Australian Farm Institute

MEDIA RELEASE

Alternatives to bank debt needed for Australian farms

Australian farm businesses, unlike farm businesses internationally, continue to rely almost solely on bank debt as their main source of funding, and this reliance is likely to limit the future growth of the sector, according to a report released today by the Australian Farm Institute.

The report, 'A Review of Farm Funding Models and Business Structures in Australia', explores trends in funding and business structures within Australian farming, and examines some of the alternatives to bank debt funding that will likely be required to support the future expansion of the sector.

'Future growth opportunities for Australian farm businesses will require access to increased funding, and alternatives will be required to current funding models,' according to the reports co-author, Richard Heath, General Manager of Research at the Australian Farm Institute.

Australian farm bank debt has increased from around $10 billion to $60 billion over the last 25 years, although over that period the proportion of gross farm income needed to service that debt has remained relatively constant, at around 7 cents per dollar of income.

'However, while alternative farm funding models have emerged internationally, this is not the case in Australia. Alternative models internationally include those which separate the ownership of farm assets from the operation of the farm business (farmland leasehold and rental models), offtake agreements (crop and livestock loans) that provide short-term operational funding, and equity-sharing arrangements (share farming and share-milking) where multiple parties have an equity share in the farm business.'

'The level of risk experienced by Australian farm businesses is probably a major factor limiting alternative funding models, as a healthy balance sheet with plenty of additional borrowing capacity is the best defence Australian farmers have available to manage risk.'

'By contrast, there are a number of other risk management options available to overseas farmers (for example the crop and income insurance schemes that operate in North America), making it easier for new entrants, and also providing the basis for alternative funding models. The research explores why these differences exist and whether they are applicable to Australian markets.

While bank debt may have sustainably funded productivity growth over the last few decades, the capital that will be required to fund further growth and increasing succession demands will be many times what has been used in the last 25 years. As such there is feeling of urgency in the agricultural community to find alternative funding models.

Six recommendations to government and industry are included in the report that are aimed at improving industry and government policies that impact on capital funding models. Financial indicators, farm financial advice, crowd funding regulation, cooperatives, real estate investment trusts and supply chain contracts are addressed in the recommendations.

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