Australian Banking Association

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Regional Investment Corporation
122-124 Kite Street
Orange NSW 2800
Email: info@ric.gov.au

Dear Sir / Madam

The Australian Banking Association (**ABA**) advocates for a strong, competitive, and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians through advocacy, research, policy expertise and thought leadership.

The ABA welcomes the opportunity to provide feedback to the Regional Investment Corporation (**RIC**) on its existing farm business definition and on the general delivery of the concessional loans program. The ABA considers the existing definition of farm business is fit for purpose, and further expansion is unnecessary.

ABA member banks are unaware of examples when a customer was deemed ineligible for a RIC concessional loan as a result of the existing definition. The ABA therefore confirms no gaps have been identified and the current eligibility for primary producers reflects the needs of the agricultural industry.

There has always been a well-understood balance between assisting farmers who have short-term hardship needs via government assistance and the role of the market to help farm businesses to grow, innovate and continue to support their vital role in the Australian economy.

ABA members remain supportive of the RIC providing farm businesses with access to government-funded concessional lending to assist through periods of short-term hardship. The ABA questions the need for intervention into areas where market demand is not evident, and the commercial market is already sufficient.

While the existing definition remains appropriate, the ABA seeks additional clarity on the future strategic direction of RIC, its legislative mandate and further transparency regarding the provision of concessional loans.

Delivery of the RIC concessional loan program

Banks in Australia have a long and proud history of supporting the agriculture industry to grow, innovate, and thrive. Despite the impacts of COVID-19, current conditions for most Australian farm businesses have never been better, with government economists expecting the agriculture industry will grow to $73 billion this financial year.[1]

Australia is experiencing a period of record-low interest rates, and RBA data demonstrates that total lending to agriculture was $83.4 billion at the end of December 2020, up from $77.9 billion in

[1] ABARES, Agricultural forecasts and outlook, September quarter 2021, https://www.awe.gov.au/abares/research-topics/agricultural-outlook/agriculture-overview

December 2019. This record level of funding to the agriculture sector highlights banks in Australia remain committed to agriculture and stand ready to fund farm businesses for the future. This is not only enabling properties to be purchased, working capital to be available but also encouraging sustainable initiatives for a low carbon economy.

While the current conditions are favourable, agriculture is cyclical in nature, and it is important to acknowledge that conditions have not always been this strong.

In 2017-2020 Australia was experiencing some of the most prolonged and widespread drought conditions in history, causing significant impacts to farm businesses across Australia. By August 2018, almost 100% of the state of New South Wales was declared to be in drought,[2] which remained relatively unchanged into May 2019[3].

Farm businesses were experiencing hardship, and the government stepped in to provide impacted farmers with concessional lending to help them survive. Emergency drought relief packages were deployed, and the RIC was established to provide financial relief to regional Australia via a nationally consistent concessional loan scheme.

In early 2019, severe floods devastated northern Queensland, and the scope of the RIC was expanded to provide natural disaster loans to those farm businesses that suffered direct damage as a result of these floods.

As the impacts of drought continued across regional Australia in early 2020, parliamentary rule changes permitted RIC to further expand its scope by allowing small businesses that had a direct dependency on farmers to access concessional loans.

As drought conditions improved, RIC's scope expanded further to include lending to first-time farmers and those undertaking succession planning. This was a pivotal change in direction for the RIC.

Apart from a concessional interest rate, the new scheme offerings are not dissimilar to terms offered by existing commercial lenders. Despite this, there has been a low uptake of these facilities, with $3.9 million of lending offers in 2020-2021[4], which indicates there may not be a need for government intervention as market demand does not appear evident.

RICs current loan guidelines

While the existing farm business definition remains appropriate, the ABA wishes to draw RIC's attention to how RIC determines suitability for a government-funded concessional loan.

As highlighted earlier, the balance between government assistance for short-term hardship needs and the role of commercial entities to assist farm businesses to grow remains key to the agriculture sectors success.

To obtain a RIC loan, current guidelines have an explicit requirement that a farm business "must be in need of financial assistance and have sound prospects of long-term financial viability".[5]

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[2] Department of Primary Industries, NSW State seasonal update, August 2018, https://www.dpi.nsw.gov.au/climate-landing/ssu/aug-2018
[3] Department of Primary Industries, NSW State seasonal update, April 2019, https://www.dpi.nsw.gov.au/climate-landing/ssu/april-2019
[4] Regional Investment Corporation Annual report, 2020-21, https://www.transparency.gov.au/annual-reports/regional-investment-corporation/reporting-year/2020-21-15
[5] Farm Investment Loan Guidelines, April 2021, https://www.ric.gov.au/sites/default/files/documents/Farm%20Investment%20Loan%20Guidelines%20140421.pdf

ABA members have provided examples where strong, commercially viable customers have been approved for a government-funded concessional loan where a financial need for assistance does not appear evident.

The ABA welcomes the opportunity to continue to work with RIC to ensure concessional loans are targeted to those Australian primary producers who are in genuine need of government assistance.

Yours sincerely

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