

Greensill, Latevo &  
Australian Agriculture  
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# Challenges for Australian Agriculture

## Challenges for Australian Agriculture

- Agriculture is a capital intensive business, and the government has stated an objective to grow the output of the sector to \$100b by 2030. This will require substantial capital, with estimates ranging from \$40 to \$160b.
- Farm debt is typically real property secured, and due to the highly concentrated debt market within Australia, tight on terms. This is in contrast to other markets where a much more diverse financial product set is available for farmers.
- Two of the key products that have limited use in the Australian Market are Income Insurance, and seasonal working capital finance.
- The provision of seasonal working capital in the Australian market is difficult due to the high volatility of earnings within the sector, as short term working capital facilities are more adversely affected by poor seasons than property based debt. This has precipitated a situation where a significant portion of short term working capital finance is funded through long term property debt. This maturity mismatch limits the ability of farmers to draw against long term assets to make long term capital investments in the productivity of their farms.
- Further, recent issues within the banking sector as a result of the Banking Royal Commission, coupled with bushfires and drought, have directly led major banks to reducing credit line availability to the farming sector. Given that as much as 96% of agricultural debt is financed through the major banks, this compounds the capital starved situation that the sector finds itself in.

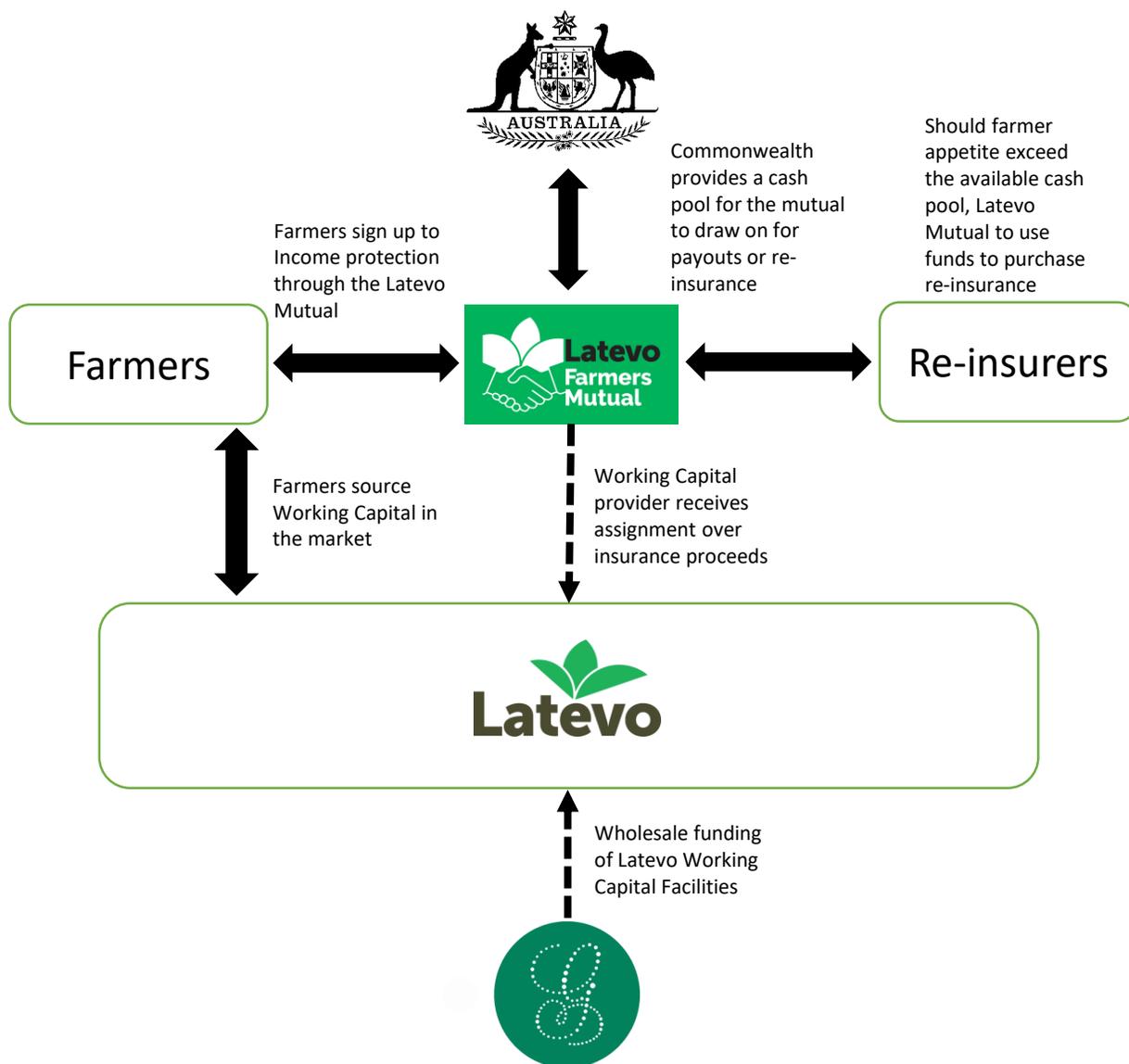
## Addressing the Challenges

- As we see it, there are three key themes that must be addressed in any proposal that aims to enable the sector to have sufficient access to capital to meet in-season and long term productivity needs.
  - Property debt must be delinked from in-season finance, so that long term assets can be aligned with long term capital investment in productivity.
  - Earnings volatility requires new products in the market to ensure that farms can plant with confidence knowing that the decision will not cost the long term viability of the farm.
  - A 'smoothed' earnings cycle will permit working capital lenders to offer additional in-season facilities to farmers that are not linked to property mortgages, and encourage secured lenders to maintain or raise limits commensurate with the farmers ability to service their facilities.
- A properly designed solution could increase the availability of working capital available to farmers by up to \$10b within 5 years.

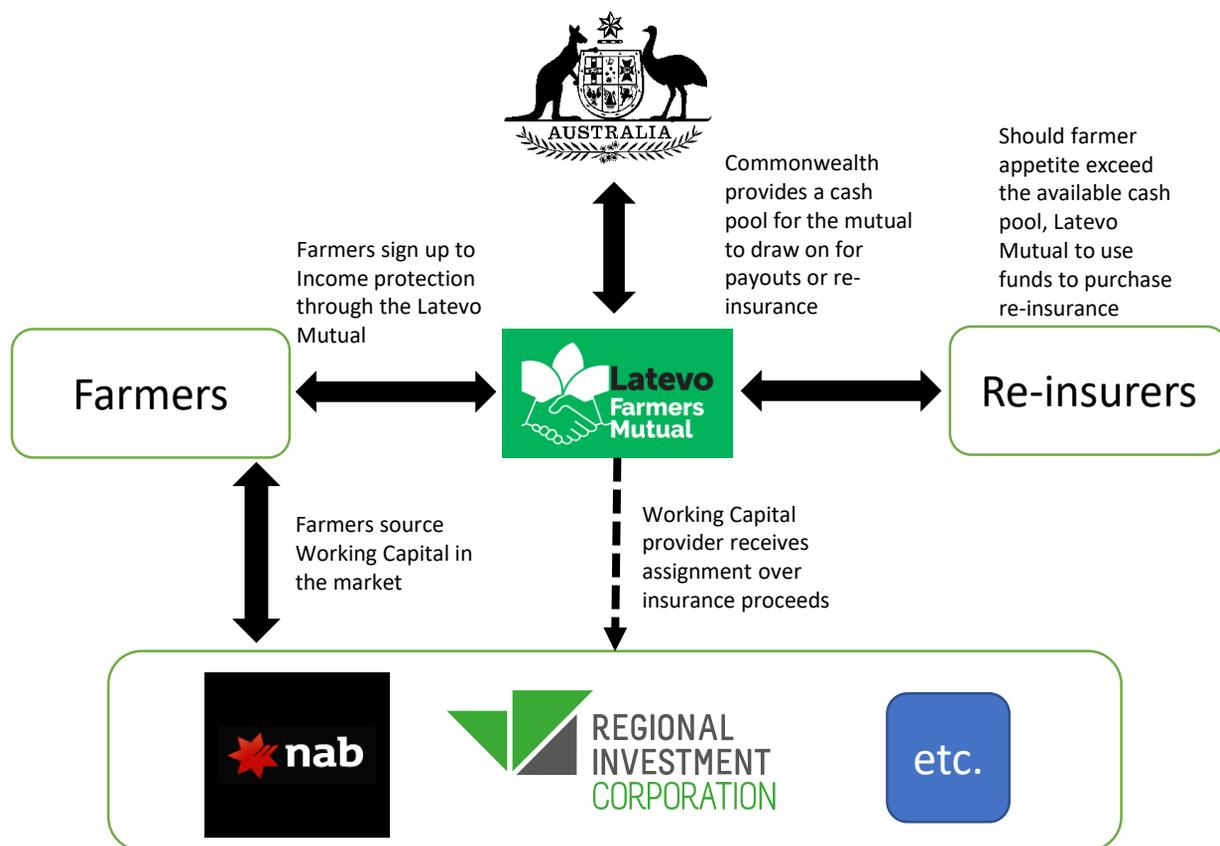
## Latevo Mutual & Working Capital

- The proposed Latevo Mutual Income Protection product, will enable farmers to smooth their earnings, enabling improved forecasting, capital investment and increasing access to capital.
- As a farmer owned mutual, it will have broad abilities to ensure that farmers within its network continue to act in the interests of the mutual and themselves, and will reduce the moral hazard that presently exists between insurers and the insured. This reduction in risk will assist with the competitive pricing of the product.
- As the mutual will be able to assign cashflows that arise from the insurance policy, this will enable working capital investors to lend to farmers without relying on winding up the business in the event of non-payment.
- The Income Protection Product differs from derivatives and other risk mitigation products in that it is a comprehensive policy, that provides support to working capital providers for all perils. These products do not address the key impediment to financing agriculture in-season: earnings volatility
- Wholesale markets would therefore find this type of product more palatable for in-season finance

# Greensill Funding Model



- The provision of government support to the mutual will enable wholesale funding and bank funding to be done at far more attractive rates to farmers. These rates, coupled with the security of minimum income will provide a solid incentive to farmers to adopt the program.
- Government support will assist wholesale funders in bringing this product to market, as it will demonstrate the commitment that the government has made to the industry at a time when many insurers are exiting (due to fire, drought, floods or otherwise)
- Government support will only be required in seasons where:
  - a) a pay out is required to be made by the mutual; and
  - b) the mutual has not yet built sufficient capital in order to meet the claims; or
  - c) farmer interest exceeds the available cash pool, and re-insurance is required.





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