

RESPONSES TO NATIONAL DROUGHT POLICY REVIEW: PRODUCTIVITY COMMISSION

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NOTE:

Where possible, give evidence to support views, such as data and documentation.

Rationales for government drought support

Which are the more important rationales for government intervention during severe drought? Are these the same rationales for intervention in other severe events?

Definition – Severe drought = drought conditions (< decile 3 rainfall) for more than 2 years

- ▶ Is the drought an abnormal low or is this normal for the district
- ▶ Assessment of current and future viability – Is the business likely to recover in the future?
- ▶ What will be the impact on community and how can appropriate support be provided?
- ▶ What level of support needs to be provided for signposting to relevant authorities (forms, financial assistance, exit options etc)
- ▶ How can support be provided for immediate cashflow issues

I think that these are different for severe events that are due to “one off” occurrences (eg a bushfire, hail). For other severe events (eg frost) that are likely to recur over time, I think that the rationale is similar.

What is your understanding of the meanings of preparedness and self reliance?

Preparedness is related to a businesses attitude to future risk. Are funds held in FMDs or similar ? (does the business have the capacity to generate these surplus funds?). Is debt maintained in balance with normal business income? Are stock water and feed supplies adequate should there be a seasonal dip?

Self reliance relates to the businesses view on “who is responsible in bad time?”

Impediments to greater self reliance and preparedness

Unfortunately I think that current policy prejudices against people who demonstrate preparedness and self reliance in favour of those people who don't. For example, people who show initiative and go out and get employment can be deemed to earn more income off-farm than on-farm (particularly when farm production is down due to drought) and therefore ineligible for some forms of support.

What have been the lessons learned from the last drought and what strategies are farmers now adopting in response to those lessons?

- ▶ Importance of livestock (especially sheep) as a diversified enterprise
- ▶ Move away from high input, high risk crops (canola, grain legumes) in favour of other options (hay).
- ▶ Value of direct drilling systems due to reduced evaporation and improved water use efficiency.
- ▶ Use of stock containment areas for holding stock.
- ▶ Value of having some investments (shares, FMDs etc) that can be liquidated to provide finance for operating costs.
- ▶ Value of taking stock during the drought – There are some sad examples where farmers have got caught in the “feed-feed” cycle and had huge blow-outs in overdraft as a result. If farmers had a better concept of “stop-go” or “stop loss” points, this would assist in preventing this from occurring.

What are the impediments to individual farmers, farm businesses, farm dependent rural small businesses and rural communities becoming sufficiently self reliant to withstand severe drought events?

- ▶ Lack of scale of business – Having insufficient turnover to build some fat.
- ▶ Ineffective tax management in good income years.
- ▶ Be able generate sufficient reserves for the run of poor seasons.
- ▶ Adjusting to the changing rainfall/climate cycle.

Are assistance measures effective and efficient in severe drought?

Policy design

In general, do current drought support programs provide an incentive for farmers, farm businesses and farm dependent rural small businesses to become more self reliant and adopt strategies that better prepare them for instances of severe drought? Do they do the opposite?

- ▶ Poor business practice tends to be rewarded whilst better business practice misses out. Many of current policies seem to reward businesses that don't manage well.
- ▶ Training – A lot is operational focused not strategic, financial planning, risk management.
- ▶ Doesn't seem to be a coherent package of interventions that link together. Some programs cross over and others leave gaps.

There needs to be some judgement made about a farmer's capacity for future success:

- ▶ Management capacity – Knowledge, skills, attitudes
- ▶ Business capacity – Scale (turnover, net worth), debt relative to income, reliability of business over time (rainfall, markets)

To what extent do drought support policies prevent the development of market responses to manage drought risk? For example, have drought policies impeded the development of weather insurance or other weather derivative markets?

- ▶ Impede free market coming into play with respect to land sales and land prices – Adjustment is impeded.
- ▶ It is not only government policies that impact – Bank and other lending institutions policies also impact. Overdrafts that become consolidated as core debt increase debt servicing requirements in poor seasons. Consolidated debt is then supported by interest rate subsidies.
- ▶ FMDs have not been attractive to some people – For others they have not and machinery or land purchase have been used as (blunt) tax mgt mechanisms.

EC declaration process

Is the EC declaration process overly complex, long, non-transparent and open to manipulation? Is the current institutional approach the best and most effective way to achieve declarations of instances of severe droughts of low frequency, timing uncertainty and high consequence? Does the process need to be refined in the context of a changing climate to remain targeted towards such severe droughts?

Do the geographical boundaries used in the EC declaration process unfairly exclude some farmers from relief payments or conversely include some that do not need assistance?

Yes – Need criteria base for businesses rather than zones. EC zones lead to winners and losers along the boundaries – These do not reflect the real position of the businesses.

Does an EC declaration influence behaviour, for example, does the potential for declaration delay the decision to adopt preparedness strategies?

- ▶ Can cause debt to be held in place for longer than normal to “position” for potential assistance.
- ▶ Loans can be seen as “cheap” money after EC interest rate subsidy on prime interest rate and tax benefits on residual.

Does the EC declaration process create incentives for states governments to apply for assistance given the Commonwealth is responsible for most of the funding?

Yes – I think that some applications and approvals have been for “soft” problem areas and have devalued the overall strategy. Whilst much of the country is officially in drought, there are areas that have more resilience than others.

Have expectations of ongoing assistance being created as a result of many regions been declared as experiencing EC for several years?

Yes.

Is a trigger approach, such as an EC declaration, a necessary first step to determine individual eligibility for drought relief? Could assistance be delivered on the basis of individual circumstances without an EC declaration? What administrative efficiency issues does this raise?

Business support measures

How effective have EC interest rate subsidies been in improving the survival of farm businesses and farm dependent rural small businesses? How are farm business decisions altered by EC interest rate subsidies? Do the current eligibility requirements create adverse outcomes, for example, by creating a disincentive for farming households to seek off-farm income? Would support based on business attributes other than debt be more effective?

- ▶ EC interest rate subsidies have not been effective in improving the survival of farm businesses and farm dependant rural small businesses.
- ▶ Business plans are highly valued by some businesses (20%), moderately valued by others (40%) and not valued at all by the remainder (40%). Ironically, it is the remainder (40%) that need them most of all.
- ▶ There needs to be a “sharper” assessment of capacity (thinking and skills) and viability (business and finance indicators)

To what extent have farmers benefitted from other input (fodder, transport, rates and other transaction based) subsidies? Have the benefits gone to farmers or to others in the marketing chain, including financiers and farm input suppliers? Do such subsidies encourage poor farm management practices, such as maintaining excessive stocking levels?

Where these are provided, they lead to all sorts of vorts:

- ▶ 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.

What role do farm financial counsellors play in guiding farm business decision making prior to, during and following drought? How effective is their advice compared to that from other sources?

Important roles in form filling, emotional support, collating information, signposting. These are all essential services for businesses under stress.

Should governments have structural adjustment policies which are triggered by severe drought? Why is there little use of current exit programs? Do severe droughts lead to an increase in exit from the industry? If not, why not?

Structural adjustment policies should be triggered before, during and after droughts. Banks, consultants and rural counsellors have a significant “lead role” to play.

Not a lot of exit due to stigma attached, EC support leading to a “holding pattern” rather than adjustment and bank lending policies seeing businesses eroding more of their true net worth.

If governments want to maintain rural communities, what are the most transparent, effective and efficient policies? What are the effects of incorporating these policies in measures directed to the preparedness for, management of, and recovery from, severe drought?

1. Training and development – Medium and high level but not production. (If you can't do the production stuff by now, should you still be farming?)
2. Recognition of the need for adjustment of some farmers and some areas.
3. Strategies to encourage producers to maintain a certain level of soil cover (eg Western Lands in NSW).

Income support

How effective are drought relief payments in providing a safety net for farming families?

Are the eligibility tests for farm family assistance suitable?

Okay when it is an abnormal downturn. Less effective when they become the norm.

What have been the farm family welfare outcomes from the EC Relief payment? Are they satisfactory and at the level expected? For example, have farm families been able to meet their immediate health and education requirements? If not, what are some of the problems yet to be addressed in this area?

Relief payments have been a big assistance for families in crisis positions.

To what extent, if any, are payments diverted to the farming business and is this a matter for policy concern?

Unsure on this one.

What is the role for government in providing social security-type payments to self employed farmers and rural contractors/businesses during times of drought? Who should be eligible and in what form should payments be made? Should payments be drought dependent or instead based on individual circumstances? Should equity in assets be run down to some minimum level before households are eligible?

This depends on governments views on the need to support these businesses. Given that the number of rural service providers is falling in many areas (population attrition, loss of labour to the mines), preserving current providers would be seen by many farmers as being critical for a future rural industry. However, others could argue that if these service providers were lost, if market forces were strong enough, other providers would start up or move into the area. However, market forces in some areas are low and these would lose providers permanently if no support was provided.

However, the same argument should apply as for the farmers themselves – If short term support strategies become long term “crutch” strategies, then the policy needs to be changed. If climate and the fundamentals of agriculture are changing, then different approaches (adjustment) will be required.

Environmental and natural resource considerations

How can the environmental consequences of severe drought be minimised while providing assistance to farmers? Do current government support measures change these consequences in either a positive or negative way?

- ▶ Destocking policies (supported by relevant NRM organisations) need to be developed and implemented. In the current/recent drought, all authorities seemed to “duck for cover” with respect to making the call that destocking was required in some districts.
- ▶ Incentives for developing stock containment areas – Need to be combined with training/development on the need to monitor costs and benefits and stop:go points.
- ▶ Incentives for maintaining cover can have a positive effect – Incentives need to be at a level that is attractive for farmers.

Interaction between programs

What role do FMDs play in helping farmers prepare for severe drought events? Is there evidence that FMDs are substantially drawn down during a drought? If not, what other ‘needs’ are FMDs fulfilling and is this an intended policy outcome? Do the eligibility criteria of the separate relief payments encourage or discourage the use of FMDs?

Can be useful. For some businesses, the run of poor seasons have exhausted FMD reserves. Crisis point has been delayed but assistance will still be required in the future.

Some large scale “robust” businesses max out on FMDs early on. This can be an issue in providing a buffer in tough times, commensurate with the scale of the business (ie the bigger the business, the bigger the reserves that in needs).

ABARE estimates put FMD levels at 31 March 2008 at \$2,330 M for 41,024 farms. This represents an average level of funds per business at \$57,000 which is too low to provide any effective support for most farming businesses. This obviously reflects the drawdown in accounts that has occurred in previous months and would have been further drawn down for cropping businesses. This level of FMD reserve is critically low and a concern for the future.

One option for FMDs or other incentives would be to “reward” successful businesses in good times so they can better look after themselves in poor times. The rewards system can’t be equal to different businesses but needs to be fair.

In many cases, FMDs have been seen more as a taxation mgt tool than a risk mgt tool. Hence, they have only been attractive in high income years. If they were more attractive (better interest rates; some form of dollar matching by government for funds

held in FMDs??), then there would be higher levels of uptake in average income years as well.

Program Implementation

How has the implementation of drought support policies affected their accessibility and usefulness? Are there impediments to accessing support arrangements? Could support arrangements be delivered in a more efficient manner? For example, are the government institutions responsible for delivery of business and welfare assistance the most appropriate organisations and do state differences add to compliance costs?

What is the time taken and cost incurred by farmers and farm businesses to prepare the necessary documentation and how long does it take to process these applications once submitted?

Without a network of rural counsellors in South Australia, many farmers would not have coped with the amount of paperwork required for different application pathways. This has tied up valuable counsellor time in administrative roles which has reduced the time allowed for other essential counselling services.

Should there be a uniform national approach to drought policy?

It does seem ridiculous that by crossing a State boundary, a completely different set of parameters can apply to something as important as drought intervention. This leads to confusion, potential rorting of systems and difficulty in dealing with landscape and community issues when borders are straddled.

What are the alternatives?

Are there alternatives to the current drought support policy measures that could meet the objectives of the NDP in a more effective and efficient manner, particularly in the face of significant long term climate change? What are the advantages and disadvantages of these alternative approaches?

Training and development

Effective programs in the future need to include the following criteria:

- Don't touch and vanish – Training that allows relationship development between the provider and participants is effective in developing support networks and achieving change. Programs that include aspects of coaching and mentoring can also increase effectiveness.
- If government is committed to ensuring that training and development is available in all areas of primary production, access and equity issues need to be managed.
- FarmBis has done a good job of introducing a wider group of producers to training and development. In the last few years of support, the program moved away from supporting operationally focused training. The focus in the future needs to be more on management of people, enterprises, resources and finances.

Other incentives

Encourage investment beyond machinery and land assets:

- Water storage
- Hay storage
- Grain storage

Other Suggestions