30 September 2022

Courtney Bryant
Assistant Secretary
Department of Agriculture, Fisheries and Forestry
Via email: droughtpolicy@agriculture.gov.au

Dear Courtney,

A new Australian Government Drought Plan

The Australian Banking Association (**ABA**) welcomes the opportunity to provide feedback on the development of a new Australian Government Drought Plan ('**the Plan**').

Our position

Banks in Australia recognise that drought in Australia is not a new phenomenon, and the focus on drought should not be restricted to times of drought. Drought will continue to be an enduring, challenging experience and a feature of the Australian landscape for which preparation is needed.

The ABA remains supportive of the Australian Government having a drought plan, focusing on long term preparedness and resilience activities to ensure farmers and communities in Australia are adequately prepared when the next drought occurs.

Key recommendations

The ABA recommends that:

1) A nationally consistent approach to drought declaration and farm debt mediation should be incorporated in the Plan to ensure farmers across Australia have access to the same support and services regardless of their postcode.
2) The Government should consider a simplified, more efficient, and cost-effective way to deliver concessional loans by way of interest subsidies through the financier.
3) As drought is widely recognised as an enduring, regular feature of the Australian landscape, the focus of the Plan should remain on long term preparedness and resilience.
4) The scope of the Plan must be clearly defined, and information should be easy to access.

Further details on these key points have been included in the appendix and if you would like to discuss the contents of this letter further, please contact me.

Yours sincerely,

Australian Banking Association

Appendix

1. A nationally consistent approach to drought declaration and farm debt mediation should be incorporated

1.1 Drought declaration

Transparency and consistency across states and territories on drought declaration is a fundamental requirement for the policy framework. Inconsistent approaches to determining when we are in drought, and importantly when it has finished, makes it difficult to construct a 'fit for purpose' plan with clear goals, deliverables, and importantly measure for success.

As rainfall has historically been the primary indicator of drought, the ABA welcomes the Government's work underway to bring together a broader suite of the best available data, including soil moisture, pasture growth and socio-economic indicators which will help inform Government decisions in relation to drought.

Having agreement and national alignment on drought declaration will benefit not only to policy makers but also those farmers and communities who are impacted.

1.2 Farm debt mediation (FDM)

The ABA continues to advocate for the implementation of uniform FDM legislation in each state via a national agreement, as farmers across Australia should have access to the same services regardless of their postcode.

FDM is widely acknowledged as a successful way for the farmer and the financier to agree on the strategy to resolve financial difficulty. Most importantly, this provides an additional avenue for farmers in financial difficulty to either re-establish and maintain their viability or exit the industry.

The ABA acknowledges the existing Australian Government Drought Response, Resilience and Preparedness Plan does not currently include details on FDM. However, given the importance of this process, particularly in times of drought where the prospect of farmers facing financial difficulty may be elevated, the ABA encourages the government to explore ways on how a nationally consistent approach to FDM could be incorporated in the development of the new Plan[1].

Furthermore, as FDM allows for farmers to request mediation with their financier at any time, and certainly before there is a default, this could be an important part of drought preparations.

2. Consider a simplified, more efficient, and cost-effective way to deliver concessional loans

In the existing drought plan, concessional loans form part of both immediate action for those in drought and support for the wider community affected by drought.

Banks in Australia remain supportive of farm businesses having the ability to access government funded concessional lending when a genuine need exists, but where there is a simplified, more efficient, and cost-effective way to deliver the concessional support, this should be considered.

The need for simplification was raised by farmers as evidenced in the Senate Rural and Regional Affairs and Transport References Committee 2021 report on the government's response to drought[2].

As the existing concessional loan scheme requires agribusinesses to be commercially viable, demonstrate a commercial need and have an ability to repay the loan, along with the provisions of

[1] Multiple government reports and inquiries have outlined, and some formally recommended, the need for a national FDM approach. This uniformity would deliver positive outcomes for all parties as inefficiency, inequity, and costs are reduced. Additionally, the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, outlined the need for a national FDM scheme to be enacted as soon as practical and this recommendation was accepted by the Government. This is one of the few recommendations that is not yet finalised.

[2] Some submitters stated that current RIC application processes are unclear and complex. Concerns were raised about the considerable administrative burden placed on people attempting to access the loans and called for this process to be simplified. While many farmers have successfully accessed concessional loans through the RIC, a large number have expressed frustration with the application process.

sufficient security, in practice, the Government's lending decisions are therefore unlikely to be different to commercial lending decisions.

Rather than using funds to restructure existing debt, concessions could be paid by way of interest subsidies through the financier. Interest rates subsidies would be a more preferable option as they would provide similar relief, but at a lower cost and effort to farmers, if designed effectively.

Should the government wish to explore this option, the ABA would welcome the opportunity to discuss the key design elements in more detail.

Additionally, subsidies and grants may be better options for short-term relief whereas loans could be reserved for longer term preparedness activity.

3. The focus should remain on long term preparedness and resilience

The ABA understands the Government has obligations under the national drought agreement for the provision of measures and programs to support farming families facing prolonged drought conditions.

Drought is widely recognised as an enduring, regular feature of the Australian landscape with drought conditions likely to become more frequent, severe, and longer due to climate change. Given this, drought is therefore one of the many business risks that should be appropriately managed.

There is understandably a need to balance providing farmers with comfort that specific support will be made available in times of prolonged drought, with encouraging self-reliance and investment in drought resilience and preparedness activities before an event.

Resilience building can make notable differences to how a farm business operates in times of reduced rainfall but ultimately, it will still come down to the strategic decision making of the farm business for how well they may navigate the drought cycle.

Having increased practical advice, supported by incentives, on ways farmers can build resilience across the drought cycle would be welcomed.

Notably, ongoing review of the types of programs in place the outcomes achieved, who should be eligible for these offerings and under what circumstances should support be provided, will be critical given the finite nature of government funding.

4. The scope of the Plan must be clearly defined, and information should be easy to access

Having clearly defined goals, deliverables, intended audience, and measure for success are critical elements for any plan or successful policy document.

Given the Plan is the guiding document for drought policy at the Australian Government level, achieving more clarity and focus on scope for the next national drought plan would be welcomed.

This could include areas such as:

- In what circumstances do aspects of the plan come into effect?
- To whom they apply?
- What are the minimum eligibility requirements?

Importantly, having one central location to access all required information one may need before, during and after a drought is important to ensure all stakeholders can access consistent and key information about drought tools, tips, and support measures.