

## Senate Standing Committee on Economics

### ANSWERS TO QUESTIONS ON NOTICE

#### Treasury Portfolio

Inquiry into the Access of Small Business to Finance

10 May 2010

#### Question No. 1

##### Senator Xenophon asked:

**Senator XENOPHON**—My final question is about credit provided to the rural sector declining over recent years, even before the global financial crisis. Why do you think that is the case? And will the decline in banks giving finance to that sector of the economy be exacerbated in years to come, given the forecasts of a hotter, drier Murray-Darling Basin?

**CHAIR**—That is a very big question.

**Mr Murphy**—As for rural finance, we all know how important the rural industry is and I think we made some comments on rural finance in the submission.

**Senator XENOPHON**—I am happy for that to be taken on notice. I am concerned that my other colleagues have questions to ask.

##### Answer:

RBA data indicates that loans outstanding to the agricultural sector of less than \$2 million (a proxy for small business loans) have increased by around 7.5 per cent in nominal terms between June 2007 and March 2010. Over the longer term, this data suggests that loans outstanding to the agricultural sector of less than \$2 million approximately doubled in nominal terms between March 2000 and March 2010.

Submissions to the inquiry have stated that rural debt outstanding has increased substantially over the past decade. For example, the National Farmers' Federation (2010) noted in their submission (p.4) that "rural debt has escalated by over 85 per cent since 2002-03 due to drought conditions, placing the agriculture sector at considerable exposure to increasing credit cost."

Lenders take into account the ability to service a debt, as well as the level of collateral, when deciding whether to approve a loan. Consequently, it is necessary that businesses in rural and other sectors have sufficient cashflows to service any loan, as well as sufficient assets to act as collateral. This requirement acts as protection for both borrowers and lenders, and prevents debt levels from escalating to the point where the business must be foreclosed in order to repay the loan.

However, the Government understands that cash flows to rural sector businesses are often volatile, particularly under drought conditions. The Government assists farms and agriculture-dependent small businesses respond to the negative impacts of drought, including in managing their interest burden during periods of reduced income.

- Farmers and agriculture-dependent small businesses experiencing drought may be able to access interest rate subsidies of 50 per cent of the interest on loans for

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the first year of an Exceptional Circumstances declaration, and 80 per cent for second and subsequent years. These subsidies provide recipients with up to \$100,000 per year, and up to \$500,000 over 5 years.

- Drought-affected farmers may also access professional advice and financial planning assistance that helps them develop business plans and identify ways to improve their farm management practices.
- The Government is also piloting a suite of reformed farm support arrangements in Western Australia. These reforms improve the way the Government assists farmers in preparing for all future risks they face, including climate change.