

## **RATIONALES FOR GOVERNMENT DROUGHT SUPPORT**

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

The rationales for government intervention during severe drought need to focus on securing the survival of farm and non-farm small businesses plus community services, networks and infrastructure. It requires recognition of the value and contribution of agriculture as well as non-farm businesses and other regional organizations to the nation as a whole and a commitment to securing the long term viability of Australia's agricultural production and of regional communities.

While the rationale for dealing with drought during and immediately following the crisis is similar to other natural disasters such as flood and fire, the duration of drought and the potential long term effects necessitates a long term view. Government policy and associated initiatives need to delineate between:

- drought survival/crisis support;
- drought recovery; and
- drought preparedness/adaptation to climate change

“Local economic vitality is the key to recovery from most disasters. Recovery needs to be understood in the context of rapidly changing communities, economies, environments and climate. Climatic disasters occur on top of existing trends and stresses, and may exacerbate them – or provide opportunities. Networks are also key – but often do this encouraging cash flow. This means ‘flows’ not assets by themselves ... while assets are being repaired/replaced people will need cash-flow. It is not possible to go back to a pre-disaster state ...we can move forward or backwards. Recovery programs should be developmental rather than remedial.”<sup>1</sup>

The impact of drought does not stop at the farm gate, or even at the businesses who supply farm inputs. Government intervention needs to recognize that all small businesses located in agriculture-reliant regions are impacted by drought. Support should not be restricted to those who supply farm inputs but should apply to those who have suffered substantial downturn due to drought. Drought policy should recognise the impacts of drought on the economy as a whole. Drought assistance is a way of ameliorating the negative effects.

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<sup>1</sup> ‘Do communities recover well from disaster?’ John Handmer, Centre for Risk and Community Safety, Bushfire CRC. 2008.

As we are located in NSW, the absence of comprehensive drought assistance provided by the state government is a factor in all subsequent responses in this document. NSW farmers, small businesses and regional communities are disadvantaged in comparison to other states due to lack of effective assistance at the state level.

*2. What is your understanding of the meanings of preparedness and self-reliance?*

Preparedness and self-reliance relate to the capacity of business to maintain acceptable levels of production and income, as well as preserving and protecting physical, natural and financial assets, during periods of drought. This can also be extended to agriculture-reliant communities in terms of sustaining networks, activities and services that support human and social capital.

Principles of 'preparedness and self-reliance' relate to preventative measures and are difficult to implement in the midst of a natural disaster such as drought. Government should not expect that interest rate subsidies, transport subsidies or household relief payments will enhance preparedness. They are stop-gap measures to assist family and business survival through a crisis.

Factors that contribute to greater preparedness and self-reliance are:

- Diversification – on-farm enterprise, rural economies,
- Business planning and accumulation of financial reserves –
- Risk management strategies for primary producers – seed and fodder storage, water conservation, soil conservation,

Many primary producers and rural small businesses were quite well prepared for drought and able to maintain substantial levels of self-reliance for the first two-three years of drought. It is the unprecedented duration of this current drought, with very little respite, that has led to greater need for government assistance. It will also severely limit the capacity of these businesses to be able to recover, prepare for future crises, and to undertake strategies towards long term adaptation to climate change.

## **IMPEDIMENTS TO GREATER SELF RELIANCE AND PREPAREDNESS**

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

The majority of farmers had sufficient reserves (financial and physical such as stockfeed) for the first year or two of the drought. It is rarely possible to stockpile more than that on farm due to the excessive cost of infrastructure and because farmers need to sell grain/hay for income. Most grain growers in this area had already changed to minimum or no-till practices prior to the commencement of this drought. In 2008, with cost of inputs skyrocketing, a proportion chose to revert to traditional tillage practices to save money.

Most farmers have invested heavily in water storage and distribution (eg. dam desilting, bore capping, tanks, troughs and piping) since the last drought. There has been a definite trend towards crops and crop varieties that are more drought-resistant along with a high take-up of soil and water conservation methods of cropping. In stock production, many operators have moved out of breeding to running cattle or sheep that can be sold off if destocking is required.

Most farmers not carrying high levels of debt have used Farm Management Deposits, tax averaging and other methods during favourable seasons and then drawn heavily on them during drought. Those who have sought to expand their asset and production base through land acquisition between droughts, in order to maximize the scale of their operations, are more inclined to use cash surpluses to reduce debt between droughts.

*4. 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?*

The impact of drought and the capacity to recover and be prepared varies depending on a range of other issues occurring at any point in time. If drought coincides with increasing interest rates, skyrocketing fuel prices and transport costs, rising Australian dollar, falling commodity prices, or sharp increases in other input costs such as chemical and fertilizer the capacity for a business to recover, prepare and remain self-reliant is severely impeded.

Self-reliance for both the agricultural industry and non-farm small business based in regional areas begins with:

- Access to information, technology and extension services to enhance production techniques,
- Access to affordable, local training and advice to improve business planning and financial management.
- Improved incentives, information and advice specific to individual regions on improving both production and environmental outcomes in the face of climate change
- Maintaining skilled workers in regional areas
- Assistance for young, more highly educated people (farmers and non-farm businesses) to enter their chosen industry in regional areas.
- Retaining critical levels of community infrastructure, services and networks to retain human and social capital in regional areas.
- Access to comprehensive, high quality mental and physical health services.
- Profitability of production.

The lack of flexibility in water licensing has diminished the possibility of farmers diversifying from broadacre cropping and stock production into areas such as aquaculture, lot feeding of stock, or intensive horticulture.

## **ARE ASSISTANCE MEASURES EFFECTIVE AND EFFICIENT IN SEVERE DROUGHT?**

### **Policy Design**

*5. 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?*

For those who are eligible to receive them, current drought support measures generally achieve what they have been designed to do, which is to assist families and businesses survive the short-term crisis. They do not act as incentives to become more self reliant nor do they deter businesses from taking measures that better prepare them for instances of severe drought.

In many cases, the eligibility criteria relating to off-farm income and off-farm assets severely damages the capacity of businesses to maintain reserves set aside for retirement, succession, or education of the next generation. This has the effect of keeping older people on the land longer and preventing the entry of a younger skilled workforce into rural industries.

If government wishes to assist businesses (farm and non-farm) and communities to be better prepared and more self-reliant they should direct resources to programs that assist in those areas. See response to the question 4. above.

There is an opportunity for funding already available for environmental purposes through Catchment Management Authorities incentives programs to encourage both environmental and production targets. Farmers are in the business of protecting and enhancing their production assets (soils, water, vegetation) not degrading them. Programs can assist in water and soil conservation, pasture improvement, crop selection, adoption of new technology, business and financial planning. Programs that support a triple-bottom-line result (ecological/economic/social) would be highly beneficial.

*6. 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?*

It is unlikely that weather insurance would ever be able to satisfactorily provide cover for drought.

Many skilled and efficient farmers are prevented from building their holdings to a more viable, and long term sustainable, level by high costs of land purchase compared to potential rate of return (prices received for produce).

The marketplace will not take care of either land costs or commodity prices because:

- other countries subsidise their farmers
- corporates, city and foreign investors are out-competing professional, production-oriented farmers.

### **EC Declaration Process**

*7. 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?*

EC legislation needs to be changed or removed to enable a more responsive intervention. The process by which EC status is determined and the requirement for EC zones to have a certain minimum size or minimum number of producers is problematic as it delays an effective response and creates unsupportable inequities. Drought support should be based on area and level of need with support provided on the basis of individual need.

Drought assistance should be focused on being responsive in times of severe drought. Other programs of assistance should be utilised to ensure farmers and regional small business are able to adapt to a changing climate.

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

Division C of RLPB division (located between Coonamble and Warren) is linked to the Moree and Narrabri areas for the purposes of EC declaration. Division C is geographically separated from Moree and Narrabri and in different rainfall/BOM climatic zones but businesses in that area have been penalised by removal from EC when their drought status had not changed by virtue of Moree and Narrabri receiving rainfall. Because Division C is a small area it is often missed on an NRAC tour.

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

Not known.

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

Farmers would rather have rainfall and decent production outcomes and financial returns than EC subsidies. Most farmers would rather be in a position of paying taxes than calling on welfare assistance. Declaration over a prolonged period certainly heightens the expectation of ongoing assistance and such assistance is necessary to ensure ongoing production. Do we need to be reminded that this drought has been “one of the longest and most extensive periods of low rainfall experienced” with a “short recovery time between low rainfall periods”<sup>2</sup>?

The drought recovery period, with continuing assistance, needs to be longer when the drought itself has been so long. It must be recognized that ongoing assistance needs to be directed towards self-sufficiency and incentives for future funding.

*11. 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?*

A trigger approach with regular monitoring and review through a collaborative effort using the ongoing local knowledge of RLPB, DPI, Shire, RFC and independent scientific representatives eg. BOM, agronomists, CMA would be an acceptable alternative. The trigger should be based on a certain period without minimum level rainfall, and should also take into account the period between drought events.

Individual circumstances should be considered not just on financial downturn but also using information on stock numbers, breeding percentages, crop seed retention for stock or future cropping,  
The recommendation of an NRAC tour cannot

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<sup>2</sup> ‘Perceptions of Drought & Climate Change’, Anthony Hogan, Bureau of Rural Sciences, 2008

## **Business Support Measures**

*12. 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?*

Interest rate subsidies ensure that farm and farm-dependent businesses meet their obligations to financial institutions. It does not assist in meeting the cost of other major recurrent charges such as rates, insurance, or electricity and does not assist towards operational costs.

Interest rate subsidies have not been widely available to businesses who do not supply farm inputs, such as hairdressers, restaurants, sporting clubs, clothing stores despite the fact that they are the first to suffer when money is not available. It also does not provide money to circulate within a community which is needed when seasonally based casual employment is not available.

Eligibility criteria as they relate to off-farm income are severely restrictive, do not promote utilization of skills within a community and are a disincentive for individual farmers. For example, one of the farming partners may be in a position to gain employment in the nearest township that will supplement the farm income, however there are often significant expenses by way of child care and travel costs that make off-farm work an unviable option. Using gross income as the parameter to avoid providing drought funding is just plain wrong!

Many properties are often worked in a partnership between husband and wife and when one of those partners seeks off-farm employment, the other is often left in a dangerous situation of being a sole worker to carry out precarious tasks. Diversification by farmers or farmers who work off-farm in an attempt to drought-proof their properties again often results in drought funding not being forthcoming if the off-farm income becomes the higher percentage of total income and this is a disincentive to such processes.

EC interest rate subsidies are not of a high enough level to have a major effect on farm business decisions such as whether to de-stock or sow a crop or whether to seek off-farm work.

Support based on business attributes as well as debt should be investigated as this might help to assist those who are attempting to improve their business and management strategies and long term viability.

Recovery subsidies or low interest loans are a necessity to regenerating rural communities following severe drought occurrences.

*13. To what extent have farmers benefited 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?*

Some subsidies benefit groups other than farmers and are necessary to allow farming and other regional businesses to continue. These measures are highly useful in maintaining cashflow and aiding drought recovery.

The subsidies are minimal and do not contribute to poor management practices as decisions are based on climatic and market conditions. They assist farmers and businesses to act on their decisions.

*14. 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?*

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.

Resources and staffing provided to RFC offices need to be based on level of need and should be bolstered during periods when workload is heavy, perhaps based on number of monthly client contacts or transactions. Additional training should be available to RFCs to assist them to provide services to their clients beyond the current role of accessing drought assistance and towards improved business management strategies.

To be effective RFCs need to have sound local knowledge and effective professional networks, and this can only be achieved by continuity in the local area. Their advice needs to be available in conjunction with other professionals such as agronomists, accountants, extension officers, small business advisers, financial advisers and retirement/succession planners to achieve sound outcomes.

Farm financial counselor services have generally not been available or have been severely limited during periods of good seasonal conditions. To achieve long term sustainability in farming and regional communities, it is imperative that RFCs continue their role in such times to strengthen farm and non-farm small business.



Recent centralisation of management of RFCs has created an unnecessary and expensive additional layer of administration and practically removed local participation in decision-making relating to RFC services. The management process is not transparent, is unrepresentative and undemocratic, and is siphoning resources away from the 'grassroots' service delivery. Similarly, recent changes to employment packages for RFCs will reduce the capacity to retain experienced counsellors or attract quality applicants. The administration/management of RFCs should be reviewed as a matter of urgency.

*15. 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?*

No. Structural adjustment policies merely remove skilled workers from their areas of expertise and place them in a position of having no skills in a new environment. The policies remove vital skills from regional areas, damage rural industries' capacity to recover after drought and appear to be based on the premise that there is no future in farming. On the contrary, climate change provides significant opportunities for farmers and other businesses in regional areas. Government policy should be focused on skill retention and assisting rural industries to adapt to climate change.

Use of current exit programs is due to the fact that they do not provide sufficient funds to support relocation to areas with greater employment prospects where housing costs are substantially higher.

Severe droughts may lead to an increase in exits from the industry, however, they also often delay industry exits by older people. Severe and extended droughts definitely restrict entry to the industry by young people. The loss of skills to the industry, either by assisted industry exits of skilled farmers or lack of capacity to assist industry entrants, is a serious concern which will affect Australia's production capabilities into the future.

*16. 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?*

Australia needs an effective regional development policy supported by executive government and comprehensive funding aimed at strengthening and diversifying regional communities, industry and business. Funding programs to date have been piecemeal in their efforts as they are not underpinned by a national regional development policy.

Drought policy could effectively be incorporated into a broader Regional Development Policy. This should include both crisis support (eg. Interest subsidies, relief payments etc) as well as drought recovery and preparedness programs by way of enhancing risk management; strengthening infrastructure, services and networks in regional areas that sustain workforce, production and communities; and supporting initiatives that encourage diversification and adaptation to climate change.

## **Income Support**

*17. How effective are drought relief payments in providing a safety net for farming families? Are the eligibility tests for farm family assistance suitable?*

Drought relief payments are effective in providing a safety net for farming families however there should be no exclusion by virtue of an off-farm income by a family member. The level of combined farm and off-farm income that is used by Centrelink to limit eligibility for relief payments is too low. No consideration is given to the cost of travel to work or the cost of childcare for one family member to take up off-farm work. Gross incomes only are used. Similarly, diversification of business processes outside of the farming activity should not preclude genuine farmers from assistance during their time of need, i.e. the farming business should stand alone when assessing eligibility.

Off-farm assets, particularly those that have been purchased as a form of 'superannuation' or as retirement housing, should not be used to restrict eligibility for drought relief payments. The limits on off-farm liquid assets e.g. Shares, term deposits, bonds, FMDs – mean that people who have put aside money for children's education over 10-15 years, and have just begun using this money for boarding school or university are deemed ineligible for drought assistance. People are keeping their kids at home because they need the assistance on farm, can't afford to pay anyone else and to save the cost of boarding schools.

Young farmers who are attempting to gain entry into the industry by leasing country have off-farm employment to help gain a foothold. This makes them ineligible for government support in two ways (1) they must have been a farmer for 2 years (2) 75% of labour must be put into farming – often impossible in the past 8-10 years. Agstart funding is having a limited impact and needs an overhaul. Maximum support available is too small to be of real assistance for instance if you are needing to pay \$200,000 stamp duty alone. Guidelines are vague, and there is no pro forma to assist applicants. Agstart funding comes in funding rounds so is not always available when needed.

In drought declared areas relief payments should also be available to non-farm small businesses, even those who do not directly supply farm inputs, as a matter of course providing they can meet other criteria in terms of business downturn.

*18. 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?*

Outcomes from farm family welfare are seen to be the continuance of child education, child activities and the provision of basic needs for the family group. It is considered that farm families have been able to meet their immediate health and education requirements albeit at a basic level.

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

The use of payments for any purpose should not be a matter for policy concern.

*20. 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?*

Government provides social security type payments for all and sundry across every area of potential employment and should not exclude self-funded farmers or rural contractors and small non-farm businesses in drought affected areas when income levels are non-existent or below survival levels. Should be more flexibility in regards to non-liquid off-farm assets held, and for individuals beyond retirement age who need to protect their superannuation investment.

To keep the country's farming assets safe and viable until the weather turns. So that agriculture can continue to feed us and the world.

## **Environmental and natural resource management considerations.**

*21. 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?*

Environmental consequences of severe drought are a natural phenomenon and farmers, being caretakers of the land, take every measure available to mitigate the effects. Good farming practices result in good environmental outcomes. Farmers will de-stock, not sow crops, and take other measures to protect their most vital business asset, which is the land (soil, water, vegetation). Support to farmers by government ensures a continuance of environmentally responsible practices that enhance recovery processes.

## **Interactions between programs.**

*22. 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?*

Farmers from this area do utilize FMDs as a tool to prepare for severe drought events. During those events the FMDs are drawn down and there appears to be little evidence of their existence in this area at present due to the duration of the current drought. In this area only 10% - 15% of farmers are in a position to utilize FMDs and it would appear that over 90% of FMDs have been in the hands of the top ten producers.

Separate relief payments are normally in the form of a very small day-to-day living expense and, as such, do not relate to the running of a rural property.

See also response to question 4.

## **Program Implementation**

*23. 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?*

Restrictive eligibility criteria for small businesses has prevented them seeking and gaining assistance. The requirement of a direct link to farm businesses has been eased recently, however the assistance has come too little too late for many small businesses in regional communities. The delivery of assistance to all drought-affected businesses would be more efficiently delivered by one overarching organization throughout Australia with the state policies being assessed by that body. NSW drought assistance has been poorly funded and does not provide sufficient scope to assist drought recovery.

*24. 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?*

Because of the length of drought, people are becoming more self-reliant in preparing applications. If professional accounting services are utilised for this function the cost sometimes run into thousands of dollars, which is on top of the cost of having annual financial statements prepared can be up to \$5000. Together the cost can act as a deterrent to seeking support. Rural Financial Counsellors are an effective source of assistance in preparing and compiling documentation.

*25. Should there be a uniform national approach to drought policy?*

Yes.

### **What are the alternatives?**

*26. 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?*

Alternatives to the current drought support policy measures should be based in a comprehensive Regional Development Policy with the Drought Policy component to focus on supporting families and businesses during and for a sufficient period following the drought crisis. Investment in programs assisting and encouraging regional industries to adapt to long term climate change should also be included and their successful implementation will ensure greater preparedness for drought and an increased level of self-reliance into the future.

Key elements for the development of rural industries are:

- Research and Development
- responsive Financial Assistance during and following drought,
- proactive Financial Incentives for those preparing for climate risks and the shift to new enterprises and approaches to manage and capitalise upon long term climate change.

**Research and development** towards adapting production to changing climate is vital. Along with government, farmers contribute significant funds and expertise to R&D via levies and participation in trials and other programs. Results of R&D need to be delivered back to primary producers in a timely, affordable and accessible manner so that knowledge can be quickly incorporated into production processes, enhancing self-reliance. The best means to deliver results and promote widespread adoption should be investigated. Information should be accompanied by extension advice and incentives for implementing strategies that have a proven triple-bottom-line. In NSW the opposite has occurred, with extension services to primary producers stripped to bare minimum in recent years.

In terms of **drought support**, incorporating a flexible range of assistance options offers the most value for sustaining families, farms, small business and regional communities during drought. Useful components for drought support phase should include:

- Interest rate subsidies for farms and locally owned small businesses in drought declared areas
- Rebates on council and rural lands board rates.
- Income support payments
- Freight subsidies
- Succession planning
- Physical and mental health services
- Assistance to improve on-farm/small business financial and business management tracking systems and skills eg. Hardware, software + training
- Traineeships and other staff retention initiatives for farms and locally owned small businesses in drought declared areas
- Grants to existing local community organisations for social services and community activities.

A range of options for the drought recovery phase should include some of the above plus:

- Concessional loans for operational inputs
- Additional extension for decision support
- Mortgage stamp duty relief program
- Financial advice and business planning support

Note:

The proposed approach of providing 'an expanded FMD scheme' to so-called 'viable farms' and social security payments to households operating 'non-viable' farms is a ridiculous proposal as each mechanism serves a different purpose and determining 'viability' during drought is fundamentally flawed. FMDs are a tax minimisation tool as well as providing accessible cash reserves, whereas social security payments should be available to all citizens when the necessity arises.

Viability is a time specific concept. Long term viable farmers who have sought to expand their asset and production base through land acquisition, to maximize the scale of their operations or as part of their succession planning, could by virtue of their increased debt be assessed as non-viable if drought occurs. This would be exacerbated if the drought coincides with other cost factors, for example, increasing interest rates, skyrocketing fuel prices and transport costs, rising Australian dollar, falling commodity prices, or sharp increases in other input costs such as chemical and fertilizer.

**ATTACHMENT: FINAL REPORT FROM 'GETTING ON WITH BUSINESS' 2003.**