Project number: 6358
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Financial status of Irish farms: Financing investment for Food Harvest 2020

Key external stakeholders:

Policy-makers, primary producers, agri-food businesses, local government, banking institutions

Practical implications for stakeholders:

- Irish farmers on average have a sound financial structure, with debt to asset levels quite low by European standards;
- In Ireland, dairy farmers have been the most active investors and this is a situation that is likely to continue post quota;
- Significant investment and credit will be required if the farming sector is to achieve the targets as laid down in the Food Harvest 2020 report. The €1.47 billion figure identified for the dairy farm sector in itself is a large figure, but when additional investment for normal on-gong reinvestment is factored in, plus the investment required for the other sectors, such as pigs, tillage and dry stock it is evident that investment needs for agriculture as a whole are very significant.

Main results:

- Debt to asset levels on Irish farms are quite low by European standards;
- In the recent past, Irish dairy farmers have been the most active investors;
- Significant investment and credit will be required if the farming sector is to achieve the targets as laid down in the Food Harvest 2020 report. The €1.47 billion figure identified for the dairy farm sector in itself is a large figure, but when additional investment for normal on-gong reinvestment is factored in, plus the investment required for the other sectors, such as pigs, tillage and dry stock it is evident that investment needs for agriculture as a whole are very significant.

Opportunity / Benefit:

In terms of benefits of the research for specific end users:

- At farm level: this research facilitates the understanding of the relative impact of key indicators and assumptions on the financial position of the farm business.
- At industry level: this research provides a baseline report as to the development of the financial and investment situation on Irish farms over the recent past. Possibly, more importantly it provides a ‘road map’ as to the investment requirements necessary to fund future development of the sector.
- At government level: this research delivers a number of important outcomes by (i) providing a baseline situation in terms of the historic and current financial situation on Irish farms.; and (ii) identification of funding requirements necessary to meet targets set out in FH2020 and other policy documents;
- Internal Teagasc stakeholders: this research provides advisory colleagues with important information for dissemination at farmer meetings etc., in terms of identification of the baseline financial situation on farms as well as identification of the relative importance of key risky variables in influencing the future financial situation at farm level.

Collaborating Institutions:

UCD, Bank of Ireland, and various industry representatives that contributed to the stakeholder advisory group.

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1. Project background:

It is generally recognised that growth in agriculture is fuelled by investment. It is evident from numerous international literature sources that farmers' access to scarce farm assets, and access to attractive terms of financing for the preferred strategies plays a major role in agricultural development. Hence, it is interesting to note that the most interest in recent research and agricultural policymaking, concerning growth potential based on the recommendations from the Food Harvest 2020 document, failed to document the ability of farm units to balance net income flows and investment requirements.

In order to address the aforementioned factors this research carried out (i) a review of recent investment and the current financial status of Irish farms, (ii) a comparative assessment of the financial situation of Irish farms in the EU context (iii) the dynamics of investments, and (iv) farm investment requirements in the medium term.

The research showed that:

- Irish farmers on average have a sound financial structure;
- Debt to asset levels are quite low by European standards;
- In Ireland, dairy farmers have been the most active investors and this is a situation that is likely to continue post quota;
- Significant investment and credit will be required if the farming sector is to achieve the targets as laid down in the Food Harvest 2020 report. The €1.47 billion figure identified for the dairy farm sector in itself is a large figure, but when additional investment for normal on-gong reinvestment is factored in, plus the investment required for the other sectors, such as pigs, tillage and dry stock it is very evident that investment needs for agriculture as a whole are very, very significant.
- Given that it is impossible to be certain about how international dairy markets will develop, it is reasonable to adopt a pragmatic approach in assessing the likely level of investment requirement that will emerge for the dair4y farm sector. In this context the investment figure of just under €1.5 billion estimated in the milk price scenario of 32 cent per litre represents a reasonable estimate for planning purposes.

2. Questions addressed by the project:

- What has been of recent investment in Irish agriculture and the current financial status of Irish farms?
- What is the (comparative assessment of the financial situation of Irish farms in the EU context?
- What are the main factors affecting investment levels on Irish farm?
- What are the investment requirements in the medium term for Irish agriculture?

3. The experimental studies:

Using data from Teagasc, National Farm Survey, Teagasc PIGSYS and EU FADN sources the following analyses were carried out:

- A review of the financial status of Irish farms over the past decade;
- A comparison of key financial ratios of the main sectors of Irish agriculture within the EU-27 using FADN data for the most recent data available;
- Investment requirements for the dairy and pig sectors to reach FH2020 targets.

4. Main results:

Using Teagasc National Farm Survey (NFS) data the research found that debt levels on Irish dairy and tillage farms have been significantly higher than on livestock farms over the last decade. Not all farms carry farm business related debt; in 2013 40 percent of farms are recorded as having a farm debt by the Teagasc NFS. The average level of debt on all farms in 2013 (when farms with and without debt are included) was €24,000, with dairy farms recording the highest debt levels. Measured across all dairy farms the average

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level of debt was €62,000 with an average of €94,000 if only those dairy farms with debt are included.

A comparison of various farm financial ratios across the EU indicated that on average Irish farms have relatively low debts to asset ratios, with a ratio of less than 5 per cent in 2012. By comparison, farms in Denmark, France and the Netherlands have the highest debt-to-asset ratio. The relatively high levels recorded in these other countries can be explained by various structural and systematic differences. The high debt levels in Denmark relate to the Danish system where a farm typically transfers to a family member by mortgage rather than by gift. Intensive horticulture in the Netherlands typically necessitates high investment levels and associated debt levels.

The lowest average debts to asset levels (below 3 per cent) were observed in many Mediterranean member states. These very low levels of indebtedness, and solvency, are sometimes explained by limited access to credit.

The report also showed that significant investment will be required by the dairy sector to achieve Food Harvest 2020 targets for an expanded dairy sector. The report concluded that up to €1.5 billion will be invested by farmers over the next 5 years if the target to increase milk production by 50 percent is to be achieved.

While earlier work by Teagasc economists has shown that the sector is internationally competitive, in an increasingly volatile price environment, the ability to demonstrate resilience in years of low profitability and a sound repayment capacity will be as important as cost control. So it is interesting to compare existing debt levels and key financial indicators specifically for the diary sector. Solvency and liquidity measures paint the Irish dairy sector in a very positive light in European terms. A key conclusion of the report is that Irish dairy farming has a cost advantage within the EU and that the level of debt and the financial status of Irish dairy farms also provides the sector in Ireland with an advantage over competitors across the EU.

5. Opportunity/Benefit:

It is important that all stakeholders have the best information available to them in terms of future planning requirements for the sector. This project clearly quantifies the current financial status of Irish farms and future investment requirements.

6. Dissemination:

Main publications:

Thorne, F., Dillon, E., Donnellan, T., Hanrahan, K., Hennessy, T., Kinsella, A., McKeon, M. and Laepple, D; UCD (2015). A review of the financial status of Irish farms and future investment Requirements, report launched January 2015, ISBN 978-1-84170-614-6

Popular publications:

Thorne, F., Dillon, E., Donnellan, T., Hanrahan, K., Hennessy, T., Kinsella, A., McKeon, M. and Laepple, D; UCD (2015). A review of the financial status of irish farms and future investment requirements. Tresearch Spring 2015 - pp38-39 ISSN 1649-8917

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