

Short-term debt enhances Western Australia's farm productivity

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Policy interventions that enable farmers to have access to short-term debt would improve technical efficiency of Western Australian broad acre farms, according to a study from The University of Western Australia.

Assistant Professor Amin Mugeru, of UWA's School of Agricultural and Resource Economics and Institute of Agriculture, conducted the study with Dr Gerald Nyambane of Davenport University, USA. He said their findings were relevant to policy makers interested in understanding the impact of debt structure on performance of farms that receive little or no government support.

"Western Australian farms receive limited [government support](#) relative to North American and European farms," Professor Mugeru said.

"Understanding how farm debt structure and external income sources affect the technical efficiency and financial performance of a farm is important for designing policies that promote the rural economy. It is particularly important today, as WA farmers adapt to a changing production environment."

Comprehensive annual farm surveys about actual financial and production performance of broad acre farm businesses throughout WA were analysed over a 10 year period. The researchers related the impact of long-term debt, short-term debt and tax liability on farm performance. Farm performance was measured by technical efficiency and return on assets. Both statistical and mathematical programming approaches were used to ensure robustness of results.

"We found that broad acre farms are not using the best available technology and are consequently operating below the optimal scale," Professor Mugeru said. "Technical efficiency can be improved by using short-term debt to purchase necessary farm inputs and maintain farm operations."

The findings support the Australian government's release of concessional loans in 2013 to farm businesses to enhance productivity and restructure debt. It is thought that short-term debt may motivate managers to be more efficient because of the higher interest rate relative to long-term debt. Long-term [debt](#) does not appear to affect the day-to-day managerial operation.

The authors also noted that use of deferred income taxes to finance farm operations would also improve technical efficiency.

The study, funded by UWA and published in *The Australian Journal of Agricultural and Resource Economics*, has important implications for ongoing structural adjustments on [farms](#), such as changes in land, labour, capital, and other resource use in response to changes in technology, demand, climate, social values and policies. Those changes affect the overall [performance](#) of Australian agriculture.

More information: Mugeru, A. W. and Nyambane, G. G. (2014), "Impact of debt structure on production efficiency and financial performance of Broadacre farms in Western Australia." *Australian Journal of Agricultural and Resource Economics*.
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