses, noting that some may apply to primary producers only

Measure	Type	What is provided	Eligibility[i]
		Fuel tax credits: provides businesses with a ‘credit’ for the fuel tax (excise or customs duty) included in the price of fuel used in business activities, machinery, plants, equipment and heavy vehicles. Luxury car tax concession: allows primary producers to claim a refund of on one eligible vehicle per year up to a maximum of $10,000. Reduction in fringe benefits tax: allows for the reduction in the taxable value of the fringe benefit, resulting in a reduced amount of fringe benefits tax, where the employer provides items such as fuel, food, electricity, housing, help with rent, help with mortgages and relocation expenses. Capital Gains Tax (CGT) concessions: for small businesses with a turnover of less than $2 million, these concessions include: 15-year exception: if a primary producer is 55 or older and retiring or are permanently incapacitated, and they have owned an active business asset for at least 15 continuous years, they will not pay CGT when they dispose of the asset by sale, gift or transfer. Amounts from this exemption may be able to be contributed to their super fund without affecting their non-concessional contributions limits. Fifty percent active asset reduction: if a primary producer has owned an active business asset, they will only pay tax on 50% of the capital gain when they dispose of the asset. Retirement exemption: an exemption on the sale of an active business asset up to a lifetime limit of $500,000. If a primary producer is under 55, money from the disposal of the asset must be paid into a complying superannuation fund or retirement savings account. Rollover: if a primary producer disposes of an active business asset and buys a replacement asset or improves an existing one, they can defer the capital gain until a later year. The replacement asset can be acquired one year before or up to two years after the last capital gains tax event in the income year for which they choose the rollover.	
Other assistance	Tax relief	Provides assistance to farmers and other taxpayers whose income is affected by short-term financial difficulties occasioned by natural disaster and droughts. Farmers finding it difficult to pay their tax debts can apply for more time to pay or arrange to make payments by	people affected by short-term financial difficulties

Measure	**Type**	**What is provided**	**Eligibility**[i]
		instalment without interest being charged. There may also be remission of general interest charges.	

Appendix H – RIC timeline

A timeline of the RIC's activities – original announcement to March 2024

Date	Activity	Notes
2016, 22 June	Coalition election commitment for agriculture announced	Establish a Regional Investment Corporation
2016, 16 August	RIC Taskforce established within the department	–
2016–2017	Development of a submission for government's consideration on establishing the RIC	–
2017, 8 February	Water infrastructure loans open	–
2017, 9 May	Government announces funding to establish the RIC as a new Corporate Commonwealth entity	–
2017, 16 May	Minister Joyce (former Agriculture Minister) announces the RIC office is to be located in Orange	–
2017, 14 June	RIC Bill introduced to Parliament (House of Representative)	Bill passed the House 17 Aug 2017
2017 (19 July – 9 August)	Market testing of external service providers for farm loans	–
2017 (26 July – 19 October)	Stakeholder consultation on RIC farm business loans	Public discussion paper on department's website; 60+ meetings with stakeholders
2017, 4 September	RIC Bill introduced to Senate	Bill passed by Senate with amendments 6 Feb 2018
2017, 19 December	Water infrastructure loans transferred to Infrastructure Portfolio	–
2017, 20 December	Minister Littleproud appointed to Agriculture and Water Resources Portfolio (responsible Minister for the RIC, with the Finance Minister)	–
2017 (18 September) – 2018 (6 February)	RIC Bill (amended by Senate)	Passed by the House 6 February 2018. Key amendments: Ministers exercising their powers consistently with the Water Act 2007 The responsibility of Ministers, the Board and the RIC when entering into agreements Disclosure of interests of the CEO
2018, 12 February	Request for Interest (RFI) for third party service provider for farm loans	Shortlisting process follows, with outcomes reported to the RIC Board (once appointed) and further decisions made by the RIC Board An evaluation process followed once the RFI closed. Final decisions on the service provider were made by the RIC Board

Date	Activity	Notes
2018, 20 February	*RIC Act 2018* comes into effect	Receives Royal Assent
2018, 4 April	Ministerial appointments to the RIC Board announced	David Foster (Chair) Lucia Cade & Mark Lewis (members)
2018, 16 April	Inaugural meeting of the RIC Board	–
2018, 22 April	Further ministerial appointments to the RIC Board announced	Prue Bondfield (member)
2018, 24 April	The RIC Board decides head office location	Orange, New South Wales is chosen
2018, 25 May	Acting CEO appointed by the Board	Matthew Ryan (to December 2018)
2018, 13 June	RIC (Water Infrastructure Project Agreements) Rule 2018	–
2018, 15 June	RIC Operating Mandate Direction 2018 comes into effect	–
2018, 22 June	Interest rate methodology agreed by responsible Ministers	–
2018, 28 June	Contract signed with Bendigo and Adelaide Bank	–
2018, June – 2019, February	Departmental staff seconded to the RIC until its permanent workforce commenced in January/February 2019	–
2018, 1 July	The RIC open and loans available	Farm investment, drought and water infrastructure loans
2018, July	The RIC received first applications	Six applications
2018, August 19	Concessional loan funding available per year doubled from $250 million to $500 million	Announced by then Prime Minister Turnbull on 19 August 2018
2018, 15 September	RIC Operating Mandate Direction 2018	Registered – 24 September 2018 End date – 28 March 2019 Key amendments – increased loan limit
2018, 18 September	Increased loan limit from $1 million to $2 million	Announced by then Prime Minister Turnbull on 19 August 2018
2018, September	First loan application approved	–
2018, 13 December	Appointment of CEO announced by the RIC Board	Bruce King
2019, January	First loan application settled	Two settled in this month
2019, 28 February	The RIC's headquarters opens in Orange	–
2019, 29 March	RIC Operating Mandate (Amendment) Direction 2018	Registered – 14 April 2019 End date – 20 November 2019 Changes to water infrastructure loans – Schedule 2
2019, April	RIC (AgriStarter Loans) Rule 2019	Registered – 11 April 2019 Tabled (House and Senate) – 2 July 2019
2019, 8 April	Final Board member announced	Sharon Starick (member)

Date	Activity	Notes
2019, May	The RIC AgriStarter concessional loans announced as an election commitment	AgriStarter Loans are intended to support farmers to purchase their first farm and plan for intergenerational transfer
2019, May	Plantation Development Loans announced as an election commitment	–
2019, 14 June	RIC (Agribusiness Natural Disaster Loans – 2019 Northern QLD Flood) Rule 2019	–
2019, June – 2020, June	Agribusiness Natural Disaster Loans available	Product name – AgRebuild Loans
2019, 30 July	RIC (AgriStarter Loans) Amendment (Loan Terms and Eligibility) Rule 2019	Amendment to RIC (AgriStarter Loans) Rule 2019 to allow AgriStarter Loans to be made available to farm businesses that intend to be engaged solely or mainly in producing commodities for constitutional trade and commerce Registered – 31 July 2019 Tabled (HR and Senate)– 09 September 2019 Repealed – 15 November 2019
2019, 1 August	RIC (AgriStarter Loans) Rule 2019	Registered – 14 October 2019 Start Date – 01 August 2019
2019, 30 October	Acting RIC Chair (Prue Bondfield)	30 October – March 2020
2019, 21 November	RIC Operating Mandate (Amendment) Direction 2018	Registered – 4 December 2019 End date – 30 September 2020 Amendment – Drought Loans Interest-free Period
2020, 1 January	Interest-free period for Drought and Small Business Drought Loans available	Also available to existing Drought Loan recipients
2020, 20 January	Applications open for Small business Drought loan	
2020, 27 March	Appointment of second Chair of the Board announced	Karen Smith- Pomeroy
2020, 28 March	Government extended Drought Loans to eligible farm businesses located in all areas of Australia	Previously farm businesses were required to be located in the affected area defined by the UN Convention to Combat Desertification
2020, 15 May	Consultant report – RIC Loan Delivery Performance Framework Review	–
2020, 17 June	ANAO report – design and establishment of the RIC	Published 17 June 2020
2020, 30 June	Closing date for AgRebuild Loan applications	–
2020, 22 July	Government announces additional loan and operational funding for the RIC	Additional $2 billion in drought loan funding and additional $50 million in operational funding over 4 years. An additional $75 million in loan funding

Date	Activity	Notes
		for the AgriStarter loan product in 2020-21.
2020, 11 September	Consultant report – Transformation Strategy and Business Case	The RIC Board sign-off on 'Backlog and Transformation Strategy' October 2020
2020, 30 September	Close date for Drought and AgBiz Drought Loans interest-free period applications 1,295 loan applications received for the month	–
2020, 1 October	RIC Operating Mandate (Amendment) Direction 2018	Registered – 7 December 2019 End date – n/a Amendment – cessation of interest-free period for Drought and Small Business Drought Loans
2020, 1 October	RIC (Drought Loans Expansion) Rule 2020	Cessation of interest-free period
2020, 1 October	RIC (Small Business Drought Loans) Rule 2020	Cessation of interest-free period
2020, 6 October	Government announcement that the RIC would not be proceeding with the National Water Infrastructure Loan Facility	Budget 2020-21 announcement
2020, December	RIC (AgriStarter Loans) Rule 2019	Registered- 24 December 2020 Legislation Start Date – 17 December 2020 Program Start Date – 1 January 2021
2021, 1 January	AgriStarter Loans open for applications	–
2021, March	The RIC reached $1 billion in settled loans	–
2021, 11 May	Australian Government announces funding for the Plantation Loan	Budget 2021-22 announcement. Allocation of $0.8 million to administer $37.5 million of existing RIC loan funding in 2021-22
2021, 28 June	Term ends for outgoing Board members Lucia Cade and Mark Lewis	–
2021, 20 July	Sally Freeman and Mike Carroll appointed to the RIC Board	–
2021, October	The RIC reaches $2 billion in settled loans	–
2021, 3 December	RIC (Plantation Development Concessional Loans) Rules 2021	–
2021, 6 December	Applications open for Plantation Loans	–
2022, 1 April	AgriStarter Loan eligibility expands to include share farmers and farm leasing business owners.	–

Date	Activity	Notes
2022, June	The RIC reaches $3 billion in settled loans	–
2022, 29 June	Resignation of Board member Mike Carrol announced	–
2022, 4 July	Loan eligibility criteria expands to include wider range of industry types	Align with ANZSIC codes and now includes horse breeders, turf farmers, tea tree, lavender, pharmaceutical/ cosmetic plant growers, nursery and floriculture growers
2022, 5 July	Bruce King resigns as CEO	effective date
2022, 7 November	John Howard appointed as CEO	–
2023, 25 March	Karen Smith-Pomery reappointed as the RIC Board Chair	–
2023, 20 April	Prue Bondfield reappointed to the RIC Board	
2023, 28 April	Mark Tucker appointed to the RIC Board	–
2023, May	An additional 30 employees recruited nationally	–
2023, 30 June	Contract with Bendigo Bank ceased	Loan book moved to be in-housed with the RIC
2023, 1 July	5-year milestone of the RIC	2,921 loans settled at a value of $3.16 billion since 1 July 2018
2023, mid-October	RIC transitions to an in-house service delivery model	
2023, 23 November	Release of inaugural RIC Farm Loans Customer Insights Report 2023	–
2024, 22 January	3000th farm loan settled	3,000 farm loans settled worth more than $3.24 billion since 1 July 2018

Appendix I – RIC loan products

Summary of how RIC loan products operate and their demand since RIC establishment

Loan	Legislation that gives effect to loan	Policy objective	Description	Loan specific eligibility	Loan terms	Number of loans settled and value (as at 31 March 2024)
Drought loan (available since 1 July 2018)	*Regional Investment Corporation Act 2018,* Regional Investment Corporation Operating Mandate Direction 2018 and the Regional Investment Corporation (Drought Loans Expansion) Rule 2020	Assist farm businesses to prepare for, manage through and recover from periods of drought	To help eligible farmers prepare for, manage through and recover from drought	Drought Management Plan (DMP)	Up to $2 million 10-year term; 5 years interest only and 5 years principal and interest 2-year interest free terms became available for the Drought Loan on 1 January 2020. However, these interest free terms ceased for applications made after 30 September 2020.	2605 $2,842.15 million
Farm Investment Loan (available since 1 July 2018)	*Regional Investment Corporation Act 2018* and the Regional Investment Corporation Operating Mandate Direction 2018	Support the long term strength, resilience and profitability of Australian farm businesses by helping them to build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas	To help eligible farmers build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas	Farm businesses that mainly supply outside their state or territory (through interstate or overseas supply chains); or, with the loan funds, intend to do so in future.	Up to $2 million 10-year term; 5 years interest only and 5 years principal and interest	163 $152.64 million
AgBiz Drought Loan (available	Regional Investment Corporation (Small	To mitigate the effects of drought on small businesses to help	Assist small businesses to manage through drought	Cannot be a farm business	Up to $500,000	119 $33.59 million

since 20 January 2020)	Business Drought Loans) Rules 2020	ensure profitability and productivity into the future.		Needs to have fewer than 20 full time equivalent (FTE) employees Supply primary production related goods or services to farm businesses in affected areas	10-year term; 5 years interest only and 5 years principal and interest 2-year interest free terms became available for the AgBiz Drought Loan on 20 January 2020. However, these interest free terms were ceased for applications made after 30 September 2020	
AgRebuild Loan (12 June 2019 – 30 June 2020)	Regional Investment Corporation (Agribusiness Natural Disaster Loans-2019 North Queensland Flood) Rule 2019	Support the long term strength, resilience and profitability of Australian farm businesses	To help eligible farmers to restock, replant and refinance after the Monsoon Trough experienced in North Queensland in early 2019	For farm businesses affected by the January and February 2019 floods in Queensland	Up to $5 million 10-year term; 2 years interest free, 3 years interest only and 5 years principal and interest	65 $179.78 million
AgriStarter Loan (available since 1 January 2021)	Regional Investment Corporation (AgriStarter Loans) Rule 2019	Assist new entrants to farming looking to purchase, establish or develop their first business and support farming succession arrangements.	To encourage and support people in obtaining their first farming business, or to assist with farm business succession planning and giving effect to succession plans.	First farmers require 3 years of on-farm experience or equivalent Those applying for a succession loan must demonstrate that: Farm business is undertaking or has undertaken succession planning, and Loan is to support succession arrangements (that is, the succession planning process and the activities identified in the succession planning process.	Up to $2 million 10-year term; 5 years interest only and 5 years principal and interest	108 $92.09 million

NWILF loans and Plantation loans are not included in the table due to government decisions to discontinue these loan programs.

Appendix J – RIC response to previous reviews

ANAO Performance Audit on the Design and Establishment of the RIC, June 2020

No.	Review Recommendation	Response	RIC comment	Status
1	Regional Investment Corporation (RIC) should finalise its risk management policy, including risk reporting requirements and more clearly articulate its risk appetite in line with the adoption of the Commonwealth Framework.	Agree	The RIC Board approved its risk management policy and risk reporting requirements in November 2020. It is noted the RIC is currently undertaking a review of its risk management framework, in particular its risk appetite statement which is considered separate to this recommendation.	Complete
2	RIC should update performance measures for the farm business lean scheme and implement baseline data and evaluation methodologies as required.	Agree	In response to this recommendation, the RIC published its 202-21 Corporate Plan on 31 August 2020 which contained revised performance measures and targets for farm business loans. Baseline data was established through the performance measures contained in the 2019-20 Corporate Plan. Outcomes of these performance measure were then reported in the RIC's 2019-20 Annual Report. The evaluation methodologies for the RIC's performance measures are now established in a Monitoring and Evaluation plan.	Complete
3	RIC should develop and implement a compliance and assurance strategy which covers the accuracy and completeness of loan data from the external service provider and compliance with key RIC policies and procedures for loan assessment and approval.	Agree	The RIC's Compliance and Assurance Strategy was completed and endorsed by the RIC Board in February 2021	Complete

The RIC's update on the implementation of recommendations was provided to the ANAO on 4 June 2022.

Independent Tune Review of the Regional Investment Corporation, February 2021

Note: The RIC action and status reflects information provided by the RIC and does not reflect the views of the department.

No.	Review Recommendation	Government Response	RIC action	Status
2	The Regional Investment Corporation (RIC) work with other relevant entities to establish and/or participate in a community of practice, to share learnings and facilitate best practice amongst financing entities within the Australian Government.	Agree-in-principle The RIC as an independent entity will continue to improve the operation of the entity through participation in community of practices within other similar Australian Government entities as appropriate.	20/10/21 The Department of Agriculture, Water and the Environment (DAWE) now the Department of Agriculture, Fisheries and Forestry (DAFF) advised that a whole-of-government community of practice process led by Department of Finance is being considered and RIC should continue to wait to be advised of next steps. RIC continues to engage with other agencies in any event during the course of its normal practice	Underway and ongoing
5	The RIC improve its reporting to government, particularly its ability to more accurately forecast demand.	Agree The Government expects the RIC reporting capabilities to improve quickly and have provided additional funding resources to ensure it undertakes reporting requirements that meet government expectations. The RIC has dedicated resources to data analysis to improve reporting and forecasting capabilities. Improving the RIC's ability to forecast demand is critical to assist decision making by government.	In 2020, RIC engaged specialist data staff to enhance access to and analysis of data. Timelier rhythm is now set for future reporting. Reporting is on time, to a quality standard and error free. KPIs included in the report and consistently met and forecasting has been sound. Demand Management Committee installed in 2023.	Complete and ongoing
6	The RIC implement its Transformation Strategy and, subject to the final outcome of its end-to-end trial, process a greater percentage of loan applications in-house.	Agree The RIC will fully implement its Transformation Strategy by January 2022.	The Transformation Strategy was delivered with full disengagement from the outsourced provider in October 2023.	Complete
13	The RIC and the department continue to monitor loan uptake, as well as feedback from industry and applicants, to ensure the assessment of the financial need criterion continues to align with the government's target cohort.	Agree The department will work with the RIC to ensure that this policy objective is met.	Data access, analysis and reporting expertise and enhancements in place, monitoring uptake is standard process, no further action required. Monitoring and Evaluation (M&E) Plan in place. Customer Satisfaction Research for annual reporting in place.	Complete
14	The RIC strengthen its assessment processes where an applicant has previously benefited from a concessional loan	Agree-in-principle Concessional loans from government assist the agricultural sector to respond to shocks, such as drought, and	RIC implemented a tightened 'in financial need' Criteria in December 2020. Regular reviews of credit policies and procedures is appropriate to	Complete

No.	Review Recommendation	Government Response	RIC action	Status
	(Commonwealth or state), to consider the term over which they benefited, when assessing an applicant's financial need and viability over the long term.	provide practical help to support farmers and small businesses that are in need to improve their long-term strength, resilience and profitability.	ensure ongoing alignment with achieving the RIC's purpose and objectives. No further action is considered necessary. DAWE and RIC met on 07/01/2022 and acknowledged that program guidelines do not preclude previous government support through either alternate loans or other grants and the RIC should continue to follow the process set out in guidelines.	
16	The department and the RIC work together, including consultation with industry and other relevant agencies, to enhance the RIC's loan application process to support farm business planning and the use of risk management tools to further support achieving the Commonwealth's drought policy objectives.	Agree The department will work with the RIC to enhance the application process by 2022. This will lead to increased drought preparation and resilience by encouraging farm business planning and the uptake of financial risk management tools.	RIC and DAWE to workshop impacts, policy implications, product planning and timing. The drought policy is noted as a shared responsibility across the DAWE portfolio and DAWE Policy advise it is in the Minister's agenda. This is broader than DAWE RIC policy and RIC and we can expect some broad principles to be developed within the portfolio. Once this is done, then there will be opportunity for the DAWE RIC policy team and the RIC to engage. We will await that lead and no further action until then.	No further action
17	The RIC work with the department on (M&E) to ensure the impact of RIC loans against government policy objectives can be measured and fed into future policy development, drawing on the RIC's identification of current and future industry needs.	Agree The department will work with the RIC on monitoring and evaluation of the impact of loan products to inform any suggestions concerning the delivery of its existing loan products or improving loan products, and meeting policy objectives.	(M&E) Plan framework is in place and its ongoing refinement and development is part of RIC's business as usual. Customer feedback and sentiment tracking is in place.	Complete
23	The RIC, in parallel with its transformation agenda to improve service delivery, implement the actions outlined in Appendix 12 [of the Independent Review of the RIC] to improve its loan assessment process. This financial risk management work program should be implemented in full by December 2021.	Agree The actions will be implemented by December 2021. This will improve the RIC predations including loan management portfolio.	Briefing to Department provided in July 2023 of full acquittal of subsequent End of year (EY) recommendations. Full acquittal of EY recommendations provided to RIC Act Review on 24/11/2023.	Complete
25	The RIC ensures that it only approves loans where sufficient security exists in accordance with the Operating Mandate and only considers an overlent position at loan origination	Agree The RIC Operating Mandate 2018 sets the directions for the Corporation about offering farm business loans.	This has been fully addressed as part of Recommendation 23.	Complete as part of Rec. 23

No.	Review Recommendation	Government Response	RIC action	Status
	for lower risk applicants where strong mitigants exist, and the loan is appropriately monitored.			
26	The RIC ensures it has a clear risk appetite statement (RAS) for its loan portfolio reflecting the RIC's current interpretation of the Operating Mandate and the Board's recent decision of targeted lending. The statement should be periodically reviewed and its implications firmly embedded within credit policies to ensure sound and consistent credit decisions are being made.	Agree The RIC will periodically review, update and implement its RAS to ensure that there is consistent and appropriate decision making in line with its risk appetite.	Risk appetite approved by Board December 2022 and socialised with Department.	Complete
27	The department work with the RIC to gain greater assurance around the completeness of repayments.	Agree The department, in consultation with Finance, will provide an annual report to responsible Ministers concurrently with the release of the RIC's annual report.	RIC developed an assurance process in July 2021 that is now business as usual.	Complete

The RIC's response to the Independent Review and government response was provided to the RIC Act Review secretariat on 14 March 2024. The Australian Government response to the Independent Review was delivered in December 2021.

Appendix K – Recommended loan management options for the RIC

Measure	Purpose	Details	Restrictions
Principal deferrals	Assist clients in hardship in the second 5 years of loan where principal repayments are structured to occur.	If client is in hardship, the Regional Investment Corporation (RIC) does a financial viability assessment, ensures support from bank, etc, can agree to deferral.	Deferrals can't be longer than 12 months.
Apply default rates during term	To incentivise clients to make repayments.	The RIC work closely with client to determine timebound strategy to clear arrears / clear non-financial default.	Should be reserved for limited circumstances, such as where client is being uncooperative.
Apply default rate to loans that expire	To ensure that clients are proactive in seeking refinance to the commercial sector at the end of the term	Need to ensure that client has warning of upcoming expiry. This is also the case for customers that have had their 10-year loans expire.	A limited time frame grace period could potentially be used if clients are proactively working to clear loan, but refinance / clearance has been delayed for reasons largely outside of their control.
Apply continued concessional rate for matured loans that are facing hardship at the time of maturity	Ensure that the RIC does not take recovery action against clients experiencing drought or hardship.	The RIC to do assessment to ensure that customer is still viable, etc.	Limited to those facing hardship and unable to refinance back to commercial sector at end of term.
Apply non-concessional rates to loans 12 months after maturity and that have entered into an agreement with the RIC	To help transition loans back to commercial lenders.	NA	Consideration for customers still enduring drought conditions.
Grace period	Provide flexibility to the RIC if considered appropriate to allow a continued period beyond the maturity.	If the RIC was able to vary interest rates this measure could apply.	NA

Appendix L – Specialist Investment Vehicle (SIV) comparison

SIV Name	**Regional Investment Corporation (RIC)**	**Northern Australia Infrastructure Facility (NAIF)**	**Export Finance Australia (EFA)**	**Clean Energy Finance Corporation (CEFC)**	**National Reconstruction Fund Corporation (NRFC)**	**Housing Australia**	**Australian Infrastructure Financing Facility for the Pacific**	**Australian Renewable Energy Agency (ARENA)**
Type of Org	Corporate Commonwealth entity	Corporate Commonwealth entity	Corporate Commonwealth entity	Corporate Commonwealth entity	Corporate Commonwealth entity	Corporate Commonwealth entity	Division within the Department of Foreign Affairs and Trade	Corporate Commonwealth entity
Establishment	1 July 2018	1 July 2016	1 November 1991	3 August 2012	18 September 2023	30 June 2018	1 July 2019	1 July 2012
Objective	Administer farm business loans; and Administer programs prescribed by the rules. Help rural and regional communities achieve economic growth and agricultural productivity	Provide grants of financial assistance for the development of Northern Australia economic infrastructure Additionally, economic infrastructure that meets the needs of Indigenous persons.	Provides support to the Australian export trade and overseas infrastructure development that benefits Australia. EFA is the Australian Government's export credit agency who support and enable exports trade for Australia by providing government-backed finance solutions to business to help them grow exports	Facilitate increased flows of finance into the clean energy sector and to facilitate the achievement of Australia's greenhouse gas emissions reduction targets.	Facilitate increased flows of finance into priority areas of the Australian economy (renewables and low emission technologies; medical science; transport; value-add in agriculture, forestry and fisheries; value-add in resources; defence capability; and enabling capabilities).	Improve housing outcomes for Australians by facilitating and delivering programs that help more Australians access social and affordable housing.	Advance Australia's national interests by contributing to a stable, secure and prosperous Pacific.	Improve the competitiveness of renewable energy technologies, Increase the supply of renewable energy in Australia Facilitate the achievement of Australia's greenhouse gas emissions reduction targets
Responsible Ministers	Minister for Agriculture, Fisheries and Forestry Minister for Finance	Minister for Northern Australia Minister for Finance	Minister for Tourism and Trade	Minister for Climate Change and Energy	Minister for Industry and Science Minister for Finance	Minister for Housing	Minister for Foreign Affairs Minister for International	Minister for Climate Change and Energy

SIV Name	Regional Investment Corporation (RIC)	Northern Australia Infrastructure Facility (NAIF)	Export Finance Australia (EFA)	Clean Energy Finance Corporation (CEFC)	National Reconstruction Fund Corporation (NRFC)	Housing Australia	Australian Infrastructure Financing Facility for the Pacific	Australian Renewable Energy Agency (ARENA)
				Minister for Finance			Development and the Pacific	
Governance	Board consisting of a Chair and 2 to 4 other members.	Board consisting of a Chair, 4 to 6 other members, and the Secretary of the responsible Department.	Board consisting of: Chairperson Deputy Chairperson Managing director/CEO Government Member 2 to 5 other members	Board consisting of a Chair and 4 to 6 other members.	Board consisting of a Chair and 6 to 8 other members.	Board consisting of a Chair and 6 to 8 other members.	Advisory Board consisting of: Head of Office of the Pacific (Chair) DFAT Nominees Treasury Nominee Finance Nominee PM&C Nominee Defence Nominee Infrastructure Nominee Independent external appointees	Board consisting of up to 6 appointed members and the Secretary of the responsible department.
Legislation	Regional Investment Corporation Act 2018 Regional Investment Corporation Operating Mandate Direction 2018	Northern Australia Infrastructure Facility Act 2016 Northern Australia Infrastructure Facility Investment Mandate Direction 2023	Export Finance and Insurance Corporation Act 1991 No IM or OM	Clean Energy Finance Corporation Act 2012 Clean Energy Finance Corporation Investment Mandate Direction 2023	National Reconstruction Fund Corporation Act 2023 National Reconstruction Fund Corporation (Investment Mandate) Direction 2023	Housing Australia Act 2018 Housing Australia Investment Mandate Direction 2018	N/A No IM or OM	Australian Renewable Energy Agency Act 2011 No IM or OM
Financial Products	Concessional Loans up to $2m	Concessional Loans (roughly minimum of $5m) Guarantees	Small Business Export Loans (up to $350k) Loans (from $350k)	Loans Guarantees Equity	Loans Guarantees Equity	Loans Guarantees Grants	Loans Grants	Grants

SIV Name	Regional Investment Corporation (RIC)	Northern Australia Infrastructure Facility (NAIF)	Export Finance Australia (EFA)	Clean Energy Finance Corporation (CEFC)	National Reconstruction Fund Corporation (NRFC)	Housing Australia	Australian Infrastructure Financing Facility for the Pacific	Australian Renewable Energy Agency (ARENA)
		Equity finance (up to $50m, non-controlling stake) *Loans are to be the primary form of financial assistance considered by the Facility for all Investment Proposals	Guarantees Bonds Insurance			Bonds (through AHBA)		
Investment Decision Maker	Organisation	Board	Board (for commercial account) Minister (for national interest account following referral from EFA Board)	Board and Investment Committees	Board	Board	Ministers	Board
Delivery Partnerships with commercial /other lenders	N/A	For loans to small to medium-sized enterprise (SMEs	For Small Business Export Loans	For loans to SMEs or individuals	N/A	For Home Guarantee Scheme	N/A	N/A
Other Information	Concessional interest rate set on a 6 monthly basis to cover the RIC's operating costs. Government can create additional loan products via	All proponents must develop an Indigenous Engagement Strategy	EFA also administers the 'National Interest Account' on behalf of the Australian Government, allowing government to direct EFA to invest in particular	The government allocates set funding to CEFC's general portfolio and specific sub funds, including	N/A	Formerly National Housing Finance and Investment Corporation. Administers different programs with different funding instruments (e.g. Affordable	EFA issues loans on behalf of AIFFP through the overseas infrastructure power provided in the EFIC Act whereby overseas infrastructur e financing results in an Australian benefit.	N/A

SIV Name	Regional Investment Corporation (RIC)	Northern Australia Infrastructure Facility (NAIF)	Export Finance Australia (EFA)	Clean Energy Finance Corporation (CEFC)	National Reconstruction Fund Corporation (NRFC)	Housing Australia	Australian Infrastructure Financing Facility for the Pacific	Australian Renewable Energy Agency (ARENA)
	legislative instruments (rules)		projects that are in the national interest. The Commonwealth receives all income on NIA transactions and bears all risks and losses.	Rewiring the Nation, the Household Energy Upgrades Fund and the Advancing Hydrogen Fund.		Housing Bond Aggregator, National Housing Infrastructure Facility, Home Guarantee Schemes)		
Rate of Return	Designed to be budget neutral and only seeks to recover operating costs through interest rate settings, consistent with the RIC Operating Mandate and Rules.	Loan portfolio to cover at least administrative costs and government cost of borrowing Equity portfolio to return 3% p.a. above the government's cost of borrowing	Expected to operate on a commercial basis	Differing targets between portfolios above the 5-year government bond rate	Operates commercially and targets a portfolio benchmark return of 2-3% above the 5 year Australian government bond rate.	Targets an average return on loans that covers operating costs, builds adequate capital reserves, and covers the Commonwealth's cost of borrowing	For private sector borrowers: AIFFP adopts a market-like pricing approach used by EFA For sovereign borrowers: AIFFP draws on relevant Multilateral Development Banks lending rates to determine appropriate interest rates.	No set ROI parameters as ARENA uses grant financing. Any surplus cash is invested in term deposits to fund committed and new projects.
Reviews	Independent Review of the RIC (2021) – 'Tune Review'	Independent Review of the NAIF (2018) – 'Shepherd Review' Statutory Review of the NAIF (2020) A review of the NAIF Act must commence as soon as practicable after 30 June 2024	EFA: Infrastructure Mandate Review Independent Report (2021)	Statutory Review of the CEFC (2018)	An independent review must be completed by 31 December 2026	Statutory Review of the NHFIC Act (2021)	AIFFP Two Year System-Wide Review	N/A

Appendix M – Credit Risk Grades and Security Cover Grades (Tune 2021)

The RIC has adopted an alphabetical system to support their risk analysis of loan applications across Credit Risk Grade (CRG) and Security Cover Grade (SCG). This is similar to commercial lenders, in determining the probability of default. A CRG is generated from data input to the loan system and the assessor’s judgement. This is an important metric as it looks at the viability of the farm business helping the Regional Investment Corporation (RIC) to gauge the borrower's capacity, ability, and willingness to repay the loan, mitigating the risk of default. Data covers such measures as financial performance, equity in operations, future budgeted performance, key credit metrics, repayment ability, management ability and other key characteristics. The data fields are weighted, some fields can be adjusted manually by the assessor and the system automatically generates the CRG based on the input. The assessor is required to provide a brief comment on why this rating was attributed. The RIC’s rating system has a range of CRGs from A to H, where A represents a strong credit with low probability of default, and H represents an impaired credit. Whilst a commercial bank would generally originate agribusiness loans at CRGs of ‘A’ (Exceptional) to ‘D’ (sound) (also factoring in the available security (SCG), depending on the loan product type and applicant profile, the RIC has been approving loans to a much larger range (CRG B to H).

The SCG indicates the level of debt against discounted (dependent on the asset) security value and therefore the overall strength of the security position. The SCG rating is calculated by determining the proposed level of RIC debt against any remaining discounted security value, after consideration of the current debt level and any buffer allowances of all prior mortgagees on title. As per normal lending practice, the RIC applies a discount to the valuation assessments to determine the maximum secured loan size. Note that this is not the only determinant of loan size – the RIC primarily consider the ability to repay the loan and are also limited by the policy that the maximum amount of RIC debt is up to 50% of the applicant’s total debt position. The discounting allows some buffer for the lender to generally account for movements in property value over time and a potential price reduction in a forced sale scenario but may also cover any accrued interest and arrears that may occur and also the property selling costs in a security realisation scenario. SCG ratings are classed A – F (with a separate rating of U for unsecured). SCG A is the strongest (fully secured) available security position.

2024 Update

The RIC portfolio includes loans with a CRG rating of between C-H and a SRG rating of between A-E (as at 31 March 2024). The FY24 portfolio has a CRG of between C-F and SRG of between A-D.

Appendix N – Pre-RIC state-delivered concessional loan schemes

Scheme	Allocated loan funding ($m)	Approved loans ($m)	Settled loans ($m)	Number of approved loans	Number of settled loans
Farm Finance	420.0	196.2	166.0	409	358
Drought+	435.0*	296.7	279.1	508	477
Dairy Recovery	75.0	66.3	65.6	118	115
Drought Recovery+	160.0	43.5	41.2	101	97
Farm Business+	417.0	313.3	303.2	540	536
Total	1,507.0	916.0	855.1	1,676	1,583

*The $435 million total exceeds the $430 million announced by the government due to individual negotiations with jurisdictions, which resulted in an additional $5 million being made available under the DCLS; this funding was diverted from the Drought Recovery Concessional Loans Scheme.

+Drought-related scheme or scheme with a drought-related component.

Appendix O – Sections of the RIC Act relating to water infrastructure

Section 3 – Simplified outline of this Act

Remove "(b) to administer, on behalf of the Commonwealth, grants of financial assistance to States and Territories in relation to water infrastructure projects;"

Section 8 – Functions of the Corporation

Remove 1(b) "to administer, on behalf of the Commonwealth, financial assistance granted before the start day to States and Territories in relation to water infrastructure projects;"

Remove 1(c) to administer, on behalf of the Commonwealth, financial assistance to States and Territories in relation to water infrastructure projects, including by:

- (i) liaising, negotiating and cooperating with States and Territories and other parties on possible water infrastructure projects; and
- (ii) providing advice to responsible Ministers on a water infrastructure project; and
- (iii) implementing directions of the responsible Ministers under subsection 12(3) to enter into agreements, on behalf of the Commonwealth, for the grant of financial assistance to States or Territories in relation to water infrastructure projects; and
- (iv) reviewing financial assistance granted, and the terms and conditions on which such financial assistance is granted, periodically;

Remove 3(b), 3(c), 4(b) and 4(c)

- 3(b) the function mentioned in paragraph (1)(b) from 1 July 2018 or an earlier day specified by the responsible Ministers in an instrument under paragraph (4)(b); and
- 3(c) the function mentioned in paragraph (1)(c) from 1 July 2018 or an earlier day specified by the responsible Ministers in an instrument under paragraph (4)(c).
- 4(b) the function mentioned in paragraph (1)(b); or
- 4(c) the function mentioned in paragraph (1)(c).

Section 11 – Operating Mandate

Remove 2(a)(ii) "financial assistance in relation to water infrastructure projects"

Section 12 – Responsible Minister may give other directions to the Corporation

Remove 3, 3A, 3B, 3C, 3D, 4, 4A and 5

"Water Infrastructure Projects"

(3) The responsible Ministers may give a written direction to the Corporation to enter into an agreement, on behalf of the Commonwealth, for the grant of financial assistance to a particular State or Territory in relation to a particular water infrastructure project. The direction may specify terms and conditions to be included in the agreement.

(3A) In giving a direction under subsection (3), the responsible Ministers must exercise their powers consistently with the *Water Act 2007*.

(3B) Before giving a direction under subsection (3) in relation to a water infrastructure project that is wholly or partly within the Murray-Darling Basin (as defined by the *Water Act 2007*), the responsible Ministers must seek the Murray-Darling Basin Authority's advice as to whether, in giving the direction, the Ministers would be exercising the Ministers' powers consistently with the Basin Plan (as defined by the *Water Act 2007*).

(3C) For the purposes of subsection (3), any terms and conditions to be included in an agreement must be in accordance with the rules.

(3D) However, a failure to comply with subsection (3C) does not affect the validity of a particular term or condition included in an agreement.

(4) Before giving a direction under subsection (3), the responsible Ministers must seek the Board's advice on the particular water infrastructure project to which the direction relates.

(4A) If:

- (a) the responsible Ministers give a direction under subsection (3) to the Corporation to enter into an agreement; and
- (b) the direction is one in relation to which the responsible Ministers received advice from the Murray-Darling Basin Authority under subsection (3B);
- then:
- (c) the Board must notify the responsible Ministers when the agreement has been entered into; and
- (d) the responsible Ministers must publish the advice on the internet within 30 business days of receiving the notice under paragraph (c).

(5) The rules must prescribe, in relation to agreements to be entered into under subsection (3):

- (a) the terms and conditions, or the kinds of terms and conditions, that may be included in an agreement; and
- (b) the matters the Corporation must consider in specifying terms and conditions to be included in an agreement.

Section 13A – Tabling of water infrastructure project agreements

Remove entire section

(1) The Corporation must give the Agriculture Minister a copy of an agreement entered into under subsection 12(3).

(2) The Agriculture Minister must cause:

- (a) a copy of the agreement; and
- (b) any direction given under subsection 12(3) relating to the agreement;
- to be tabled in each House of Parliament within 15 sitting days of that House after receiving a copy of the agreement.

(3) The Agriculture Minister must cause a copy of the documents mentioned in subsection (2) to be published on the internet within 30 days of the Minister receiving the copy of the agreement.

Section 15 – Functions of the Board

Remove 1(c) "to sign an agreement, on behalf of the Commonwealth, with a State or Territory for the grant of financial assistance to the State or Territory in relation to a water infrastructure project; and"

Section 17 – Appointment of Board members

Remove (2)(a)(iii) "water infrastructure planning and finance" from list of appropriate qualifications

Section 52 – Transfer of records to the Corporation

Remove entire section

Any records or documents relating to:

- (a) financial assistance provided, before the start day, to a State or Territory in relation to a water infrastructure project; or
- (b) possible water infrastructure projects;

that were in the possession of the Department immediately before the start day, and are or may be relevant to the Corporation’s functions, are to be transferred to the Corporation as soon as practicable after the start day.

Note: Any records and documents transferred are Commonwealth records for the purposes of the *Archives Act 1983*.”

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