AGRICULTURE

Will finance deliver on a farm to fork future?

Agricultural businesses incurred significant operational and financial disruption from Covid-19, but having weathered the pandemic, the sector still needs to manage business challenges that should keep finance providers busy for some time. This report by Hannah Wright

The Covid-19 virus – first identified in a farmers' wet market in Wuhan, China, in January 2020 – may have started as just a health crisis, but government efforts to bring the virus under control ushered in economic shocks that had immediate consequences for the agricultural sector.

According to the Department for Environment, Food & Rural Affairs, the UK imports 47 per cent of its food, including 84 per cent of its fresh fruit, and independent observers say the UK relies heavily on a just-in-time supply chain and is not well prepared to withstand shocks.

Indeed, according to Jon Hercman, head of agriculture at UK-based Haydock Finance, the pandemic has "wreaked havoc" on supply and demand across the agricultural sector.

Lockdown restrictions, forced closures, social distancing and limitations on travel all had a major impact on agricultural sector supply chains, from labour to distribution.

Hercman explains: "In meat processing plants, recurring Covid-19 outbreaks led to an inability to operate at normal capacity. This was then met by increased demand from supermarkets, a result of panic buying. The closure of the hospitality sector then represented a major reduction in demand due to widespread closures. Each of these factors had a tremendous impact on the farmers we lend to. For Haydock, it made it more difficult to assess the financial viability of a business due to constant fluctuation in prices. If we're looking at assessing a beef business that needs a loan, their profitability is very dependent on the price of beef."

> " FARM TO FORK IS AN EXTENSION OF THE OTHER CHANGES IN SOCIETAL EXPECTATIONS, WHICH HAVE RESULTED FROM COVID-19

However, over a year later there is a consensus across the industry that, in fact, they have weathered the storm quite well. In fact, the agri-food sector has ultimately survived the economic storm of the pandemic, largely confirming its anti-cyclical characteristics.

As families around the world were forced to stay at home, Hercman highlights how such restrictions have benefitted the sector: "Due to individuals wanting to shop locally, we are seeing more requests for funding for diversification amongst farmers, particularly for on-site farm shops. These have always been popular, but there has been a considerable shift in consumer trends. Individuals want to buy more local, more traceable, and more sustainable."

DIVERSIFICATION

According to a research paper *Diversified Farms Facing the Covid-19 Pandemic: First Signals*

Source: European Commission

from Italian Case Studies, farm diversification represents the development of income-earning activities beyond the range of conventional crop and livestock enterprises typically associated with agriculture.

Faced with empty supermarket shelves, and the closure of restaurants, consumers turned to local farm shops. In this sense, the pandemic has both improved short food supply chains and changed eating habits, simultaneously reinforcing sustainability.

Despite a recent increase in applications for diversification funding at Haydock, for some farmers, the diversified element of their business represented a major loss. Hercman explains: "Two-thirds of farmers have an income stream from diversification and that's has also been a major loss within the sector".

This is reinforced by the Italian case studies report, produced by Professors Luigi Mastronardi, Aurora Cavallo and Luca Romagnoli, which investigated the consequences of the health emergency on diversified farms, their reactions, and their agricultural and rural policy needs in order to overcome the crisis. Respondents to a survey, as part of the report, said that their core farming business experienced no particular effects, while there were significant effects on the distribution of products and on so-called related activities, such as agritourism, leisure, and restaurants. Drilling down into the detail, it appeared the pandemic rendered farmers as winners or losers depending on how diverse their businesses were.

Hercman points out: "Fortunately, we have an agricultural specialist credit-underwriter who understands the cyclicality that you see in agriculture. Whilst Covid-19 had an impact on commodity prices, it's no different to the impact we see every year due to poor weather conditions. Our team understands all the pressures that agricultural businesses regularly face. Consequently, we can apply the circumstance we have seen in Covid-19 to the individual cases."

LABOUR SHORTAGES

In 2019, the digital revolution in agriculture was well underway. Advanced technologies such as sensors, artificial intelligence, and robotics were increasingly being promoted to increase food production efficiency while minimising resource use. Agricultural digitalisation raised considerable criticism regarding the implications for diverse agricultural labourers and rural spaces. However, the pandemic has highlighted the fragility of the seasonal workforce. According to the Farm to Fork Strategy – which forms part of the EU's European Green Deal, an ambitious 25-year plan to lead the world in climate change – travel restrictions placed on individuals, alongside the closure of the Schengen Area, has posed a great risk to the agricultural sector which relies on seasonal workers.

Hercman comments: "The more reliant the business is on human-labour, the greater the impact. The fruit and vegetable sector in particular has had trouble bringing in seasonal labour onto farms.

"The UK Government launched a scheme called Pick for Britain which attempted to supplement the shortage in seasonal labour that comes from abroad. Unfortunately, the labour probably wasn't up to the same standard as the EU seasonal workforce. Covid-19 has highlighted the issues with seasonal labour. This, in turn, has accelerated the rate at which technology is being deployed to overcome the issue."

CONSUMER MINDSET

Across the rest of Europe, Andreas Richling, international programme manager at Societe General Equipment Finance, believes that the impact of Covid-19 was relatively niche. Richling explained: "There were certain cases

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of outbreaks in meat processing plants which blocked production, such as in a pork facility in Germany. For potato farmers, they faced a drop in demand from restaurants who previously relied on them for their French fry supply. Otherwise, there was no major impact from Covid-19. Nothing that affected every corner of this decentralised industry."

"What was significant," Richling continued "was the shift in consumer mindset, and the process of digitalisation within agriculture. It is this digitalisation that will help to facilitate the changes consumers want to see in the industry." Richling explained: "The pandemic and subsequent restrictions raised several questions amongst consumers on how we produce our food: questions concerning animal health, meat production, shipping distances, pesticide use and the environmental impact of crops."

SOCIAL EXPECTATIONS

Referring to the *Farm to Fork* report, Richling believes that farmers are now expected to become greener, more environmentally friendly, and more transparent over animal welfare. "Farm to Fork is an extension of the other changes in societal expectations, which have resulted from Covid-19. Another example of this is growing demand for greener cities. This is what Covid-19 has done for the industry, it has changed the mindset of consumers."

According to the report, the Covid-19 pandemic has underlined the importance of a robust and resilient food system that functions in all circumstances. "It has made us acutely aware of the interrelations between our health, ecosystems, supply chains, consumption patterns and planetary boundaries. The Farm to Fork Strategy offers a comprehensive approach to how Europeans value food sustainability. It is an opportunity to improve lifestyles, health, and the environment."

Through the integration of new technologies, farmers can respond to the tremendous

Andreas Richling

Jon Hercman

changes in consumer trends.

Astrid Michael, farm sales manager at Hitachi Capital Business Finance, reinforces the importance of technology if firms are to stay relevant: "We are seeing farmers utilising technology more and more to assist with farming demands; vertical farming, hydroponics, robotic milking systems and GPS for tractors are just some of the technology related advancements that are becoming more mainstream.

"Technology and its ability to increase output across both dairy and arable will eventually become imperative as food production demand increases."

Beyond responding to consumer trends, the technological transformation will help agricultural firms to increase preparedness for future shocks. Investment in data systems at the local, national, and global levels will enable the real time sharing of information to increase confidence in supply during crises.

However, these advancements will not "be without challenges" warns Michael.

"The impact of the Brexit deal along with any subsequent trade deals with the rest of the world remain to be seen, but any business, be it farm or not, that puts a focus on evolving with the times and utilising whatever advances in technology are available to them can likely look to see an enhancement in profit margins. Introducing technological efficiencies now will be beneficial for future proofing businesses."

Concerning the role of the asset finance industry, Michael concludes: "It is vital the industry continues to offer funding for a broad range of assets required for farming practices, enabling British farmers to invest in their business and keep up with demand and competition. This will enable farmers to spread the cost of new business purchases and fund larger projects without tying up capital or disrupting cashflow.

"As the requirements for new agricultural tech increase, asset finance funders need to diversify their thinking away from the standard farm equipment that has been the backbone of funding opportunities for many years. Extending our reach into the technology space and supporting the future if farming is a key strategic goal for us."

Whilst our farmers may be a "resilient and resourceful bunch" says Michael, the pandemic has undoubtedly revealed several vulnerabilities and chokepoints within supply chains and the food production system. Asset finance can be expected to play a crucial role in facilitating the investments and adaptations necessary to boost agricultural resilience for when the next crisis hits. ■