
6 Program evaluation

Key points

- The programs provided under NDP are overwhelmingly targeted at maintaining farming operations during a drought, regardless of its severity. Transitory drought triggered assistance does little to encourage preparedness or provide incentives for longer term self-reliance.
- The cost of government assistance has escalated over recent years, particularly for EC interest rate subsidies. The focus of support has markedly shifted away from farm households and towards farm businesses. There has been very little accountability in the use of funds or the evaluation of program outcomes.
- There is widespread acceptance of the need for income support for farm families who are experiencing temporary financial hardship. However, provision of income support based on geographical boundaries or events such as drought is inequitable.
- Interest rate subsidies are inappropriate and inefficient. They tend to focus support on farms and businesses that are the least financially prepared for drought.
- While transport subsidies may benefit producers of grain and fodder, they also have adverse consequences both on farms and between farms. They are not an appropriate or efficient use of government support.
- Exit packages are largely inaccessible and have generally failed to address the non-monetary reasons why farmers prefer to remain on their farms. They are not an effective means of assisting drought affected farmers to exit the industry.
- Farm Management Deposits have encouraged some farmers to save during periods of higher income. While mainly used for tax management purposes, they appear to also offer a means for increased self-reliance.
- Grants for training that are well targeted, area appropriate and have an educational outcome can provide community wide benefits and be worthwhile.
- The Rural Financial Counselling Service program enables financial counselling services in rural areas to facilitate a flow of information and act as referral points for other services.
- There appears to be no failure in rural finance markets that would warrant government support through irrigation management grants. The off-farm environmental consequences of these grants may be more harmful than beneficial.
- Drought policy is not the appropriate vehicle to sustain rural communities and small businesses in the face of underlying and ongoing changes.

6.1 Introduction

In addition to the key NDP programs offered to farmers and rural businesses during times of drought, other farm assistance programs operate under the Commonwealth Government's broader agricultural policy frameworks such as Agriculture Advancing Australia (AAA) and its successor, Australia's Farming Future (AFF) and run parallel with the NDP. Each state and territory also offers a range of assistance schemes either on an ongoing basis or in times of drought. These Commonwealth 'non-drought' related and state level farm assistance programs can potentially influence the eligibility for, and the take up and effectiveness of, the NDP programs. Hence, and in line with the terms of reference for this inquiry, other key programs available to farmers are evaluated alongside the NDP programs. The key programs considered in this report and evaluated in this chapter were outlined in chapter 4.

The aim of the evaluation is to determine which aspects of the programs, if any, might be suitable to retain as either income support to farm families in hardship or to facilitate the longer term goal of a self-reliant agricultural sector in the face of a variable and changing climate.

In the first part of this chapter, the underlying rationales for government intervention embodied in each of the three NDP objectives are examined and the desired outcomes are explored. Some issues that have arisen across the suite of programs offered to farmers and rural small businesses are discussed in section 6.3. The following three sections 6.4 to 6.6 then consider and evaluate, in turn, the key programs offered to farmers. For ease of discussion, these programs are grouped into those that support rural families, those that provide drought-triggered support for farm and rural businesses, and those programs that are targeted at preparedness and advice. The program evaluation draws on analyses set out in appendixes B through to E and on submissions to the inquiry.

6.2 Assessing the appropriateness, effectiveness and efficiency of drought support programs

The Commission has been asked to assess the appropriateness, effectiveness and efficiency of the current drought support and related programs with respect to the three NDP objectives (as outlined in chapter 1) and the Expenditure Review Principles. In addition, the principles and general policy guidelines of the *Productivity Commission Act 1998* require the Commission to take a community wide perspective when evaluating policy.

In order to assess drought support and related programs against the NDP objectives, it is necessary to understand:

- the underlying market failure and social equity rationales for government support that are embodied in the objectives (to assess appropriateness)
- what desired outcomes are embodied in the objectives, the degree to which they are achieved and the extent to which there may be unintended consequences (to assess program effectiveness)
- how programs are delivered and targeted (to assess efficiency).

The broader question of whether the NDP objectives are, of themselves, the most appropriate objectives that governments should pursue in times of drought and in intervening periods, is revisited in chapter 7, in the context of developing a policy framework to support self-reliance and preparedness to manage drought among farmers, farm businesses and farm dependent rural small businesses.

In evaluating programs against the NDP objectives, it is useful to consider that the objectives encompass three sequential stages of farm response to climatic variability — self-reliance and preparation for drought (objective one), maintenance and protection during drought (objective two) and recovery after drought (objective three).

NDP objective one: self-reliance in management

Underpinning this first NDP objective is an assumption that there is not just a failure by farmers to adopt self-reliant strategies to manage drought and other climate risks, but that there is a case for government intervention. As stated in the 1990 review of drought policy which proposed this objective:

The Taskforce has found that most of the alleged instances of market failure in times of climate stress represent an unwillingness or inability on the part of individual producers to manage for the risks involved. (McInnes et al. 1990, vol. 2, p. 86)

Cultural and market failures which could impede farmers from adopting risk management strategies and provide a rationale for government intervention include: policy and regulatory failure; community wide benefit from research, development and extension; incomplete information available to improve the adoption of risk management strategies or new technologies; and an absence of insurance markets.

In terms of regulatory failure, for example, some past and current government policies have impeded farmers from becoming self-reliant for drought events. Steps to correct these failures have included governments providing compensation for the historical distribution of small unviable parcels of land through the soldier

settlement schemes in order to facilitate amalgamation (Industry Commission 1996), and intervention to correct, and compensate for, past water policies which saw an over allocation of water entitlements in some states. Drought assistance has also been largely a second best policy approach, with additional programs developed and delivered on a somewhat ad hoc basis during drought periods due to significant lobbying pressure.

However, even where policy or regulatory failure can be identified, compensatory assistance may not always lead to an improvement in the allocation of society's resources (Freebairn 1983). Generally where economic efficiency is being impeded through government action, the direct removal of the impediment is the best approach (Industry Commission 1996).

Another justification sometimes put forward for government intervention is the absence of drought insurance. Although theoretically possible, drought insurance markets have not developed as there are limited possibilities to offset the drought risk in one area through insuring producers in another. In the absence of market provided insurance, producers make 'self-insurance' production and investment decisions which, despite being potentially more costly than theoretical market insurance premiums, remain a rational response by producers in the face of drought risks and can generate efficient outcomes. Given this, if support is provided in lieu of insurance, which transfers the downside risks of drought onto governments (such as subsidies or grants during drought), then producers are less likely to take these risks into account, thus resulting in less efficient production decisions.

In evaluating programs against the first NDP objective, programs can be analysed on the basis of whether or not they overcome impediments to primary producers adopting risk management strategies that subsequently improve their self-reliance during droughts. Such actions are usually undertaken prior to drought occurring. Farmers are generally unable to prepare for drought (or increased climate variability) when in the middle of it — at that point, drought is already impacting on funds, livestock, land condition, water resources, labour time and motivation (Victorian farmers, W. and S. Rogerson, sub. 53). It is notable that, of the current suite of major NDP programs, none directly target the issue of self-reliance. In light of this, it would be fortuitous if these programs led to greater preparedness or facilitated a recovery process that is consistent with the desired self-reliant long term position for the industry.

NDP objective two: maintaining and protecting the resource base

The programs and assistance provided under the NDP are overwhelmingly targeted at maintaining farming operations during drought, regardless of the severity of drought (ostensibly under the second objective).

In order to assess whether the drought support programs achieve this objective, however, it is necessary to consider what constitutes Australia's agricultural and environmental resource base. In this regard, the 1990 review of drought policy suggested that the NDP should: ensure adequate protection of national livestock resources; minimise livestock stress; and ensure adequate protection of land, water and vegetation resources, and of native plant and animal species (McInnes et al. 1990).

In terms of agricultural resources, it could be argued that government intervention is warranted in times of drought when industry wide resources are at risk — such as the national cattle herd. However, it is in the interests of viable farmers within an industry to protect core genetic stock and there is no apparent failure in markets (such as for stock or capital) that would necessitate government intervention.

For environmental resources, the NDP objective implies a presumption that actions of farmers may have unintended adverse outcomes. Droughts represent a time of environmental stress, and thus the natural resource base of a property can be particularly vulnerable and easily damaged. Examples of adverse production decisions include overstocking and a lack of management of environmental resources (McInnes et al. 1990). One way this could occur is if a drought that farmers think will be short, turns out to be prolonged and severe. Appropriate government interventions in response to environmental concerns would target these impacts.

In terms of animal welfare outcomes, some programs are targeted at farmers to provide their businesses with food and water in order to maintain stock health. But there is a possible conflict between maintaining and protecting agricultural and environmental resources. Policies that target the maintenance of herds, for example, may create adverse environmental outcomes such as increased soil erosion through farmers maintaining stock on land longer than the resource base can sustain. Given the potential for conflicting outcomes, such programs are not likely to be the most efficient overall response to animal welfare concerns.

While the initial intention of the second NDP objective was to target agricultural resources at the industry level (McInnes et al. 1990), Commonwealth and State Ministers have also indicated that 'during severe downturns, Governments will act to preserve the social and physical resource base of rural Australia...' (Agricultural

Council of Australia and New Zealand 1992). Accordingly, the household support and interest rate subsidy programs emphasise the maintenance of current farm families and businesses as part of the resource base. There are also arguments put forward that assistance to farming families and farm businesses are a means of maintaining resources within rural communities either directly (funding small businesses within towns) or indirectly (increasing the spending capacity of farmers in those communities). As concluded later, the Commission does not find this to be a convincing rationale for drought programs.

NDP objective three: early recovery consistent with long term sustainability

The third NDP objective, ensuring early recovery of the agricultural sector consistent with long term sustainable levels, suggests that policy should not create barriers to the recovery of agricultural and rural industries, nor maintain resources within agriculture that are otherwise unviable without government support. This can be interpreted as not creating (or removing) barriers to adjustment which would slow the recovery of agricultural and rural industries post-drought. Importantly, the recovery is not intended to be to pre-drought levels, but to a level which is sustainable in the longer term.

As stated in the 1990 review by the Drought Policy Review Task Force:

Adjustment assistance differs from other forms of industry assistance as the onus for responding to changing market and climatic conditions always rests with the individual producer. Its purpose is to provide producers with the opportunity to respond to changing conditions, without detracting from the need for adjustments to be made. Those producers not capable of responding to longer-term market pressures or who have lost prospects in the industry should be encouraged to leave. (McInnes et al. 1990, vol. 2, p. 86)

To facilitate industry adjustment, governments have provided support to households and farm businesses — such as through training, counselling and exit packages. These programs aim to address information barriers to alternative uses of farm assets or potential alternative job opportunities, or various barriers to farmers leaving their industry or region. While there may be information and social impediments that justify some training or guidance to farmers, there is no indication that industry adjustments would not occur just as readily in the absence of large grants to farmers who are exiting their industry. Such payments distort markets and raise inequities with other groups in the community.

6.3 Issues across programs

In evaluating the NDP and other packages on offer to farmers, there are issues with delivery, implementation and outcomes that cut across the suite of programs and have implications for the effectiveness and efficiency with which these programs operate.

Program provision and delivery issues

The provision of government assistance to farmers and rural small businesses is split mainly between Centrelink and agricultural departments. Broadly, the household support programs and some ‘preparedness’ measures are delivered by Centrelink, according to guidelines and funding provided by the Commonwealth Department of Agriculture, Fisheries and Forestry (DAFF). These include EC Relief Payments, Small Business Income Support, Interim Income Support, Transitional Income Support, Farm Help, Murray-Darling Basin (MDB) Irrigation Management Grants and the Professional Advice and Planning Grant. Business support programs, such as EC interest rate subsidies and the EC exit package are delivered by state rural adjustment bodies with funding from the relevant state and Commonwealth governments.

There are some within the rural community who believe that the manner in which income support is delivered to farmers should somehow be different to that delivered to other families in financial hardship because of a perception that farmers are more independent and ‘proud’, and therefore less able to approach Centrelink offices. For example, the Rural Financial Counselling Service in Gippsland argued that:

Farmers and those connected to rural Australia are understandably very proud people and are not at ease asking for help and some have a particular reluctance to seek assistance from Centrelink. (sub. 34, p. 6)

There is no evidence that, in general, the attitudes of farmers to receiving financial support are different to others in the community who are experiencing hardship and who need to apply for assistance. While farmers may have become accustomed to having their financial assistance provided through agricultural departments rather than recognised as welfare support, the way in which assistance is delivered has changed during the latest drought, with a substantial increase in the number of programs now administered through Centrelink.

The Commission has been presented with considerable evidence that agricultural departments and Centrelink have actively engaged with those rural areas experiencing drought. This has been undertaken through Centrelink’s ‘drought

buses', the creation of Rural Support Officers and greater funding, by states and the Commonwealth, for Rural Financial Counsellors and health workers (appendixes B and D). Inquiry participants generally indicated that governments have been largely successful with this form of assistance delivery. For example, Lexo Pty Ltd, a merino wool, meat and breeding enterprise, indicated that:

Centrelink and the RAA [Rural Assistance Authority] have been very efficient and friendly when dealing with support issues ... The rural councillors have been of immense help to those of us who find the task too onerous ... We have found NRAC [National Rural Advisory Council] personnel to be very efficient and knowledgeable about conditions. (sub. 54, p. 4)

Anglicare similarly conveyed a positive response to government service delivery:

Centrelink staff have been very responsive and supportive to the rural sector and have learned new methods of engaging with farmers and rural businesses as well as maximising partnerships with other funded and unfunded service providers ... Rural Financial Counselling services have made significant inroads to building confidence with the rural sector and providing support services they are willing to accept. (sub. 57, pp. 1, 2)

Some important benefits of delivering rural assistance through Centrelink rather than via agricultural departments are the potential for greater consistency in program delivery and the scope to make transparent the programs provided to farmers, compared with those provided to other groups in the community. While some differences in the current programs are deliberately favourable to farmers, Centrelink advises that others are likely to be unintended and are simply a consequence of being instigated under legislation other than the Social Security Act 1991 (Centrelink, pers. comm. 2008).

The Commission considers that it would be appropriate for income support to rural families to be provided under the *Social Security Act 1991* via Centrelink, in a manner that is transparent and, as far as practicable, consistent and equitable with that provided to other groups in the community. To the extent that delivery of the government's 'preparedness' programs, such as training and advice grants, is more efficiently achieved by utilising Centrelink expertise and resources, it is appropriate for these programs to also be provided via this agency.

Timeliness

Once an area is declared to be in EC, the time involved in applying and being considered for EC assistance is similar to other forms of government support. For the programs that Centrelink administers, there is an objective of processing 80 per cent of claims within 42 days. In 2007-08, Centrelink processed 91 per cent of claims within this time frame (Centrelink, pers. comm. 2008). All up, this

potentially means that once an application for EC is submitted, assistance is available to farmers, at best within about 10 weeks, at worst, up to 26 weeks later (given an average of 9 to 19 weeks taken by the National Rural Advisory Council (NRAC) to consider applications for EC declaration — chapter 5).

The timeliness of household income support is less of an issue than business support because of the potential availability of support prior to an EC declaration. Interim income support provides short term financial support to eligible farmers and small businesses in selected areas for which a case for EC assistance has not yet been established. Interim income support therefore potentially enables the provision of government support in a timely manner, which could prevent financial problems from escalating.

Burden of application processes

Most government support to farmers requires recipients to provide detailed information on their financial status. This is to ensure that the eligibility criteria are met and are consistently applied. Farmers within areas applying for EC declaration often have to provide considerable climatic, production and financial information to support their application. The Australian Dairy Industry Council noted that:

The tiered process of declaring EC regions and accessing EC assistance by individuals has often been difficult, resource-intensive and time-consuming, with different processes in each state, and the burden often falling on industry associations to provide members with support and guidance to complete the process. (sub. 58, p. 6)

Applicants for household income support need to demonstrate financial need for assistance. Similarly, for those business programs (such as EC interest rate subsidies) that are only made available to farmers who are viable in the long term, there is a requirement for applicants to provide information that demonstrates viability. Some inquiry participants recognised the appropriateness of, and necessity for, providing such evidence, but still saw the process as unnecessarily resource intensive. For example, the Tasmanian Farmers and Graziers Association noted an additional burden from potentially having different processes and organisations for each assistance program:

Each of these support payments involves different application processes, different eligibility criteria, and different funding and administrative bodies. This is a very arduous process for many farmers and their families ... (sub. 69, p. 5)

In its review of regulatory burdens in the primary sector, the Productivity Commission (2007a) endorsed the need to avoid duplication and reduce unnecessary burdens in the application process for assistance. Specifically, it was advised that Centrelink and state and territory government rural adjustment bodies

should be able to provide applications for both EC relief payments and EC interest rates subsidies; applicant information should be able to be used across different Centrelink administered programs; and a single application form for EC interest rates subsidies should be adopted by state and territory governments.

To assist with some reporting requirements, governments have provided grants to the Rural Financial Counselling Service and run extensive advertising campaigns to encourage farmers to not self assess but instead seek professional advice. This means that, to some extent, one government drought program (financial counsellors) is, in part, targeted at helping farmers to access another program (interest rate subsidies) and necessitates skilled professional advice that may not be readily available in all parts of Australia. It can also mean that assistance is not necessarily being directed to its best end use — which would be to assist farmers to understand their financial situation and improve their viability or plan for exit.

Long term use of assistance and dependence on support

It could be expected that the longer a farmer is receiving government assistance, the less capacity and/or motivation there might be to take action which would lead the farm or household to become self-reliant. In addition, there is a risk of some farmers restructuring their business decisions at the margin to improve their eligibility for drought support.

For most government assistance programs, payments are either one-off — such as exit grants, training and advice grants and the MDB Irrigation Management Grant — or there are time limits (such as the duration of an EC declaration) for the receipt of assistance. Nevertheless, there is evidence that some farmers have become dependent on government support, particularly in (but not limited to) times of drought (see appendix B discussion on long term recipients of EC relief payments).

The Queensland Government reported that:

Surveys relating to government support during drought have indicated that there is an expectation among primary producers and the community that some form of government intervention will automatically occur in a drought. (sub. 77, p. 3)

G. Schmidt, a farmer in Queensland, similarly claimed that:

The same producers are queuing every time assistance is offered which proves there is no adapting to seasonal variability. (sub. 4, p. 1)

The Rural Financial Counselling Service in Gippsland reported that:

... in some instances they [EC programs] are a disincentive to self reliance as some recipients become reliant on the payments and don't make the necessary changes. (sub. 34, p. 4)

The outcome of farmers becoming dependent on government support in the long term is not only that the agricultural sector is less productive overall, but also that there is concern within communities at the apparent inequities within their industry. K. Calder, a grazier, indicated that:

Unfair distribution of assistance is highly stressful for those farmers who are excluded while neighbours who, by managing their affairs to fit drought criteria, can receive help from all programmes. (sub. 29, p. 3)

Overall, there is some evidence of dependence on government support, which can make it more difficult to achieve self-reliance across the farming sector.

Perverse incentives and consequences

Some government programs for drought assistance have had consequences that are perverse to the objectives of the NDP and inconsistent with the outcomes of other programs. This can limit the effectiveness of NDP and broader agricultural policies.

Business assistance programs, including EC interest rate subsidies and subsidies for other business inputs such as transport, water or irrigation infrastructure, can support some farmers and small businesses who may not have made wise management decisions and are consequently not self-reliant during droughts. Such programs provide an incentive for some farms to structure their expenditure and debt to maximise their receipt of government subsidies for business costs. Kenny et al. (2008) reported that there is considerable angst within some communities at the provision of assistance to farms which have undertaken ‘creative accounting’ in order to meet the eligibility criteria for support. Furthermore, these programs can discourage drought preparedness actions such as early destocking or diversification of income sources and distort production decisions by leading farms to use the subsidised input in excess of what would otherwise be the case.

The way in which eligibility for EC interest rate subsidies is determined can also mean that despite program requirements, not all recipients may be viable in the absence of the subsidy. The requirement for recipients of the interest subsidies to demonstrate viability through an independent assessment is typically not exercised until \$300 000 has been paid in support. This means it is possible for unviable farms to receive support, unchecked, for several years.

In the longer term, these business assistance programs are an impediment to (and increase the costs of) farm adjustments that need to occur through exits and amalgamations, and potentially increase the costs for viable farms that want to expand.

In contrast to these policies, exit grants and the (Murray Darling Basin) water buy-back scheme are aimed at adjustment in agriculture through facilitating departure from farming — although in some areas these two programs can be partially in conflict with each other as farms that are in irrigation areas, but no longer have a water entitlement, become difficult to sell. As Horticulture Australia Council noted:

... there is a lack of synergy in implementation of the Government's water buy-back program and its interaction with the Exceptional Circumstances criteria – specifically, the Exit package. (sub. 66, p. 2)

Some states also provide other types of business support that are additional to Commonwealth programs and inconsistent with broader policy objectives (appendix E). For example, the Queensland Government offers a drought loan scheme to farmers. However, the scheme has not been widely taken up and one reason for this may be the more attractive provision of non-repayable funds by the Commonwealth under the EC interest rate subsidy program.

The fungibility of assistance money and a lack of distinction between farm and family expenses can also create perverse program outcomes. Assistance provided under one program may be used by the recipient for a quite different purpose to the intention of the program. The Queensland Government indicated that:

The distinction between farm and family expenses is very blurred in a family farm. For example, with the money a farm saves on interest rates when accessing interest subsidies they may spend that money on family related expenses. Conversely, it is not unusual for producers to indicate that ECRP has been used to feed livestock. (sub. 77, p.19)

To the extent that household income support is being used to subsidise farm businesses, the risk management message of the NDP may be undermined.

Implications for the environment

A lack of measures within the current suite of drought support initiatives that explicitly address the NDP's stated objective 'to maintain and protect Australia's environmental resource base during periods of extreme climatic stress' may increase the scope for adverse outcomes for the environment. The Commonwealth Government Department of Environment, Water, Heritage and the Arts (DEWHA) noted that:

The current initiatives may in fact be exacerbating environmental degradation as a result of farm businesses delaying necessary structural adjustment. (sub. 107, p. 9)

During periods of drought, land use and human pressures on natural resources may impose significant damage on farm biodiversity and increase the likelihood and severity of impacts downstream and in surrounding areas. The immediacy of focusing on drought impacts may also prevent adequate planning and adaptation for the long term impacts of climate variability. The Queensland Murray Darling Committee noted for example, that:

Subsidies for movement of livestock for agistment purposes does not require the assessment of the property they are being moved to or moved from at any point in the transaction. Processes to safeguard agistment to or from drought affected areas or where the land has not adequately recovered from drought conditions appears to be not well facilitated in current policy. (sub. 41, p. 5)

Some drought assistance programs — particularly transport subsidies — have been shown in the past to provide incentives to keep stock on the land longer, through, for example, supplementary feeding. As discussed earlier, transport subsidies are still offered in New South Wales, Queensland and the Northern Territory, despite previous agreement to cease such subsidies (for example, Agricultural Council of Australia and New Zealand 1992), and conflict with the NDP objective for environmental management during drought. The Australian Landcare Management Group argued that:

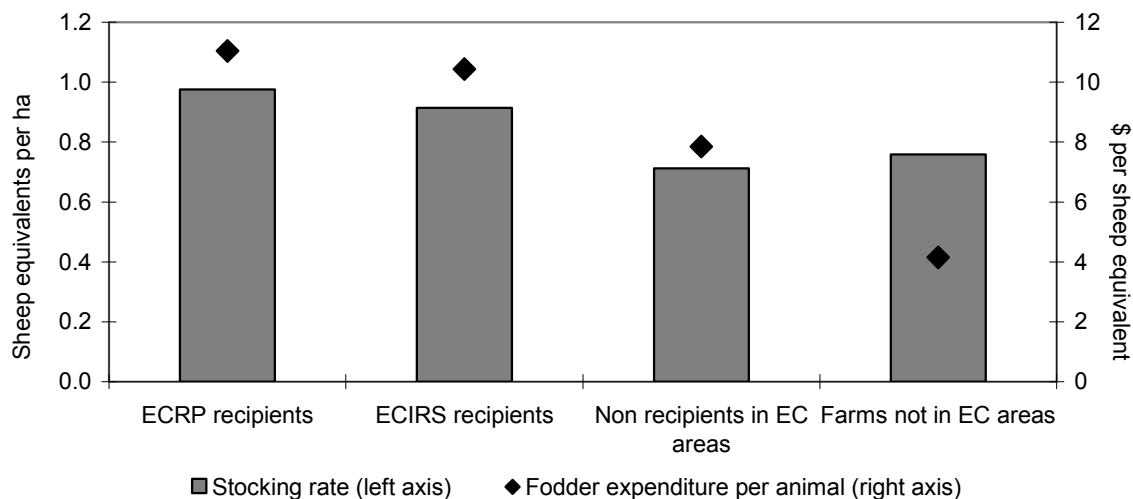
... the impact of drought on land condition can be prolonged or increased through assistance that allows for extended grazing impact or re-stocking before recovery. (sub. 24, p. 7)

The impact of drought on the environment is expected to vary with the type of farming activities undertaken (crops or livestock for example) and in different regions (chapter 3). It would be expected that livestock numbers for farms in EC would be lower than for farms not in EC. During the latest drought, sheep and beef cattle numbers were, in general, slightly lower or not significantly higher on farms of EC recipients than non recipients, but dairy cattle numbers were considerably higher (appendixes B and C).

Evidence from farm surveys by the Australian Bureau of Agricultural and Resource Economics (ABARE) is that overall, the number of animals per hectare and fodder expenditure per animal were higher, on average, on farms of EC relief payment (ECRP) and EC interest rate subsidy (ECIRS) recipients than non recipients (figure 6.1). While there may be economies of scale reasons for this in dairy operations and a greater proportion of dairy specialists amongst ECRP recipients, higher fodder expenditure per animal may nevertheless be indicative of lower yielding pastures on farms of recipients and higher stocking rates may have implications for the ongoing condition of land and water resources in dairy regions.

Figure 6.1 Stocking rates and fodder expenditure by EC recipients and non recipients

Average annual data for 2002-03 to 2007-08



Data source: ABARE (2008 unpublished).

There is evidence from inquiry participants that some pastoralists may have selected stock management approaches for environmental reasons during this drought. One grazier, K. Calder, noted that stock containment areas have been a particularly beneficial tool during droughts — if used early enough, they can prevent loss of topsoil to wind erosion (sub. 29, p. 2). Another New South Wales farmer, P. Morris, described the link between pasture condition and use of government support:

A degraded pasture may be unable to absorb a tiny fall, but a dynamic pasture may absorb a lot of rain very fast. As a rule of thumb the owner of the property which cannot effectively utilise rain is more likely to be seeking government assistance ... During any drought, one can see adjacent properties that have been subjected to very different land management regimes, one with many starving cattle picking at round bales brought in by subsidised freight, next door to a few fat unsubsidised cattle. (sub. 23, pp. 1 and 9)

However, Crocker Farming Co. in Queensland pointed out that even when it destocks to protect the land, this is no guarantee that pastures will have an opportunity to recover:

Spelling paddocks is good management and is common practice but the kangaroos come in and destroy paddocks of good feed if the surrounding area is getting eaten out. (sub. 45, p. 1)

There are likely to be substantial differences in the natural capital bases of farms even before drought, with respect to factors such as biodiversity, soil fertility, and capacity of soil to absorb moisture. All other factors being equal, it could be expected that these differences would become more pronounced during drought.

The Commission considers that there is no strong program setting to support the NDP objective to ‘maintain or protect’ the environmental resource base.

Long-term dependence on government assistance, inconsistency in key messages between programs and the creation of perverse incentives have reduced program effectiveness and been an impediment to the development of self-reliant management approaches.

Costs of assistance and program provision

Costs to government of program provision

Government expenditure on drought has increased dramatically in recent years with drought conditions having persisted in many regions and with existing EC assistance measures extended (in 2006) to all forms of agriculture in regions and to farm dependent small businesses (chapter 4). In addition, further assistance programs have been added. The Queensland Farmers Federation noted that:

... governments tend to ‘add programs’ as droughts worsen. This may be a practical political reality but it has a significant downside for farmers ... there is potential burden of ‘program overload’ from a primary producer’s point of view ... (sub. 82, p. 6)

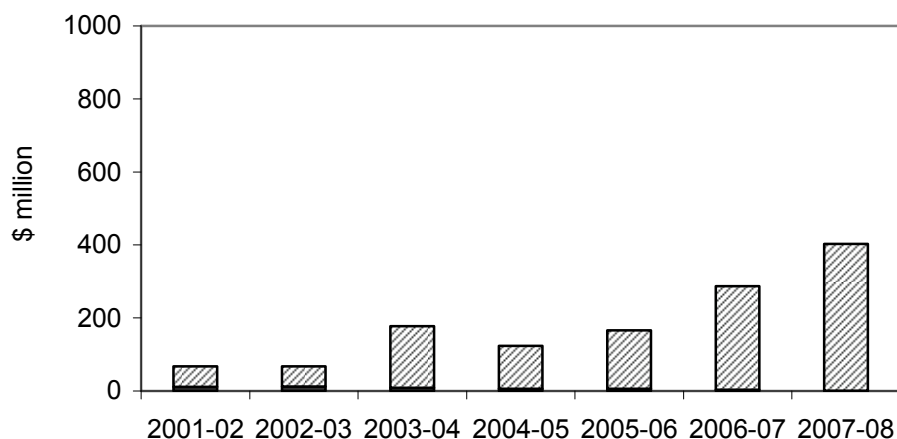
From July 2001 to June 2008, the Commonwealth Government provided around \$1.2 billion in drought related household support, predominantly through EC Relief Payments to farm families, but also through programs such as Small Business Income Support and the Country Women’s Association (CWA) emergency relief fund (figure 6.2a). A further \$140 million was provided to rural households in the first half of 2008-09.

Also over the period from July 2001 to June 2008, \$1.8 billion in drought assistance was provided by the Commonwealth Government to farm businesses and rural small businesses. Most of this support was via EC interest rate subsidies (figure 6.2b). An additional \$230 million was provided to farm businesses and rural small businesses in the first half of 2008-09. The sharp growth in EC expenditure in recent years corresponds with the introduction of more generous eligibility criteria for EC interest rate subsidies in 2006 and 2007, and is reflected by an increase in both the number of recipients and also the amount received by each, on average (appendix C).

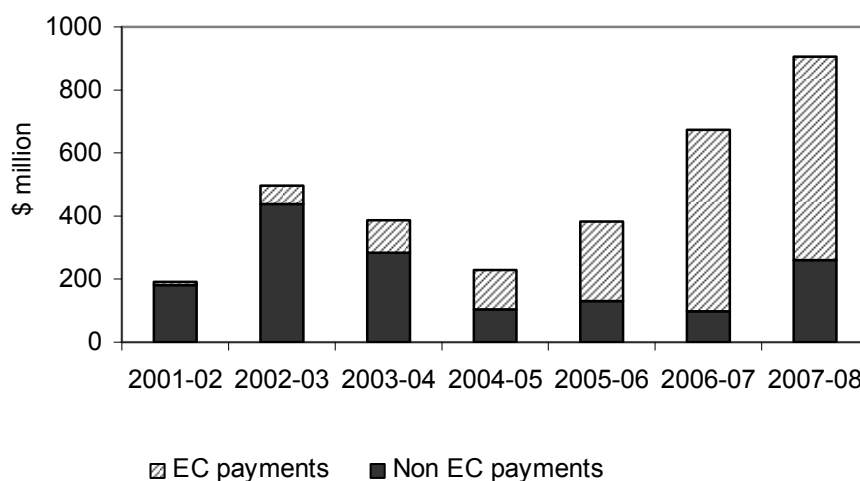
With the large increase in EC interest rate subsidy expenditure, the focus of government EC assistance has shifted markedly from household programs to business programs. Over the period since 2001-02, the share of EC expenditure that is directed to farm households has dropped from around 80 per cent of all EC expenditure to less than 40 per cent.

Figure 6.2 Program payments to farmers and small businesses, 2001-02 to 2007-08^a

(a) Household income support^b



(b) Farm business support^c



^a Program payments to farmers differ marginally from total funds for a program because of timing differences in funds paid to agencies administering the relevant program compared with funds received by farmers. ^b EC related household income support includes EC Relief Payments, Small Business Income Support and Interim Income Support and Commonwealth Government contributions to the CWA emergency drought relief fund. Non EC household income support is provided through the Farm Help Income Support program. Estimates exclude payments to households funded through from other Commonwealth Government departments, New South Wales Government Drought Household Payments and state government contributions to other programs. ^c EC related business support includes the Commonwealth contribution to EC interest rate subsidies to farmers and rural small businesses, Professional Advice and Planning Grants, and EC exit grants. Non EC business support includes the forgone tax cost of FMD deposits, FarmBis, Farm Help redevelopment grant, Farm Help training grant, Murray Darling Basin Irrigation Management Grant, Irrigated Agriculture Workshops, and Rural Financial Counselling Service. Excludes industry specific payments (such as sugar and dairy industry restructuring programs) to farmers and payments made under state assistance measures.

Data source: DAFF (2008 unpublished).

Supplementing these drought related measures, a further \$1.5 billion was provided, mostly in the form of business assistance, to farmers who were not necessarily in EC areas. The share of non drought measures in total Commonwealth Government assistance to farms has, in aggregate, declined in recent years. In earlier years, non drought expenditure was dominated by FarmBis and the forgone tax cost to the community associated with the Farm Management Deposits (FMD) scheme. In 2007-08, the largest non drought expenditure programs were the MDB Irrigation Management Grants, the Rural Financial Counselling Service (RFCS) and (the forgone tax cost of) FMDs. The general upward trend in FMDs, both in terms of the number of holders and the value of holdings, suggests that the scheme is yet to reach maturity (appendix D). While the cost of the scheme is likely to vary with marginal tax rates, if the scheme were to be maintained in its present form, it is likely that it will continue to form a significant part of government assistance to farmers in the future.

In addition to the Commonwealth programs, there are state level programs aimed at assisting farmers in EC and other drought affected areas (appendix E). For New South Wales, Queensland and Northern Territory, transport subsidies were one of the most significant forms of state program expenditure to assist farmers. Over the period from 2002-03 to 2007-08, almost \$190 million was provided by states to farmers (mostly New South Wales) in the form of transport subsidies. While this is much less than the main EC programs provided by the Commonwealth, it is nevertheless significant compared with other non EC programs for farmers.

There has also been significant expenditure on farmers and regional communities in some other states. For example, the Victorian Government announced a \$115 million drought relief package in October 2008, bringing to their drought support for farmers and rural communities to over \$500 million since 2002-03 (sub. 110). In Western Australia, \$4.3 million was approved in 2007-08 to support farmers and regional communities under the 2007 Dry Season Assistance Scheme. In 2007-08, the states supplemented Commonwealth expenditure on the Rural Financial Counselling Service by approximately \$2.8 million (appendix E).

The extent to which program funds are available as payments to program participants varies with the nature of assistance provided (table 6.1). It would be expected that those programs which provide one-on-one support to participants or which require extensive assessment of eligibility, would have higher administration costs. In recent years, Farm Help programs and the EC exit package have had the highest relative administration costs (50 per cent and 44 per cent of total program expenditure, respectively). In contrast, the administration costs of programs such as

the MDB irrigation management grant are very low as there is very little assessment required to determine either eligibility or use of funds. On average across all programs considered, around 4 per cent of total expenditure is attributable to administration costs.

Table 6.1 **Cost of providing key Commonwealth Government programs, 2001-02 to 2007-08^a**

	<i>Payments to program recipients</i>		<i>Administration costs as % total program funds</i>
	<i>2001-02 to 2007-08</i>	<i>2007-08</i>	<i>2007-08</i>
	\$ million	\$ million	%
Business programs			
EC interest rate subsidies: farmers	1 703	604	3
EC interest rate subsidies: small business	53	30	4
Professional advice & planning grant	7	7	6
EC exits package	4	4	44
<i>Total EC business</i>	<i>1 768</i>	<i>645</i>	<i>3</i>
MDB irrigation management grant	142	142	1
MDB irrigated agriculture workshops	7	7	na
Farm Help training & redevelopment grants ^b	33	2	50
FarmBis	87	11	12
Farm management deposits ^c	1 175	85	na
Rural financial counselling ^d	52	14	14
<i>Total other business</i>	<i>1 497</i>	<i>260</i>	<i>3</i>
<i>Total business</i>	<i>3 265</i>	<i>906</i>	<i>3</i>
Household programs			
EC relief payments	1 163	379	6
Interim income support	45	8	6
Small business income support	20	16	6
CWA emergency drought aid	16	0	na
<i>Total EC household</i>	<i>1 244</i>	<i>402</i>	<i>6</i>
Farm Help Income Support ^b	50	1	50
<i>Total household</i>	<i>1 294</i>	<i>403</i>	<i>6</i>
Total business and household	4 559	1 309	4

na Not available. ^a Program payments differ marginally from total funds for a program because of timing differences in payments to agencies administering the relevant program and payments to support recipients. Administration costs represent only costs reimbursed by DAFF but exclude DAFF staff costs. For some programs, there are additional costs incurred by state governments and other Commonwealth Government departments. ^b For Farm Help, ECRP, PAPG, Interim Income support and Small Business Income Support, administration costs are not available for separate programs in any year. The administration costs for the group of programs have been assigned in equal proportion to each component program. ^c 'Payments to program recipients' under the Farm Management Deposits scheme refers to the reduction in tax paid by holders of deposits, less the additional tax paid by those withdrawing deposits in the period. ^d Rural financial counselling service administration costs are unavailable prior to 2004-05 so the administration cost percentage is calculated for expenditure over the period 2004-05 to 2007-08.

Source: DAFF (2008 unpublished).

In commenting on the large array of programs provided to farmers, the Queensland Farmers Federation argue that there are also likely to be administration costs arising from the need to manage so many separate programs with different criteria and application processes:

... it is also questionable whether the benefits in the community match the administrative costs of managing many of those 93 programs identified in the [this inquiry's] Issues Paper. (sub. 82, p. 6)

The Commission's experience in this inquiry bears testament to this. It was inordinately difficult to obtain consistent information over recent years on the features of each of the Commonwealth Government programs, the number of farmers who benefited from the programs, the amount that they received and the cost to the Australian community of providing these programs.

State government departments also incur costs associated with provision of many of the Commonwealth and state programs, but for the most part, this information is not reported separately by program (appendix E).

Costs to the broader community/economy

Although assistance generally benefits the firms or industries that receive it (subject to the distortions that it may create), it typically comes at a cost to other sectors of the economy. For example, direct business subsidies increase returns to recipient farms and industries, but to fund subsidies governments must increase taxes and charges, cut back on spending for other programs in communities, or borrow additional funds. This can result in higher input costs for other businesses and/or lower disposable income for consumers to spend on goods and services.

In some cases, particular types of industry assistance — most notably research, development and extension funding — can deliver net community benefits. As noted by the Western Australia Department of Agriculture and Food:

Collectively, the money spent over the past decade on Exceptional Circumstances (EC) and other dry season initiatives could have, arguably, been better spent on bolstering public sector research and development, and building farm business and financial management capacity to lift agriculture's declining productivity rate and to assist farmers to better manage risk. (sub. DR 186, p. 1)

Similarly, some policies that have industry assistance effects may be justified on other grounds, such as the achievement of social or environmental objectives.

To the extent that funds are directed to programs that have been assessed as providing benefits to the community, those benefits may be reduced if program funds are not used to meet program objectives. Funds provided under the main drought programs are highly fungible with few, if any, requirements that they be spent on measures that will enhance self-reliance and preparedness. There is little accountability in use of funds by service providers or recipients.

The cost of government assistance to farmers has escalated over recent years. With increases in expenditure on EC interest rate subsidies, the focus of support has markedly shifted away from farm households and towards businesses. Some programs have high administration costs relative to funds distributed. There has been very little accountability in the use of funds or the evaluation of program outcomes.

6.4 Evaluation of programs that support rural families

Australia's social security system is designed to provide a basic welfare safety net for all Australians through the provision of income support to those experiencing genuine financial difficulty. It is therefore appropriate that rural households in financial hardship similarly have access to basic income support.

This requirement is recognised by inquiry participants. For example, the Australian Dairy Industry Council stated that:

The government has a role to provide access for farmers and rural businesses to the basic social safety net available to all other Australians. (sub. 58, p. 4)

Similarly, the South Australian Country Women's Association contended that:

Government must ensure a minimum level of individual wellbeing for farm families at all times, not only in times of severe drought. (sub. 72, p. 2)

However, extensive farm assets and ongoing farm management obligations can mean that, even when in financial difficulty, farm families do not meet the income, asset and job search criteria necessary to access the community wide Newstart support or pension programs. The Commonwealth Government response to this has been to develop specific programs targeted at groups of farmers – such as those in EC areas. There are concerns as to whether this is the most effective and efficient way to support the rural community. Details on the programs for household income support are provided in appendix B.

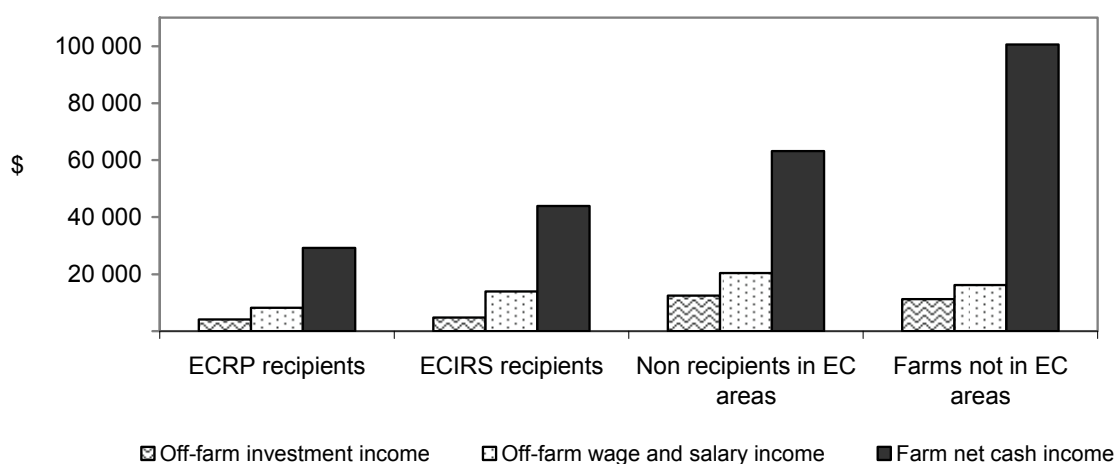
EC Relief Payments

Accessibility of support

The EC Relief Payment (ECRP) program appears to be reaching those farms that it is targeting — farm families in EC areas that are experiencing financial hardship. ECRP recipients, on average, earned lower farm net cash income and had lower levels of off-farm income from employment or investments, than either non recipients within EC areas or those not in EC areas (figure 6.3). As the off-farm income position of farm families who are similarly experiencing EC but not receiving EC support is more akin to the position of farms not in EC areas, it seems that off-farm income is an important factor in improving the self-reliance of farm families during drought.

Figure 6.3 **Income levels of EC recipients and non recipients^a**

Average annual data for 2002-03 to 2007-08



^a Excludes government payments to farm businesses or households.

Data source: ABARE (2008 unpublished).

Despite reaching those that it is targeting, the accessibility of the ECRP program was criticised by inquiry participants. These criticisms tend to focus on the income threshold levels in the eligibility tests. In particular, the farm income and off-farm income threshold levels are considered by some farming groups to be too low and result in some drought affected farmers not receiving income support. For example, the Coonamble Shire Council suggested that:

The level of combined farm and off-farm income that is used by Centrelink to limit eligibility for relief payments is too low ... Gross incomes only are used. (sub. 63, p. 10)

However, even after allowing for key farm assets to be exempt, the eligibility tests for ECRP are considerably more generous than Newstart and average household income levels of recipients are potentially much higher already than those of Newstart recipients (appendix B). Those farmers who are not eligible for assistance under the current ECRP criteria could reasonably be considered to have the resources to support themselves.

For instance, the \$20 000 off-farm income threshold for farm household income support is up to 12 times that applicable in the eligibility tests for other income support such as Newstart or disability allowances (appendix B). While generous eligibility criteria may enable some farmers with off-farm income to access support, in the longer term such criteria may discourage some farmers from diversifying farm income or maintaining the off-farm assets or income sources necessary for the farm family to become financially self-reliant. As suggested by the South Australian Advisory Board of Agriculture:

... it is possible that the criteria is too generous and so farmers may see EC as their drought proofing rather than actively adding it to their own risk management planning. (sub. 71, p. 4)

The absence of a regular reconciliation of income to determine ECRP eligibility and payments, places additional importance on the accuracy of applicants' initial income estimates.

While ECRP is not intended to be a broader income support program for other farmers in financial hardship, there are equity concerns with providing preferential access to income support for some groups of farmers and not others. The 'lines on map' issues (discussed in chapter 5) mean that there are likely to be some drought affected farmers who are in financial difficulty but are not eligible to apply for income support because they are not in an EC area. There are also families who are in temporary financial hardship for reasons other than drought but are outside of EC areas and not eligible for EC support (but may be eligible for other programs such as Transitional Income Support).

Another criticism of ECRP is that the application process is overly burdensome. The Rural Financial Counselling Service in Gippsland detailed that:

The income support applications through Centrelink are in most cases relatively straightforward taking as little time as an hour. Nevertheless, for a farmer to complete an application and be confident that it is correct can be daunting. Assistance is often required from either an accountant or a Rural Financial Counsellor. For farmers that operate their business as a Trust or Company there are extra forms to complete further complicating the application. (sub. 34, p. 7)

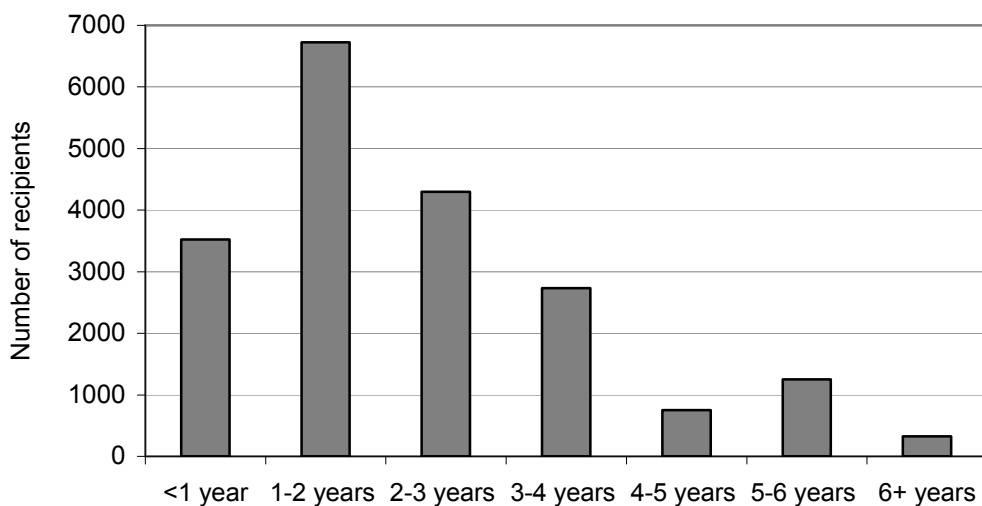
The Commission considers it appropriate that those who are applying for public funds for income support provide evidence to demonstrate their need of that support. That said, the application process should be as streamlined as possible, with minimal duplication in information provision and, for those with less complex business structures, generally not necessitate external professional assistance to complete the application forms.

In terms of timeliness, the delivery of ECRP to farmers appears to be reasonably prompt once an area is declared to be in EC (appendix B), and as an alternative, eligible farmers in EC areas also have immediate access to income support under Newstart hardship provisions.

Dependence on support

While almost half of the current recipients of ECRP have received assistance continuously for 1 to 2 years, around half have been supported for longer, with almost 10 per cent of current recipients having received ECRP assistance continuously since 2003 (figure 6.4).

Figure 6.4 Length of time in continuous receipt of ECRP^a
Recipients current at 9 January 2009



^a The number of families receiving ECRP for 1-2 years may include some who ceased to receive assistance for a short period and then recommenced receipt.

Data source: Centrelink (2009 unpublished).

From a survey of the 100 longest term recipients of ECRP, Centrelink reported that while nearly all intended to continue farming, only 60 per cent considered that they will be 'self sufficient' post EC and the remainder considered that they will require further support (Centrelink 2008c). Some current measures available that could further enhance self sufficiency are not widely adopted by long term ECRP recipients — only 4 per cent have FMDs and just over half have a business plan.

Farmers who received ECRP were also more likely to also have received assistance under other government support programs including ECIRS, FarmBis and the Rural Financial Counselling Service (SACES 2008a). Centrelink (2008c) reported that over half of the longest term ECRP recipients are currently accessing assistance in addition to ECRP. This may indicate a continued reliance on government assistance over a number of years, rather than temporary use of assistance to improve preparedness for long term self-reliance. For example, Macquarie River Food and Fibre indicated that:

There is a concern that those farming families not prepared to earn income off farm and maintain a low income, may be developing a security net of dependency, rather than this being a safety net for those families, working hard to develop long term self-reliant strategies. (sub. 36, p. 11)

The Department of Transport and Regional Services (DoTRS) noted that the perception that recipients have only qualified for government support because they have made no attempt to become self-reliant has caused considerable tension within communities:

The income test for ECRP has caused divisions in communities as farmers who 'do the right thing', diversifying the business base of their farms and households, are ineligible, and resent seeing neighbours who have 'done nothing' sit back and access government assistance. This has been described as an incentive to not diversify, which if true would exacerbate drought impacts in communities. (DoTRS 2005)

One way that other social support programs, such as Newstart, attempt to limit long term dependence is through a set of mutual requirements that accompanies receipt of assistance. There is no such requirement with ECRP receipt and the responsibilities that come with other farm household support measures (such as the need to develop plans with a financial counsellor) could not be considered a deterrent to long term use of assistance. That said, any design of conditions needs to recognise that even in drought, farmers need to manage their land and stock and attempt to maintain the underlying viability of their farms, even if alternative employment is nearby.

A lack of mutual responsibilities for ECRP receipt and evidence of some long term dependence on government support suggests that the program is distorting incentives for some families, may be delaying necessary farm adjustments in some areas and is unlikely to be efficient, in a whole of economy sense, in the long term.

The effectiveness of the ECRP program is limited by: its dependence on claimants being within an EC declaration area; the lack of mutual responsibilities on receipt of support; and the absence of a regular reconciliation with income earned. The farm specific assets and income criteria are very generous relative to Newstart criteria.

RECOMMENDATION 6.1

Exceptional Circumstances relief payments should be replaced, subject to transition arrangements.

Interim Income Support

Interim Income Support (IIS) aims to provide short term financial support to farmers and small businesses that are in regions not yet EC declared, but are experiencing financial difficulties as a result of drought. As such, IIS enables income support to be provided to farmers and rural small businesses in a timely manner, which could minimise the cost to recipients of ‘red tape’ associated with delays in the EC declaration process, ensure early access to other training and community support programs and prevent family financial problems from escalating.

However, the provision of IIS could reinforce an impression that recipients are ‘entitled’ to support or create the expectation within the recipient communities that EC status will ultimately be confirmed. Such a view could be further supported by the continued availability of IIS for 6 months, even if the region is rejected for EC status. IIS increases the scope for lobbying for income support in particular regions as assistance can be provided without due consideration of eligibility through the EC process. IIS also comes with a significant efficiency cost to Centrelink (Centerlink sub. 104).

Farm Help and Transitional Income Support

There are two key income support programs for farmers that are not triggered by drought — Farm Help Income Support (FHIS) under the AAA policy framework and Transitional Income Support (TIS) under the follow-on policy framework, AFF. These programs aim to provide short term income support and adjustment assistance to farmers in financial difficulty for reasons not necessarily related to drought. That is, they target the most vulnerable farm families that are in financial difficulty, regardless of the cause.

Given the characteristics of its recipients, the Farm Help Income Support program is effective at getting income assistance to the most vulnerable farm households

(appendix B). SACES (2007) report that Farm Help recipients increased their off-farm income after participation in the program. A particular concern to this inquiry though, is that the program specifically targets those who are unable to borrow against their assets from commercial lenders. This could mean that the government is supporting the owners of farms which are commercially unviable in the long term, thereby making farm and industry adjustments more costly to achieve. This factor, in combination with the accessibility of rural finance to viable farms in times of drought, even with recent adjustments to risk premiums (Australian Banker's Association sub. 76), suggests that Farm Help Income Support is not likely to be an efficient use of government funds in rural communities.

Transitional Income Support is similarly aimed at families on marginal farms in financial hardship, particularly those coming out of EC. While the objectives of the program are linked to management of climate change effects, provision of short term financial support to the owners of Australia's most marginal farms is not necessarily an appropriate means to achieve such a long term objective. As for Farm Help Income Support, TIS does not ensure that recipients operate farms which are commercially viable. However, and in contrast to Farm Help, the financial assessment in TIS does at least attempt to limit income support to those farm households which have insufficient liquid resources to support themselves or meet their immediate expenses. As for other income support programs for farmers, the absence of a regular reconciliation of income to determine eligibility and payments, places additional importance on the accuracy of applicant's initial income estimates.

There has been widespread criticism of the limited accessibility of TIS (appendix B). Of most focus is the \$1.5 million threshold level for total farm business (and non-farm) net assets. While Paton (2008) speculated that 'as few as 1000 farmers will qualify for the new payments because the value of their land and farm assets is too high', ABARE data (2009 unpublished) indicates that there were around 10 000 broadacre and dairy farms and a further 2300 vegetable and sugar farms across Australia that had less than \$1.5 million in farm net assets and less than \$20 000 in liquid assets in 2007-08 (and this does not include farms in other agricultural industries). Further, the program has a higher asset threshold than Newstart, recognising farming circumstances.

Income support to farmers under Farm Help and TIS is due to end on 30 June 2009.

There is widespread acceptance of the need for income support for farm families that are experiencing financial hardship, while not facilitating long term dependence. However, provision of income support based on particular events, such as drought, is inequitable and ignores difficulties that farm families not in EC declared areas have in accessing broader social security programs. Income support for those in hardship should not be tied to broader policies such as climate change.

Small Business Income Support

Small Business Income Support (SBIS) was introduced by the Commonwealth Government, with little consultation or justification, in November 2006. The program is due to end on 30 June 2009 but may continue to be available beyond that date for current recipients in areas that remain EC declared (Primary Industries Ministerial Forum 2008b). In general, SBIS appears to be meeting its objectives of supporting the families of those small business operations that are most dependent on farm expenditure, such as contractors and suppliers (appendix B). In this sense, SBIS is operating effectively, but whether it is an appropriate program is questionable.

Families of small business operators typically do not face the same constraints that farmers do in accessing the broader income support measures available to the rest of the community. That is, they generally do not have such lumpy non divisible assets as do farmers (although there are exceptions to this — for example, Mengels Heli Services, sub. 3), do not face the same difficulties in diversifying income sources, and are usually located in towns and so would be more able to meet program obligations, such as those that are required of Newstart recipients.

There are also equity issues within and between communities in providing differential access arrangements for income support between different businesses. There are many factors other than drought which have significant negative impacts on the family income levels of small businesses operators. However, it is not government policy to provide special support for the myriad of small businesses that risk their capital and, in some cases, fail.

It is difficult to justify, on equity grounds, the preferential access to income support for some small businesses' families over all others who similarly take risks in setting up a business.

RECOMMENDATION 6.2

Exceptional Circumstances small business income support should be terminated, subject to transition arrangements.

6.5 Evaluation of drought triggered business programs

The primary form of drought triggered business support is interest rate subsidies. These are aimed at supporting farm and rural dependent small businesses which are viable in the long term but are currently experiencing financial difficulty due to an EC event (DAFF 2008d). The Commonwealth Government provides exit packages

for those farms which are not viable in the long term, and several state governments offer business assistance in the form of transport subsidies. The effectiveness and efficiency of these programs is evaluated in the context of the NDP objectives. Further details on the programs for drought-triggered related business support are provided in appendixes C and E.

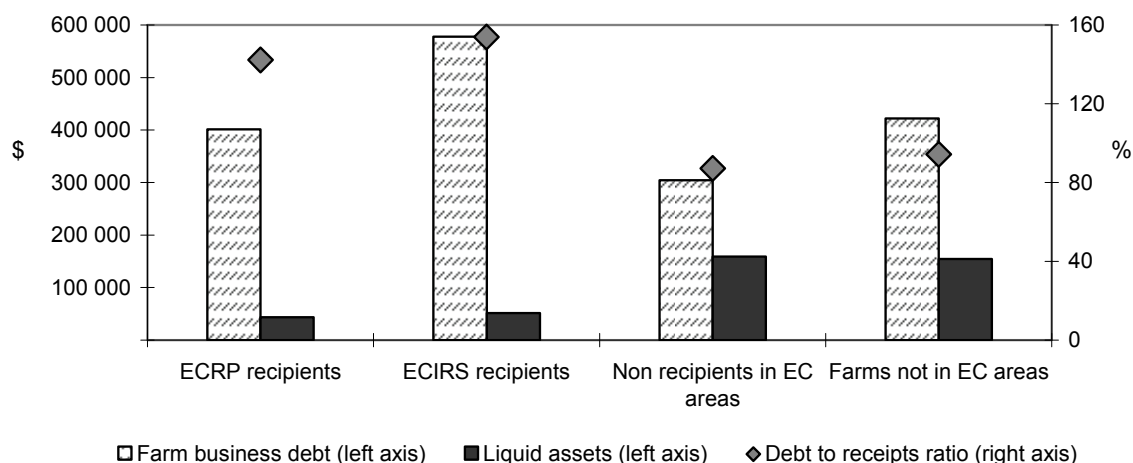
EC interest rate subsidies

Accessibility and appropriateness of support

The EC interest rate subsidy (ECIRS) program appears to be reaching those farms in EC areas that are most likely to have difficulty in meeting interest repayments on debt. ECIRS recipients not only have lower liquidity levels than non recipients, but have also incurred higher debt levels such that the interest payments absorb what little cash they do earn (figure 6.5). For those receiving EC assistance, the ratio of farm debt to farm receipts (which does not include government payments) is around 146 per cent on average, compared with around 90 per cent for non recipients. Further, ECIRS recipients may have less capacity to increase their farm receipts in the short term as they also have lower average crop productivity levels than non recipients (appendix C).

Figure 6.5 Liquidity and debt of EC recipients and non recipients

Average annual data for 2002-03 to 2007-08



Data source: ABARE (2008 unpublished).

However, as the liquidity and debt position of farms that are similarly experiencing EC but not receiving EC support is more akin to the position of farms not in EC areas, it seems likely that drought is only one of the factors contributing to the financial difficulties of ECIRS recipients.

The main criticisms from inquiry participants on the accessibility of ECIRS relate to the viability (or otherwise) of applicants. A number claimed that despite the eligibility criteria for ECIRS, many viable farms in EC areas in need of carry-on finance are unable to access business support under ECIRS, while some non-viable farms receive support (appendix C). Carrigan and Co. Pty. Ltd., a Narrabri accounting firm, noted that:

While the program states that part of the eligibility criteria is that the farm must be viable in the long term, the reality is that a significant portion of the successful applicants are unviable and many viable farmers are having their applications rejected because they are ‘not considered to be at financial risk’ ... among the reasons why unviable farmers are being granted subsidies is the reviewer’s reluctance to ‘make the call’ that the applicant is unviable and hence being responsible for ‘forcing’ the applicant farmer to leave his/her farm. (sub. 32, p. 2)

This claim has some validity as an independent viability test is typically not required until the level of interest subsidy provided to a farm reaches \$300 000. To the extent that non viable farms are receiving support, ECIRS is ineffectively provided and may be increasing the costs of industry adjustment in the longer term. However, ECIRS also potentially supports those who suffer from poor timing, such as a younger generation who have bought a property just prior to drought, or farmers who expanded their properties in the expectation of becoming more viable.

The asset thresholds used in ECIRS eligibility tests have also been criticised as insufficient, particularly for larger operations. However, there is no limit on the value of farm assets (including FMD balances and the family home) and the \$750 000 threshold level for off-farm assets is about three times the residence asset threshold that is applicable to a Newstart couple.

Some inquiry participants noted differences between states in the way in which eligibility for ECIRS was assessed. In Victoria, for example, access to assistance was based on the financial need of the applicant and not only on having met the eligibility criteria. In contrast, it was indicated that in New South Wales, if a producer was eligible for the program, then the full payment amount could be accessed. While all states reject applications on the basis of ‘not in need’, there was evidence that rejections on this basis were disproportionately higher in Victoria (appendix C). Such differences in the interpretation of the ECIRS eligibility arrangements mean that the policy is not uniformly applied across the country.

These differences generate inequalities and lessen the scope for policy to meet its objectives.

There was also some commentary from inquiry participants on the resources required to apply for ECIRS. The Rural Financial Counselling Service in Gippsland detailed that:

Interest Rate Subsidy applications generally take much longer [than ECRP] to complete; two hours at best plus time to collect information and Lender's Certificates – but may take 6 to 8 hours if complicated. Our RFCs report that if they are completed by an accountant the cost is generally \$250 to \$500, however we have knowledge of one instance of a fee in excess of \$15,000. (sub. 34, p. 7)

It can be difficult for companies and trusts to meet the eligibility criteria for ECIRS as all directors' assets are summed for the asset test. Several farmers noted that access to ECIRS is difficult for farms which have set up their management structure as a corporation or family trust and that this is problematic and inconsistent with many succession plans:

Farms that trade as Corporations or Family Trusts find it very difficult to separate assets between different generations. The younger generation is therefore ineligible for any form of support. (Highview, sub. 37, p. 2)

Growers who have formed partnerships with neighbours or who have remained farming in a large business structure with family members, for the benefits of economies of scale, have been unable to access any form of financial assistance (L. Mann, sub. 42, p. 2)

However, the business structure under which farms operate is a management choice which should take into consideration the overall comparative advantages and disadvantages of operating as a sole trader, partnership, trust or company. While some management structures may afford greater access to government drought assistance, others may provide advantages more generally, such as through the tax system.

Unintended consequences of support

ECIRS creates a number of perverse incentives and unintended outcomes which are likely to reduce the effectiveness of the program. In particular:

- As the program provides the most assistance to those with the largest debt, there is an incentive for some to build debt and/or not reduce debt when faced with drought risk as governments have a history of stepping in and subsidising its cost (having financial reserves and a lower debt to equity ratio can be an important hedge against drought risks). Rural Directions claimed that:

[The EC declaration] can cause debt to be held in place for longer than normal to 'position' for potential assistance. (sub. 35, p. 3)

-
- Recipients may be less responsive to drought conditions as financial assistance increases the potential to spend money on additional variable inputs (such as fodder) to maintain production levels. The total cash costs of ECIRS recipients are greater than non-recipients, on average, during the latest drought, in particular for fodder costs (appendix C). This may have unintended consequences for the long term condition of natural resources. A group of farmers, the M. and D. Geldard and T. Reid, submitted that:

[ECIRS] promotes ‘worst practice’ farming ie. to overgraze and overspend in the good times, knowing the criteria for subsidy will be met in the drought. (sub. 46, p. 1)

- There may be a disincentive to diversify income sources off-farm. S. and A. Boardman, farmers in Northern New South Wales who did attempt to earn off-farm income, considered this a less profitable outcome than receiving government assistance:

If we had not carried out farm contracting during the 2007 year it is quite possible we would have received the maximum interest subsidy of \$100,000. So therefore, other farmers who had a reduced workload due to the drought, made more money from receiving interest subsidy than we netted from farm contracting. How unfair is this? (sub. 43, p. 2)

- As with any subsidy on production, interest subsidies can become capitalised into asset values and thereby penalise non-assisted farmers and new farmers who wish to purchase capital inputs. For example, J. Cooper, a grazier, noted that:

The drought assistance being provided to unviable and ‘poor’ managers is helping to sustain land prices, and reducing the opportunity for more productive and viable farm businesses to expand. Without the interest subsidies more land would be on the market and the normal market driven by supply and demand would not be distorted. (sub. 10, pp. 1–2)

- Interest subsidies represent a windfall gain to farms receiving the subsidy and provide an unjustifiable competitive advantage to recipient farmers over non-recipient farmers (Milham and Davenport 1997).

Having farmers dependent on government support for their businesses not only has implications for the way in which they operate, but also results in a less productive agricultural sector in the longer term. The J. and P. Dampney, graziers in northern New South Wales, similarly argued that:

... we felt very concerned that continually handing out interest subsidies was having a depreciating effect on the whole rural community eg., increasing the price of land values, farmers becoming reliant on the subsidy, farmers organising their finance so they remain eligible, so not being as productive as they could be. (sub. 16, p. 1)

Overall, the incentives inadvertently created by ECIRS may mean farm businesses adopt less self-reliant strategies prior to droughts in the belief that governments will

help to maintain the business during droughts. Ultimately, the appropriateness of ECIRS assistance rests on whether it is tied to a valid rationale for government intervention (section 6.1). However, the program does not meet any of the valid rationales for government intervention that underpin the NDP. The directing of ECIRS payments to those with liquidity problems during drought events would suggest there is some impediment to farmers accessing carry-on finance during these periods, which could be considered a basis for government intervention. However, recipients have high equity levels — an average equity ratio of over 80 per cent. Further, the Australian Banker’s Association (sub. 76) indicate that viable businesses in the rural sector have been able to obtain credit in recent years, even with recent adjustments in risk premiums faced by farmers. Accordingly, the rationale for provision of this type of business support is not sound.

Interest rate subsidies are inappropriate, ineffective and inefficient. They focus support onto those farms and businesses in EC areas that, on average, have high levels of debt, low levels of liquid assets and low off-farm income.

RECOMMENDATION 6.3

Exceptional Circumstances interest rate subsidies should be terminated, subject to transition arrangements.

Exit packages

Exit packages are often supported as a tool to encourage unviable farmers to leave the industry and to enable expansion by other more efficient producers (chapter 5). They may include an asset-contingent exit grant and support to help the farmer with retraining or transitioning to other employment.

The EC exit package primarily targets smaller farmers with very low asset levels. Consequently, by the end of 2008 there had been a low uptake with only 98 farms (21 per cent of applicants) receiving assistance under the package.

Despite the availability of an exit package to farmers that goes well beyond any support provided to other small businesses who wish to cease trading, the EC exit package for farmers has been almost universally criticised by inquiry participants for its lack of generosity (appendix C). Horticulture Australia Council argues that:

The Exit Grant package has been a fiasco from its inception. There are far too many hurdles and the ‘rewards’ for getting over them minimal. \$150 000 would appear to be a pittance when it is expected that the recipient must relinquish their income, their ambition, their home and sometimes their life’s work ... The grant is taxable. Tenure is a problem. Even though the property owner may be severely affected by the exceptional circumstances, he/she must have owned the property for five years to be

eligible. Those who have sought off-farm work to ride out the current crisis may be found ineligible because they are not contributing significantly to the enterprise. (sub. 66, p. 14)

Similarly, Murraylands Regional Development Board suggests that the program is largely inaccessible:

That farmers need to be almost close to fore-closure before being considered is a perverse approach. (sub. 68, p. 4)

The South Australian Country Women's Association indicated that the number of farmers who wish to leave farming is considerable in some regions:

A recent survey in the Riverland showed up to 60% wish to exit and see no future in irrigated horticulture. (sub. 72, p. 2)

As only 5 farms along the South Australian part of the Murray have received the exit grant (out of 33 applicants), this could support a view that the exit grant is not accessible to those who wish to leave farming and has done little to facilitate adjustment within the industry in times of drought.

To some extent, the effectiveness and uptake of the package may have been reduced by the provision of other forms of business assistance (such as ECIRS, MDB Irrigation Management Grants and Farm Help) which helps to maintain these farms both during drought and more generally. Of those who had received exit assistance by end June 2008, 65 per cent had also received other EC assistance (ECIRS and/or EC relief payment) for an average of 17 months prior to leaving the industry.

However, the effectiveness of the EC exit package is also limited by its failure to address the non-monetary reasons to remain on the farm – the knowledge of farming as an occupation and lack of knowledge of alternatives, lack of formal recognition of skills that are in demand in non-farming occupations, a reluctance to move away from the family home, lifestyle and the community in which the farmer and family have lived. These factors are believed to be major impediments to the effectiveness of exit schemes and mean that financial incentives alone are unlikely to encourage a significant number to leave farming (Botterill 2001).

While there may be some information and social impediments that justify the inclusion of assistance in retraining in exit packages, there is little evidence to suggest that a transition out of farming would not occur just as readily in the absence of exit grants as they are currently structured. There is no clear rationale for why exit grants should be available to the farming sector over other businesses.

There are several other exit packages also currently on offer to farmers. The exit package included in the AFF policy framework includes a Re-establishment Grant

and is very similar to the EC exit package. Its effectiveness is similarly likely to be limited by the current availability of other business and household support that keeps farmers on their farms and its failure to address the non-monetary reasons that delay people from exiting the industry.

To some extent, the non-monetary issues with leaving farming may have been addressed in the new exit grant package for small scale irrigators in Murray Darling Basin — the Small Block Irrigator Exit Grant package, introduced in November 2008. Under this package, the Australian Government will purchase the water entitlements of irrigators on very small blocks of land and in return, the farming family is able to remain on the land in their house, receive an exit grant, and assistance to remediate their land and undertake training (appendix C). As each state in the Murray Darling Basin has now agreed to pre-requisite water reforms, the program is available to all MDB irrigators until 30 June 2009.

While there may be information and social impediments that justify some adjustment assistance to exiting farmers, there is no indication that transition out of farming would not occur just as readily in the absence of exit grants, as currently structured. Provision of special grants to farmers exiting their industry distorts markets and raises inequities with other groups in the community.

RECOMMENDATION 6.4

The Exceptional Circumstances exit package should be terminated, subject to transition arrangements. The Re-establishment grants that are provided under the Australia's Farming Future initiative should similarly end.

RECOMMENDATION 6.5

The appropriateness, effectiveness and efficiency of the Small Block Irrigators Exit Grant package should be evaluated following its conclusion.

Assistance to rural dependent small businesses

A number of inquiry participants considered that assistance should be provided to small businesses impacted by drought. However, the limited evidence available on the uptake of small business assistance programs suggests that they have not been particularly useful in helping small businesses to manage the effects of drought. For example, a study into the effects of drought on small businesses in the New South Wales town of Wee Waa by Spanswick et al. (2008), found that for those who accessed drought support:

... over 50% of businesses who accessed this service did not find it useful ... One business commented that drought relief seemed to offer no benefit to well run businesses that were doing it tough. (Spanswick et al. 2008, p. 3)

Most of the reasoning provided by inquiry participants regarding small business assistance is based on the notion that governments should provide support to rural communities in order to maintain their functioning and social fabric and to resist external factors inducing change. While it is likely that droughts or other exceptional circumstances exacerbate the effects of other broader changes in communities, such objectives rightfully lie outside the focus of the current NDP. Temporary drought assistance is not the appropriate means to address these underlying long term issues. Indeed, there are many other programs provided by all levels of governments to assist with the development and functioning of rural communities (appendixes B and E) and it is not for this inquiry to assess their effectiveness.

There are also efficiency concerns with providing government assistance to businesses. Unless there is a sound rationale, poorly targeted assistance can distort production and supply decisions and make recipients less responsive to drought conditions.

Arguments for assistance to drought affected small businesses are largely based on a desire to sustain rural communities in the face of underlying and ongoing changes. Drought programs are not the appropriate vehicle to address this issue.

Transport subsidies

Transport subsidies for stock, fodder and water were introduced in a number of states to maintain stock levels and promote animal welfare outcomes (appendix E). Some inquiry participants strongly supported the payments, considering them to be useful in providing farmers with greater flexibility in managing their business in times of drought. For example, as argued by the NSW Farmers Association:

The transport subsidy has been very beneficial to farmers providing valuable assistance to mitigate effects of drought on livestock ... it is felt that the subsidy is assisting farmers to make decisions and supporting the welfare objectives of the subsidy. (sub. 98, p. 20)

However, the effectiveness of these provisions has been questioned by previous reviews of drought policy (chapter 4) and also by those governments that provide this assistance. The Queensland Government (sub. 77) suggested that transaction based subsidies have the potential to alter decision-making by:

-
- encouraging producers to maintain higher stocking levels during drought (potentially to the detriment of the environment and those farmers who might otherwise purchase stock or provide agistment)
 - encouraging the maintenance of stock through agistment whereas it may have been better to dispose of stock
 - encouraging the purchase of fodder and other inputs during drought rather than building fodder storages
 - increasing the demand for fodder during droughts which provides benefits to fodder producers and those who supply fodder transport, but has a detrimental effect on other industries and producers in other states that do not receive the subsidies

In addition, the New South Wales Government suggested that such payments could have a longer term impact on sustainable production through creating permanent changes to production decisions (sub. 90). These comments were also echoed by the South Australian Government (sub. 91). Further, whether such payments provide material gains to those farmers who take advantage of them is also questionable. The New South Wales Government suggested that it is likely that such payments are capitalised into the cost of transport services and fodder (sub. 90).

The views of the state governments were also supported by the Australian Dairy Industry Council:

... transport subsidies in EC areas – the result was increased feed and transport costs in areas that were not EC declared but still drought affected. (sub. 58, p. 6)

Australian Pork Limited similarly stated that:

Certain forms of state assistance such as transport subsidies create perverse outcomes for pork producers. Current fodder and feed grain freight subsidies only serve to increase the price of grain to the extent of the freight subsidy conferring little or no benefit to pork producers in drought areas. (sub. DR155, p. 9)

Rural Directions further argued that:

Where these [transport subsidies] are provided, they lead to all sorts of rorts:

- Hay or grain prices increase to the level of the freight or fodder subsidies
- Hay or grain may be ‘resold’ with extra freight paid
- Hay and grain are sold interstate because prices are higher. This either pushes up prices in the state of origin or leads to an artificial shortage. (sub. 35, p. 4)

In terms of the NDP objectives, these subsidies do not encourage producers to become more self-reliant. Rather, payments may encourage producers to be less reactive to changes in climatic conditions and thereby be more exposed to climate risks. Transport subsidies are also likely to work against the objective of

maintaining and protecting the environmental resource base during droughts. By encouraging producers to hold onto stock there is an increased potential for environmental degradation through effects such as increased soil erosion.

Despite criticism amongst farming groups and by state government departments, and previous agreements by governments to remove transport subsidies (for example, Agricultural Council of Australia and New Zealand 1992), the subsidies continue to be available to farmers in New South Wales, Queensland and the Northern Territory.

Transport subsidies encourage producers to maintain higher stocking levels during drought and potentially lead to environmental degradation. They reduce incentives to store fodder in preparation for drought and thereby increase its demand during droughts. While this benefits fodder producers, it has detrimental effects on other industries and producers in other states who do not receive the subsidies.

RECOMMENDATION 6.6

States and territories should, as previously agreed, terminate transactions-based subsidies.

6.6 Evaluation of preparedness and advice programs

Farm business assistance measures that are not triggered by drought exist for a range of purposes including to encourage greater self-reliance, to build up the skills and knowledge of farm owners and workers to prepare them to deal with factors such as income volatility, and to facilitate long term productivity improvements and structural adjustment. The extent to which these purposes are met is considered in the evaluation of these programs, along with the effectiveness and efficiency of each program. Details on the programs for business support are provided in appendix D.

Farm management deposits

The Farm Management Deposit (FMD) scheme is a relatively effective form of assistance for primary producers that potentially assists in building a self-reliant platform for drought preparedness through incentives to maintain financial reserves. This assessment is consistent with earlier reviews of FMDs. The FMD 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).

The scheme is effectively provided, largely through the commercial sector, with minimal input from governments. Importantly, availability of the scheme is not dependent on drought declaration, location or farm type. Of course, FMDs are not useful to farmers who are unviable, nor to new farmers who are impacted by drought before they are able to generate a cash surplus.

One of the main criticisms of the current FMD scheme by inquiry participants was its inaccessibility to those with farms operating under a company or trust structure. However Rodriguez, Watson and Mues (2006) reported that the eligibility restrictions on business structure and off-farm income levels prevented only a small number of farmers using FMDs. The Commission considers that the business structure under which farms operate is a management choice which should take into consideration the overall comparative advantages and disadvantages of operating as a sole trader, partnership, trust or company. While some of these possible structures afford greater ease of access to the tax deferral and tax saving advantages of FMDs, other business structures may offer the potential for lower business tax rates more generally.

Although a major reason for using FMDs appears to be for tax management purposes, the scheme has also been an effective risk management tool for farmers during the latest drought (Rodriguez, Watson and Mues 2006). For livestock enterprises, a pattern of increasing FMD deposits during a drought is likely to be driven by destocking and is indicative of the scheme being used for risk management purposes. For grain farmers, it appears that FMDs have been drawn down in recent years, coincident with poor or failed crops and higher input prices for fuel and fertilizer. 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. Rodriguez, Watson and Mues (2006) reports that farms with FMDs, on average, received significantly less other government assistance.

The FMD scheme may make it rational for farmers to simultaneously borrow funds and place business income in FMDs (in effect, achieving an arbitrage). While this may be a somewhat perverse incentive, FMDs generally do not generate the distortionary outcomes for production decisions that are characteristic of other government business assistance (such as interest rate and transport subsidies). They are also unlikely to involve high administration costs and do not require the government to make assessments of farm viability or performance. FMDs are therefore likely to be a more efficient means of encouraging financial self-reliance than some other measures.

FMDs have encouraged some farmers to save during periods of higher income. While they are mainly used for tax management purposes, they appear to also offer a means for achieving increased self-reliance.

Grants for training and advice

Grants for training and advice are a common form of government assistance provided to farmers, both during drought and at other times (chapter 8 and appendix D). At the Commonwealth Government level, training and advice have been facilitated through:

- FarmBis — offered a partial subsidy for approved training activities. This program has now concluded but further discussion on its features is included in chapter 8.
- FarmReady — provides grants for training with approved providers to help farmers deal with the effects of climate change. Receipt of the grant is not related to income or farm financial position. The program was announced in July 2008 but was not fully operational until early 2009.
- Farm Help Advice and Training Grants — available to obtain advice, undertake training and purchase appropriate computer software to diversify and improve management. Receipt of a grant requires an initial advice session and development of a plan to improve financial position. This program ends on 30 April 2009 and will not be evaluated here.
- Climate Change Adjustment Program Advice and Training Grants — followed on from Farm Help to enable farmers to receive advice and training from recognised professional advisers and registered training organisations. Receipt of the grant requires an assessment of farm financial position. The program is available up until December 2011, but there is little information on recipients of these grants in this, the program's first year of operation.
- Professional Advice and Planning Grants (PAPG) — available from October 2006 to June 2009 to enable farm businesses affected by drought to obtain professional advice to aid in drought management and recovery. Receipt of the grant requires an assessment of farm viability.

Grants which are aimed at a training or educational outcome, such as those under FarmBis and FarmReady, may be appropriate for governments to fund, to the extent that they are well targeted and provide ongoing benefits to the broader community.

Grants for training that are well targeted, area appropriate and have an educational outcome may provide social benefits and be worthwhile.

The rationale for government intervention through planning and advice style grants is more limited. The benefits from advice provided by consultants are largely private in nature, with few community wide benefits, so a farmer should invest optimally in consultancy services on the basis of the return that these will generate for their business. That said, it is possible that there is a lack of awareness of advice available, a dearth of independent and objective sources for advice, or limited understanding of the benefits that such advice can provide.

PAPG is broadly consistent with the objectives of the NDP and is likely to have been effective in helping some farmers undertake private planning activities, such as developing a drought management plan, or gaining advice on income diversification into revenue producing off-farm assets. However, the effectiveness of the scheme may have been limited by: a requirement that applicants must be in an EC area to be eligible for the grants; the need for a farm viability assessment; increases in consultant fees to the level of the grant; and the availability of more generous and fungible assistance measures (EC interest rate subsidies). Further, it is not clear that funding of this type of advice by government to individual farmers has generated community wide benefits. While initial use of PAPG was quite low, there has been a considerable increase in its use more recently, with over half of the total funds under the scheme distributed in the second half of 2008 (appendix D). In line with other EC programs, PAPG may continue beyond 30 June 2009 for current recipients in areas that remain EC declared (Primary Industries Ministerial Forum 2008b).

Government provision of support for financial or farming advice to farmers is only appropriate in those areas for which there are community wide benefits.

RECOMMENDATION 6.7

Exceptional Circumstances professional advice and planning grants should be terminated, subject to transition arrangements.

Grants for the provision of counselling services

The Rural Financial Counselling Service (RFCS) program provides grants to state and regional organisations who offer free and impartial financial guidance for farmers and rural small businesses in financial difficulty. Commonwealth and State Governments have committed funding for the service until 30 June 2011.

While not a drought specific program, the objectives of the RFCS are not inconsistent with the NDP objectives. Counsellors funded under the program can assist farmers to adopt self-reliant approaches, facilitate access to advice from other agencies and help farmers to understand their financial position and long term

options for viability. In recognition of this, the TIS program uses rural financial counsellors to case manage those farmers who have uncertain prospects for viability in the future.

The RFCS is a popular scheme and the counselling services funded under the program were considered to be effective 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 New South Wales 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)

The Coonamble Shire Council reported that

During drought, RFCs provide an easily accessible, independent source of information, support and referral for people experiencing high levels of stress. They have a thorough understanding of financial and personal options, other specialist sources of support, and are the ‘frontline’ in drought assistance. (sub. 63, p. 8)

However, there are potential issues that can reduce the effectiveness of the 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 (appendix D). But it appears some issues remain. With only 120 counsellors, gaps in coverage remain. There also appears to be a relatively high retention rate of existing clients, although in some cases this may be due to a previous client seeking assistance for a new issue some years later. Expansion of the service in the last two years has also resulted in substantial numbers of new clients. It is likely that the effectiveness of the service diminishes over time for regular clients. The effectiveness of the scheme is also affected by cross-over and duplication between the RFCS and other services that are available.

As with grants for advice, the largely private benefits from financial counselling services mean that the rationale for government intervention is relatively weak. However, it appears from inquiry submissions that the RFCS program potentially has a useful, objective role in facilitating the provision of financial guidance in communities.

Financial counselling services also facilitate a flow of information in communities and should act as a referral point for other services. To the extent that these benefits eventuate, government funding of the RFCS could provide net social benefits, including greater social cohesion. However, to maximise the effectiveness of the RFCS program, the financial counselling services need to be responsive and educational for farmers, and clients should be referred on to other services as soon as needs are identified.

The RFCS program enables financial counselling services in rural areas to facilitate a flow of information and act as referral points for other services.

Murray-Darling Basin Irrigation Management Grant

The Irrigation Management Grant is a popular program with irrigators as it is relatively generous, and is largely unrestricted in its eligibility and use. It is not, however, an appropriate or efficient use of public funds.

In contrast to investments in human capital (through education and training), there would seem to be no information or rural financial market constraints that prevent irrigators (or any other farmer) from undertaking financially worthwhile infrastructure improvements.

There could be community wide issues with respect to water use efficiency that justify government intervention. However, the grant does not address these. Rather, the primary focus of the grant is to assist in improving on-farm water use efficiency — that is, it may assist farmers in maintaining productivity in the face of lower water availability and in increasing the commercial returns from their water allocation. The benefits of this will be largely captured by individual farmers; any broader regional consequences would be affected by the location of a particular irrigator. However, these regional consequences could be negative — for example, where increased on-farm efficiency reduces ground water recharge and the return flows into rivers (Productivity Commission 2006).

As for most other forms of business assistance, the Irrigation Management Grant has the effect of keeping businesses operating in their current location, rewarding those irrigators who have not acted early to update their infrastructure, and may delay long term decisions such as exit from the industry or sale of water entitlements, and thereby increase the costs of eventual adjustment in the industry. In particular, public investment in irrigation infrastructure which precedes the implementation of a water buy-back scheme could be expected to increase the cost of purchased water. The Irrigation Management Grant is also contrary to government water policy for greater use of water markets to bring about

adjustments in the location of water use. Payments under the grant are due to conclude on 30 June 2009.

There is no indication that farmers are impeded in undertaking financially worthwhile irrigation infrastructure projects, nor is it clear that the off-farm environmental consequences from such investments are more beneficial than harmful. Government support to farmers in the form of Irrigation Management Grants is therefore not considered appropriate.

RECOMMENDATION 6.8

The Murray-Darling Basin Irrigation Management Grants program should conclude, as scheduled, on 30 June 2009.