Future Drought Fund Submission

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Disclaimer: *This submission is written in my personal capacity and is made in response to the November 2019 consultation draft of the Drought Resilience Funding Plan 2020-2024 issued by the Australian Department of Agriculture, which invites public feedback.*

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1. INTRODUCTION

"*The Future Drought Fund was established to give drought-prone Australians the best tools to plan and prepare for drought and sustain their livelihoods and communities*."[1]

1.1 Why the Future Drought Fund matters to me: I grew up in a farming family that was hit by a 3-year drought starting the year I was born and then we spent the next 20 years battling through its consequential impacts. We made it through (just) and now my passion is to help other Australian farming families to avoid the devastating mental, financial and personal trauma that droughts have on farming families. I have worked for many agricultural related for-profit and non-profit investments groups and I have seen how investments can succeed or fail. In this submission I want to share some of my experiences and ideas to help those guiding the Drought Fund ensure that it reaches its full potential.

1.2 The purpose of this submission: The announcement of the Drought Fund is a fundamental change in how Australia intends to approach droughts, we can now be proactive and not only reactive. Although the Drought Fund gives us the resources to be proactive, we must be careful to ensure that the Drought Fund resources are carefully invested in the most efficient and effective manner, so that every $1 spent will have the largest possible positive impact, which is the purpose of my submission. My feedback on the draft Drought Fund Funding Plan is intended to make sure that the Drought Fund can be used in ways that I think (based on my personal and professional experience) will give each $1 invested by the Drought Fund the largest and longest-lasting positive effect for Australian families, individuals and communities not just to survive during droughts but to thrive.

1.3 What is the Drought Fund and the Funding Plan? Following the establishment of the $3.9B Future Drought Fund (the **Drought Fund**) on 24 July 2019 , a Future Drought Fund Consultative Committee (the **Committee**) was created and tasked with providing independent expert advice on the proposed draft Drought Resilience Funding Plan 2020 to 2024 (the **Funding Plan**). The Funding Plan will be instrumental in guiding how money from the Drought Fund is used to achieve the objectives of the Drought Fund, as any future investment decisions on specific drought resilience programs and projects must comply with the Funding Plan. Although the Funding Plan is high level and cannot require certain projects or programs to be given funding, it is the framework that guides how the Fund's capital ($100M per year from 1 July 2020) is to be invested during the first four years, until the Funding Plan is reviewed and replaced or renewed. Once the Committee has received public feedback on the draft Funding Plan, it will then advise the Drought Minister on any amendments that should be made to the current draft of the Funding Plan.

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[1] The Hon David Littleproud MP, Minister for Water Resources, Drought, Rural Finance, Natural Disaster and Emergency Management, 17 September 2019, https://minister.agriculture.gov.au/littleproud/media-releases/future-drought-fund-consultative-committee

2. PROPOSED CHANGES TO THE FUNDING PLAN TO INCLUDE IMPACT FUNDS

2.1 The Funding Plan Requires Clarification: In my view, the draft Funding Plan still requires at least two clarifications, as the current draft of Funding Plan appears to prohibit any investments made by the Drought Fund into or alongside other co-investment funds. A co-investment fund that would bring in outside investors money to multiply the impact of the Drought Fund. In particular, the current draft prohibits any investments made by the Drought Fund into opportunities that could result in a profit/commercial gain or any investments made into confidential/patentable technology, even if such investments would have a material public good, drought resilience and positive social impact.

2.2 The Drought Fund cannot support positive impact investment funds: As the Funding Plan is currently drafted, the restrictions on technology investments or those investments for profit or commercial gain, in my view would prohibit (or at a minimum severely limit) the Drought Fund investing into or alongside of investment structures, that have a positive impact on drought resilience or into technology investments that meet the goals of the Funding Plan. For example, there are private industry investment funds or structures that invest equity capital for the positive impact of rural and regional communities, rural and regional businesses, landscapes and farming business, which should be eligible for co-funding or an investment from the Drought Fund. These types of positive impact funds include venture capital funds, social Impact funds, guarantee funds and non-control business growth funds, see section three of this submission. For the avoidance of doubt these positive impact funds do not include Private Equity funds or Farmland funds that buy 51-100% of shares/control in businesses or farms and only seek to maximise financial returns without considering the social or environmental impact.

2.3 Why the Drought Fund should support positive impact investment funds:

2.3.1 **Current Fund Plan allows $100m to be invested for $100m of impact**: If my understanding is correct, i.e. that the Drought Fund is restricted from working with positive impact investment funds, then the Drought Fund will only be permitted to invest $100m each year, as most of these investments will be made as grants, once the money is granted/invested, it will not be reinvested. Therefore each $100m invested by the Drought Fund will be invested once and therefore only have the impact of $100m plus the short and long-term benefits generated by that one-off investment.

2.3.2 **Proposed Changes would allow $100m to be invested for $100m to $2 billion of impact:** Assume that my proposed clarifications set-out below on paragraph 2.4 are included into the final version of the Funding Plan and the Drought Fund is now explicitly permitted to invest into positive impact (for public good by drought resilience) funds. Assume that each year $25m of the $100mn is allocated to be invested by the Drought Fund into these positive impact funds, but only for the first 4 years and then after the first 4 years those funds receive no future investment from the Drought Fund. Now also assume that these positive impact funds receive $3 from private investors for every $1 received from the Drought Fund, i.e. after the first 4 years the impact funds would have received a total of $100m from the Drought Fund and $300mco-investment from private investors. Assume that those impact funds make a real return of 3% (the average return for impact funds is 4-8%) and invest that $400m into projects which mature in 5 years. If the Drought Fund keeps reinvesting the proceeds from those impact funds (the original $100m plus 3% annual profits) over 20 years, the original $100 will be reinvested on average four times (assuming the average investment period is 5 years) and the compounding profits (assuming a 3% net return) will total an additional $75m, so the total impact of the Drought Funds $100m investment, will be more than $500m invested into Drought Fund approved projects over the 20 years. When this is combined with the other private co-investors $300m initial investment, the total combined amount invested by the impact funds over 20 years would be more than $2 billion. Therefore, the potential impact of $25m from the Drought Fund invested each year during the first four years into positive impact funds, could result in a $2B impact by the 20th anniversary of the Drought Fund.

2.4 Proposed Changes

The two paragraphs in the current Funding Plan that may prohibit the Drought Funds ability to invest into or alongside of (and therefore benefit from) positive impact investment funds are Paragraph 2 on page 12 and Paragraph 15 on page 13.

Suggested Change N°1

2.4.1 **Current Wording**: Paragraph 2 on page 12 of the Funding Plan currently states that: "Disbursements from the Fund will: 2) only invest in projects and activities that enhance the public good and deliver significant benefits that can be accessed or shared by many (rather than be captured solely by individual businesses or industries solely for commercial gain)".

2.4.2 **Why Change**? the current wording of Paragraph 2 on page 12 prohibits any funding from being used for "commercial gain". As most impact and venture/technology investment funds require a minimal financial/commercial gain so that they can keep operating and reusing the investment capital multiple times, the current wording means that the Drought Fund could be restricted from investing into investment funds, even if those funds help achieve the same objectives of the Drought Fund and do so using mostly other people's money to achieve those outcomes.

2.4.3 **Suggested Wording**: My proposed changes to paragraph 2 are: "Disbursements from the Fund will: 2) only invest in projects, co-investment funds and activities that enhance the public good and deliver significant benefits that can be accessed or shared by many (rather than be captured solely by individuals businesses and~~or~~ industries solely for commercial gain, unless such investments have a shared positive impact on the public good and/or a return on investment that benefits the Fund and its objectives)".

Suggested Change N°2

2.4.4 **Current Wording**: Paragraph 15 on page 13 of the Funding Plan currently states that regarding an investment made by the Drought Fund it should: "ensure that all new knowledge is shared and freely made available in the public domain"

2.4.5 **Why Change**? The reasons for the below proposed change to Paragraph 15 on page 13, is that the current wording could prohibit investments made by the Drought Fund into any technology or technology investment fund that is focused on creating/accelerating technology that helps drought resilience. As many of the technologies that will assist Australia's drought resilience will have some form of intellectual property protection, there will be certain knowledge that cannot be shared with the public (otherwise they would never have received any external investment funding), although the public would benefit from the use of that technology, just not knowing exactly how it works.

2.4.6 **Suggested Wording**: My proposed changes to paragraph 15 are "ensure that all new knowledge is shared and freely made available in the public domain, except for any protected intellectual property that cannot be made public for commercial reasons and that may benefit the Drought Fund directly or indirectly via an investment in a co-investment fund. "

3. EXAMPLES OF POSITIVE SOCIAL IMPACT & DROUGHT RESILIENCE INVESTMENT FUND CONCEPTS

Below are descriptions of 6 models of positive impact investments funds that could be considered by the Drought Fund as potential recipients of investment and examples of how investments into co-investment impact funds could help maximise the Drought Fund's impact. By co-investment funds, I mean funds which have external investors and <25% of their capital from the Drought Fund. These investment fund ideas each have unique approaches to addressing drought resilience across the Drought Funds' three main priorities (profitabile agribusinesses, sustainable NRM and vibrant communities) and could be used as a portfolio approach to meet the Drought Fund's goals, while also having the compounding and co-investment impact, that could multiply a $100m investment into having +$2B impact over 20 years:

1. **Positive Impact on Drought Resilience Fund N°1 - Vibrant regional communities' social impact & Drought Resilience Fund**

   Overview: The purpose of this fund is to help the regional communities take ownership of their key public good assets, sport complexes, town halls and community centres. This fund would help communities take ownership of their key communal assets, with support from the Communities Impact Fund they only need to provide 5% of the equity (similar to the first home-owners grant system) for a loan to buy those assets. Once they become owned by the communities, those multiple revenue streams created (for example renting out to sporting groups or to local councils) can be used to take 100% ownership and reinvest profits back into other community projects, which can strengthen the social fabric and reliance of those communities in drought prone areas.

   How it would work: This fund idea is adapted from the social impact group *[CONFIDENITAL].*

   Key Person
   Simon Rowell, experienced impact fund strategy executive. Simon and I have worked together at an international law firm for 5 years.

2. **Positive Impact on Drought Resilience Fund N°2 - The Future & Former Farmers Drought Resilience Fund**

   Overview: The purpose of this impact fund concept is to help the transition Australia's farms to the next generation and to do it with more support and buy-in from local communities than ever before. This fund would also create a strong network between new and old farmers to ensure that the best farming and drought resilience techniques are shared between old and new farmers. The investment from the Drought Fund would be used for two purposes, first to provide some of the needed equity investment to act as the guarantee for low interest loans offered under the scheme to new farmers and secondly to operate the support network that provides the new farmers with the mentors, support network and ongoing tools/training needed to maintain natural resource management best practices/drought resilience and access to new tools and technologies to be prepared for and manage through future droughts.

   How it would work: This fund idea is adapted from the highly successful 'Tennant Farmer Model' developed and operated in Zimbabwe in the 1980s and 1990s, and responsible in part for making Zimbabwe an international agricultural power-house by the late 1990's. That fund essentially would help young farmers secure the necessary mentoring support and financial support to become farmers, in the event that they didn't have the personal or family money to do it on their own.

   The Tenant Farmer Model essentially operated as follows:

   A. There is a pool of capital created that was made available to guarantee low interest loans that were made to new farmers by a commercial agri focused bank, for example Rural bank would be the equivalent Australian bank. In the context of the drought fund, part of the capital pool that would be used to guarantee loans would be made by the Drought Fund and the rest from private investors. The Drought Fund would not be more than 25% of the capital used.

   B. The process for a young farmer to access help (mentoring and financial support) is quite simple but extremely well managed and controlled with gatekeepers at all levels, in principle the process required an new farmer applicant to be interviewed by a panel of 12 farming/agri finance professionals, the 12 controlled the money and the release, if they pass first stage then applicant needed to find the land to lease, rent or best buy (great succession model).

C. The first stage was where a young farmer could apply to the program to be considered for a discounted loan to buy a farm or buy-out other family members on the following conditions:

i. **Minimum experience requirement** – each applicant should have ideally four years' experience, with a minimum of two years farming the commodity that they will farm under the program.

ii. **Mentor/Godfather** – each applicant required to have a mentor/godfather agree to support them during the first few years of operating the purchased farm (this cannot be a family member). The god father role acts as the interface between applicant and 12 directors (from all agricultural backgrounds (pastoral, cereal, intensive dairy etc etc) that's why 12). The mentor/godfather must be an experienced farmer in the commodity that the purchased farm would grow. The mentor/godfather is required to be available through the initial years to provide advice and review the young farmers financial budgeting and reporting. The godfather's role is critical, as it ensures fiscal discipline, management discipline and arbitrates on difficult issues, part of the program required that there would be regular visits to ensure sound agricultural practices and bookkeeping (financial discipline).

iii. **Stage One Selection -** Applicants go before a panel of selected industry leaders in the product to be farmed, present their credentials and if approved are then sent away to seek a farm to lease.

iv. **Target Asset -** On finding a suitable property they then develop cash flows and cropping plans, these are then brought to the panel for round two approval. At this stage the applicant needs to present with a Godfather (this person will vouch for the individual and mentor going forward)

v. **Initial Investment** - The applicant needs to table a percentage of the equity stake, the Zimbabwean model varied between 10% and 30% depending on the model

D. If Stage Two funding applications are approved by the scheme, the application would be referred to the bank underwriting the scheme for processing. The conditions of any funding required that the young farmer would report to the senior panel of farmers on a quarterly basis with basic financial details (budget, cashflow and balance sheet).

E. The loan and lease would be taken on for three years and the young farmer is then expected to be able to stand alone after three years. During that time the fund became title holder until applicant met criteria (Land Bank scenario).

F. Industry panel reviews quarterly and annually and godfather visits once a week in the first year then relaxes reviews if satisfied with progress of the applicant.

G. One of the key benefits of the scheme was that every quarter all applicants had to attend field days and discussion groups to share knowledge and skills, added they got to see the best and worst, so bench-marking industry best practice.

Key Person

Rory Richards, National Operations Manager at Barenburg Seeds Australia, Toowomba, Queensland, Australia. Rory participated in the Zimbabwean Tennant Farming Model and acquired his first two farms with its support. Rory and I have worked together during 3 years at an Australian agribusiness.

3. Positive Impact on Drought Resilience Fund N°3 – Drought Resilience Acceleration & Technology Fund

Overview: The purpose of this impact fund concept is to help accelerate those early stage companies and technologies that meet the three objects of the Drought Fund, which can include social tech companies or start-ups which improve regional communities, agri and food tech that improve the profitability of regional businesses (including farming) and those start-ups and technologies that improve the NRM of our drought prone landscapes. The Drought fund would provide >25% of the funding, so that they are able to attract outside investors who will match the Drought Fund's investment.

How it would work: This fund idea is adapted from the GrainInnovate Venture Capital fund that is a recent joint venture between Artesian and the Grain Research & Development Corporation.

Key Person
[CONFIDENITAL]

4. Positive Impact on Drought Resilience Fund N°4 – Drought Resilience Business Growth Fund

Overview: The purpose of this impact fund concept is to help accelerate those small, medium and large regional businesses that require additional equity growth capital to grow their business for exports or serving other areas than their local community, which results in increase value being generated and spent in the local community, including jobs and further local investment. The Drought Fund would invest together with matched industry co-funding to make non-controlling investments equity investments into non-farming regional business with a focus on those that transform agricultural commodities into high value products for local or export markets.

How it would work: This fund idea is adapted from the highly successful Unigrains model in France. Unigrains only invests non-controlling equity stakes into food and agri companies to support their growth locally and internationally. Unigrains' original investment capital was funded by grain grower levies and government support in the 1960s/70s, but thanks to the compounding capital gains it has made over the last 50 years, it now has over $1.4B of assets under its control. Unigrains re-invests over +$200m ever year into regional France with a focus on French food and agribusiness industry. The positive impact that it has had on the food and agri industry over the past 10 years is to have provided +$2 billion of non-controlling and industry friendly capital to help grow its local food and agri processing industries, which have generate additional tax income for the government and reinforce regional communities that revolve around those companies supported by Unigrains.

Key Person
Myself, as CEO of Unigrains Développement, the international development arm and the co-investment fund of Unigrains.

5. Positive Impact on Drought Resilience Fund N°5 – Farmer Drought Resilience Fund

Overview: The purpose of this impact fund concept is to help those leading farmers who want to stay in their farming businesses and strengthen them to ensure they can weather any future drought and help facilitate the exit of those smaller famers who cannot survive in the long-term.

How it would work: This fund idea is adapted from the highly successful Area One Farms investment fund model in Canada. https://areaonefarms.ca/our-model/ Area One is the leading global positive social and environmental impact farming fund. It offers farmer the ability to convert some of the equity they have in their farms into cash so that they can manage cashflows during times of need, make acquisitions of additional land to strengthen their economise of scale and make improvements to their land to ensure sustainability. Their investments are structured as a partnership, as the farmers can do all this without having to take on more debt or having to sell control in their farm.

Key Person
Joelle Faulkner, CEO of Area One Farms.

6. Positive Impact on Drought Resilience Fund N°6 – Rural, Regional & Remote Education Drought Resilience Fund

Overview: The purpose of this fund is to create drought resilience through investing in education of those people impacted currently and in the future by drought:

a. Those currently impacted: reskilling and further education and ability to get off farm income or leave all together; and

b. Those that will be impacted: school age children and support to get them to university and stay there:

Those farmers who want to / have to leave their farming businesses and find off-farm employment, it also helps the children from farming families who have no opportunity to take-over from their family farm, access best in class education and opportunities easily accessed by metropolitan based students, which includes boarding school scholarships and funding, and university funding to help move to the city, find a job and build a local support network. The difference that this fund would have to standard education and scholarship foundations is that it would require the farmer or school child to give back and stay involved in the local community during their period of studies or re-skilling, in ways that support drought resilience. For example once a quarter they could be required to participate in local community events related to drought resilience, take a volunteer role in local bodies to promote drought resilience, even when they are living far away from the community. The purpose of this fund would be to create a way for rural adults and school children to access new opportunities via education, however, help to reverse the brain drain that happens with traditional education support (i.e. scholarships) that are commonly available to families from country Australia.

How it would work: This fund idea is adapted from the various indigenous Australian education funds and foundations that exist, however, this fund would be open to all Australians and its key difference would be to focus on reversing the brain drain of rural, regional and remote Australia, and more importantly helping keep people connected with their communities after leaving so that they are there to help during times of need in the future.

Key Person
Myself, as this is impact fund concept is based on my own personal experience and those of my family.

4. ABOUT THE AUTHOR: Shane Masters

To give some context to my submission and the origin of my ideas, i.e. why have I focused on investment funds and helping families build resilience to the impacts of drought. I would like to give some background about how my personal journey has influenced the ideas contained in this submission. Hopefully my submission will not be read as self-serving document, rather I want it to plant seeds that can been taken by other Australians passionate about helping our families that have and will be impacted by the trauma of drought to build better resilience and not just manage through the tough times, but thrive, then give back to those who need a helping hand in the future.

My personal Australian drought experience: I grew up on a dryland grains farm (with a small cross-bred lamb operation) on the drought-vulnerable Eastern Eyre Peninsula. Our farm was near Goyder's Line drawn in 1865, a invisible line that runs across SA and indicates if you can grow crops (south of the line) or only run sheep (north of the line). George Goyder was right, as our farm was north of this line and marginal at the best of times. I was born in 1980, the year my family bought a new Case-International tractor following bumper grain harvests in 1978 and 1979. Between the years of 1967 until today, the lowest recorded annual rainfall for our district was in the years 1980 and 1982. These two catastrophic years combined with the high interest rates (+20%) by the late 1980s, meant that the loan from the new tractor and the two drought years that followed its purchase, made our farm (like many others in our area) worth less than the bank loan that was secured against it. While I only have few vivid memories of my childhood, it was the day that the local bank manager came out to our farm, to decide if he would foreclose, was one of the most terrifying days of my life. In a moment our home, our livelihood and our future could be taken away from us.

Resilience via education: The school I and my 6 siblings attended was a rural school with ~12 students, with limited local off-farm employment prospects upon graduation and no possibility to take over the family farm, my mother submitted my application for boarding scholarships in Adelaide (7hours drive from our farm). Thanks to the generosity of an Adelaide boarding school, I was offered a means-tested boarding scholarship. While I am thankful for the opportunities that scholarship gave me in terms of university and post-grad employment options, it was a very painful process to leave my home and rural community which I think can be improved. Hence the origins of my idea for the impact fund N° 6 regarding education and reversing the brain drain from regional areas and keeping people engaged with rural communities even after they leave for education or employment. My father is also a good example of how to re-skill at a later stage in life, after he left school before graduating to return to his family farm, he discovered that without a university degree, there were little opportunities off-farm for him in his 50s. So he went back to University later in life and he graduated around the same time as me, but with an agriculture degree from Adelaide University. That university degree then allowed him to find off-farm work and become much more drought resilient.

Discovering how investment funds can help & hinder agriculture: After University I started to gain wide ranging experience in agricultural related investment funds and experience in the agricultural not-for-profit industry in Australia, Europe, Africa and the US. These off-farm experiences have helped give me a better understanding of the potential impact of co-investment fund structures and how they could magnify the impact of the Drought Fund. For example over the past 20 years of my career I have seen vastly different public and private models that have helped farmers and farming communities become stronger and more resilient, and other that have had a negative impact. In 2011 I joined the well-named but ill-fated agricultural investment and farming group RM Williams Agricultural Holding that invested into Australian farms and food processing assets. Then I move to France to study post-grad business, (my wife is French and it was cheaper than studying at Sydney Uni where I was at the time), during those studies I was working on a strategy project for Nestlé global agricultural team on raw agricultural commodity problems they had in Brazil, China, France, Ireland and Nigeria, that agri team were using Nestle's resources to help build schools and a university to train farmers in rural regions all over the world. During that time I helped create the business plan for the agribusiness incubation hub for the largest African agribusiness research institute and NGO called the International Institute of Tropical Agriculture, which I have been on the advisory board of for the last 6 years during this time I have seen the, positive and negative impacts of donations and grants on rural communities and farmers in Africa. After my EMBA, as I wasn't able to find an agricultural related funds role back in Australia, I moved to rural California to spend 3 years working for the leading US based $200m food and agribusiness non-control investment fund, AGR Partners. During that time in the US, I joined the board of the Washington DC based International Food and Agribusiness Management Association, a non-profit who seek to link universities, NGOs and private agribusiness companies together for the betterment of the agricultural industry.

I was about to return from the US to Australia in 2017, but I was offered a role Unigrains (with $1.4B of investments) where I still work today. Unigrains is one of the world's largest agribusiness investment groups that is still owned by grain farmers. Unigrains is like a positive impact fund for the French grain farmers and invests more than $200m/year and is expanding around the world. I am responsible for their European investment development and their investment fund based in Italy and their co-investment fund France. I think there are a lot of synergies between what Unigrains does for the positive impact for the French farmers and their agricultural industry, and what the Drought Fund is looking to do for rural, regional and remote parts of Australia that are prone to drought. My current experience at Unigrains and managing their €200m co-investment fund has heavily influenced the core idea in this submission, which is that the Drought Fund should be more open to co-investment impact funds, so that they can maximise and multiple the positive impact that the Drought Fund will have.