

## **Establishing the Rural Development Bank of Australia (RDBA)**

A submission to the Agricultural Competitiveness Issues Paper  
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### **Background**

Government reaction to drought seems to be much the same from one event to the next. Once the images confirm that a drought does in fact exist, there's a rush of public meetings; then comes grave reminders of what didn't work last time and ultimately a 'package' is offered to give the impression that the government really cares. Despite the inevitability of drought, and from now-on various manifestations of climate change, the Federal Government has never reacted in a way that looks strategic, authoritative or substantive. By the time some sort of government intervention becomes politically unavoidable, the options are reduced to 'emergency relief' to alleviate deep financial and emotional stress, animal cruelty and even hard-core poverty.

In the past, government drought assistance has been triggered by 'drought declarations'. These declarations apply to geographic areas or individual farms exhibiting the symptoms of drought and allow those eligible within the declared area to access various concessions. This approach is considered by many to be too *ad hoc*. In the *Agricultural Competitiveness Issues Paper* (Feb 2014) it is proposed that farmers and the government should:

Prepare for and manage the effects of drought and other challenges without the need for formal drought declarations. The replacement strategy would comprise a package of measures including:

1. Farm household support payments
2. Farm Management Deposits (already up and working)
3. National approach to Farm Business Training
4. Social support services
5. Tools and technologies to inform farmer decision making

We would remove 3 and 5 from the above package because they are either happening already or would contribute insignificantly to a national drought strategy. This leaves the package with little more than safety-net measures that are available to all Australians in one form or another. To respond proportionately to the challenge, the Federal Government should imbed its drought management strategy within a dedicated rural bank that acts through a prescribed policy framework. Apart from providing risk-mitigating investment finance, this bank would become the vehicle for transforming national farm policy into programs that bring about enlightened change. In addition, the bank could administer 1, 2 and 4 of the measures proposed in the Issues Paper, and any other specific measures deemed to complement the overall strategy. The remainder of this submission is devoted to making the case for a dedicated rural bank.

### **Introduction**

This submission argues that Australia should have a specialised rural bank that develops and implements innovative policy reforms. One of the bank's key instruments would be innovative financial products. These products would be designed to expedite structural adjustment among farms across the length and breadth of the country. The loans would have at least three defining features:

1. They would be targeted at serious, well managed family owned businesses with a long term future in agriculture
2. Actual loans would be invested in substantial structural changes designed to improve the long term resilience and viability of family owned farm businesses

3. The loans would be supplemented by personalised, independent advice supplied by an 'army' of appropriately skilled volunteers, operating with considerable autonomy but otherwise under the command of the bank's management. The new bank would seek the active involvement by financial management professionals, preferably with some knowledge of farming, who would give their time voluntarily as an act of goodwill designed to strengthen understanding and empathy between urban and rural Australia.

The bank's financial products would not replace the overdraft-type facilities offered by existing banks. Ultimately, the new bank would fill a gap in the market; it would be revolutionary and ongoing, thereby providing proof of the government's endeavour to make farmers more self-reliant and financially robust in the face of climatic and market volatility.

A dedicated rural bank would expedite structural adjustment and in the process make farms and farmers more impact resistant; this should effectively reduce the long term average cost of drought and other adverse events. But it would not remove the need to give some farmers welfare-type assistance in dire circumstances. Various safety nets will still be needed because not all farmers are positioned to take up the challenges of accelerated innovation and adjustment and as such would probably not be clients of a special purpose bank.

Our submission is limited to conceptualising why and how the bank would be established and operated; hopefully this will be enough to kick-start scrutiny at a committee level. If the concept gets general support, it should be made the subject of a professional study. The ideas espoused below should allow the development of a terms of reference, upon which a comprehensive study could be based.

### **Creation of a new bank**

It is recommended that the federal government establish a special purpose bank called the Rural Development Bank of Australia (RDBA). The Federal Government would own and manage RDBA according to a highly imaginative constitution designed to make farm businesses more resistant to the periodic climatic and financial impacts that afflict Australian agriculture.

The mission statement of RDBA might be along the following lines:

*To expedite widespread, innovative adjustments within, between and outside Australian farm businesses for the purpose of making them more resistant to the threats posed by severe drought, rising costs and market dynamics and subsequently make them more sustainable and prosperous.*

Thus RDBA would formulate and market financial products designed to:

- Proactively assist individual farm businesses to implement drought mitigation strategies by offering them tailored, cost effective loans
- Positively promote and assist structural adjustments that will make family owned farm businesses more resistant to drought and other periodic stressors
- Develop stronger links between farmers and professional people by requesting that the latter become involved on a *pro bono* basis – these people would provide telephone, internet and face-to-face consultation and counselling for the purpose of helping farmer applicants understand the RDBA products and systems and use them to maximum advantage.

Below we outline concepts relevant to establishing a national rural bank. The outline should help people envisage what would make this bank different and how it would be established and operated in practice.

## Concepts and explanations

*Justification:* Australia has a competitive advantage in agriculture. This means our agricultural sector is efficient by international standards and is not going to suddenly collapse because of high wages, a high dollar or a small domestic market; it will survive as an industry, no matter what. The competitive advantage stems from the high incidence of family owned and operated farms in combination with scale, preparedness to innovate and acceptance of constant change. Many independent husband and wife teams typically apply a plethora of physical, emotional and scholastic skills (eg, land development and maintenance, livestock husbandry, agronomy, farm mechanics, accounting, internet searching, off-farm investing and succession planning) to large inputs of land and capital. But such herculean efforts are not always supported by the capital market. Australia's mainstream banks are overtly commercial and tend not to devote sufficient resources to niche markets – such as reconstruction-type investments that will make farm businesses more resilient in the face of drought and extreme market volatility. Neither are the mainstream banks positioned to deliver independent advice within the context of a national farm policy. Further, many farmers often don't have the time or analytical skills to assess the economics of long term, strategic investments. RDBA would confront these weaknesses by offering packages that combine good value, targeted financing with expert assistance, and in the process remove a market failure that is holding back the nation's farmers.

*The nature of drought:* In autumn 2014, severe drought is still gripping much of eastern Australia and there are calls to treat its victims the same as those hit by a flood or a bushfire; in other words, give them cash handouts to more-or-less compensate for their sudden and unforeseen losses. While the 'politics of catastrophe' should always leave the door open to 'splashes of cash', this is not a logical or appropriate response to managing recurrent drought. To start with, droughts have ill-defined start and end points and vary in intensity across space and between farms. Moreover, their critical impact can be heightened or reduced by economic circumstances immediately preceding the actual drought event. In terms of its financial impacts, the 2012-14 drought was made worse by such preceding events as the GFC, the 2011 floods, the livestock exports suspension event (June 2011) and the strong Australian dollar. In any event, the best way to mitigate the effects of drought is to plan ahead. In this case, the role of government is to assist with the planning effort. Intervention of this type can be justified in terms of cost effectiveness (a stitch in time saves nine) equity (farmers should be included in Australia's commitment to competitiveness as well as to social justice) and posterity (while no-one knows for sure, food security is widely considered a big issue going forward). To sum up, Australia should have tangible policies and delivery systems for mitigating the impacts of drought and other nasty dynamics that periodically inflict great stresses upon agriculture and farm families. This would not be done to save a national icon or jobs, it would be done to remove a barrier to fundamental economic efficiency. Quite simply, government intervention is needed to hasten the rate, reach and efficacy of within, between and outward farm adjustment.

*A focus on viable family farms:* In this country, farm ownership is open to anyone and everyone. As a consequence, many farms are not serious commercial businesses. At the other extreme, an increasing number of international corporations are buying into Australian agriculture, some because they are worried about long term food security. It is proposed that RDBA focus its resources on family owned farms (whether they trade as companies, partnership or whatever) with a long term commitment to commercial success from agricultural production. We believe that this focus would be acceptable to the Australian public and would have the greatest likelihood of achieving the stated objectives of RDBA.

*Delivery mechanisms:* It is envisaged that RDBA would be hi-tech; in all likelihood it would not have a shop-front like mainstream banks, thus reducing its operating costs. To the maximum extent possible, loans would be initiated and managed via the internet from head office. However, local person-to-person consultation would be made available to farmers wanting to deal with RDBA. It is proposed that the professional assistance provided to farmer clients would be free-of-charge. Thus an elite cadre of advisors (known as 'associates') would offer their services in exchange for

expenses and the flexibility to nominate the time and place of meetings. We'd like to think that meaningful and enduring bonds would develop between associates and their counterparts. RDBA would indemnify its associates from any adverse commercial consequences of giving advice to RDBA clients.

*Commercial basis:* It would not be the intension of RDBA to undermine the competitiveness of other banks and existing farm consultants. However, RDBA would use its low-cost, high service advantages to positively attract a segment of the market that fits-in with its policy objectives. This means that most of its loans would be targeted at large scale, structural adjustment for the purpose of making the client business more cost efficient (and therefore viable) over the long term. Farm businesses would assess their eligibility to apply against criteria specified by RDBA management.

*Governance of RDBA:* Since the bank will be an invention of government it should be based in Canberra and reside close to the seat of power. RDBA would be governed by people who are passionate and knowledgeable about Australian agriculture. Accordingly, its board members and executive managers would be drawn from peak farmer bodies, the banking and legal fraternity, academia and government. In exchange for expenses, these people would give their time and expertise to making the Australian family farm more respected, sustainable and viable. Among other things, the Board would:

- Establish and maintain lines of communication between interested politicians, state and federal government agencies, farmers groups and related stakeholders, community leaders and assorted benefactors and grassroots farmers
- Oversight the development of the bank's operating procedures and systems – also develop policy guidelines and a constitution by which the bank would function
- Commission experts to design financial products that would bring about the on-ground outcomes sought by the bank – the Board could run competitions and offer prizes for the best financial product designs
- Develop a website that would be used for processing applications, administering loans and managing a database; also develop performance standards and routinely monitor these
- Oversight the development of an effective communications network for making contact with farm businesses throughout the country
- Recruit a large number of associates who would volunteer their services as advisors for short periods during the year, thus making professional, personalised consultation one of the key differences (and attractions) of RDBA. Once recruited and profiled, the associate would be inducted into the RDBA advisory system before entering a stand-by list. From time to time they would be teamed-up with a particular client (or counterpart) and then swing into action.

*Establishment and subsidisation:* It is proposed that the Federal Government bear the cost of establishing RDBA and then provide it with enough foundation capital to commence operations. Interest would be paid on this capital and after 10 years the government could elect to take back the capital sum or leave it in-place as an overt expression of commitment and ownership. While tax-payer subsidisation of RDBA is not expected to be large, the government could use its stake in the bank to bring about particular policy outcomes that are appropriate to circumstances applying at the time.

**Submission author**

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