
D Preparedness programs

Various government measures available to farmers are intended to assist them to deal with income volatility, improve their financial risk management or implement plans to increase preparedness. These measures are not specific to drought and are intended to provide assistance more broadly. In this appendix, an assessment of the appropriateness, efficiency and effectiveness of these measures is presented.

D.1 Farm Management Deposits

Farm Management Deposits (FMDs) are financial tools used to overcome the effects of income variability and help to manage risks. They can be used to prepare for periods of income deficit.

The scheme allows farmers to make interest bearing deposits of pre-tax income into FMD accounts offered by financial institutions. Deposited sums are deducted from taxable income in the year they are deposited and then included in the year in which they are withdrawn. There is typically a 12 month minimum waiting period after a sum is deposited before it may be withdrawn, along with a number of other eligibility requirements (box D.1).

The FMD scheme commenced in April 1999 as a part of the Agriculture — Advancing Australia (AAA) policy package. It replaced the Income Equalisation Deposits and Farm Management Bonds schemes. The primary objective of the scheme at the time was to provide a commercial tax-linked risk management tool, as stated by the then Minister for Agriculture, Fisheries and Forestry:

The FMD scheme, and associated website, fulfils an election promise to offer primary producers a single, fully commercialised, tax-linked deposit scheme that guarantees freedom of choice and pays interest on the full deposit ... FMDs are an exceptional risk management tool, offering primary producers freedom to choose a financial product and institution to suit their needs. (Vaile 1999)

Box D.1 Eligibility criteria for farm management deposits

Criteria for FMDs are set out in Schedule 2G, Division 393 of the Income Tax Assessment Act. Key criteria of the scheme include:

- FMDs are only available to individual primary producers and not to companies or trusts. However, beneficiaries receiving primary production income from a trust can make deposits.
- The minimum size allowed for an FMD is \$1000, while the maximum amount that an individual may hold as an FMD is \$400 000. Where a farm business is operated as a partnership, each partner may hold up to \$400 000 in an FMD.
- FMDs are tax deductible in the year of deposit and assessable in the year of withdrawal. However, a depositor's tax deductibility entitlement can not exceed taxable primary production income for the year.
- Tax deductible deposits can only be made in years where off-farm income (including interest on FMDs) does not exceed \$65 000.
- An FMD must be held for a minimum of 12 months. The only exception is where an Exceptional Circumstances (EC) certificate is held and the deposit was made prior to EC declaration.
- An individual may hold FMDs at only one financial institution at a time.

The thresholds on deposit size and off-farm income were initially \$300 000 and \$50 000 respectively. They were raised in 2006 following the 2006 review of FMDs. The 2006 review recommended that they be increased to maintain their real value. In the case of the deposit limit, the report noted that a \$365 000 limit (in 2006) would be equivalent, but that the increasing scale of farm businesses meant that there might be scope for a higher limit. The review also recommended that the off-farm threshold be increased to \$65 000.

Sources: DAFF (2006); McGauran (2006).

The scheme was enthusiastically endorsed on its introduction by the industry. For instance, the National Farmers' Federation stated:

We believe that FMDs will provide an effective risk management tool which will help offset two of the great unknowns in our business — commodity price movements and the weather. We strongly believe that FMDs will also be effective in promoting greater self-reliance ... [and] one of the less obvious benefits will be another incentive for the financial sector and farmers to include risk management in farm financial planning ... (NFF 1999)

The FMD scheme is administered under the *Income Tax Assessment Act 1936*. Eligible financial institutions offering FMD accounts are required to report details on FMD holdings to the Commonwealth Department of Agriculture, Fisheries and Forestry (DAFF) on a quarterly basis.

Interactions with other tax arrangements

FMDs are not the only provision primary producers can use to manage their taxation in the presence of variable incomes. Tax averaging arrangements and other taxation smoothing measures have been designed to address the disproportional taxation burden placed on primary producers with variable income.

The tax measures available to primary producers provide benefits by potentially reducing their overall tax liability through tax averaging and income smoothing. It is generally accepted that in the presence of a progressive income tax there will be inequity in the taxation of people whose incomes fluctuate between tax periods compared with people who earn the same average income without the fluctuations. The people whose incomes fluctuate pay more tax than those who earn stable incomes. This is often referred to as period inequity. Income variation does not raise the same issues in the case of companies, because of the flat tax rate.

While climatic variation can have large impacts on inter-year income variations, it is not the only cause. Price movements for both outputs and inputs (for instance, fuel and fertilizer) are also major contributors to variation in farm incomes.

There is considerable overlap between the operation of FMDs and that of the other taxation measures available to primary producers. The main area of overlap is with tax averaging. Tax averaging allows the current taxable income of primary producers to be assessed for income tax at the tax rate applicable to their average income in the current year and the four preceding years. The scheme is designed to ensure that primary producers do not pay more tax than people on the same average, yet steady income — that is, address period inequity. Primary producers using tax averaging pay less tax when their income is above their five year average income, but pay additional tax in years when income is lower than the five year average, than if they did not use tax averaging. By reducing the tax rate applicable to primary producers in high income years and increasing it in low income years, tax averaging reduces the potential tax saving, and interest income, to such producers from depositing money in FMDs, nevertheless, FMDs can also contribute to reducing period inequity.

There is also potential for overlap with other taxation concessions, although these are relatively minor. Forced disposal of livestock provisions allow a primary producer who disposes of stock because of drought (amongst other things) and will use the proceeds for the purpose of replacing the livestock to elect to either spread the income over five years, or defer the income and use it to reduce the cost of replacements in any of the five years, with any remaining profit included in assessable income in the fifth year. In the case of double wool clip provisions, where the sale of two wool clips in a single year arises because of early shearing

caused by drought (or fire or flood), the grower may elect to defer the income from the second shearing to the following year (ATO 2008a).

Removing period inequity

Tax averaging is the main provision available to address period inequity for Australian primary producers. However, it is unclear that the tax averaging scheme for primary producers fully removes the period inequity in taxation. According to Jeffery (1981, p. 141), the starting point for appropriately addressing period inequity needs to be:

... the identification of the fundamental cause of period inequity: period inequity will be incurred if a given total taxable income is so distributed between normal assessment periods that the total amount of taxable income, which is eligible to be taxed at negative and/or lower positive marginal rates of taxation, is not taxed at those rates.

Period inequity can be addressed by:

- *Taxation rate adjustment.* This is the approach taken in taxing the approximately 80–90 per cent of Australian primary producers who opt for tax averaging. Tax payable in the current year is calculated by applying the average tax rate applicable to the average taxable income in the most recent five years (including the current year) to the current year's taxable income. Although this tax rate adjustment does reduce the tax payable over several years by farmers with fluctuating incomes to a level closer to the tax paid by farmers earning the same average income without the fluctuations, Jeffery found that its ability to achieve period equity is 'restricted and indeterminate ... rather than removing the influence of the distribution of a given total taxable income between normal assessment periods (characteristics of the taxable income stream) from the amount of taxation payable, the amount of tax payable under the tax rate adjustment schemes is influenced by that distribution' (Jeffery 1981, p. 159).
- *Income transfer measures.* These involve the transfer of taxable income, either directly or in effect, between normal assessment periods. In an evaluation of four income transfer measures — taxation loss transfers, Income Equalisation Deposits (forerunner to FMDs), block averaging and cumulative assessment — Jeffery (1981) concluded that only block averaging and cumulative assessment offered satisfactory solutions to period inequity, and that only cumulative assessment passed an extra test of complying with five constraints for meeting the overall objectives of personal taxation.¹ The theoretical superiority of cumulative assessment — which involves taking a lifetime approach to income — had been accepted earlier by others (Vickrey 1939; Asprey 1975).

¹ The five constraints are consistency, simplicity, compatibility, rate-neutrality and immediacy.

While Australia's tax averaging for primary producers is not entirely effective at redressing period inequity, it is a practical compromise that reduces the effect of fluctuating incomes on tax payable over a run of years in the presence of a progressive income tax schedule.

Additional benefits from FMDs in addressing period inequity

In an assessment of FMDs for a review in 2006, it was noted that tax averaging was not completely effective in reducing the average tax burden over time of individuals with variable taxable income and that the FMD scheme provides an additional benefit through allowing primary producers to shift real income from above average years to future years, while only eventually having to pay tax on the nominal amount of income originally deposited (DAFF 2006).²

Tax averaging provisions affect the time-flow of the benefits from investing in FMDs. In the year of an FMD deposit primary producers benefit because their taxable income in the year of the deposit is reduced. But, where depositors also use tax averaging, the reduction in income in the deposit year also acts to reduce tax payable in the subsequent four years, compared with what it would otherwise be. Conversely, when a withdrawal is made, the FMD holder increases their taxable income for that year, and must therefore pay more tax. However, with tax averaging, the effect of the withdrawal will also be to increase tax payable over the subsequent four years as well (compared with what it would otherwise be).

For the relatively small number of primary producers that do not practise tax averaging, the return from investing in FMDs may be larger than for those who use tax averaging (DAFF 2006). That said, it is unclear whether or not primary producers are better off to formally cease income averaging for tax purposes, and use FMDs to spread their income over time in a more tax effective manner. If producers did this, the caps on FMDs could be binding for some high income producers. Overall, it appears the potential for FMDs to contribute to period equity may be greater for primary producers who do not engage in tax averaging. However, period equity may be enhanced also for those producers who use tax averaging.

National overview of FMD use

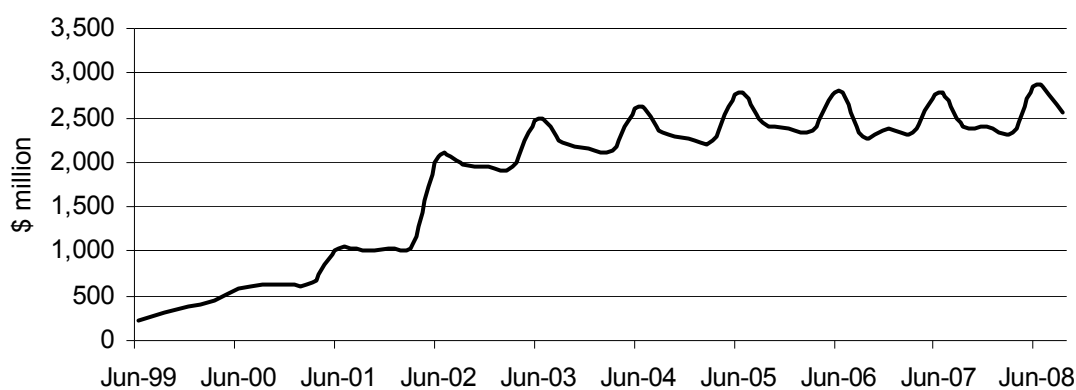
As at June 2008, aggregate FMD holdings totalled almost \$2.9 billion. Total deposits grew substantially in the June quarter of 2002 after a relatively slow start

² Tax is payable also on interest income earned on FMDs.

following their inception in 1999. Since June 2002, deposits have slowly increased. Further, at the aggregate national level, there has been no apparent large-scale withdrawal of deposits in response to either the 2002 or 2006 drought events or the years in between or since (figure D.1).

Deposits follow a distinct annual pattern where deposits peak in the June quarter. This is a function of the tax-based operation of the scheme, whereby deposits peak at the end of the financial year, allowing deferral of tax liability, and withdrawals are highest in the first quarter of the next financial year.

Figure D.1 Total Farm Management Deposit holdings, June 1999 to September 2008
Australia

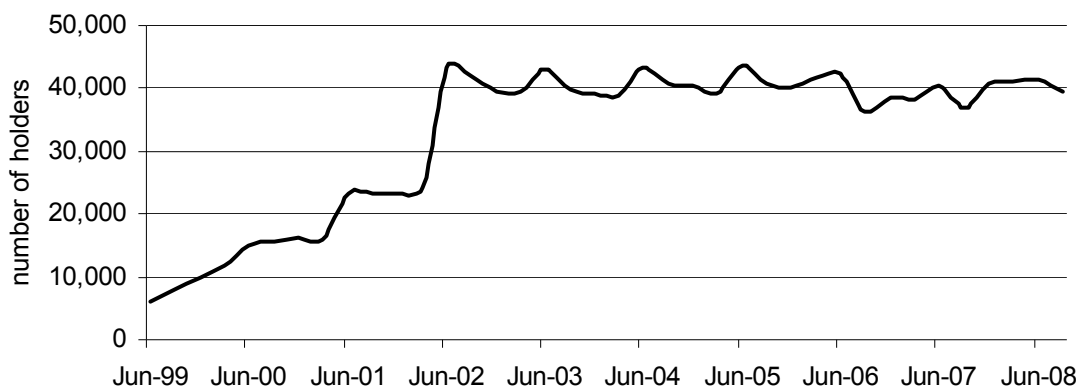


Data source: DAFF (2008h).

The trend in the total value of FMDs is mirrored by similar changes in the number of deposit holders (figure D.2). Early growth in the total value of FMDs was driven mostly by an increasing number of farmers utilising them. The number of holders has remained fairly stable since June 2002, although a slight decline is noticeable since 2006, potentially indicative of the effect of the recent prolonged drought. With an average of around 40 000 deposit holders since June 2002, penetration of the scheme is relatively modest. ABARE 2006 farm survey results indicated that a significant number of farms had multiple FMD holders and that overall, around 30 000 farms had FMDs (DAFF 2006).

Figure D.2 Total number of Farm Management Deposit holders, June 1999 to September 2008

Australia

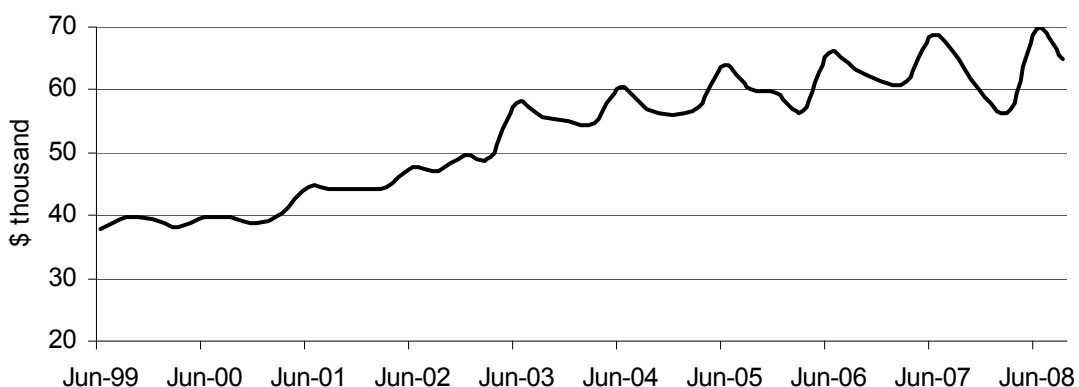


Data source: DAFF (2008h).

Average FMD amounts have been trending upwards since the inception of the scheme, peaking at an average of \$70 000 per holding in June 2008 (figure D.3). A similar pattern of June quarter peaks is observed in average FMD holdings. Over the life of the scheme, June quarter average holdings have increased by an average of 11 per cent from the preceding March quarter.

Figure D.3 Average Farm Management Deposit holding, June 1999 to September 2008

Australia

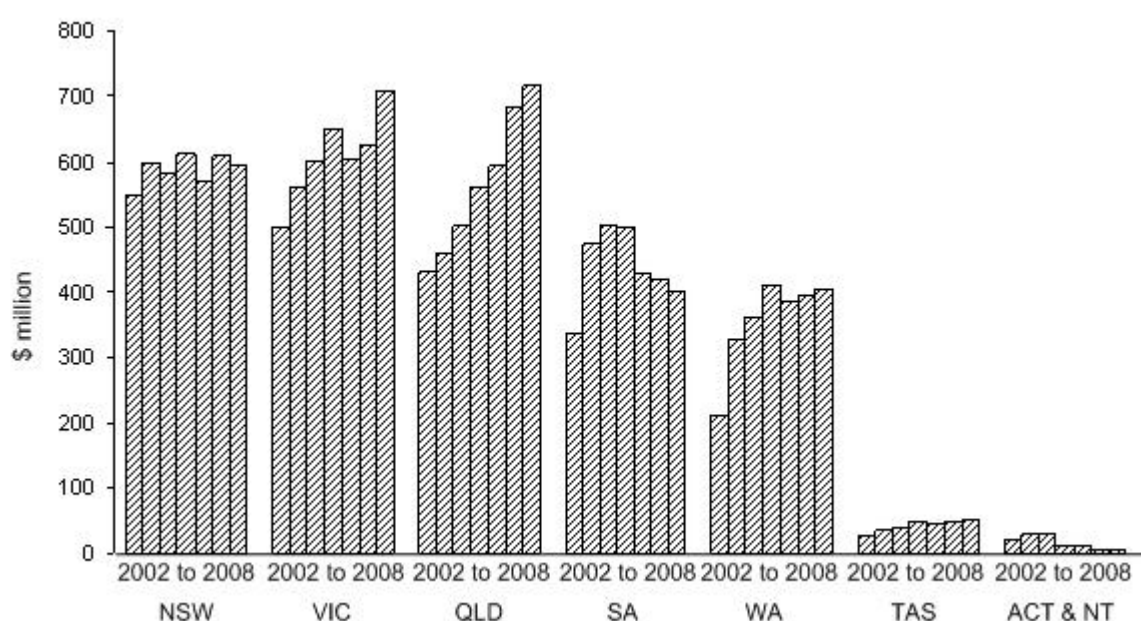


Data source: DAFF (2008h).

There have been some differences in the value of FMD holdings by state. These changes reflect the relative magnitudes of the agricultural sectors in each

jurisdiction, as well as changes in production and income over time (a function of relative seasonal conditions and commodity prices). At June 2008, Queensland had the highest holdings of FMDs, followed by Victoria and New South Wales (figure D.4). Total holdings in Queensland have continued to increase considerably since 2002. In contrast, in New South Wales, total holdings have remained relatively stationary over the period. Deposit holdings in South Australia dropped significantly in 2006 and have continued to fall since then.

Figure D.4 Total Farm Management Deposit holdings by State, June 2002 to June 2008



Data source: DAFF (2008h).

The difference in deposit holding behaviour between the states appears to be driven by the deposit holding behaviour of different agricultural sectors within each state (table D.1) and the conditions they are experiencing. For instance, the growth in FMD holdings in Queensland has been in the horticulture, sugar and other crops sectors, as well as fairly stable holdings in the cattle sector. In contrast, total holdings in the southern states generally declined during the drought in 2006 due to the considerable rundown in total FMD holdings in the grains sector. The large jump in Victorian holdings in 2008 can be attributed to the increases in the dairy and mixed farming sector — a consequence of high grain and milk prices.

Table D.1 Farm Management Deposit holdings by industry

Numbers as at June of each year

	2002	2003	2004	2005	2006	2007	2008
<i>Horticulture</i>							
total holdings (\$m)	184	226	264	296	297	383	394
number of holders	3 346	3 371	3 712	3 896	4 377	5 346	5 291
<i>Sugar</i>							
total holdings (\$m)	31	38	43	51	68	96	101
number of holders	980	1 126	1 119	1 132	1 431	1 719	1 595
<i>Crops</i>							
total holdings (\$m)	76	91	107	111	103	153	142
number of holders	1 458	1 365	1 562	1 439	1 492	2 649	2 340
<i>Grain</i>							
total holdings (\$m)	544	714	663	650	558	464	460
number of holders	10 643	11 029	10 144	9 588	9 114	6 727	6 884
<i>Grain–Sheep/Beef</i>							
total holdings (\$m)	419	508	542	572	468	507	583
number of holders	8 999	8 352	8 490	8 680	7 944	7 265	8 979
<i>Beef</i>							
total holdings (\$m)	302	312	352	406	439	437	398
number of holders	5 524	5 418	6 110	6 342	6 912	6 695	6 252
<i>Sheep–Beef</i>							
total holdings (\$m)	132	158	184	192	170	167	170
number of holders	2 775	2 939	3 120	3 104	3 084	3 059	3 089
<i>Sheep</i>							
total holdings (\$m)	121	161	170	171	160	156	143
number of holders	3 121	3 523	3 329	3 148	3 271	3 033	2 879
<i>Pigs</i>							
total holdings (\$m)	na	na	13	15	18	16	13
number of holders	na	na	217	225	244	202	178
<i>Intensive livestock</i>							
total holdings (\$m)	111	123	127	141	146	153	128
number of holders	2 112	2 101	1 938	2 031	2 432	2 444	2 080
<i>Dairy</i>							
total holdings (\$m)	139	128	133	164	188	179	226
number of holders	4 153	3 315	3 256	3 667	3 984	3 652	4 123
<i>Forestry and Fishing</i>							
total holdings (\$m)	16	20	21	21	21	70	120
number of holders	289	338	312	310	335	1 146	2 068
TOTAL							
total holdings (\$m)	2 074	2 480	2 619	2 792	2 797	2 782	2 879
number of holders	43 400	42 877	43 309	43 562	42 365	40 574	41 355

^a Total is less than the sum of industry figures because some holders are counted in more than one industry.

Sources: DAFF (2008h, 2008 unpublished).

The appropriateness of FMDs

In considering the appropriateness of the FMD scheme it is necessary to consider the rationales for government intervention. The National Drought Policy (NDP) implies that there is some market failure in self-reliance and preparedness. This might be due to a range of factors such as missing insurance markets to mitigate risk and a lack of information on predicting droughts. Analysis of farm financial performance suggests that liquidity is an important determinant of farm profitability and self-reliance, including during droughts. If there are market failures that mean that farmers are not establishing sufficient financial reserves, then there may be a reason for government to provide incentives to increase those reserves. That said, there is no evidence of significant impediments to farmers building financial reserves.

However, to the extent that FMDs contribute to greater financial performance, in turn leading to greater self-reliance in coping with climate variability, then the program may reduce reliance on more remedial government assistance measures.

FMDs may also contribute to achieving period equity in the taxation of primary producers — as noted earlier in this appendix. Any contribution in this area could be more significant for those primary producers who do not practise tax averaging, but there could be period equity benefits also for the majority who use tax averaging.

Assessing the effectiveness of FMDs

This section considers the effectiveness of FMDs in helping achieve the objectives of the NDP.

While it appears that farmers use FMDs to improve self-reliance and preparedness with respect to drought, it is clear that farmers use FMDs for a variety of reasons. The 2006 FMD review identified a number of reasons why farmers used FMDs, including to:

- earn interest on otherwise taxed income
- pay a lower eventual tax rate in situations where there is an expectation that tax rates will be lowered in the future
- leverage up the effects of Exceptional Circumstances (EC) interest rate subsidies
- obtain flexibility in superannuation planning
- obtain a commercial option to make better timed expenditure decisions (DAFF 2006).

In the *National Farmer Survey 2006*, ABARE asked farmers who held FMD accounts reasons why they used FMDs (table D.2). The most common reasons were tax management and income smoothing. While tax minimisation was cited by farmers in the survey as the main reason for using FMDs, most holders also viewed FMDs as an important risk management tool. Eleven per cent of FMD holders said that FMDs were their most important risk management strategy.

In the 2006 survey, around two-thirds of farms holding FMDs reported having made a withdrawal from their accounts at some stage, although this was higher in the cropping sector and more generally, in New South Wales. The most common reason cited for making a withdrawal from FMDs was for general expenses, or working capital — a reason given by 77 per cent of respondents. Other reasons were varied. For instance only 11 per cent cited debt reduction as a purpose of FMD withdrawals and only 10 per cent cited capital purchases. Interestingly, tax management, which was cited as the most common reason for deposits, was given as a purpose of withdrawal by only 7 per cent of respondents. Early access provisions for farms in EC areas do not appear to have been heavily utilised, with only 5 per cent of farms who made withdrawals, doing so under the early access provisions (Boero Rodriguez, Watson and Mues 2006).

Table D.2 Characteristics of FMD use

	<i>Per cent of farms that held at least one FMD account</i>
	%
Reasons to use FMDs	
Tax management	50
Income smoothing	31
Business strategy	12
Personal savings	1
Retirement savings	1
Other	5
Importance of FMDs in risk management	
Most important	11
Highly important	37
Important	35
Of minor importance	12
Not important	2
Debt increased while holding an FMD	17
Have made a withdrawal from FMD	66

Source: Boero Rodriguez, Watson and Mues (2006).

The most common reason for farmers to not hold FMDs, given by 60 per cent of farmers without FMDs, was insufficient surplus cash (Boero Rodriguez, Watson and Mues 2006). However, the next most frequent reason, given by 28 per cent of respondents without FMD accounts, was that they did not know enough about the scheme. Eighteen per cent of respondents said that the reason they did not use the scheme was because they used tax averaging. It appears that only a relatively small number of farmers did not use the scheme because of the eligibility restrictions. Four per cent of respondents said that their business structure did not allow them to use FMDs, while 3 per cent cited too high off-farm income as a reason for not using FMDs.

FMDs and drought

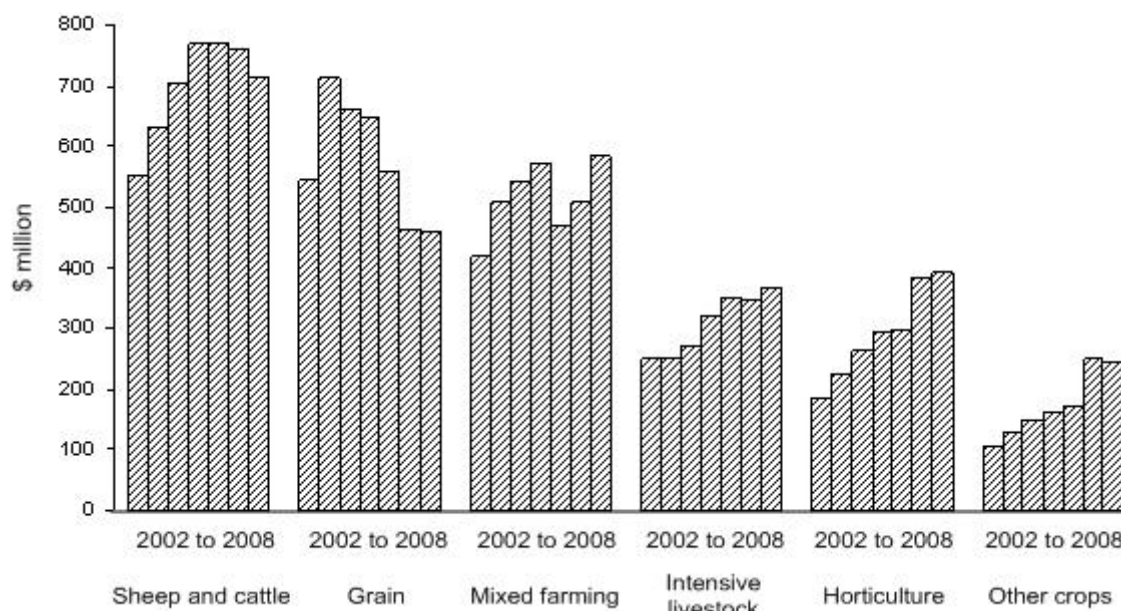
The FMD scheme appears to be being used as a financial tool to manage risk such as that presented by drought. While national aggregate data for the FMD scheme appears to mask any correlation between drought and FMD draw downs, sectoral data shows a much more dynamic use of the scheme (table D.1). An examination of annual holdings for selected industries (figure D.5) illustrates that the pattern of usage for the livestock and grain sectors is consistent with expectations of how the scheme would be used over the course of a drought.

For livestock enterprises, many producers have been selling livestock as an active destocking response to drought, thus generating additional income from the disposal. This income may then be kept in an FMD account in order to rebuild numbers post-drought and is indicative of the scheme being used for risk management purposes. Of course, some farmers may draw down FMDs during the drought to purchase fodder or meet other expenses and so the aggregate changes in FMD holdings may be less distinct.

Similarly for grain farmers, it appears that FMDs have been used as an active risk management tool. It is expected that FMDs would increase in a good year and then be drawn down during a poor year. Such behaviour is consistent with current FMD use, with a considerable draw down of FMD holdings in 2006 and subsequent years in the grain sector. Successive poor, or failed crops, coupled with high input prices for fuel and fertilizer appears to have increased reliance on FMD holdings to finance new plantings and maintain farm operations.

Figure D.5 **Total Farm Management Deposit holdings, June 2002 to June 2008**

As at June — selected industries^a



^a Sheep and cattle includes beef only and sheep only farms; Mixed farming includes farms producing grain and sheep and/or cattle; Intensive livestock includes dairy and pigs; Other crops includes sugar.

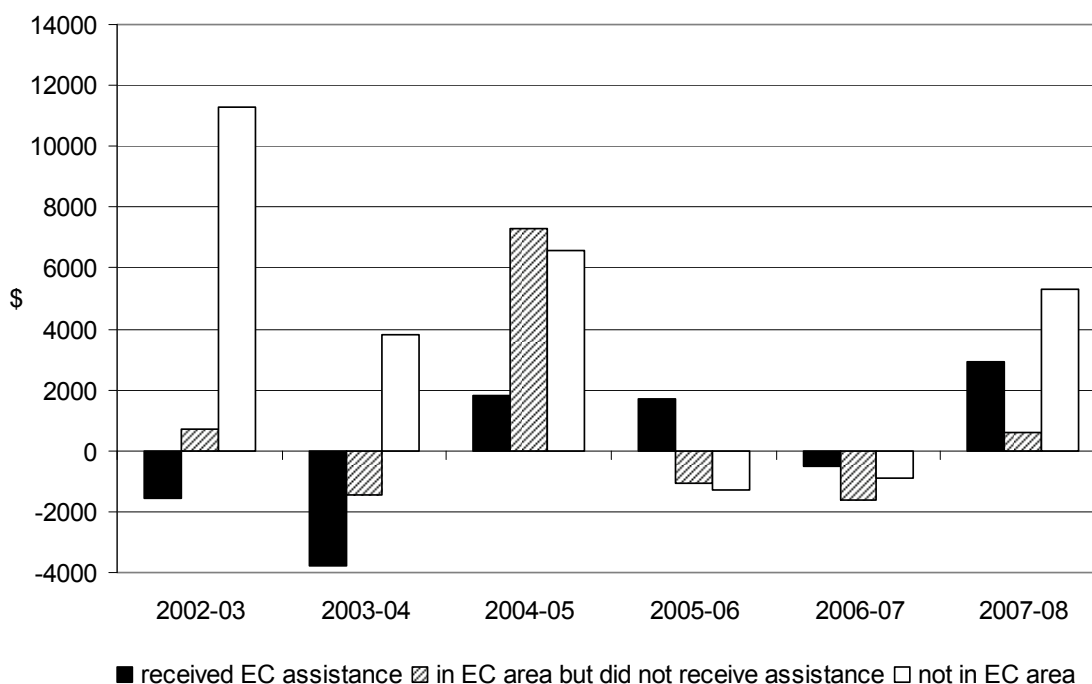
Data sources: DAFF (2008h, 2008 unpublished).

At an individual farm level, those with FMD holdings typically have superior financial performance to those who do not. In its 2005-06 survey, ABARE found that those farms with FMDs typically had: higher turnover; higher farm cash incomes; higher farm business profits; and a lower proportion of farms recording negative farm cash incomes. In its 2005-06 survey, ABARE found that farms with FMDs, on average, received significantly less other government assistance, such as the EC interest rate subsidy and the EC relief payment. To further analyse the relationship, they then compared only farms in EC-declared areas during 2005-06. The differences between farms with and without FMDs in EC areas were broadly in line with the differences nationally (Levantis and Martin 2007).

In EC areas, those farms increasing their FMD holding during the year did not have substantially better financial performance than those decreasing or maintaining their FMD holdings. This was attributed to a range of factors including: slightly higher cash incomes; lower additions to farm capital; increases in debt; and higher government assistance. While most respondents who did not make withdrawals from FMDs during 2005-06 indicated that this was because they had sufficient income to meet their needs, 20 per cent indicated that they did not draw down FMDs because they had received other government assistance (Levantis and Martin

2007). This appears to be consistent with changes in average FMD holdings for farmers who receive assistance versus those who do not (figure D.6).

Figure D.6 Change in FMD holdings by EC status, 2002-03 to 2007-08
Average change within year ^a



^a Based on ABARE farm surveys for broadacre and dairy farms.

Data source: ABARE (2008 unpublished).

Views on the FMD scheme expressed by participants in the inquiry process, both in submissions and through industry visits and meetings, were generally in favour of the scheme. The two particular issues raised in respect of FMDs related to access, thresholds and eligibility criteria. For instance, one participant, in the horticulture industry, said:

To mitigate risk in our business we utilise the Farm Management Deposit (FMD) scheme ... However, the current \$400 000 cap per partner is horrendously insufficient for our business. ... The aim of our business would be to have enough reserves to completely support our business through a disaster year, and increased FMD allowance would be an effective way to do this. (Plunkett Orchards, sub. 13, pp. 1–2)

Similarly, the Western Australian Farmers Federation said:

... FMDs are by far the key mechanism utilised to enable farmers to prepare for severe drought. ... however, the upper limit on FMDs is considered inadequate to meet the average operational costs of Western Australian farming systems. (sub. 26, p. 7)

And AgForce stated that FMDs are a ‘vital tool’, but:

The scheme needs further refinement in terms of ceiling limitations and also those with Trust and Company structures instead of simple partnerships. (sub. 80, p. 5)

The effectiveness of FMDs may also be constrained by the eligibility thresholds and criteria. A number of participants commented on the restrictiveness of the cap on contributions, and it is likely that for some individuals, \$400 000 might be an insufficient financial buffer to completely offset losses in a bad year. But given the average deposit is only \$70 000, this is unlikely to be an issue for most FMD holders.

In addition, the scheme was found to be meeting its objectives as a risk management tool when reviewed in 2006 (DAFF 2006) and the Corish Report considered that FMDs are a vital risk management tool available to farmers and recommended that they be retained subject to assessment that they were meeting objectives (Agriculture and Food Policy Reference Group 2006).

While not exclusively a drought oriented measure, FMDs are generally effective in addressing the objectives of the NDP. FMDs provide an option to better time deductible expense decisions. The incentive created by the scheme is to maintain a financial buffer, or reserve of funds available for future expenditure needs. By promoting the maintenance of financial buffers, the scheme promotes a more self-reliant approach to risk management, consistent with the first objective of the NDP. Further, this financial buffer can assist farmers maintain their operations during drought and assist with recovery through provision of a source of funds to engage in recovery activities, such as rebuilding livestock numbers or planting crops.

Eligibility and other constraints on the effectiveness of FMDs

A number of issues potentially constrain the effectiveness of FMDs. The FMD scheme provides an incentive to retain financial reserves in a tax effective manner to deal with income variability. As such, it can only be utilised by farms that have traded profitably in previous years. The scheme is therefore unavailable to farmers who are unviable, regardless of seasonal conditions, or those who have not traded profitably since the scheme’s inception, including due to ongoing drought.

The presence of alternative assistance measures reduces the extent to which the scheme is drawn down in response to drought. The largest impact arises from interaction with interest rate subsidies. While the nature of the scheme can create incentives to borrow additional money to fund expenditure, rather than withdraw funds from an FMD account, this is exacerbated by the provision of interest rate

subsidies. As such, it is likely that in the absence of competing forms of assistance, reliance on FMDs to manage for risks, such as drought, would be higher.

The efficiency of FMDs

Eligibility thresholds are applied because the scheme is not costless. It results in foregone tax revenue as users defer payment of tax upon deposit and can use the scheme to smooth cash flow over time, potentially resulting in a lower overall tax liability. The cost of the scheme in recent years, in terms of annual forgone tax revenue, was estimated to range between \$75 million (in 2006-07) and \$245 million (in 2003-04), for 2008-09, forgone tax revenue was estimated at \$100 million (Department of the Treasury 2007, 2009). Annual costs are sensitive to deposits and withdrawals in the given year. Expanding or removing the caps on deposit limits and/or off-farm income would increase the cost of the measure, although this may be offset to some extent by a decrease in the cost arising from tax averaging, which involved average annual forgone tax revenue of just over \$100 million between 2003-04 and 2006-07.

Given that average deposits in the scheme are well below the cap, and that high off-farm income is cited by relatively few as a reason for not using FMDs, expansion of the thresholds is unlikely to improve the effectiveness of the scheme in helping most farmers mitigate the effects of drought.

In an operational sense, the FMD scheme relies heavily on financial institutions, so the administration costs to government are likely to be relatively small.

Summing up

- While aggregate FMD holdings have not declined markedly during drought periods, closer sectoral analysis shows usage consistent with expectations. In particular, there have been significant drawdowns of FMD holdings amongst grain farmers as a consequence of drought.
- To some degree, the use of FMDs in response to drought has been tempered by the availability of other measures, including interest rate subsidies and tax averaging provisions.
- Overall, FMDs appear to be an effective tool for farmers to manage risk, including with respect to severe drought, and are consistent with the objectives of the NDP.
- FMDs may also contribute to achieving period equity for primary producers.

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- The rationale for government provision of FMDs is mixed. The scheme is not costless to government and the ability to defer tax liability provides a substantial benefit to eligible farmers that is not available to other taxpayers. However, it is less distortionary than other forms of assistance such as interest rate or transport subsidies and does not alter business decisions as much as those assistance measures.
 - Unlike EC triggered assistance, availability of the scheme is continuous and utilisation is not dependent on drought declaration. In this respect it is a more appropriate method of assisting farmers achieve self-reliance.

D.2 Grant programs

Grants are a common form of government assistance provided to farmers and there are numerous different grant-based drought related programs. They fall into two broad categories. The first is grants for training, advice or counselling. This includes programs such as the Professional Advice and Planning Grant and the Rural Financial Counselling Service. Elements of the Farm Help and FarmBis programs (both now discontinued) as well as the new FarmReady program also fall into this category. Essentially these programs are aimed at increasing human capital or achieving social outcomes. The second broad category of grants is aimed at improving the physical or tangible capital base and includes the Irrigation Management Grant.

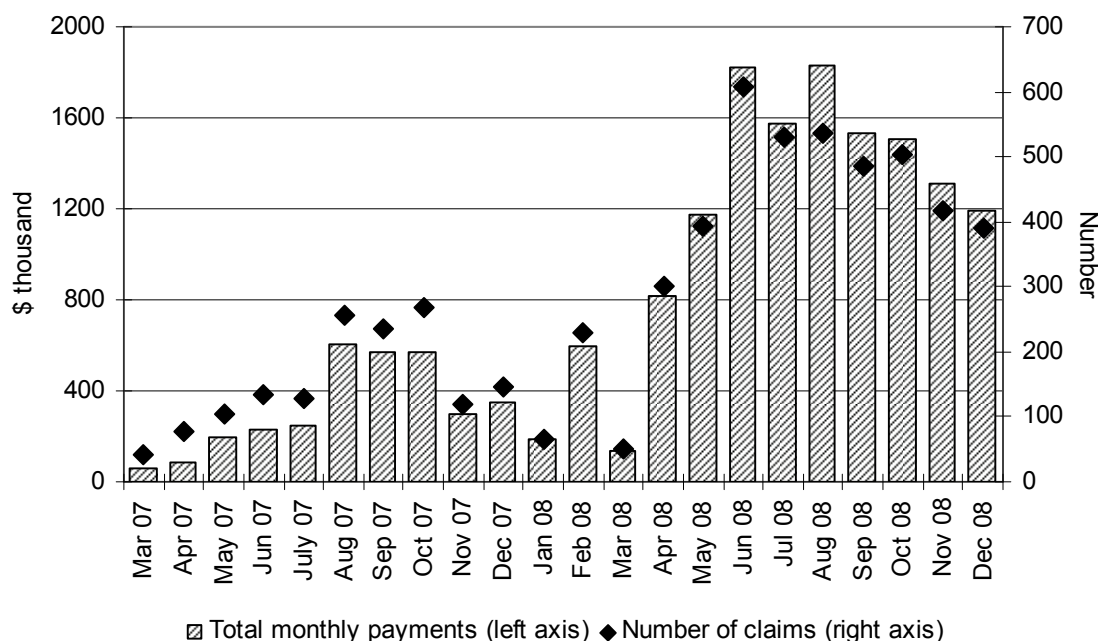
Professional advice and planning grants

Professional Advice and Planning Grants (PAPG) of up to \$5500 (including GST) are provided by the Commonwealth Government and allow farm businesses affected by drought to obtain professional advice to aid in drought management and recovery. Grants may be used for purposes such as obtaining advice on farm viability and the development of a farm business plan incorporating a drought management and recovery plan. Previous recipients of the grant can access an additional \$2200 to re-evaluate their plans after a minimum of six months. In order to be eligible to receive a grant, a farmer must be located in an EC declared area (farmers located in prima facie declared areas may not apply) and meet the various eligibility criteria, which are similar to that for EC interest rate subsidies. The farm must meet the farm financial viability assessment and if the applicant has not had an assessment within the previous 12 months for an interest rate subsidy, then this must be obtained. An initial portion of the grant may be used for this purpose, with funding for the remainder of the grant contingent on the viability assessment. The grant is administered by Centrelink.

The PAPG was introduced in October 2006, as part of a range of extended drought assistance measures and was initially available to farmers in areas that had been EC declared for at least three years (McGauran 2006). Changes to the grant were announced in September 2007, removing the three year requirement. Additionally, farmers could apply up to 12 months after the expiry of an EC declaration. The PAPG is available till June 2009 (DAFF 2008j).

Since the inception of the scheme, around 7700 farmers have been granted access to the PAPG. However, not all of those have actually accessed grant monies. Up to December 2008, approximately 4300 farmers utilised grant funds for professional advice. Further, most recipients have not yet utilised the full grant amount. Of those who have utilised the grant, the average payment was \$3909. In total, almost \$16.9 million has been provided under the scheme. Initial use of the PAPG scheme was quite low, as noted in the draft report. However, there has been a considerable increase in the use of the scheme more recently, with over half of the total funds, or almost \$9 million, provided in the second half of 2008 alone (figure D.7).

Figure D.7 Monthly utilisation of PAPG^a



^a Aggregate of monthly claims is higher than total number of recipients as recipients can make multiple claims up to allowable grant limit.

Data source: DAFF (2009 unpublished).

Appropriateness of the PAPG

The rationale for government intervention through planning and advice style grants appears to be mixed. The benefits from advice provided by consultants are largely private in nature, with few community wide benefits. It could be expected that farmers would invest optimally in consultancy services on the basis of the return that these will generate for their businesses. That said, it is likely that there are some information failures in the market for education, training and advice, in the form of a lack of awareness of the training and advice available, as well as the likely benefits such advice would yield. Hence to the extent that grants have an educational outcome, assistance through grants could provide positive net community benefits and therefore be an appropriate form of government assistance.

Effectiveness of the PAPG

The PAPG scheme is consistent with the objectives of the NDP. The Commission received submissions that the PAPG had been useful in helping some farmers to undertake planning activities, such as developing a drought management plan. For instance, one participant submitted that they had used the grant to develop a drought management strategy and gain advice on diversifying their income stream to include off-farm assets to overcome cash-flow constraints (D. and T. Allen, sub. 20). Similarly, Centrelink provided examples of grant recipients who had utilised the grant and as a result had implemented changes to their enterprise that were expected to return the farm to profitability or increase that profitability.

However, there was also comment made to the Commission that grants for advice were potentially of limited value, for reasons such as:

- farmers already possessing knowledge or plans
- a lack of suitable consultants in their area and/or
- increases in consultant fees where a grant is available.

A further concern, expressed by some, was that the timing of the grant — during rather than prior to a drought — limited its effectiveness in meeting the NDP objective of improving self-reliance.

Limited effectiveness of the PAPG in improving self-reliance of the farming sector may also be evidenced by the relatively low utilisation of the scheme compared with that of other programs available to drought affected farmers.

Rural Financial Counselling Service

The Rural Financial Counselling Service (RFCS) program was initially established in 1986. Since 1997 it has been an element of the AAA package, but is now a stand alone program, and is scheduled to receive funding until 30 June 2011. Although not specifically a drought assistance measure, the RFCS program are often in high demand during times of drought. The RFCS provides free and impartial (and confidential) financial counselling to farmers, fishers and agriculture-dependent small businesses.

The stated list of services that rural financial counsellors can provide includes:

- help clients identify financial and business options
- help clients negotiate with their lenders
- help clients adjust to climate change through the Climate Change Adjustment Program, identify any advice and training needed and develop an action plan
- help clients meet their mutual obligations under the Transitional Income Support program
- give clients information about government and other assistance schemes
- refer clients to accountants, agricultural advisers and educational services
- refer clients to Centrelink and to professionals for succession planning, family mediation and personal, emotional and social counselling (DAFF 2008I).

It is specifically stated that rural financial counsellors can not provide family, emotional or social counselling, or financial advice and succession planning services. In these cases they are only permitted to provide information and referrals (DAFF 2008I).

The RFCS program provides grants to state or regional level organisations to provide the counselling. As at June 2008, the program was delivered by 14 service providers with approximately 120 counsellors (some are part-time, equivalent to around 110 full-time equivalents). Use of the program has increased over time, with approximately 14 000 clients in 2007-08 (table D.3). While not a drought specific program, it would appear that drought has a considerable impact on use of the program, with higher use of the scheme in more severe and widespread drought years.

Table D.3 Rural Financial Counselling Service client numbers, 2001-02 to 2008-09 ^a

<i>Year</i>	<i>Total clients</i>	<i>New clients</i>	<i>Existing clients</i>
	No.	%	%
2001-02	6 225	37	63
2002-03	10 236	50	50
2003-04	8 246	31	69
2004-05	7 933	30	70
2005-06	8 332	25	75
2006-07	12 287	47	53
2007-08	14 241	52	48
2008-09 (Jul-Dec)	6 596	na	na

na Not available. ^a Numbers likely to be overestimated because if a client sees more than one counsellor they may have duplicate entries in the database.

Source: DAFF (2008 unpublished).

In 2007-08, the service cost to the Commonwealth Government was \$16.5 million. In addition, contributions are made by state governments. In general, each state contributes around \$20 000 per counsellor in their state, although some states provided additional funding. In 2007-08, states contributed a total of an estimated \$2.8 million. In addition, Queensland funds a similar farm financial counselling service, which operates in addition to the RFCS and covers separate areas of that state.

The program has undergone substantial review. It was subject to an audit in 2003, followed by a review in 2004. The 2003 audit determined that none of the service providers fully complied with their funding agreement. It identified issues such as: poor corporate governance; provision of services outside boundaries of funding agreement; poor budgeting; inefficient provision of services; and inconsistent counsellor qualifications (Acumen Alliance 2006).

The subsequent 2004 review considered that there was a ‘continuing need for a Rural Financial Counselling Service’, but it did make a number of recommendations. A key recommendation was for an alternative funding approach, rather than requiring local communities to provide matching funding. This was in recognition of the fact that disadvantaged regions most in need of the service were missing out. It also contributed to institutionalisation of services in particular areas and a lack of mobility to service areas of greatest need. The review also recommended changes including: improved counsellor supervision; a move away from social or welfare needs to an adjustment focus; and a re-skilling of counsellors, as required (AAA Rural Financial Counselling Service Review Committee 2004).

In response, in October 2005, the Primary Industries Ministerial Council agreed to restructure the program, addressing issues raised in the 2003 audit and 2004 review. The key changes to the program were new arrangements with service providers — reducing the number of service providers from 68 to 16, now 14. In addition the annual budget for the program was substantially increased, removing the need for matched community funding. Counsellor numbers have also been increased by 50 per cent since the implementation of the new arrangements.

There has also been recent expansion in the role of the RFCS, with responsibility for providing mandatory case management to recipients of the Transitional Income Support and Climate Change Adjustment Program.

Appropriateness of the RFCS

As with grants for training and advice, the largely private benefits from financial counselling mean that the rationale for government intervention is mixed. However, it is likely that there are some information market failures and that government intervention though the rural financial counselling service could provide net community benefits. To maximise the benefits from RFCS, the program needs to be responsive and transitive. The largest benefits to clients will be in their early stages of use of the program as information gaps are filled and/or they receive some basic financial skills. Beyond this point, counsellors should refer clients to appropriate services, such as commercial financial planning services (these could be funded by grants) to avoid duplication of services.

Effectiveness of rural financial counselling

While not a drought specific service, the objectives of the program are not inconsistent with the NDP objectives. The RFCS is popular and was considered to be an effective service by many participants in this inquiry. For instance, AgForce submitted:

Continuation of Rural financial counsellors is imperative. These counsellors provide significant services to clients and can in the future place further emphasis on climate variability planning to help producers become more proactive in this area. (sub. 80, p. 9)

Similarly, the NSW Government considered the RFCS to be effective:

NSW considers the program to be equitable, needs driven and cost effective. It is very highly regarded in the community and achieves significant penetration of the farm sector. This Program is considered to be an effective means of facilitating improved farm businesses risk management and adjustment across rural NSW. (sub. 90, p. 6)

However, there are potential issues that can reduce the effectiveness of program. Many such issues were identified in the 2003 audit and 2004 review and subsequent changes to the program appear to have addressed many of these. But it appears some issues remain. With only 120 counsellors, gaps in coverage remain. There is also a relatively high retention rate of existing clients, although expansion of the service in the last two years has resulted in substantial numbers of new clients (table D.3). It is likely that the effectiveness of the service diminishes over time for regular clients.

The effectiveness of the program is also affected by cross-over and duplication between the RFCS and other services that are available, including: other state-funded counsellors and drought support workers, charitable organisations and other commercially available services, including those that might be accessed using government grants.

Other training assistance programs

Farm Help

Farm Help was a short-term financial measure to assist farm families who were experiencing severe financial difficulties and were unable to attain a loan from a financial institution to meet their living expenses. It was part of the AAA package. Assistance under Farm Help was aimed at assisting farmers while taking action to improve their long-term financial prospects, either through improving the financial performance of their farm, finding off-farm income or exiting the industry. One element of the program was an Advice and Training Grant. This could be used to obtain advice, undertake training and purchase appropriate computer software. First time applicants were eligible for a grant of up to \$5500. Those re-entering the Farm Help program could access an additional grant of up to \$2500. The deadline for applicants to utilise the grant is April 2009 (DAFF 2008g).

Over the 11 years to 2007-08, the grant was utilised by over 9400 recipients, with total expenditure of almost \$22 million. Use of the scheme declined over time. For instance, just over 100 recipients utilised the grant in 2007-08.

FarmBis

This program provided subsidies for a wide range of training activities. FarmBis originally commenced in 1998 and was available in all states and territories. In 2005, a new version of the program was launched under the AAA policy. The AAA FarmBis program was not offered in New South Wales or the ACT. Additionally,

Victoria ceased offering the program at the end of June 2007. While the AAA FarmBis program was jointly funded by the Commonwealth and state governments, in July 2007 the Commonwealth commenced a fully funded national FarmBis program in states where AAA FarmBis was not offered. It was intended to extend the national FarmBis program to all states and territories, but the scheme was subsequently abolished prior to the introduction of FarmReady (DAFF 2008f).

FarmBis provided a partial subsidy for approved training activities. Under the second FarmBis round between July 2001 and December 2004, across all jurisdictions, just over 72 000 people undertook almost 147 000 training activities. Total cost to governments over this period was \$102 million, of which \$82 million was paid to participants, representing an average of \$1136 per participant, or \$558 per training activity.

The subsequent AAA FarmBis scheme was utilised by a total of almost 30 000 participants. Lower participation may be partially attributed to the program being unavailable in some states. Total Commonwealth and state government expenditure on AAA FarmBis totalled \$41 million over three and a half years, comprising about \$11 million in program provision, \$3 million in targeted industry initiatives and \$27 million in payments for approved learning activities. Average payments for learning activities under AAA FarmBis were similar to those provided under the previous version at \$912 per participant or \$554 per training activity.

The national FarmBis program operated relatively briefly and was only utilised in New South Wales, Victoria and to a very limited extent, South Australia. In all, 880 participants utilised the scheme for 1064 training activities. The average funding provided under this scheme was similar to that under other FarmBis programs at \$792 per person or \$655 per training activity.

FarmBis appears to have been a quite popular program and has received strong support from many inquiry participants at public hearings and roundtables, as well as in written submissions. For instance, AgForce said:

One of the main assistance measures which receives a very high level of support has been the FARMBIS program. ... This program needs to be reinvigorated and supported at both levels of Government. (sub. 80, p. 5)

There was a reasonably consistent message from participants that FarmBis had encouraged a broader range of farmers to undertake training activities than would have occurred otherwise. Similarly, a mid-term review of FarmBis found that for the most part, FarmBis had opened up training to rural and regional areas and that it had catalysed significant levels of repeat participation (PWC 2006). This suggests that FarmBis was an effective form of assistance in addressing the impediments to farmers accessing information and training.

FarmReady

This program was introduced as part of the Australia's Farming Future package. It was announced in July 2008 as a program to provide assistance for training to help farmers deal with the effects of climate change (Burke 2008d). Two types of grant are available under FarmReady. The first is a reimbursement grant of up to \$1500 per year for primary producers and indigenous land managers to attend approved courses. Up to an additional \$500 per year is available to cover costs associated with course attendance, such as child care and travel costs in certain circumstances. While the program has a 'climate change adaptation' focus, the range of approved learning areas is relatively broad and covers a range of farm training activities. The stated key learning areas include:

- understanding the implications of climate variability and change
- integration of new techniques for sustainable production, as a result of climate change
- natural resource planning and adaptive management, as a result of climate change
- farm business management and risk assessment
- development of research and analytical skills
- strategic planning
- holistic management
- financial management
- human resource management (DAFF 2008i).

Learning areas for FarmReady have a climate change and/or farm planning focus and funding does not cover courses covering production, technical or operational topics unless there is a link to climate change adaptation (DAFF 2008i).

The second type of grant available under FarmReady is an industry grant of up to \$80 000 per year for eligible industry, farming and natural resource management groups to develop strategies to improve industry self-reliance and preparedness to adapt to climate change. Industry grants may be offered for projects such as:

- identifying strategies to combat climate change issues
- industry specific training plans
- climate change communication campaigns
- facilitating uptake of best management techniques (DAFF 2008i).

Calls for applications for the first round of industry grants were made in December 2008 and closed on the 17 February 2009 (Burke 2008b).

The FarmReady program has only just become available and so there was no training undertaken through the program in 2008. The program has strong parallels with the discontinued FarmBis, although with a narrower scope for training courses. The available reimbursement is well above the average grant that was provided under FarmBis. However, the FarmReady program has been allocated \$26.5 million over four years, which equates to significantly less average annual funding than that expended on FarmBis programs.

Climate Change Adjustment Program Advice and Training Grants

This is a grant of up to \$5500 delivered under the Australia's Farming Future program. In the first instance, recipients of the grant must obtain a farm business analysis and financial assessment. Recipients are then required to develop a climate change adjustment action plan. Additional grant funds can be used for advice or training activities identified in the action plan. Advice or training must be, either directly or indirectly, related to adjusting to the impacts of climate change (DAFF 2008c).

Because these grants have only been offered since July 2008, there is little information on their utilisation. As at December 2008, there were 640 applications for the grant. Of these, 261 were granted access, with 86 claims for payment lodged. So far, applications for the grant have come from those applying for Transitional Income Support (TIS), as TIS applications include an application for the grant as well. However, the grant is not restricted to TIS applicants.

Irrigation Management Grant

Irrigation Management Grants (IMGs) were introduced on 25 September 2007 in response to the on-going effects of substantially reduced water allocations in the Murray-Darling Basin (MDB). In a media release, the then Minister for Agriculture, Fisheries and Forestry said:

The Government recognises that this is an unprecedented situation for most irrigators and that there is a need for immediate financial assistance ... These grants will be made available to MDB irrigators to help them respond to significantly reduced water allocations. (McGauran 2007b)

The IMG is a taxable grant of up to \$20 000 available to irrigators in the MDB. Claims are made to Centrelink. Grants will be paid up till 30 June 2009, but applications close on 31 March 2009.

To receive a payment, a farmer must identify an eligible activity. Eligible activities that are covered by the grant are:

- piping, troughs and associated activities for stock and domestic water
- fixed water charges
- sinking/extending/refurbishment of bores (and pumps)
- pruning activities to minimise the impact of low water allocations
- reconfiguring irrigation systems
- equipment replacement to maintain irrigation systems (including computer software, piping and pumps)
- costs associated with implementing water efficient crop options and
- laser leveling (DAFF 2008k).

It is not available for other farm costs such as purchasing vehicles, purchasing water or fodder, or refinancing.

To qualify for the grant, the applicant must meet certain criteria. They must establish that they have been a farmer for at least two years prior to application. They must also have had an irrigation enterprise as at 25 September 2007. To qualify as an irrigator they must hold an active entitlement to an irrigation water source in the MDB, or demonstrate that in the last three years they have derived income from, or would have if not for reduced allocations, an irrigation activity. Irrigators only qualify for irrigation from a regulated water source, and not where irrigation water has been used purely for stock and domestic purposes.

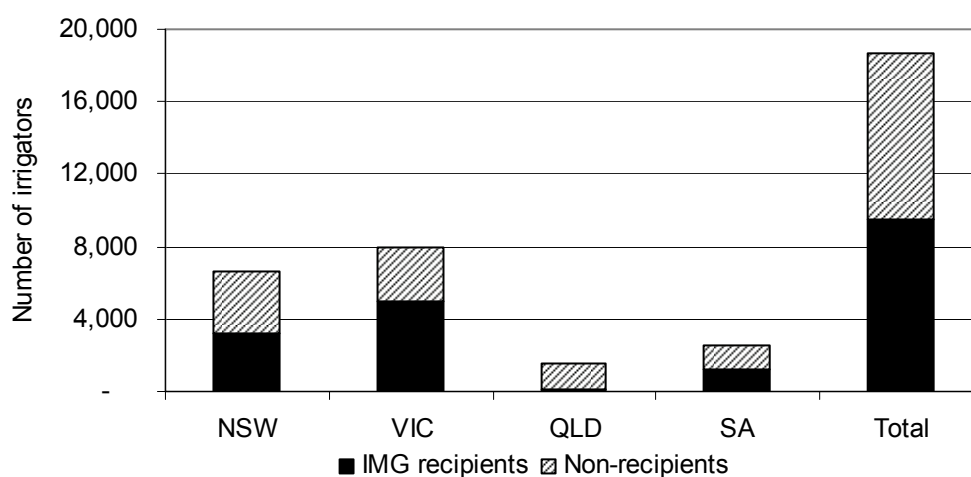
The asset test limits for the grant are the same as for the EC interest rate subsidy. However, there are no off-farm income limits. The grant is only available once per enterprise and applicants who own multiple enterprises can only apply once. It is not restricted by business structure and is available to sole traders, partnerships, companies and trusts.

Use of IMGs

From the program's inception until mid-December 2008, a total of 11 645 claims for the IMG were lodged. Of these, 9497 irrigators were granted the IMG, including 4923 recipients in Victoria, 3196 in New South Wales, 1229 in South Australia and 125 in Queensland. A further 1714 applications were rejected. In the case of those receiving the grant, the average grant paid was \$18 611, resulting in total payouts under the scheme of almost \$177 million.

It was estimated that there were 18 634 agricultural businesses irrigating in the MDB (ABS 2008f) in 2005-06. This would suggest that the grant has been accessed by just over half of the irrigators across the MDB. However, the grant has not been taken up uniformly across the states (figure D.8). In New South Wales, approximately 48 per cent of irrigators have utilised the scheme, and in South Australia, 49 per cent, which is similar to the basin-wide average. Take up of the scheme has been considerably higher in Victoria, where approximately 62 per cent of irrigators have accessed the grants. At the other end of the spectrum, only 8 per cent of irrigators in the MDB in Queensland have accessed the grant.

Figure D.8 Irrigators in the Murray-Darling Basin^a



^a Includes IMG recipients up to mid-December 2008.

Data sources: ABS (2008f); Centrelink (2008 unpublished).

Appropriateness of IMGs

In assessing the appropriateness of the grant, it is necessary to consider the rationales for government intervention and whether there are any market failures that may warrant government intervention. In terms of improving self-reliance and maintaining the agricultural resource base and capacity to recover, there would appear to be little evidence of market failure. In contrast to investments in human capital (through education and training), there would seem to be virtually no information barriers or rural credit market constraints (Australian Bankers Association, sub.76) that prevent irrigators from undertaking financially worthwhile infrastructure improvements. While there are considerable community wide issues with respect to water use efficiency that might justify government intervention, these are not specifically targeted by the grant. Overall, there would seem to be no rationale for government intervention with respect to market failures.

How effective have IMGs been?

The stated purpose of the grants is to help irrigators cope with the effect of cuts to water allocations. To this end, grants are permitted to be used on a range of infrastructure projects, which are primarily aimed at improving on-farm water use efficiency. However, grants may also be used to pay fixed water charges.

The grant was viewed as an effective form of assistance by some participants to this inquiry. For instance, Murray Dairy stated:

This grant has not only allowed farmers to increase on-farm efficiencies but also provided work to small business that would traditionally have little work during drought. (sub. 70, p. 5)

In the context of assisting with the short-term effect of water shortages, the grant is no doubt beneficial for irrigators, given its generosity and fungibility and so the grant is potentially effective in improving the survival of farmers in the face of climate variability and climate change. Projects that improve water use efficiency may assist farmers to maintain productivity in face of lower water availability. In this regard the grant could be effective in addressing all three of the NDP objectives as it provides assistance in maintaining agricultural production and could improve the productivity of water when allocations increase.

The effects of the grant will ultimately depend on how the grant is used. If grants are used to pay bills that a farmer would otherwise have had to pay or used to undertake capital works that would have been undertaken regardless, then the grant will not affect irrigator behaviour, but merely represent an income transfer from taxpayers to the irrigator. Because of the broad range of expenditure options, where the benefit of any option is captured largely by the private irrigator, grant receipts are highly fungible. As a result, the effectiveness of the program in meeting specific objectives is likely to be diminished.

Interaction with other assistance measures

There is some interaction between assistance measures and it is common for farmers to receive assistance under more than one program. In the 2007-08 financial year, Centrelink estimated that a total of 9558 irrigators in the MDB accessed one or more of the drought assistance programs — EC relief payments, IMGs and exit payments — that they administer (table D.4).

Table D.4 Drought assistance received by irrigators in the Murray-Darling Basin, 2007-08

<i>Program</i>	<i>Number of recipients</i>
IMG only	4 433
IMG and EC relief payment	2 997
IMG, EC relief payment and exit grant	2
EC relief payment only	2 108
EC relief payment and exit grant	10
Exit grant only	8
Total	9 558

Source: Centrelink (2008 unpublished).

Of the 7432 irrigators that received the IMG in 2007-08, 2999, or 40 per cent, also received the EC relief payment. Of these, two recipients also subsequently accessed the exit grant as well. It also seems that there were over 2000 irrigators in the MDB who accessed income support, but not the IMG. It is unclear why this might be the case. Possible reasons could be a lack of awareness of the grant program, a lack of suitable projects, or irrigators could still be planning the best use of the grant.

There also appears to have been considerably greater take up of the IMG than the Professional Advice and Planning Grant (PAPG). Of the 9558 irrigators in the MDB who received Centrelink administered assistance, 1630 also accessed the PAPG. Of IMG recipients, 1480 (20 per cent) also accessed the PAPG. While this may partially reflect differences in eligibility criteria, it is also likely to reflect the greater discretion available to the recipient over how the funds are spent in the IMG.

Summing up

- Overall, the appropriateness of grant based assistance measures is mixed and depends on the type of outcome being targeted by the grant.
- The rationale for government intervention through grant programs is generally weak. This is because the benefits from assistance are largely private in nature, meaning that individual farmers have an incentive to invest optimally in the training, professional advice, or capital works being targeted by the grant.
- However, it is possible there are some information market failures with respect to education and training. In this case, grants for training and professional advice that are well targeted, area appropriate and have an educational outcome may provide net community benefits and be worthwhile.
- The effectiveness of current training and advice programs varies. The PAPG appears to be effective in some cases, but this is tempered by relatively low

levels of utilisation. On the other hand, the RFCS is seen as an effective program and has higher utilisation rates.

- While the IMG has been relatively popular, in terms of the NDP, its effectiveness is reduced by its broad scope and highly fungible nature. Further, there are no market failures to justify the grant as the benefits are largely private in nature, with no specific community wide benefits.
- Provision of education services may not always be effective if they do not address farmers' requirements. Additionally, such services can also 'crowd out' provision of training and consultancy services by the private sector. As such, grants or subsidies for training or education, such as the discontinued FarmBis or FarmReady may be more appropriate methods of providing assistance to farmers to improve their self-reliance and preparedness.