



# Addressing price volatility and financing needs of Young Farmers

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# Irish Agriculture: an overview



## Significant part of Irish Economy

- ✓ 7.8% of Gross National Income (2016)
- ✓ 7.9% of Employment (2017)
- ✓ 11.1% of Merchandise Exports (2017)



## Export-oriented Agri Sector

- ✓ Goods output valued at €8bn in 2017
- ✓ 90% of beef and dairy output exported
- ✓ c.10% of global infant milk export requirements
- ✓ Largest Beef exporter in Northern Hemisphere



## Grass-based production systems

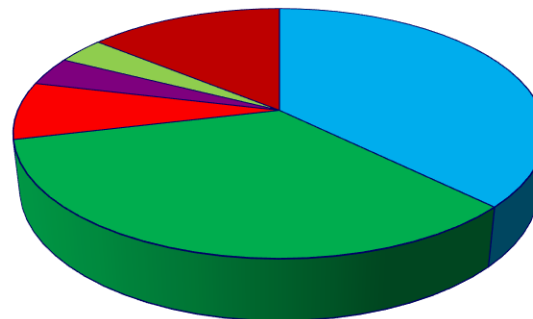
- ✓ Dairy & Beef systems mainly grass-based
- ✓ Twice as cheap a feed as grass silage
- ✓ Twice as cheap a feed as rolled barley



## Farm Demographics

- ✓ 137,100 family farms
- ✓ Average age of farmers is 57.5 years
- ✓ Average farm size 32.4 hectares
- ✓ Average farm income EUR 26,244 (2018)
- ✓ 49% of farm holders &/or their spouse had an off farm income

Irish Farm Output by Sector



## Low level of bank debt

- ✓ 44% of Irish farmers have no bank debt
  - ✓ Average farm debt approx. half EU average
- (Source: Teagasc, IpsosMRBI)





# AIB Backing the Agri Market



- Depth of knowledge and experience in dealing with farmers throughout AIB



- Keen to support young farmers on their farming journey



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**Volatility makes cashflow management and financial planning much more difficult**

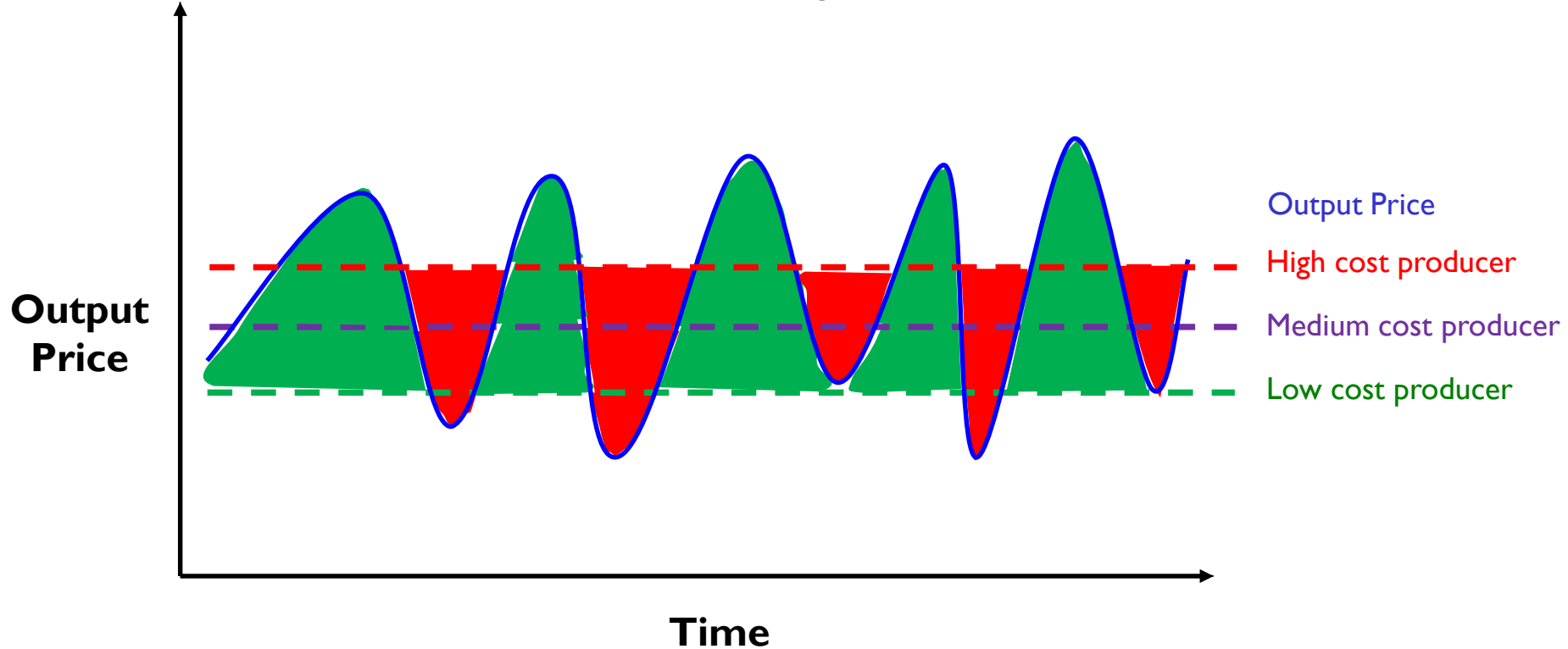


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# High cost producers most exposed to price volatility



- High cost producer makes a profit when output price is above red line (Competitiveness problem)
- Medium cost producer makes a profit when output price is above the purple line (Needs to manage price risk)
- Low cost producer makes a profit when output price is above the green line (Can ride out the volatility)

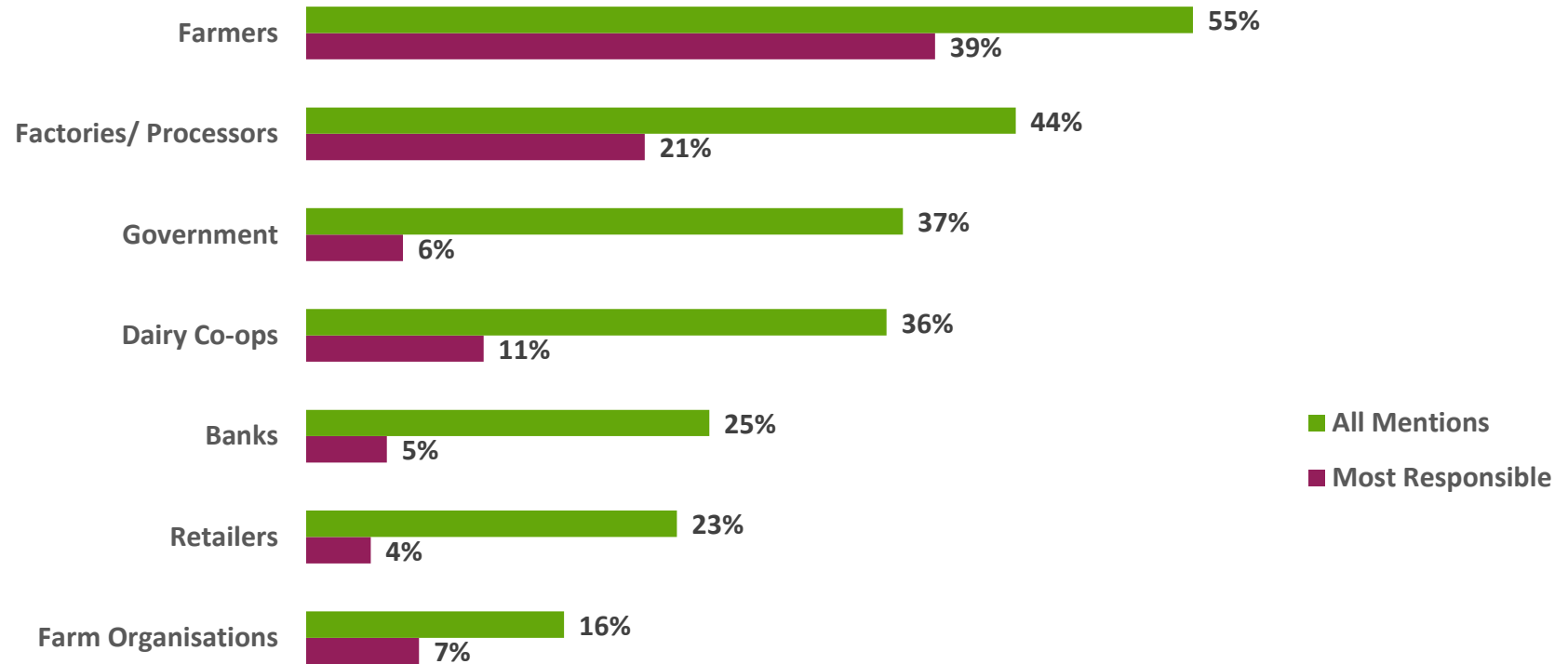


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# Farmers see themselves as most responsible for managing farm income volatility...



(Source: Ipsos MRBI Agri Financial Services Survey, 2017)

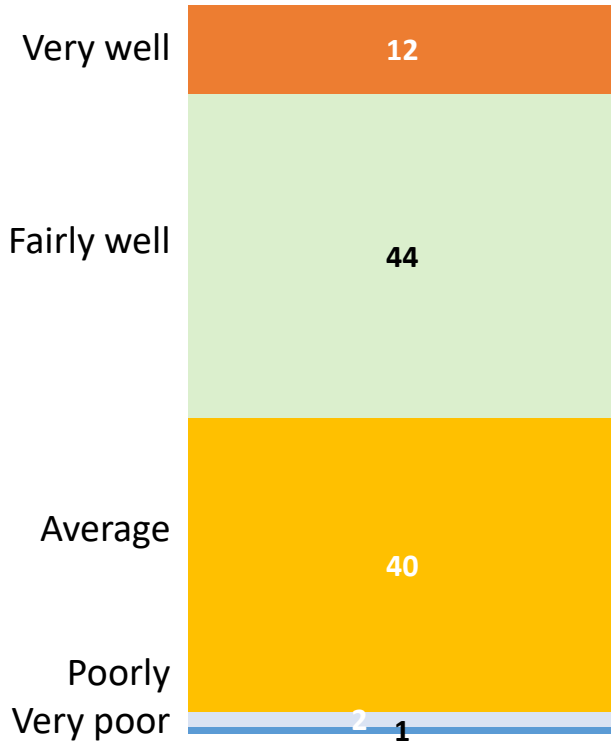


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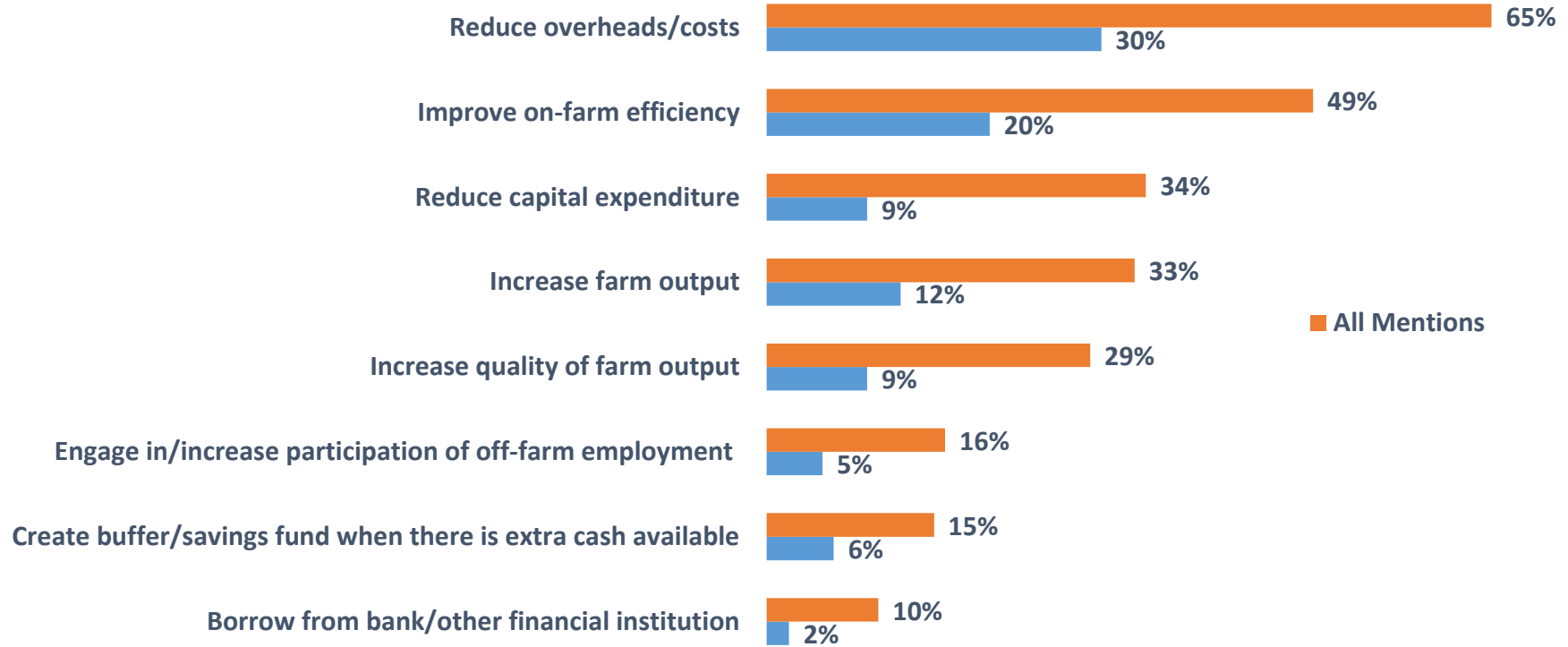
# ...with the majority believing they are able to manage, utilising on-farm mitigants in the main



How effectively do you believe you are currently managing income volatility?



*Similar across all age groups*



(Source: Ipsos MRBI Agri Financial Services Survey, 2017)

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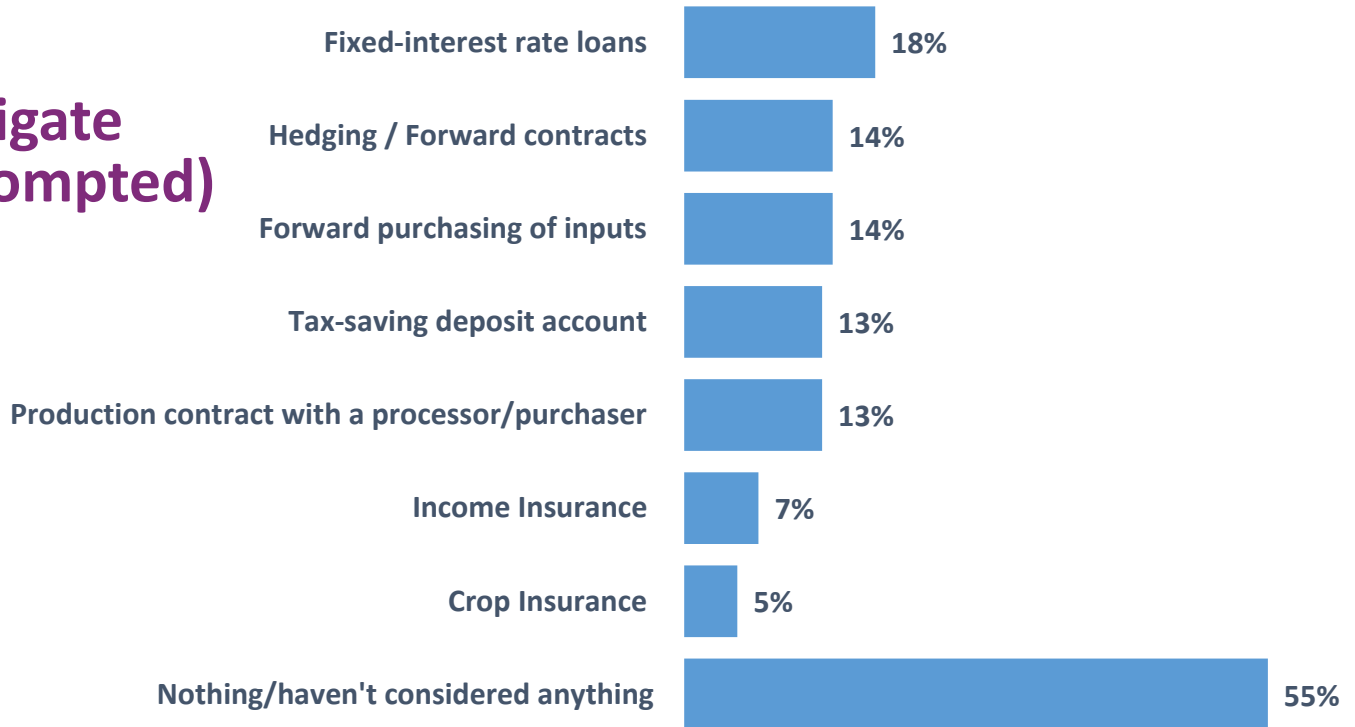




**Fixed rate loans however more likely to be considered than any forward purchasing or trading partner agreements**



## Measures Considered To Mitigate Against Income Volatility (Prompted)



(Source: Ipsos MRBI Agri Financial Services Survey, 2017)



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# Young Farmers – What do we know about them



## Product Holding

- Higher incidence of borrowing
  - (56% v 44%)
- Av. C/a Balance: EUR 5-8k
- Av. C/a Turnover: <EUR 10k
- Av. Card Spend/Qtr: EUR 3.9k



## Bank Engagement

- Higher usage of:
  - Online banking: (73% v 40%)
  - Mobile App: (39% v 14%)



## Future Farm Investment

- More likely to invest (75% v 51%)
- Have higher levels of planned investment (EUR 66k v. EUR 44k)
- Seek bank finance (62% v 49%)

(Source: Ipsos MRBI Agri Financial Services Survey, 2017 & AIB Internal metrics)



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## Potentially most exposed but not all Young Farmers are equipped with the financial management skills to cope!



- Emphasis within farm families is on acquiring livestock and other practical skills rather than financial management skills;
- Discussion groups provide support on financial planning but many young farmers are not actively involved in groups until they are in management control;
- Agri financial planning college modules considered to be limited and not really relevant to young farmers until they are in a position to take over the family farm;
- Banks, accountants and others typically only proactively involve the young person on the farm when there is a 'document to be signed';
- The preparation of business plans for banks is considered as more of a paper-exercise to sell the business to the bank than a plan which actually guides the farm business;
  - Very often there is limited ownership by young farmers of business plans and the 'Plan B' for when things go wrong is much more important to the young farmer.



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(Source: Bogue, 2016)





# AIB supporting farmers on their journey



- **Agri Clinics offering farm financial guidance**
- **Young Farmer Package**
  - 2 years transaction fee-free banking
- **SBCI Agri Cashflow Support Loans**
- **Range of Cashflow Support measures**
  - Farmer Credit Line; Short-term Loans; Prompt-pay
  - Finance capital expenditure / expansion taken from cashflow
- **Farm debt funded on basis of repayment capacity**
  - 20 years land purchase
  - 15 years buildings / parlours
  - Up to 7 years for breeding stock
  - 5-7 years Asset Finance



**IT TAKES A CERTAIN KIND OF PERSON TO BE A FARMER**  
JAMES, DAIRY FARMER.

Meet Bryan Doocey,  
 AIB Agri Advisor  
 2nd May, AIB Dungarvan

To make an appointment to discuss your agri finance needs call 086 822 1313 or just ask any of us. All welcome.

The customer received a gratuity. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.




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# SBCI Agri Cashflow Support Loan



- Interest rate of 2.95% per annum, fixed for term of loan
- Loan terms from 1 to 6 years
- Maximum EUR 150,000 per farm operation
- Loans are unsecured
- Interest only option of up to 18 months available at start of loan
- Repayment capacity and normal lending criteria apply
- Finance provided by SBCI (Strategic Banking Corporation of Ireland) with support from European Investment Fund (EIF)



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# AIB Farmer Credit Line



- Competitively priced working capital facility for farmers (available from 3.825% variable)
- Used for planned seasonal expenses
- How it works:
  - Transfer funds to current account as you need to pay for seasonal purchases
  - Repay your Farmer Credit Line when you have the funds available
  - Annual facility – a nil or credit balance to be maintained for at least 30 days a year
  - Offers flexibility to manage seasonal expenses and price volatility as they arise
  - No limit on number of transactions to and from account
  - Transferring funds is simple: online, in branch, by telephone



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# Efficiency is key – Better Before Bigger!



Every extra tonne of grass grown is worth EUR 181 for dairy farms;  
EUR 105/tonne for beef farms.

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# Agri Clinics, publications & Young Farmer initiatives



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# Conclusion



- The agri sector has undergone fundamental change – volatility now new norm
- Farm efficiency helps reduce impact of volatility
- Higher cost farm systems need more levers to manage volatility
- Collaborations with other stakeholders can help developed tailored solutions for farmers
- AIB is committed to supporting the ongoing development of the sector







Thank You



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# Important Regulatory Information



- Fixed Interest rate:

**Warning: You may have to pay charges if you repay early, in full or in part, a fixed rate credit facility.**

- Interest-Only Period:

**Warning: The entire amount that you have borrowed will still be outstanding at the end of the interest-only period**

- 48 hour approval on new loan and overdraft requests for AIB customers up to €60,000:
- We aim to provide a decision within 48 hours upon receipt of all required information. 48 hours excludes Saturdays, Sundays and Bank Holidays. If you are experiencing any financial difficulties, please talk to us in more detail so we can advise the best solution for you.'
- Lending criteria, terms and conditions apply. Credit facilities are subject to repayment capacity and financial status and are not available to persons under 18 years of age. Security may be required.
- Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Banks, p.l.c., trading as AIB Finance & Leasing, provides Asset Finance by way of Hire Purchase. AIB Leasing Limited, trading as AIB Finance & Leasing, provides Asset Finance by way of Leasing. Allied Irish Banks, p.l.c. and AIB Leasing Limited, trading as AIB Finance & Leasing, are regulated by the Central Bank of Ireland.



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