



National Farmers' Federation
Submission to the Review of the Intergovernmental
Agreement on National Drought Program Reform

6 October 2017

NFF Member Organisations



Australian Chicken Growers' Council Ltd



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The National Farmers' Federation (NFF) is the voice of Australian farmers.

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the breadth and the length of the supply chain.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF.

The NFF represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

Statistics on Australian Agriculture

Australian agriculture makes an important contribution to Australia's social, economic and environmental fabric.

Social >

There are approximately 85,681 farm businesses in Australia, 99 per cent of which are wholly Australian owned.

Each Australian farmer produces enough food to feed 600 people, 150 at home and 450 overseas. Australian farms produce around 93 per cent of the total volume of food consumed in Australia.

Economic >

The agricultural sector, at farm-gate, contributes 2 per cent to Australia's total Gross Domestic Product (GDP). The gross value of Australian farm production in 2016-17 is forecast at 58.5 billion – a 12 per cent increase from the previous financial year.

Together with vital value-adding processes for food and fibre after it leaves the farm, along with the value of farm input activities, agriculture's contribution to GDP averages out at around 12 per cent (over \$155 billion).

Workplace >

The agriculture, forestry and fishing sector employs approximately 304,200 employees, including full time (217,000) and part time employees (87,200).

Seasonal conditions affect the sector's capacity to employ. Permanent employment is the main form of employment in the sector, but more than 28 per cent of the employed workforce is casual.

Environmental >

Australian farmers are environmental stewards, owning, managing and caring for 48 per cent of Australia's land mass. Farmers are at the frontline of delivering environmental outcomes on behalf of the Australian community, with 6.8 million hectares of agricultural land set aside by Australian farmers purely for conservation/protection purposes.

The NFF was a founding partner of the Landcare movement, which recently celebrated its 20th anniversary.

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Executive Summary

The NFF welcomes the opportunity to make a submission to the Review of the Intergovernmental Agreement (IGA) on National Drought Program Reform and make a contribution to the development of the next IGA. We would also welcome the opportunity to expand on our comments and respond to any questions throughout the review process.

Drought is frequent in parts of Australia and climate change is likely to exacerbate drought conditions, making it necessary that preparation and management of drought take precedence over drought relief.

While government measures have supported farmers in need, the lack of a consistent approach has led to confusion regarding the variety and certainty of assistance measures available. Additionally, the administration of drought-relief loans and other forms of assistance has been onerous and not all farmers affected by drought were eligible to apply for government assistance.

The NFF seeks a consistent and jurisdictionally harmonised policy approach to drought in order to best facilitate preparation and in-event management.

Compared to other farmers internationally, Australian farmers receive very little assistance. Australian farmers receive the second lowest levels of support in the developed world, second only to New Zealand.

Drought assistance needs to improve both producer resilience and in-drought outcomes. Drought is an intrinsic and accepted part of the Australian landscape. While drought is beyond Australian farmers' control, the worst impacts can be mitigated by providing farmers with a variety of tools and support to manage their risks as far as possible, while providing a safety net.

Drought assistance at present frequently takes 'transactional' forms, which has significant unintended consequences by, for example, disincentivising drought preparedness when subsidies for costs related to freight for fodder announced once drought is declared.

NFF also recommends that industry can and should play a greater role in monitoring and assessing performance of drought program delivery going forward. This is not possible at present because there is no set consultation mechanism and a lack of publicly available data to appraise outcomes for farmers.

All jurisdictions need to implement a consistent reporting framework and publicly report against an agreed set of key performance metrics on farmer outcomes.

The experiences of NFF members across jurisdictions have varied considerably throughout the IGA.

NSW Farmers supports policies and the delivery of programs that are efficient, equitable and effective. However, NSW Farmers has a number of concerns with the current approach of the framework and a number of suggestions for improvement.

The NSW Independent Pricing and Regulatory Tribunal (IPART) Drought Program Evaluation Framework is a useful concept, however, the framework has a number of shortcomings.

Recognising that drought is an increasingly common feature of the Australian climate, the Victorian Farmers Federation (VFF) supports the need for policies that foster farmer self-reliance and preparation.

The VFF is therefore supportive of Commonwealth programs such as the Farm Management Deposit Scheme and farm management training which effectively promote drought preparedness.

Similarly, the VFF believes providing viable farming businesses the tools to effectively manage drought are also essential. The provision of concessional loans schemes and rural financial counselling services have been an important support to farm businesses during difficult times.

Whilst acknowledging the importance of self-reliance, it is critical there are adequate safety nets in place to ensure the welfare of Australian farmers and farming communities.

In Queensland, Federal assistance was generally viewed as being more difficult to access and of less help than that offered in previous droughts.

Many farmers had not applied for Farm Household Allowance (FHA) or the concessional loans – application process for FHA was considered complicated and difficult to complete.

Concessional loans were compared unfavourably to interest rate subsidies (IRS) with the benefits thought insufficient to risk existing relationships with lenders.

Strongly supported measures included the Rural Financial Counselling Service, the Assistance for Isolated Children Scheme (respondents felt it should be increased), Farm Management Deposits and the EWIR- top-up.

Queensland government assistance was generally seen as easier to access and more useful although caps on assistance needed to be raised.

Additional assistance options largely concerned alleviating the financial impacts of severe drought, to sustain local communities as well as enabling environmental and economic recovery to occur more quickly.

The Western Australian Government doesn't currently have a State body to administer loans and this has built self-resilience in farmers, however WAFarmers welcomes any opportunities to assist farmers in need.

The IGA should focus on building farmers capacity to mitigate risks associated with dry season and supporting efforts to encourage growers to proactively manage their risks by using tools such as multi-peril crop insurance (MPCI).

The definition & criteria of 'in financial need' should be more flexible. The time frame of impact of specific event needs to be more flexible because a short period of time like 3 months can have a huge impact but isn't recognised.

The greatest difficulty in South Australia is that many of the various Commonwealth schemes, and, particularly concessional loans, have been administered by PIRSA (Primary Industries and Regions SA) who strictly adhere to the rules and as a result very few loans have been allocated.

Primary Producers South Australia (PPSA) have been working with PIRSA over the past few years to develop a process to give triggers on State assistance as a drought develops and based on the severity. This has been a complicated process and nothing has really come of this.

PPSA considers that the Farm Household Allowance (FHA) aligned well with IGA, however, off-set conditions within FHA relating to off-farm income and interest payable did not work well.

One of the key functions of industry associations is to be a conduit for information between farmers and Governments. This has not occurred for two main reasons. First, to date, there is no formal, nationally coordinated consultation mechanism between Commonwealth, State and Territory Governments and agricultural industry associations. Second there is no publicly available reporting on the effectiveness of various forms of drought support.

There are a range of areas where the IGA could be extended or redesigned. In addition, the establishment of the Regional Investment Corporation (RIC) will necessitate a revision of the agreement. The RIC has the potential to deliver concessional loans on a more consistent basis nationally and therefore make them more effective as a tool, mainly for drought preparedness, but also for in-drought support and recovery.

It will be important for the RIC to consider ways to minimise distortions and unintended consequences in the delivery of concessional loans.

Another risk mitigation measure that promotes self-reliance but is hardly utilised in Australia is multi-peril crop insurance (MPCI) broader farm income protection insurance. The market for these products is very limited and uptake is low.

The Commonwealth should seek to promote both the development and uptake of these insurance products nationally, particularly through measures that will lower premiums. The main barrier impeding uptake is the lack of incentive to take up MPCI because premiums are too high and products are not sufficiently flexible.

FHA is a useful in-drought support tool but its effectiveness is being hampered by difficulties in accessing the program and the time-limited eligibility (3 years).

In terms of State and Territory performance:

- Large divergence in the degree to which States and Territories play a direct role in providing assistance
- Large divergence in performance on delivering Commonwealth programs
- Lack of publicly available performance data

Often assistance takes ‘transactional’ forms. This is valuable to farmers as it helps to keep livestock alive and assists in returning stock. It also improves much-needed cash flow during a drought. These subsidies, however, often have unintended consequences.

NSW IPART developed a drought program evaluation framework, which is generally sound but it has some shortcomings. Notably, it doesn’t account for some wider social and community benefits

that drought assistance programs. A modified framework needs to take account of broader contributions farmers make to society through native vegetation and water policies. It should also assess the suite of policy packages as a whole to capture interactions and synergies between drought policies

Farm education and farm business planning programs are administered inconsistently across jurisdictions. They could be useful programs to improve drought preparedness and recovery but training needs to be relevant to farmers. At present uptake of these programs is low.

Introduction

Drought is frequent in parts of Australia and climate change is likely to exacerbate drought conditions, making it necessary that preparation and management of drought take precedence over drought relief. Parts of Eastern Australia are currently in severe drought, with many producers heading into their fourth year without income. The Australian agricultural industry faces continuous and significant adjustment pressures. It is easily the most volatile sector in the Australian economy and is almost two and a half times as volatile as the average for all sectors of the economy¹.

While government measures have supported farmers in need, the lack of a consistent approach has led to confusion regarding the variety and certainty of assistance measures available. Additionally, the administration of drought-relief loans and other forms of assistance has been onerous and not all farmers affected by drought were eligible to apply for government assistance. Government policies in all jurisdictions need to facilitate preparation for future drought events while being as transparent and consistent as possible. At the same time, drought assistance needs to be flexible enough to allow for regional variations in both climate and production systems.

The NFF seeks a consistent and jurisdictionally harmonised policy approach to drought in order to best facilitate preparation and in-event management. This will also reduce confusion among farmers about their eligibility to drought relief funds. At the same time it is crucial to ensure that current levels of assistance are not diluted.

To support farmers to better manage drought, the NFF would suggest the following measures:

- Develop an adequately funded, holistic National Drought Policy that improves outcomes for farmers in drought preparedness, management and recovery.
- Establish communications mechanisms that help farmers understand and access all drought support available to them across all jurisdictions.
- Improve the Bureau of Meteorology's Rainfall Deficiency Analyser by moving beyond rainfall as a proxy for drought conditions and by investing in the weather station network to avoid errors in modelling.

¹ M Keogh (2012), 'Including Risk in Enterprise Decisions in Australia's Riskiest Business', Farm Policy Journal, vol. 9, pp. 11–21

NFF's key principles for drought programme reform

Current levels of assistance are low by international standards

Compared to other farmers internationally, Australian farmers receive very little assistance. This year, the Organisation for Economic Co-operation and Development (OECD) released its Agricultural Monitoring and Evaluation report², assessing subsidy levels across 52 countries. This is the most in-depth research to date on the topic of farm subsidies, demonstrating that Australian farmers receive the second lowest levels of support in the developed world, second only to New Zealand.

Increased focus on preparedness

Drought assistance needs to improve both producer resilience and in-drought outcomes. Drought is an intrinsic and accepted part of the Australian landscape. While drought is beyond Australian farmers' control, the worst impacts can be mitigated by providing farmers with a variety of tools and support to manage their risks as far as possible, while providing a safety net. It is also vital that farmers have agency when making the decision to apply for a concessional loan or other measure either for drought preparedness, during a drought or in the recovery phase. To better empower farmers to take charge of the drought cycle, NFF encourages Australian Governments to actively explore the concepts outlined in AgForce's Agricultural Business Cycle Proposal³.

At present, there is confusion in the role states play in drought support. While it is clear to farmers that Commonwealth programs are, at present, delivered by the States, there is a large divergence in delivery arrangements and performance across states and territories.

For this reason, the NFF generally welcomes the creation of a Regional Investment Corporation (RIC)⁴ with the hope that the RIC will improve transparency in the drought assistance space. While the NFF is largely supportive of the RIC, it is crucial that drought support delivered through the RIC recognises the variability in drought conditions between jurisdictions and production systems. Intensive production systems, for example, face increased grain prices and heat stress of animals during drought conditions.

Distortionary impacts should be minimised through increasing farmers' choices

Drought assistance at present frequently takes 'transactional' forms, which has significant unintended consequences by, for example, disincentivising drought preparedness when subsidies for costs related to freight for fodder announced once drought is declared. The effectiveness of these subsidies during a drought is compromised through their effects on prices of animal feed and may worsen outcomes for those not eligible for assistance.

² For more detail, see <http://www.oecd.org/tad/agricultural-policies/monitoring-and-evaluation.htm>

³ For further information, see https://agforceqld.org.au/index.php?page_id=34.

⁴ See the NFF submission to DAWR in September 2017 www.nff.org.au/get/submissions/5770.pdf.

NFF recommends that transactional subsidies are broadened to lessen their distortionary impacts to maximise the suite of choices available to farmers and that other less distortionary forms of support are considered. These should also potentially be available during a recovery phase.

Distortionary impacts will also be lessened if farmers have multiple risk management tools at their disposal that can be employed earlier with confidence. The earlier that assistance is made available, the greater the choices that farmers have.

Jurisdictions need to be transparent and accountable

NFF also recommends that industry can and should play a greater role in monitoring and assessing performance of drought program delivery going forward. This is not possible at present because there is no set consultation mechanism and a lack of publicly available data to appraise outcomes for farmers. Clear service standards for drought program delivery need to be established, both in relation to the delivery of a program once announced and in relation to the processing of individual applications once a program has commenced. These service standards and the estimated processing times should be communicated to applicants immediately after they lodge their application.

Further to that, all jurisdictions need to implement a consistent reporting framework and publicly report against an agreed set of key performance metrics on farmer outcomes. As a benchmarking exercise, all drought assistance eligibility criteria and assessment processes should be audited to ensure consistency across jurisdictions.

How has the IGA influenced drought programs delivered by each jurisdiction?

The NFF membership comprises of state farming organisations in New South Wales (NSW Farmers' Association), Victoria (Victorian Farmers Federation), Queensland (AgForce), Western Australia (WAFarmers), South Australia (Primary Producers SA) and the Northern Territory (Northern Territory Cattlemen's Association).

The experiences of NFF members across jurisdictions have varied considerably throughout the IGA. The following sections describe what worked and what didn't in each jurisdiction.

New South Wales

NSW Farmers Association supports best practice agricultural policy that encourages a vibrant rural Australia, a productive and efficient agricultural sector, and fairly reflects the highly variable returns that farmers receive as a result of risk factors beyond their control.

Drought policy should include both direct measures that are targeted on farm (for preparedness, in-drought assistance and post drought recovery), and indirect support measures (e.g. social welfare, health and community support).

However, the impacts of drought are not just felt by farm businesses, but also fall on the financial, social and mental fabric of farming families and rural communities. Accordingly, any analysis of drought policy must take into account the social, mental and community benefits associated with the provision of assistance, or the costs that are incurred where no assistance is rendered.

NSW Farmers supports policies and the delivery of programs that are efficient, equitable and effective. However, NSW Farmers has a number of concerns with the current approach of the framework and a number of suggestions for improvement.

The NSW Independent Pricing and Regulatory Tribunal (IPART) Drought Program Evaluation Framework is a useful concept, however, the framework has a number of shortcomings.

In Stage 1 of the framework, drought preparedness is the key principle that must be satisfied before all others. Drought programs should not harm the incentives for food and fibre producers to prepare for drought and undertake all reasonable steps manage their foreseeable risks. However, there are other principles outlined in Attachment A of the agreement that provide economic and social benefits without necessarily contributing to drought preparedness explicitly. This is particularly so in the case of principles relating to natural resource management.

In some cases it is unavoidable that a program might target one objective but worsen performance against another objective targeted by another program. However, if the net benefits from the first program outweigh the costs imposed on the second program, then it is likely that the first program will still result in an overall welfare gain. In these instances, it would make sense to undertake a combined assessment.

While it is sensible to consider the costs imposed through raising taxation revenue, it is also important to recognise the full array of social benefits that arise from a suite of drought programs.

Finally, it is important to recognise that well-designed programs may be poorly implemented and the framework should also encompass analysis of program implementation and how maximum benefits may be derived from a particular program.

Victoria

Recognising that drought is an increasingly common feature of the Australian climate, the Victorian Farmers Federation (VFF) supports the need for policies that foster farmer self-reliance and preparation.

The VFF is therefore supportive of Commonwealth programs such as the Farm Management Deposit Scheme and farm management training which effectively promote drought preparedness. The recent changes to FMDs including raising the deposit limit from \$400,000 to \$800,000 and increasing the off-farm income threshold from \$65,000 to \$100,000 have been a positive step in boosting farmer contributions. As of the 31st August 2017 there was \$5.32 billion in FMD accounts in Australia.

Similarly, the VFF believes providing viable farming businesses the tools to effectively manage drought are also essential. The provision of concessional loans schemes and rural financial counselling services have been an important support to farm businesses during difficult times.

Whilst acknowledging the importance of self-reliance, it is critical there are adequate safety nets in place to ensure the welfare of Australian farmers and farming communities. The Farm Household Allowance ensures eligible farmer households experiencing financial hardship receive

necessary assistance. Additionally, we were largely supportive of the Victorian State Government's 2015 drought package which had a strong focus on communities, recognising that droughts not only impact farm businesses but the surrounding communities as well. The package included a kindergarten fee subsidy and a 'Camps, Sports and Excursions Fund' for children residing in drought affected areas, recognising the impact droughts can have on children's education. Additionally, there was significant funding state funding targeted at mental health for programs such as 'Look Over the Farm Gate' to address the high rate of mental health problems during drought periods.

Significant improvements could be made, however, to the delivery of both commonwealth and state programs.

In particular, greater cooperation between state and federal governments is needed to ensure delays in the implementation of drought responses are prevented. This was particularly evident in the case of the rollout of the concessional loans scheme, with bilateral negotiations between the Commonwealth Government and each of the jurisdictions causing not only an overall delay in the roll out of the programs, but considerable variances in the start dates between states. As result of prolonged negotiations between the Victorian State Government and the Commonwealth, Drought Concessional Loans were made available to Victorian farmers 6 months after New South Wales counterparts, despite the urgent drought conditions experienced in the Mallee and Wimmera regions at the time.

Additionally, greater consistency is needed in the implementation and administration of commonwealth schemes at a state level. The concessional loan scheme is a notable example, in which the assessment criteria as well as the products offered differed significantly state by state. This is reflected in the significant variations in uptake levels between states.

Queensland⁵

During the current drought, AgForce has undertaken two formal surveys of their members in drought-affected areas. An April 2015 survey covering 31 currently or previously drought-declared shires saw 46 pc, 65 pc and 59 pc of respondents rate the current drought event worse than previous droughts they had experienced in terms of the relative environmental, financial and personal impacts respectively. While this related to a range of precursor impacts, including the Millennium drought and the live export suspension decision, it is vitally important that these impacts of drought are progressively reduced over time.

An October 2013 survey (81pc drought declared) saw 93 percent of respondents indicated they had undertaken drought preparedness activities after the last drought. Of respondents who specified preparedness strategies, these included improving water resources (65 pc), managing/reducing grazing pressure (39 pc), supplementary feeding infrastructure and storage (16 pc), native vegetation regeneration and pasture improvement (15 pc), more proactive

⁵ For a more thorough picture, please see AgForce's submission to the Joint Review of the Intergovernmental Agreement on National Drought Program Reform.

management/planning (16 pc), establishing a financial reserve (8 pc), marketing changes (5 pc) and additional property purchases (4 pc).

Given such an overwhelming response and assuming they reflect on-ground practice, an important question for the IGA parties is how to ensure that preparedness efforts are indeed effective at assisting producers deal with future events, particularly where they become worse under climate change scenarios.

Some other key findings were:

- In Queensland, Federal assistance was generally viewed as being more difficult to access and of less help than that offered in previous droughts. Extension of the Emergency Water Infrastructure Rebate (EWIR) program was supported.
- Many respondents had not applied for Farm Household Allowance (FHA) or the concessional loans – application process for FHA was considered complicated and difficult to complete.
- Concessional loans were compared unfavourably to interest rate subsidies (IRS) with the benefits thought insufficient to risk existing relationships with lenders.
- Strongly supported measures included the Rural Financial Counselling Service, the Assistance for Isolated Children Scheme (respondents felt it should be increased), Farm Management Deposits and the EWIR- top-up.
- Queensland government assistance was generally seen as easier to access and more useful although caps on assistance needed to be raised.
- Supported measures included the EWIR, Drought Relief Assistance Scheme (DRAS) subsidies, and other cost subsidies.
- Additional assistance options largely concerned alleviating the financial impacts of severe drought, to sustain local communities as well as enabling environmental and economic recovery to occur more quickly.

Western Australia

The Western Australian Government doesn't currently have a State body to administer loans and this has built self-resilience in farmers, however WAFarmers welcomes any opportunities to assist farmers in need.

The IGA should focus on building farmers capacity to mitigate risks associated with dry season i.e. storing water or purchasing extra feed and storing on farm, supporting efforts to encourage growers to proactively manage their risks by using tools such as multi-peril crop insurance (MPCI).

Drought impacts both farming families and the wider community and therefore drought policy must include indirect assistance for social, health and community support.

The definition & criteria of 'in financial need' should be more flexible. The time frame of impact of specific event needs to be more flexible because a short period of time like 3 months can have a huge impact but isn't recognised.

When looking at the ‘financial viability’ of the business, the assessment should be over 3-5 years or longer to get an accurate indication as equity can change quickly due to land valuations being so volatile. There should be more focus on historical data rather than future forecast.

Assessment should look at all aspects of business and also look at future plans of business i.e. succession planning. Currently succession planning is a non-eligible use of loans.

To provide equity and fairness, assessments for assistance must be based on individual needs and take into account individual circumstances and cannot be solely based on geographical lines on a map. Farmers and industry should have involvement in assessing the current phase of the drought cycle; farmers know better than anyone when they are experiencing drought and have local expertise.

South Australia

From a South Australian livestock perspective, the Commonwealth processes have worked relatively well. The greatest difficulty in South Australia is that many of the various Commonwealth schemes, and, particularly concessional loans, have been administered by PIRSA (Primary Industries and Regions SA) who strictly adhere to the rules and as a result very few loans have been allocated. In considering asset values, they tend to ignore the value of livestock and any water licences as these are currently not able to be listed on land titles in SA.

Primary Producers South Australia (PPSA) have been working with PIRSA over the past few years to develop a process to give triggers on State assistance as a drought develops and based on the severity. This has been a complicated process and nothing has really come of this. A further avenue for research should be developing these triggers at various points in the cycle so that assistance can be delivered in a timely and effective manner.

PPSA considers that the Farm Household Allowance (FHA) aligned well with IGA in that it provided funds to meet ongoing living expenses, both during the latter part of the drought and ongoing consequences of the drought. However, off-set conditions within FHA relating to off-farm income and interest payable did not work well. The provision of \$3,000 in vouchers for professional advice worked well and were beneficial in most cases. In many cases the assistance provided simply supported a positive outlook amongst recipients and contributed to their wellbeing.

In many cases it was unfortunate that the vouchers could not be used to assist with preparation of financial statements and tax returns; the inability to provide these documents to lenders and Centrelink (on time) put recipients at a disadvantage. A consequence of most droughts has been a significant rise in problems associated with mental health issues. To this end it is critical to ensure that qualified mental health professionals are available and financially supported by government in rural areas.

Are there opportunities for stronger collaboration within and between governments, and with industry and non-government organisations?

One of the key functions of industry associations is to be a conduit for information between farmers and Governments. This has not occurred for two main reasons. First, to date, there is no formal, nationally coordinated consultation mechanism between Commonwealth, State and Territory Governments and agricultural industry associations. Second there is no publicly available reporting on the effectiveness of various forms of drought support. Establishing both the consultative mechanism and the reporting framework should be agreed by COAG as a priority.

COAG agriculture ministers should therefore commit to regular publically available reporting based on a uniform reporting framework consisting of well-defined common benchmarks relating to resilience and impact reduction on criteria such as:

- Levels of assistance delivered to farmers for drought preparedness (in the form of concessional loans, subsidies and tax concessions).
- Levels of assistance delivered to farmers during a drought event.
- Timeliness of declaring an event.
- Timeliness of processing applications for assistance.
- Time taken for farmers receiving assistance to return to profitable production.
- Ongoing financial viability of farmers receiving assistance.

Finally, industry groups have a significant role to play in providing personal support to members that are struggling through drought conditions. Governments should work with industry associations to deliver these personal support services through their membership networks.

Should the IGA be extended or otherwise varied?

There are a range of areas where the IGA could be extended or redesigned. In addition, the establishment of the Regional Investment Corporation (RIC) will necessitate a revision of the agreement, depending on the final legislation that passes the Commonwealth Parliament, as well as the operational mandate decided by the Commonwealth Ministers for Agriculture and Finance and the key loan settings decided by the RIC Board. The RIC has the potential to deliver concessional loans on a more consistent basis nationally and therefore make them more effective as a tool, mainly for drought preparedness, but also for in-drought support and recovery.

Role for the Commonwealth

In relation to the Commonwealth, the following key findings emerge from the experiences in jurisdictions summarised above:

- Commonwealth role is well-defined.
- However, due to the lack of transparency and regular, comparable statistical data we question whether Commonwealth programs being delivered by the States are actually delivered effectively or at optimum levels.

It will be important for the RIC to consider ways to minimise distortions and unintended consequences in the delivery of concessional loans. One particular model that the Commonwealth should consider is the method used by the Clean Energy Finance Corporation (CEFC) to deliver asset financing for small scale energy efficient investments. This delivery model has a range of advantages. Because the CEFC effectively provides wholesale funding for banks to deliver concessional loans for policy purposes, the CEFC avoids incurring the costs of establishing and operating a customer-focussed delivery mechanism. This role is performed by the private sector using existing infrastructure and is competitively neutral. The CEFC is able to specify conditions on the loan, including eligible or ineligible uses and the concession on the loan. In the RIC context, this model could be extended to encourage uptake of other risk management options such as Farm Management Deposits.

In 2016, the Commonwealth Government removed the law that prevented FMDs being used as offset accounts against primary production business debt. So far, however FMD interest offset product offerings from banks have been limited. As an example, the RIC could specify that concessional loans could be tied to an FMD and an interest offset facility could be offered against that loan (as an alternative to fixed percentage point discount). To illustrate the concept, a bank could choose to offer a concessional RIC-funded loan with either a 0.7 per cent discount, or a 0.4 per cent discount plus an FMD offset facility.

Another risk mitigation measure that promotes self-reliance but is hardly utilised in Australia is multi-peril crop insurance (MPCI) for the broadacre cropping sector and broader farm income protection insurance for other sectors, including horticulture and livestock industries. The market for these products is very limited and uptake is low. As is the case (to varying degrees) in most insurance markets, adverse selection (and the resulting high premiums) is hampering the development of these markets. This implies that Government intervention is necessary to overcome the market failure. However, intervention must be designed carefully to avoid excessively risky behaviour in the sector. It should be noted that other agricultural exporting countries provide substantial subsidies for MPCI.

The Commonwealth should seek to promote both the development and uptake of these insurance products nationally, particularly through measures that will lower premiums. While the Commonwealth has already offered funding for broadacre crop farmers to undertake risk assessments for MPCI through the Managing Farm Risk Programme, the assistance has not been effective in encouraging uptake. This measure is sensible, however, the main barrier impeding

uptake is the lack of incentive to take up MPCCI because premiums are too high and products are not sufficiently flexible.

FHA is a useful in-drought support tool but its effectiveness is being hampered by difficulties in accessing the program and the time-limited eligibility (3 years). The Commonwealth should examine options to simplify the application process, improve the timeliness of processing and extend eligibility for farmers that have genuinely taken steps to mitigate their own risks, thereby encouraging sound risk management and self-reliance.

Finally, there is an opportunity for agricultural policy to support future farmers and enable younger generations to enter the sector. It is often the upfront risks, combined with poor access to finance and an inability to access options like FMDs and MPCCI in the early years of a farming career that dissuade new entrants.

Role for the States

In relation to State and Territory programs, the following key findings emerge from the experiences in jurisdictions summarised above:

- Role of the States is currently NOT well-defined
- Large divergence in the degree to which States and Territories play a direct role in providing assistance
- Large divergence in performance on delivering Commonwealth programs
- Lack of publicly available performance data

Often assistance takes ‘transactional’ forms, for example, subsidies for costs related to freight for fodder. This assistance is valuable to farmers as it helps to keep livestock alive and assists in returning stock. It also improves much-needed cash flow during a drought. These subsidies, however, often have unintended consequences. There is a lack of needs-based eligibility criteria in some jurisdictions which means that assistance may not be going to those who need and deserve it the most. It can raise the prices for fodder, which affects those not receiving assistance and it can potentially dull the incentive to undertake effective drought mitigation practices.

Implementation of these subsidies could be improved in two ways:

- Allow farmers to make a broader range of choices related to drought preparedness and management than just transporting fodder to their farm such as transporting livestock to alternative agistment, to market or allow farmers to transport water to their property. This is already the case in Queensland and should be considered elsewhere.
- Improve timeliness of availability of subsidies as earlier action allows a larger number of options to be chosen, which will improve animal welfare, reduce costs and minimise distortions.

In addition to improving the administration of subsidies, States and Territories can immediately make changes to stamp duties to lower premiums for crop and livestock insurances.

NSW currently applies a 2.5 per cent stamp duty to crop and livestock insurance, which is due to phase out by 1 January 2018. Victoria provides an exemption to the 10 per cent general insurance stamp duty for cereal or fruit crops damaged by hail. All other jurisdictions, except the ACT, levy between and 9 and 11 per cent of premiums paid on any types of crop and livestock policies.⁶

A key step to improve the affordability of single peril insurance, MPCI and broader farm income protection insurance would be for States to agree immediately to abolish these stamp duties.

IPART developed a drought program evaluation framework, which is generally sound but it has some shortcomings. First, it doesn't account for some wider social and community benefits that drought assistance programs might have, such as prevention of suicides or improved animal welfare outcomes.

A modified IPART framework, coupled with a nationally consistent data collection and reporting framework should be adopted nationally for the suite of Commonwealth and State and Territory programs under the auspices of the Agricultural Senior Officials Committee (AGSOC). A modified framework needs to take account of broader contributions farmers make to society through native vegetation and water policies. It should also assess the suite of policy packages as a whole to capture interactions and synergies between drought policies and avoid incorrectly attributing effects to individual programs. IPART acknowledges that:

“Assessing programs together may provide a more accurate calculation of net benefits. This will occur where the programs are likely to generate higher returns in combination than individually.”⁷

Farm education and farm business planning programs are administered inconsistently across jurisdictions. They could be useful programs to improve drought preparedness and recovery but training needs to be relevant to farmers. At present uptake of these programs is low. There is a role for Government to provide information to farmers on financial literacy and risk management in agricultural context, however, Governments should also undertake research into the reasons why farmers may not be taking up particular assistance and risk management options. These should be examined as part of a broader nationally consistent assessment of drought assistance.

⁶ NSW Treasury (March 2016), Interstate comparison of taxes, Research and Information Paper, trp16-01, viewed 5 October 2017,

https://www.treasury.nsw.gov.au/sites/default/files/pdf/TRP16-01_Interstate_Comparison_of_Taxes_2015-16_-_pdf.pdf

NB The ACT has a 20 per cent stamp duty on general insurance.

⁷ IPART (January 2016), *NSW Drought Program Evaluation Framework – Final Report*, p. 38, viewed 5 October 2017, <https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/Drought-Framework/Drought-Program-Evaluation-Framework?qDh=2>

Summary of recommendations

1. Commonwealth, State and Territory Government policies need to facilitate preparation for future drought events while being as transparent and consistent as possible. At the same time, drought assistance needs to be flexible enough to allow for regional variations in both climate and production systems.
2. Commonwealth, State and Territory Governments should adopt a consistent and jurisdictionally harmonised policy approach to drought in order to best facilitate preparation, in-drought management and recovery.
3. Commonwealth, State and Territory Governments should maintain or improve assistance levels across all jurisdictions.
4. Commonwealth, State and Territory Governments should agree on:
 - Establishing communications mechanisms that help farmers understand and access all drought support available to them across all jurisdictions.
 - Improving the Bureau of Meteorology's Rainfall Deficiency Analyser by moving beyond rainfall as a proxy for drought conditions and by investing in the weather station network to avoid errors in modelling.
5. Commonwealth, State and Territory Governments should actively explore the concepts outlined in AgForce's Agricultural Business Cycle Proposal
6. Commonwealth, State and Territory Governments should seek to maximise the number of risk management tools at farmers' disposal.
7. Commonwealth, State and Territory Governments should develop clear service standards for drought program delivery, both in relation to program administration and the processing of individual applications.
8. Commonwealth, State and Territory Governments should benchmark all drought assistance eligibility criteria and assessment processes to ensure consistency across jurisdictions.
9. Commonwealth, State and Territory Governments should establish an industry consultative mechanism as a priority.

10. Commonwealth, State and Territory Governments should commit to regular publically available reporting based on a uniform reporting framework consisting of well-defined common benchmarks relating to resilience and impact reduction on criteria such as:

- Levels of assistance delivered to farmers for drought preparedness (in the form of concessional loans, subsidies and tax concessions).
- Levels of assistance delivered to farmers during a drought event.
- Timeliness of declaring an event.
- Timeliness of processing applications for assistance.
- Time taken for farmers receiving assistance to return to profitable production.
- Ongoing financial viability of farmers receiving assistance.

11. Commonwealth, State and Territory Governments should work with industry associations to deliver personal support services through their membership networks.

12. The Commonwealth should consider the method used by the Clean Energy Finance Corporation (CEFC) to deliver asset financing for small scale energy efficient investments.

13. The Commonwealth should consider specifying that concessional loans be tied to an FMD and an interest offset facility could be offered against that loan (as an alternative to fixed percentage point discount).

14. The Commonwealth should seek to promote both the development and uptake of multi-peril crop and farm income protection insurance products nationally, particularly through measures that will lower premiums.

15. Commonwealth, State and Territory Governments should consider improving transactional subsidies in the following ways:

- Allow farmers to make a broader range of choices related to drought preparedness and management than just transporting fodder to their farm such as transporting livestock to alternative agistment, to market or allow farmers to transport water to their property. This is already the case in Queensland and should be considered elsewhere.
- Improve timeliness of availability of subsidies as earlier action allows a larger number of options to be chosen, which will improve animal welfare, reduce costs and minimise distortions.
- Deliver subsidies during a recovery phase.

16. States and Territories should immediately abolish stamp duties on crop and livestock insurance products to lower premiums and improve uptake.

17. The Commonwealth should examine options to simplify the FHA application process, improve the timeliness of processing and extend eligibility for farmers that have genuinely taken steps to mitigate their own risks, thereby encouraging sound risk management and self-reliance.

18. Commonwealth, State and Territory Government policies should support future farmers and enable younger generations to enter the sector.
19. Commonwealth, State and Territory Governments should adopt a modified IPART framework, coupled with a nationally consistent data collection and reporting framework for the suite of Commonwealth and State and Territory programs under the auspices of the Agricultural Senior Officials Committee (AGSOC).
20. The framework needs to take account of broader contributions farmers make to society through native vegetation and water policies. It should also assess the suite of policy packages as a whole to capture interactions and synergies between drought policies
21. Commonwealth, State and Territory Governments should provide information to farmers on financial literacy and risk management in agricultural context.
22. Governments should undertake research into the reasons why farmers may not be taking up particular assistance and risk management options.