

Banking For Change

Addressing Financial Risk as a Barrier to Farm Transition



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Contributors to the research

Partners

The 'Addressing Financial Risk as a Barrier to Farm Transition' research was initiated through collaboration between **Soil Association Exchange (Exchange), led by Tamara Giltsoff and Joseph Gridley**, with oversight from Green Finance Institute (GFI Hive), led by Helen Avery and Amy Allen. The British Business Bank has supported this research in the interests of improving market insights into the finance needs of small businesses in the food and farming sectors. While sponsorship has been provided by the British Business Bank and oversight and in-kind support has been provided by GFI, the conclusions and policy recommendations made in this paper are those of Exchange.



Research participants

With special thanks to the 11 farmers who contributed their time, (9 in-person, and 2 remote), as research participants in the qualitative research discussions, as well as the 111 farmers who completed the quantitative survey response that followed. All research participants remain anonymous in the report, but it goes without saying that these insights would remain unheard without the contribution of these brilliant and highly engaged farmers and farm advisors. In-person interview discussions were undertaken with farmer participants across Worcestershire, Staffordshire, Yorkshire, Wrexham, West Midland, Devon, Cornwall, Isle of Wight (2), Essex, and Northumberland. Farmer types included arable, livestock, dairy, mixed, and field scale fruit and vegetables.

Research design stakeholders

The following stakeholders contributed to validation of the research hypothesis, the research question and the design of the research, as well as supporting in participant outreach. With many thanks to:

Farmers and heads of farmer clusters:

Tim Parton, Farm Manager and Co-Founder of Green Farm Collective farmer cluster

Archie Ruggles-Brise, Estate Owner, Spains Hall Estate, Natural Capital Projects

Doug Wanstall, Founder of UK Carbon Code, and farmer

Thomas Gent, Gentle Farming, Farmer, and Agreea UK Country Lead

Clare Hill, Co-founder Planton Farm and Roots to Regeneration holistic learning programme

Annie Rayner, Co-founder Planton Farm, Animal Welfare Research

Tim Coates, The North East Cotswolds Farmer Cluster and Co-Founder Oxbury Bank

Sue Pritchard, CEO of the Food, Farming and Countryside Commission, and farmer

Financial institutions and other organisations:

Scott McFarlane, Propositions Team at Virgin Money, and **Oliver Maxey**, Regional Head of Agriculture at Virgin Money

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Farmer outreach

With special thanks to the following organisations who supported outreach to their farmer and agricultural networks. The support of these organisations meant that we were able to reach a farmer group that were motivated to contribute to the research and have their voice heard, who would otherwise have been hard to find.

Robyn Anne Munt, Wight Rural Hub, and NFU Chair for Isle of Wight

Mark Suthern, Institute of Agricultural Management: IAgM, Commissioner - UK Farm Assurance Review, Non-Exec Director for Environment Agency and Rural Payment Agency

Ben Eagle, Founder of Rural Pod Media and 'Meet The Farmers' podcast

Emily Davies, Managing Editor at Just Farmers

Duncan Anderson Margetts, Rural Advisor, CLA South West

Stephen Drury, Environment and Local Nature Recovery Strategy, Somerset Council

Amanda Gallagher, Somerset Projects and Partnerships, and **Mandy Lowe**, Country Convener, at The Farming and Wildlife Advisory Group (FWAG)

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“
The numbers are clear: 66.1% agree or strongly agree that financial and business risks are barriers to transitioning to farming systems that prioritise climate and nature. A further 13.8% were undecided.
”

Introduction

The Soil Association Exchange is delighted to share the findings of this farmer-led financial research. Responding to a growing interest from the farming community to get involved in nature-friendly farming practices, the research explores what financial barriers might be preventing farmers from fully committing to transition to a farming system that prioritises climate and nature outcomes. It also unpacks who is experiencing these barriers to transition.

The qualitative and quantitative research, which was undertaken between May and July of 2024, responds to the question: How might mainstream banks and UK development finance better support agriculture to respond to climate change and nature degradation by transitioning to farming systems that prioritise climate and nature outcomes?

It is important to note that the research insights shared in this report are farmer-led and represent farmer voices. The scope of the research included eleven one-to-one interview discussions across the country (nine in-person, and two conducted remotely), and 111 survey responses.

The numbers are clear: 66.1% agree or strongly agree that financial and business risks are barriers to transitioning to farming systems that prioritise climate and nature. A further 13.8% were undecided.

The risk of transitioning a farm business model (and sometimes a way of life), shifting away from a well-understood and effective conventional farming system, is profound for a large percentage of farmers in the UK. Insights from the qualitative research revealed the same financial and business model related risk barriers, with over half the group estimating that up to 80% of all farmers are not transitioning because of financial risk. Yet, in the words of one farmer “no one is talking about this”.

To be clear, the barrier is one of risk and not cost. There is absolute clarity from farmers that transition to regenerative farming systems results in reduced inputs and labour and therefore costs, despite the potential need for capital outlays for new machinery or technologies. The research does not reveal the need for more debt. Instead, it highlights that financial risk during an ‘up to six-year’

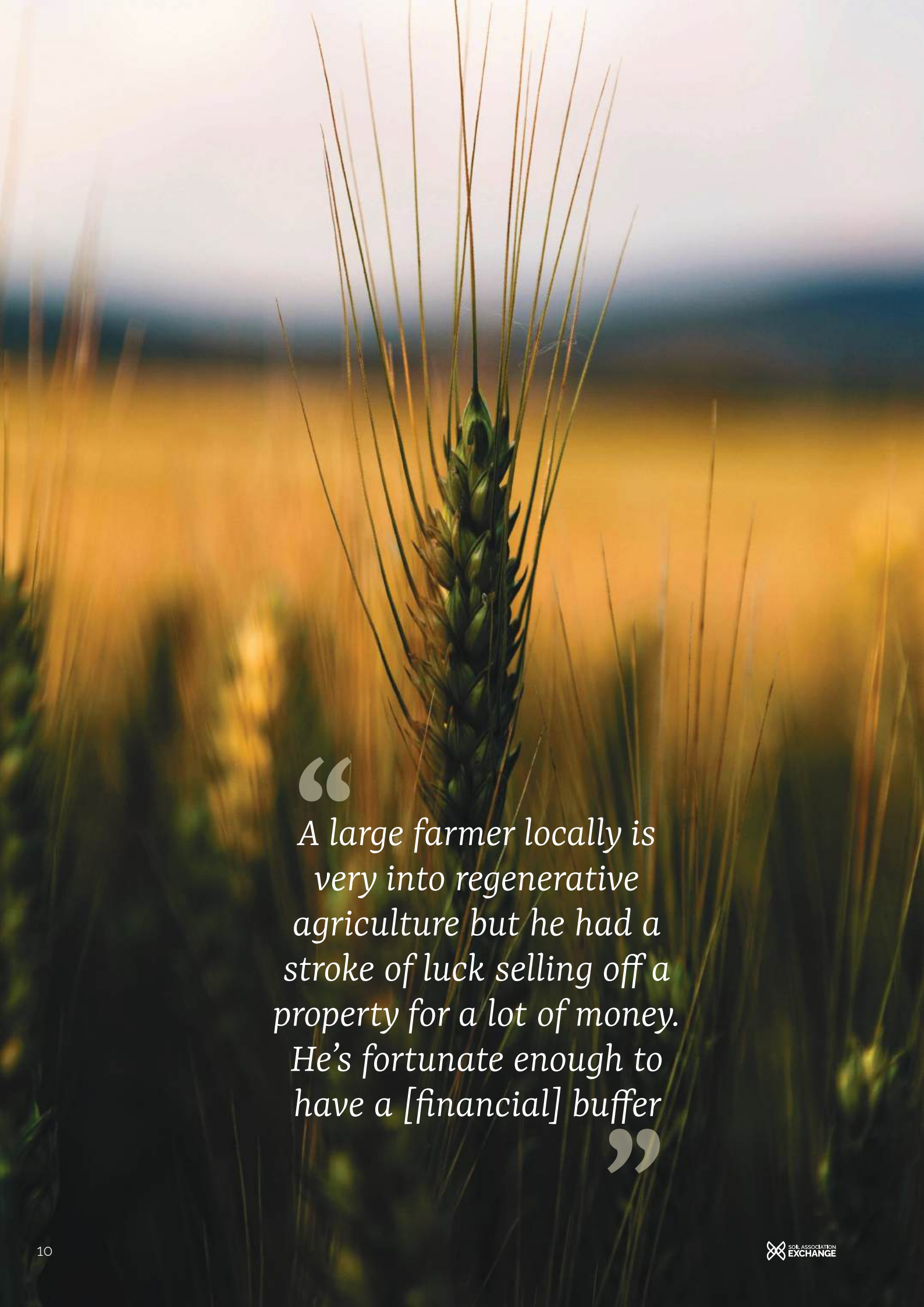
transition period is creating a barrier for many farmers. It also reveals that business and financial planning advice for transition, alongside farming system advisory, is critical for addressing the risk of, and support needed to, transition.

The report recommendations respond to the need to address farming transition risk, as well as the risk of taking no action for the banks. Nature depletion, along with climate change, presents material climate and nature risks for financial institutions. Green Finance Institute's report 'Assessing The Materiality of Nature-Related Financial Risks for the UK' (2024),¹ highlighted agriculture, manufacturing and utilities face higher levels of nature-related risk. Doing nothing to de-risk and support farmers to transition their farming business model, as well as upgrade infrastructure and assets, will result in material risk for lenders. A path forward for all banks to get behind, framed as Nature Transition Finance, is outlined in this report.

Joseph Gridley
CEO of Soil Association Exchange

¹ <https://www.greenfinanceinstitute.com/wp-content/uploads/2024/06/GFI-GREENING-FINANCE-FOR-NATURE-FINAL-FULL-REPORT-RDS4.pdf>





“
A large farmer locally is very into regenerative agriculture but he had a stroke of luck selling off a property for a lot of money. He's fortunate enough to have a [financial] buffer
”

2.0

Executive summary

The farmer-led research was undertaken in response to a question: How might mainstream banks, and UK development finance institutions, better support farm businesses to respond to climate change and nature degradation by transitioning to agroecological farming systems that prioritise climate and nature outcomes?

Despite the uncertainty of market conditions, there is a growing interest from the farming community to get involved in nature-friendly farming practices, but barriers persist.

This research explores what, from a financial perspective, might be preventing farmers from fully committing to a business model transition that prioritises climate and nature outcomes. It also unpacks who is experiencing these barriers to transition, and what the bank's role is in supporting 'nature transition'.

The research included eleven 1:1 interview discussions with farmers (9 in-person, and 2 conducted remotely) and 111 survey responses. In-person, on-farm interview discussions were undertaken with farmer participants across Worcestershire, Staffordshire, Yorkshire, Wrexham, West Midlands, Devon, Cornwall, Isle of Wight (2), Essex, and Northumberland. Farmer types included arable, livestock, dairy, mixed, and field scale fruit and veg. Farmers had either not yet transitioned their farming system or had begun experimenting with some agroecological approaches. There was one exception, a new entrant farming partnership that has farmed regeneratively from the start of their business.

The research insights have led to a package of solutions for the banks to mobilise, that has been

framed as 'Nature Transition Finance'.

Risk of transition

The research has highlighted that a significant proportion of farmers – 66.1% – agree or strongly agree that financial and business risks are barriers to transitioning to farming systems that prioritise climate and nature outcomes, with a further 13.8% undecided.

The risk of transitioning a business model, and sometimes a way of life, that shifts away from a well-understood and effective conventional farming system, is profound for a large percentage of farmers in the UK. Over half of the participants in the qualitative research estimated that financial risk is a barrier to transition for up to 80% of all farmers.

The research highlighted that larger farm operations – described as the “big boys” in the research – with fully diversified business models and significant farm and family assets, are able to flex financially and to innovate and evolve their business model. Farmers in this group are also able to hold down multiple high-value business roles that allow for greater financial flexibility with the farm operation and hence have this greater ability to transition. However, for the majority (66.1% of farmers according to this research), there is little or no flexibility to

innovate and evolve their business.

Unknown unknowns

Working with nature’s complexity as opposed to being able to manage nature with chemical inputs and machinery, or being able to “reset the soil” when required, presents very real business and financial risks for farmers in our research. 58.6% of respondents in the survey agreed or strongly agreed that “The conventional farming system acts as an ‘insurance’ for my farm i.e., I know what outputs I can get”.

The biggest hurdle of business and financial risk appears to be higher before beginning transition and during the early transition journey i.e., the barrier is the ‘unknown unknowns’ of transition, that’s set against what is considered a ‘safe’ and effective conventional farming system. The research data indicates that farmers who have not yet started to think about or factor climate and nature outcomes into the farming system, or those who are starting to think about factoring climate and nature outcomes, are most inclined to perceive transition as a business and financial risk.

Despite the unknowns, there is an appetite for transition to a farming system that prioritises climate and nature outcomes. **75.4% of the survey respondents reported they have applied, or are in the process of applying, for Sustainable Finance Incentive (SFI) payments, indicating this intention. 75.7% indicated that improving soil health was a top five benefit of transition, alongside seeing visible signs of nature returning, with 63.1% saying this is in their top five. Climate resilience was another top five reason from 60.4% of respondents, with the benefit of reduced input and operating costs identified in their top five reasons by 53.2%.**

Backdrop of uncertainty

The sentiment of business and financial risk as a barrier to transition should be understood within the backdrop of uncertainty within farming,

including the phase out of Basic Payment Scheme (BPS) which has acted as a mechanism for ‘smoothing over’ farm business risk, that’s been compounded by inflationary pressures and market uncertainty, as well as weather-related climate impacts.

There is a perception that farming has been pushed to the bottom of the food value chain and a sentiment that food derived directly from farmland is under-valued. Farming’s position in the value chain is in conflict with a growing idea that farmers now need to recover and steward nature, and respond to climate change.

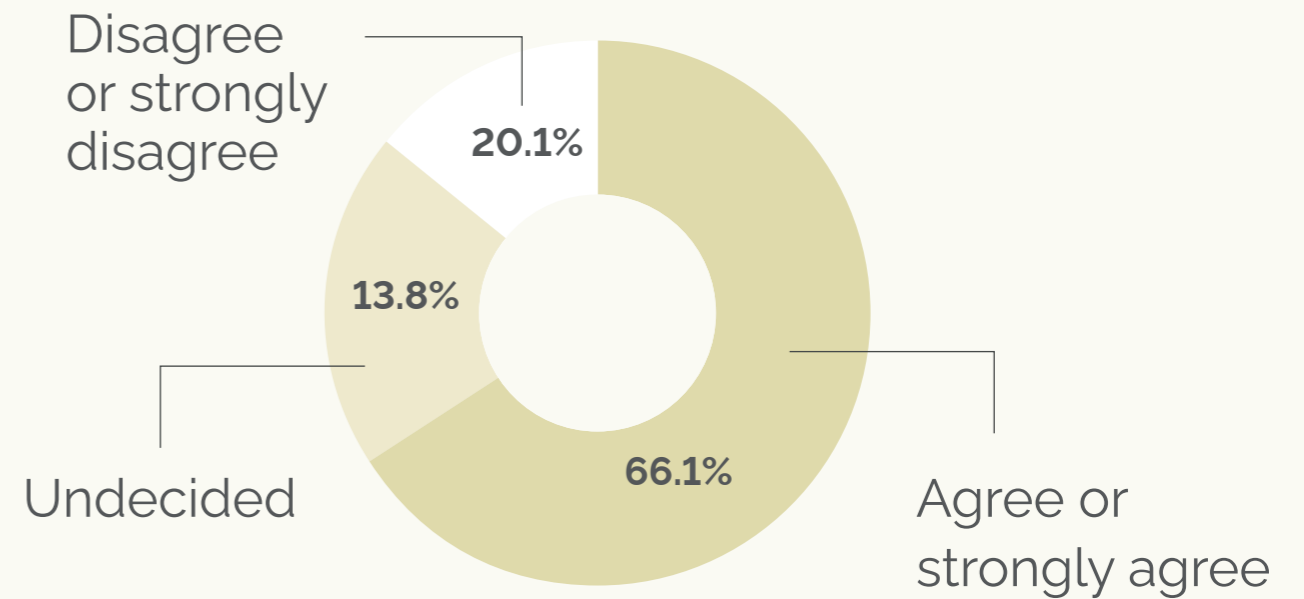
Financial model transition

Transition to a new farming system also means transitioning the farm financial model, to include ‘enterprise stacking’, which may or may not stop at the farm gate and needs to balance financial outcomes and assets, with environmental outcomes. ‘Stacking’ or layering enterprises could include accessing Environmental Land Management (ELM) payments, accessing capital through the sale of climate and nature outcomes to investors and corporate buyers, and a combination of other farm and food related enterprises. This relatively new concept of stacking adds to the perception of complexity and the risk of transition for farmers. The need for business model design and financial planning support, alongside the need for farming transition advisory, emerged as a clear need in the research.

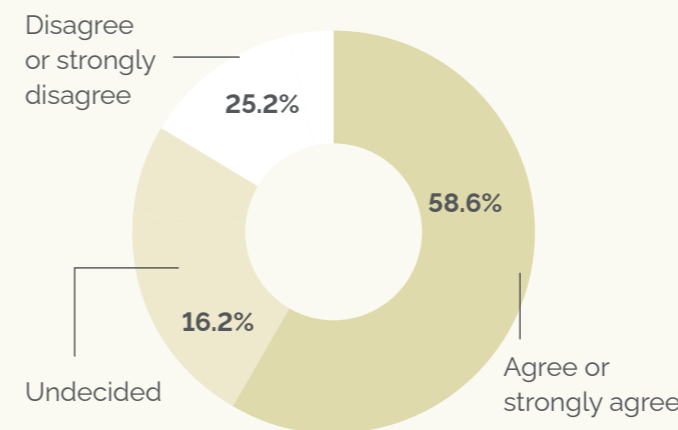
Farmers’ risks are the banks’ risks

There is however a double-edged risk because not transitioning to systems that prioritise climate and nature outcomes also presents risk to farm businesses, and in turn, it presents material risks to financial institutions and UK food resilience. Green Finance Institute’s report ‘Assessing The Materiality of Nature-Related Financial Risks for the UK’ (2024), highlighted

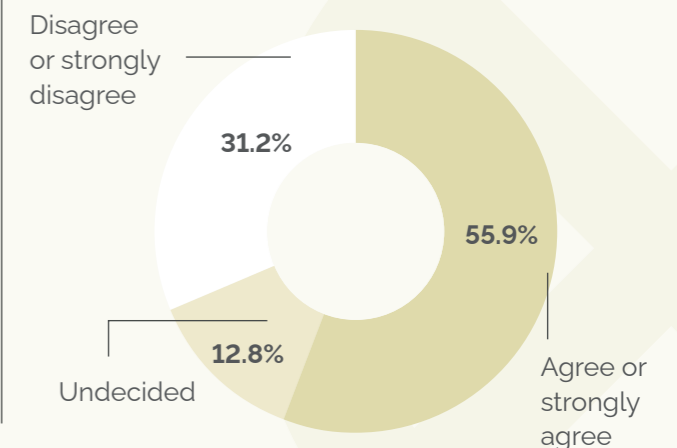
“ Financial and business risks are barriers to transitioning to farming systems that prioritise climate and nature outcomes ”



“ The conventional farming system acts as an ‘insurance’ for my farm i.e., I know what outputs I can get ”



“ Transitioning to a new farming system will mean having to experiment and learn but I don’t have the financial flexibility for experimentation within the business ”



<https://www.greenfinanceinstitute.com/wp-content/uploads/2024/06/GFI-GREENING-FINANCE-FOR-NATURE-FINAL-FULL-REPORT-RDS4.pdf>



agriculture, manufacturing and utilities face the highest levels of UK nature-related risk.

The analysis estimates that some banks could see reductions in the value of domestic portfolios of around 4-5% due to material nature risks, and these are conservative estimates.

Despite the evidence, banks have yet to acknowledge the material risk as it directly relates to their financial relationship with farmers, who will have to respond to these risks in the choices they make with their farm business model. Efforts to date from banks to engage in the 'race for Net Zero' have largely focused on 'Sustainable Agriculture propositions', offering preferential lending products for decarbonisation of the agriculture industry, and investment infrastructure and/or 'agri-tech'. These financial products address one part of the necessary transition. They do not address the need for business model innovation and the associated risk for farm businesses, and the need for financial and farm advisory support for farm businesses through the six-year² transition period.

Farm advisors influence

The survey revealed that farmers do have a level of confidence in agriculture industry advisors' ability to support farm transition to a system that prioritises climate and nature outcomes, which is positive. 45.9% disagreed or strongly disagreed with the statement that "My current set of farm advisors (e.g. agronomist, livestock, vet, etc.) cannot provide me with advice to transition my farm", and 30.6% agreed or strongly agreed, with 23.4% undecided. However, many farm advisors, and in particular agronomists, are embedded in the incumbent conventional farming industry. Their entire education and career may have been built around this system, meaning that their influence on farm business and financial decision-making through transition could act as an additional barrier. This is particularly pertinent when many advisors work for businesses that supply industrial farming system inputs, machinery or services to the agriculture sector.

² Can Farmers Afford to Switch to Regenerative Farming? (Savills, 2023 and updated 2024) https://www.savills.co.uk/research_articles/229130/362979-0

The 6-year transition period

In 2023, Savills Rural Research modelled adopting a regenerative system on its Virtual Farm, and compared cropping income, England's SFI and carbon scheme income in a conventional system and after years one and six of regenerative farming. Their results showed that the net margin from a regenerative farm was 41% lower than the conventional system in year one of the transition, but by year six it exceeded it by 18%.

These figures have been revised in 2024, as the SFIs have been updated. They assume yield reductions by 26% at the start of the transition, with some recovery to 18% below yields by year six. The transition gap has closed, based on the Virtual Farm, with overall net margins just 10% below conventional margin, improving it from 41%, and longer-term prospects now exceed the net margin by 31%. However, there is still a transition gap in farm finances and there is still a significant period of business model uncertainty for farmers to experiment, learn, and evolve their business over the estimated six years of transition period.

“Some people are sold a ‘regen dream’, with an expensive bit of kit, but there’s a lot more to it and it’s taking people huge amounts of time to get it right. It’s not flicking a switch, you need to change a lot and do a lot”

Time and cost of business model innovation

The time and the potential cost of experimenting and learning in the path to transition is difficult for an industry that has been pushed hard for many years to be more and more efficient and to maximise yields, often at the expense of food nutrient density, nature outcomes, and farmer wellbeing. This is an industry that has ended up, in the words of the research respondents, as the farmers being the “price takers”, susceptible to the vagaries of markets. **One farmer reported that a shift to once-a-day milking, made possible by a dairy contract seeking full-fat locally produced milk, was allowing their husband and wife family-run farm the space and time to begin experimenting and learning about agroforestry within their farming system. It was also allowing them to build new knowledge and make nature-informed decision-making on the farm.** This farmer maintained this would not have been possible within a more intensive dairy system. The shift had also significantly improved the family’s quality of life.

Recommendations to banks

The report recommends that banks must acknowledge that agriculture transition to a system that prioritises climate and nature outcomes, in the end, amounts to entire business model innovation, (although this does not necessarily have to happen all at once), and this presents financial risk as well as opportunity for a significant percentage of farm businesses. Farm decarbonisation and/or investing in new ‘Agri-Tech’ or ‘Nature-Tech’ is one part of farm business model innovation. This report calls for the need for ‘Nature Transition Finance’, and calls for banks to acknowledge that farm business and financial risk acting as a barrier to transition for farmers presents material risk for their own businesses. The recommendation is that Nature Transition Finance should be delivered by banks because they have the reach to and trust of the farmers, and should be seen as a package of transition support, combining financial and farm advice being delivered hand-in-hand with financial products. The report recommends a number of financial instruments and approaches to mobilising these with the support of government and philanthropic funders.

Recommendations to development finance

The recommendation calls on the need for UK development finance to be mobilised as a mechanism for catalysing one of the most important economic transitions of our time with the banks: the transition from industrial agriculture to regenerative, as a farming system that prioritises nature and climate outcomes. Nature is central to the UK’s industrial strategy and Net Zero ambitions, and has far reaching impacts for people and places.

Nature and land-use sit at the nexus of food, energy, health and housing, as well as other adjacent industries such as materials. Farmers and land managers manage over 70% of the UK’s land, which means agriculture is the manager of one of the UK’s capital stocks – nature. The risk of not transitioning from a conventional farming

“An existing financial commitment to honour will constrain change to any lower input farming as we don’t know what we are going to get, and we can only mitigate this by putting inputs on the land. Fungicides and herbicides etc. are our insurance policy”

“

A lot of people want to invest in tech because it's a tangible thing but what we need is increased eco-literacy and ability to manage complexity on the land. This requires an equal focus on people and on technology.

The 5th Industrial Agriculture Revolution is said to be a combination of one that will be technology and agroecology together. We need equal investment going into the agroecology side

”

Clare Hill, Co-Founder

Planton Farm, on the Investing In Regenerative Agriculture Podcast

system to one that prioritises climate and nature outcomes is immense, and not just for farming and food resilience.

Recommendations to funders

The recommendation to funders and policy makers is that the agricultural transition needs 'market building' support – i.e., creating the conditions for new food and farming systems that prioritise climate and nature to innovate and evolve locally, regionally and nationally. Corporate innovation funding and early stage 'strategic investment' is well established within other sectors, as is publicly funded R&D (tax relief) and innovation funding support, with the objective of unlocking innovation through entire sectors (e.g., 'FinTech' ecosystems, which has transformed the UK's financial sector). Models exist to invest in innovation, deploying corporate capital for and with corporations, such as Founders Factory or TechStars, but these models, with corporate and/or public funding, do not exist for business model innovation and experimentation (on farm) within food and farming. **This report has called out nature degradation and biodiversity collapse as a material risk to banks. It is also a material risk to the food industry, who although not a key target for the recommendations, can play an important role supporting innovation and farm transition.**

Recommendations to agriculture and farmers

Agriculture must continue to have a voice and engage with the banks. The significance of transition to a new farming system and the risks it presents should also be acknowledged by the agriculture industry itself – farmers, farm groups, farm clusters, farmer networks, and member organisations. In doing so, it acknowledges that transition requires strategic, long-term thinking and financial planning, as well as climate and nature capacity building and new knowledge development. It is important to acknowledge that 'transition' equates to 'business model innovation'.

Farmers in the research discussions expressed a growing desire to contribute to shaping policy and to have a 'voice' to influence the changes happening in farming. This report encourages the ongoing contribution to research like this, as well as voicing sentiments directly to the banks. Banks have expressed that they are "not hearing [from their customers] about the need for financial products to support transition", yet the findings of this research indicates otherwise.

3.0 Background to the research

Background, hypothesis and objective

Mainstream banks had reported low uptake of 'sustainable agriculture' financial products by their agriculture customers. Banks also noted that they were not hearing directly from their farmer customers for the need for more financial support. However, the hypothesis of this research challenges whether this is reflective of reality.

Initial pre-research with banks, farmers, agriculture sector organisations, and policy makers, indicated there is potentially a large group of farm businesses that perceive that they cannot risk business interruption during the transition to a new farming system, because they don't have the financial flexibility to be able to absorb the [business model innovation] risk. Business and financial risk is acting as a barrier to transition.

The assumption from lenders was that this segment would already be customers of the banks, including holding long-term or short-term debt or credit. Alternatively, they were perceived as being unknown to the banks because the farm business might have been turned down for loans or other products, or the business does not make use of debt products from banks.

One farmer who was interviewed in the pre-research estimated that "80% of all farmers are in the category of not being able to take on the financial risk of transition", but that "no one is talking about it". The size of this group was further validated in the research discussions and the research survey. The pre-research also identified that those who had already transitioned to regenerative farming systems

The Real Farming Trust's Loans for Enlightened Agriculture Programme (LEAP) offers unsecured loans between £10,000 and £100,000 for a 5-year minimum and 9-year maximum term, with a 5% interest and 2% one-off fee. The LEAP supports small-scale agroecological food and farming enterprises with funding and business mentoring. LEAP offers a mix of loan and grant, providing access to finance to those who would otherwise struggle to access it. LEAP does not cater for larger businesses on their farm transition journey.



and/or landscape scale recovery on their land, had the financial flexibility to take risk. These included already well-diversified businesses, with multiple income streams, and/or farm or land-based assets they were able to sell to finance their transition.

Note that efforts to support sustainable agriculture thus far from banks have largely focused on preferential loans for investments deemed to support the path to Net Zero, or 'Green Growth'. This is support that's included investment in energy efficient and renewable energy infrastructure for use in or as part of a farm business model, or access to novel technologies for measuring environmental outcomes. Although decarbonisation of carbon-intensive sectors is critical in the race to Net Zero, these financial propositions do not directly address transition of a farming system and farm business model to prioritise climate and nature outcomes.

The hypothesis for the research is that business and financial risk presents a barrier to transition for many farmers who do not have financial flexibility on their balance sheet or within their family ecosystem, to be able to experiment and innovate with a new farming system. This includes developing new knowledge, skills and connections, and remodelling the farm financial model. Larger farm operations with fully diversified business models, and significant farm and family assets, can flex financially to be able to evolve their business model and farming system. Farmers in this group are also able to hold down multiple high-value business roles, which may or may not be treated as farm income but that allow for greater financial flexibility with the farm operation and hence are better equipped to transition.

The hypothesis acknowledges that transition to a new farming system that prioritises climate and nature outcomes, presents business model risk and hence financial risk for a large segment of farm businesses.

There have been calls for use of 'innovative finance' and 'unlocking private capital to achieve

nature outcomes' to close the financial gap of agricultural transition. This has focused on the 'cost of transition'. **But there has been less focus on addressing the business and financial risk of transition, and support for business model innovation during the transition period (of approximately six years). Discussions have been focused on the cost of transition, as opposed to risk or the longer-term gains.**

The farmer-led qualitative research, and quantitative survey, sets out to determine the market gap for financial lending or other investment products/services to support farmers' transition from a conventional farming system to systems that prioritise climate and nature outcomes. The research recommendations are primarily directly targeted at banks, but also addresses development finance and other philanthropic and corporate funders, and the agriculture sector itself.



Examples of sustainable agriculture products

Barclays Bank UK offers green loans and set up a £250 million fund in 2020 that farmers can access to make their businesses more environmentally sustainable and energy efficient.

HSBC UK launched a £500 million green fund for small and medium-sized enterprises (SMEs) in 2021 to support businesses in the transition to a low-carbon economy, most of which it expects to go to the agricultural sector.

More recently, in September 2024, HSBC has partnered with the farming charity LEAF to launch HSBC Sustainable Farming Pathway, offering discounted access to loan arrangement fees to farms that have achieved LEAF Marque certification.

Lloyds Bank reduced the minimum loan size under its Clean Growth Financing Initiative (CGFI) to allow more SMEs to benefit from accessing money to make climate-friendly improvements.

Lloyds is also funding the **Soil Association Exchange**, which provides tailored data, advice and financial opportunities to farmers.

Royal Bank of Scotland's Green Growth Financing Initiative supports a range of investments in sustainable business – from small improvements in environmental impact, right through to large-scale renewable energy infrastructure.

Oxbury Bank is a specialist agriculture bank. Its Farm Loans (of £25,000-£10 million) are offered to fund activities that include carbon reduction and renewable energy, farm infrastructure improvements (including natural capital), rural diversification projects and succession planning.

Triodos Bank provides loans of up to £20 million to agribusinesses for conversions to organic, refinancing and investing in growth, renewables and diversification.

Source: Fertile Ground Accelerating the Transition to Net Zero Agriculture (Bankers for Net Zero, 2023)

4.0

Research methodology

Phase 1: Research validation and research design

This first phase of the research was used to arrive at a shared research hypothesis, the main research question and the target farmer 'archetype' for the research. Eleven exploratory discussions were undertaken with farmers who had already transitioned to a regenerative system, as well as those farming with a conventional system, mainstream banks, organisations representing the agriculture sector, policy stakeholders, and an academic researcher who is leading work in Europe exploring financial system barriers and agroecological transition.

An overall theme emerged through the discussions that there's a segment of the farmer population, across farm types, which are not transitioning to a farming system that prioritises climate and nature outcomes because of the business risk and therefore financial risk of farming in a completely new way. The group cannot risk any interruptions in the process of transition because, despite their interest in evolving their farming system, they don't have the financial flexibility or the assets to address transition risk. This segment is either known to lenders because they are already borrowers, but not asking for financial support for transition, or not directly known to lenders because they have not borrowed from the bank or have possibly been turned down for loan products.

Phase 2: Qualitative on-farm research discussions

The research targeted a farmer archetype where there is little financial flexibility to be able to take risk, with two types within it, and participants were selected with the help of regional agriculture organisations and farmer networks across England. The two farmer types included:

- **Farmers operating businesses that have long-term debt, asset finance and short-term credit, who are running an effective conventional farm business, but do not have any, or have limited, financial cushioning to be able to take on transition risk**
- **Farmers operating businesses that do not have long-term debt, asset finance and short-term credit, who are running an effective conventional farm business, but do not have any, or have limited, financial cushioning to be able to take on transition risk**

Eleven qualitative in-person interview discussions were undertaken to unpack the financial barriers to transition. Nine of these were in-person on farms, and two of these were undertaken remotely on Zoom. One of the remote interview discussions was an anomaly to the research archetype, as this farm operation, on a private estate, is large and diverse, with a large balance sheet. This interview was used to understand financial pressures of transitioning a farming system within much larger farm operations, where there are financial pressures to deliver profit to landowners, but more financial flexibility.



In-person discussions were undertaken with farmer participants across Worcestershire, Staffordshire, Yorkshire, Wrexham, West Midlands, Devon, Cornwall, Isle of Wight (2), Essex, and Northumberland. Farm types included arable, livestock, dairy, mixed, and field scale fruit and vegetables.

Phase 3: Quantitative survey outreach

Building on the insights and recommendations emerging from the qualitative research discussions, a farmer survey was designed to further validate insights with a larger participant group, and to provide quantitative evidence to the research. The survey questionnaire was peer reviewed and contributed to by Tim Coates, The North East Cotswolds Farmer Cluster and Co-Founder Oxbury Bank, and Robyn Anne Munt, Wight Rural Hub, and NFU Chair for Isle of Wight, and promoted through farmer member organisations and networks, and via Farmers Weekly online. 249 respondents started the survey, with 111 participants completing it. A completion rate of 46%.

Quantitative research data has been used to validate insights from the qualitative discussions and provide proof points for action. The data was analysed by the researcher, including with support from a generative AI tool to analyse the survey data, and forms the basis of the report.



5.0

Insights and evidence from the research

“
Changes to the farming system
[from conventional system to
agroecological system] no longer
‘guarantee’ the crops we are going
to get. When margins are tight,
we default back to what we know
works – using inputs
”

5.1 Backdrop of uncertain times

The research revealed that market conditions (74.8% prioritised this out of their top five), weather related climate impacts (73% prioritised this), policy changes (70.3% prioritised this) and the value of produce (57.7% prioritised this) are the top concerns fuelling uncertainty for farmers. Quality of life as it relates to finances and family succession issues were joint in the top five concerns (43.2% prioritising these).

The phase out from Basic Farm Payments (BPS) has led to an exposure of financial risk for farmers, which had previously been cushioned by the flat rate subsidy, which is an important backdrop for this research. Extreme weather patterns were also noted, as was the growing demand for farmers to produce food within a system that prioritises climate and nature outcomes, whilst operating in an existing food system that undervalues good quality food.

Additionally, the increasing value of land linked to ecosystem services, or ‘Natural Capital’, presented a breadth of concerns for farmers in the qualitative research discussions, in particular. Less so in the survey responses, with only 18% of farmers prioritising ‘private capital coming into farming’ as a concern out of a list of 12 risks and concerns.

The overall sentiment in the qualitative research is that income in the form of payment for environmental outcomes such as carbon, biodiversity and flood water management, is not yet seen as an effective mechanism to offset the financial risk of transition to a farming system that prioritises climate and nature outcomes.

Farmer concerns reflect the backdrop to the business and financial risk of transition that the research explored. It is important to acknowledge that these are uncertain times for the farming community, and this sector-wide uncertainty comes at a time when agriculture is undergoing profound change in response to climate change and nature loss, as well as a growing understanding of the interconnection between nature and farming.

Although not the focus of this report, another contribution to the financial uncertainty and concerns of farmers, is how undervalued food produced by farmers is within the food system and by the UK public. This is a theme consistent in the qualitative research discussions. In addition to this, participants referred to the ‘farmer bashing’ that the farming community has received from mainstream media who have ‘pointed the finger’ at farming as a key contributor to carbon emissions and nature loss.

“
I’m concerned the business will be taken over by a corporate company or investors as we are a small operation on very valuable land. Trying to monetise land will bring the wrong people to the table ”



“
Biggest concern is quality of life – can’t have a decent life easily [because of the farm economics], and this is having a negative impact on the health of my family and myself. I worry that we [farmers] are not valued enough”

5.2

Financial risk is a barrier to transition

“
I can’t afford to take risks on a field. If I get a job wrong in a field, it would be 10% of the business. The ‘big players’ are able to experiment [with their farming system]”

The research has highlighted that a significant portion of farmers (66.1%) agree or strongly agree that financial and business risks are barriers to transitioning to farming systems that prioritise climate and nature. A further 13.8% were undecided. The risk of transitioning a farm business model and sometimes a way of life, that entails shifting away from a well-understood and effective conventional farming system, is significant for 66.1% of farmers in the UK.

Some farmers described the conventional, inputs-based farming system acting as an “insurance on the outputs I will get”. **58.6% of farmers agreed or strongly agreed with the statement that “The conventional farming system acts as an ‘insurance’ for my farm i.e., I know what outputs I can get”.** Taking away the ‘insurance’ offered by chemical inputs and conventional practices such as ploughing to “reset the soil” is perceived as high risk for many farmers.

Whilst business and financial risk presents a significant barrier to transition, 63.6% of farmers in the research have already applied for Sustainable Farming Incentive (SFI) schemes, and a further 11.8% are in the process of applying, illustrating there is the appetite to participate in regenerating and stewarding nature on the farm and retaining some level of subsidised income.

Additionally, a picture of the benefits of transition to a farming system that prioritises climate and nature emerged in the research, which included: *knowing we are improving soil health is motivating (75.7% prioritised this out of their top five), seeing visible signs of nature return makes you feel good (63.1% prioritised this), soil health and recovering nature on the land is more resilient to climate impacts (60.4% prioritised this), transition away from a conventional system means less inputs and lower operating costs (53.2% prioritised this), acknowledging climate and nature in decision-making makes you think about the*

“
Been down the minimum tillage³ route, mostly because of time pressure after harvest. But we’ve gone back to the plough after the wet autumn of 2019 and damage was done to the land. It was a reset button”

³ <https://defrafarming.blog.gov.uk/sustainable-farming-incentive-pilot-guidance-use-min-till-or-no-till-farming/>

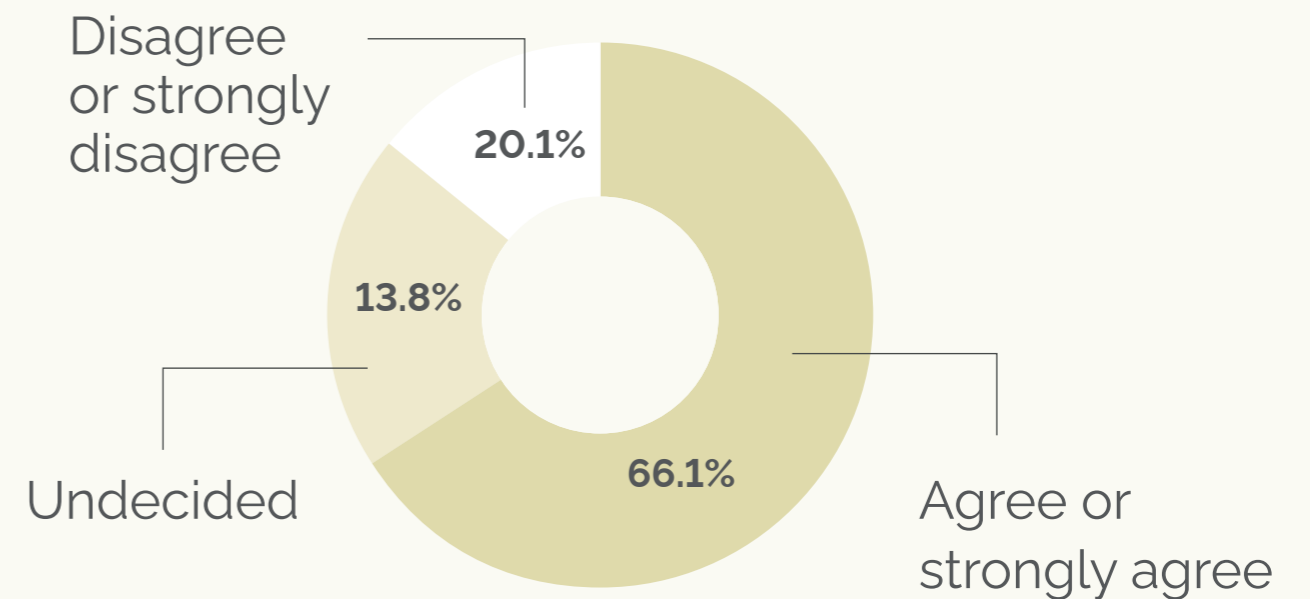


business strategically (52.3% prioritised this), and building new knowledge and a passion for something new (45.9% prioritised this).

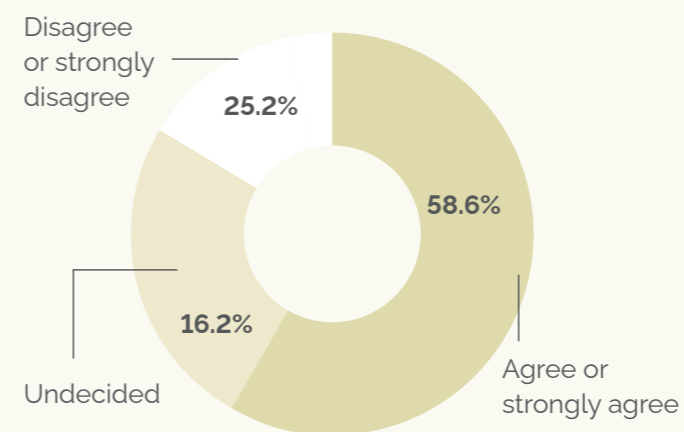
The report further explores ‘nature as a driver of better financial decisions’ which emerged as a theme in the research discussions, as did building new knowledge and enjoying nature returning to the land. See more on this in section 5.7.

“Changes to the farming system [from conventional system to agroecological system] no longer ‘guarantee’ the crops we are going to get. When margins are tight, we default back to what we know works – using inputs”

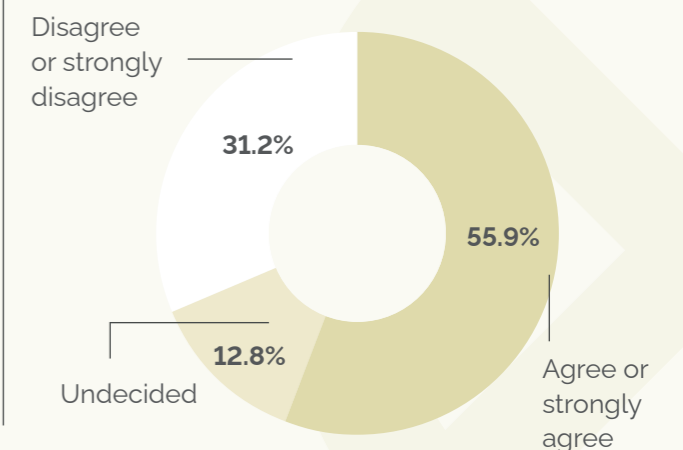
“Financial and business risks are barriers to transitioning to farming systems that prioritise climate and nature outcomes”



“The conventional farming system acts as an ‘insurance’ for my farm i.e., I know what outputs I can get”



“Transitioning to a new farming system will mean having to experiment and learn but I don’t have the financial flexibility for experimentation within the business”



5.21

Financial position as it relates to risk

“

A large farmer locally is very into regenerative agriculture but he had a stroke of luck selling off a property for a lot of money. He's fortunate enough to have a [financial] buffer ”

The farm's existing financial position in terms of debt or other financial commitment influences the perceived financial risk of transition. Farms with substantial long-term debt rated financial risks as being higher, although this did not preclude financial risk being a barrier to transition amongst those without long-term debt or short-term credit/overdraft.

The research has highlighted that over-all, a significant proportion of farmers (66.1%) agree or strongly agree that business and financial risks are barriers to transitioning to farming systems that prioritise climate and nature.

This was highest (rating as 52%) in the group with the most significant debt or asset finance. It was followed by those with some form of debt or short-term credit/overdraft flexibility, who also perceive high financial risks (42.9% of this group). Those with 'less financial flexibility' were in the highest agreement that financial risk is a barrier to transition.

The qualitative research had targeted farmers that had little financial flexibility to take risks i.e., with long-term debt and short-term credit/overdraft commitments, and/or other financial-related commitments, who were not yet transitioning or fully transitioning.

There were however, two anomalies within this:

- 1) where there was no long-term debt or short-term credit/overdraft but there was significant pressure on the business to demonstrate its value to the wider family in-line to inherit part of the farm, which in itself is creating a barrier to change. This farmer believed that lack of debt on the farm balance sheet had actually made the farm stagnant and more fearful of taking on business and financial risk to evolve the business.
- 2) where the new entrant farmers had borrowed 'friends and family' capital to start up their farm operation. This was with the objective of operating a regenerative farming system from the get-go, because banks do not lend to new entrants with no assets to secure against or with no financial farm business history.



55.9% of respondents agreed or strongly agreed with the statement *“Transitioning to a new farming system will mean having to experiment and learn but I don't have the financial flexibility for experimentation within the business”*, with a further 12.8% undecided. Lack of financial flexibility to innovate and evolve is the key insight when it comes to financial risks as a barrier to transition. The farm business might not necessarily have significant long-term debt but the complexity of transition, the new knowledge it requires, and the financial pressure to deliver to family stakeholders, can be a barrier to transition.

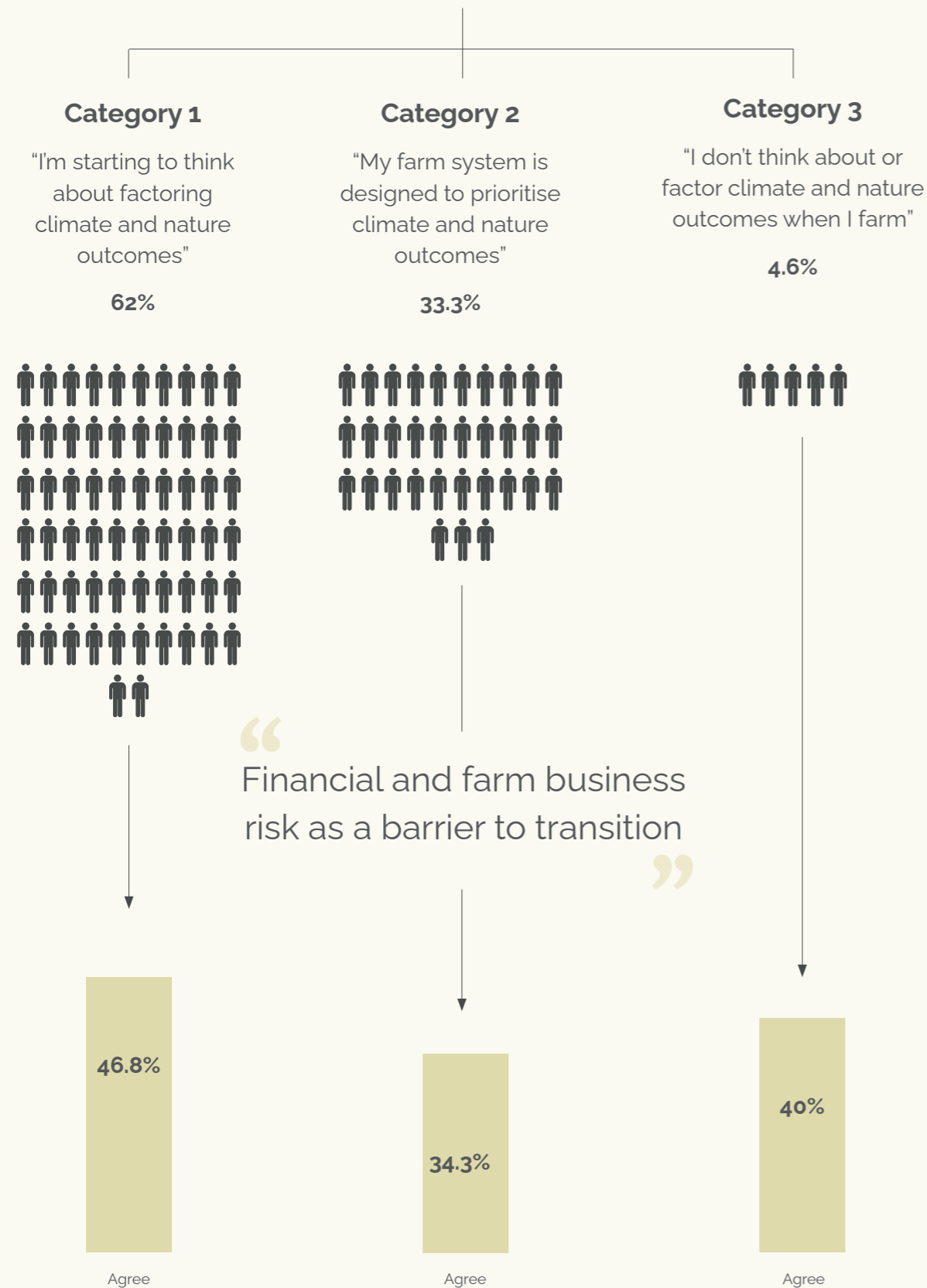
Through all qualitative research discussions, farmers reported that farm business and financial risks are acting as a barrier to transition. However, this had not necessarily put a halt on all nature friendly practices with

many farmers reporting some experimentation and corresponding benefits. These included developing new skills, thinking more strategically about how they make use of their land, and enjoying nature returning to the land.

“

There is business interruption with regenerative farming. There's no doubt about it. It has been proven ”

Financial risk as a barrier at different stages of transition



5.22

Risk at different stages of transition

The data illustrates that those who have not yet considered or are just starting to consider climate and nature outcomes in their farming system perceive higher financial risks.

The data illustrates that as farmers move through transition to a farming system that prioritises climate and nature outcomes, their perception of financial risk as a barrier tends to decrease.

The farmer survey presented three categories to identify where farmers are in relation to transitioning to a farming system that prioritises climate and nature outcome:

1. "I'm starting to think about factoring climate and nature outcomes" (62% of respondents)
2. "My farm system is designed to prioritise climate and nature outcomes" (33.3% of respondents)
3. "I don't think about or factor climate and nature outcomes when I farm" (4.6% of respondents)

Additionally, 75.4% of the respondents identified as either being in the process of applying, or have applied for SFIs, illustrating that overall, there is a propensity in the responses towards transitioning farming to a system that prioritises climate and nature outcomes.

46.8% of respondents who identified as (1) and 40% of (3) agreed or strongly agreed that financial and farm business risk as a barrier to transition. Whilst farmers who are already prioritising climate and nature (2) had a more

balanced view with 34.3% agreeing, 11.4% undecided and 45.7% disagreeing. The data indicates that farmers who have not yet started to think about or factor climate and nature outcomes in the farming system, or those who are starting to think about factoring climate and nature outcomes, are most inclined to perceive transition as a business and financial risk.

Those already prioritising climate and nature in their farming system, have a more balanced view on risk.

The hurdle of business and financial risk appears to be higher before beginning transition as well as in the earlier stages of transition i.e., the barrier is the unknown unknowns of transition to a farming system that prioritises climate and nature outcomes, coming from a known and effective conventional farming system.

5.23

Unpacking financial risk

“An existing financial commitment to honour will constrain change to any lower input farming as we don't know what we are going to get, and we can only mitigate this by putting inputs on the land. Fungicides and herbicides etc. are our insurance policy”

Financial and farm business risk does not necessarily relate to the cost of transition. Financial risk relates to the uncertainty of transitioning a farming system that requires a rethink in farming practices, redesign of the farm business model including 'enterprise stacking', and new knowledge and skills development. Although not necessarily demanding wholesale transition of the farm business overnight, these changes are significant if the farm business has been operating within a conventional farming system for generations and if existing financial commitments relate to the incumbent system.

Conventional farming as insurance

Working with nature's complexity as opposed to being able to manage nature with chemical inputs and machinery, or in the words of one farmer being able to "reset the soil" (i.e., make use of glyphosate and/or ploughing to remove an existing crop, or weeds, in a continuous cropping system) when needed, presented very real business and financial risks for farmers in our research.

58.6% of respondents in the survey agreed or strongly agreed that "The conventional farming system acts as an 'insurance' for my farm i.e., I know what outputs I can get", with another 16.2%

undecided about this statement. Qualitative research has shown that these risks are pertinent to farms that are sized 100-1,000 acres.

In the survey response, farms in the 1,000-1,500 acres category showed the highest agreement that financial and farm business risks are a barrier to transition (75%), possibly because the larger farms have more capital commitments and complex financial structures and are more likely to have more significant existing long-term debt.

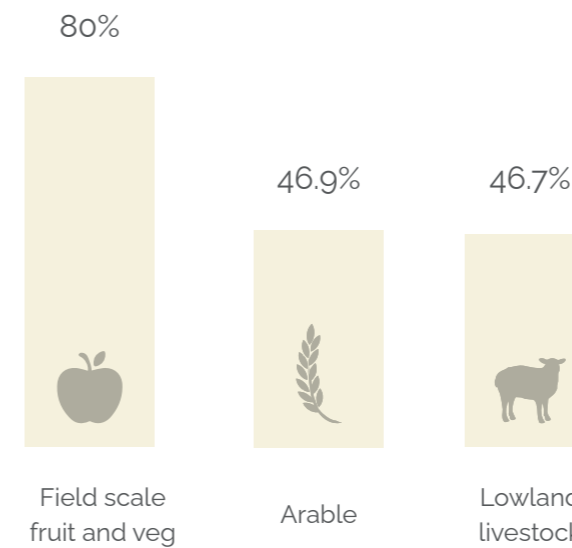
“We won't know what we won't get until we haven't got it”

Overall, financial risk was perceived as highest by those operating field scale fruit and vegetable enterprises (80% of this group), arable (46.9% of this group), and lowland livestock (46.7% of this group). Transition literally means going into an unknown unknown for some and particularly for the farming types in this survey.

Impact of farm advisors

The interview discussions revealed that farm advisors, and in particular agronomists, have significant influence on both crop and related financial decision-making on the farm.

Financial risk perceived highest by farm type



Not having an agronomist or other advisor advocating a transition to a new farming system acted as an additional barrier contributing to the perceived business and financial risk of transition.

One of the farm visits undertaken for the research coincided with an (independent) agronomist visit, who had arrived just prior to the researcher. It was made very clear by the agronomist to their farm client that there was no confidence in farming systems that were not chemical input-based and using conventional practices because 'they didn't believe it could work'.

Farm advisors across the spectrum including agronomists, livestock management, nutrition, or vets, can have significant influence on the farming system in place and the related farm financial model.

The survey revealed that farmers have a level of confidence in advisors' ability to support farm transition to a system that prioritises climate and nature outcomes. 45.9% disagreed or strongly disagreed with the statement that "My current set of farm advisors (e.g., agronomist, vet, etc.) cannot provide me with advice to transition my farm". Another 30.6% agreed or strongly agreed with this statement, and 23.4% were undecided.

The field scale fruit and vegetable sector has the least research exploring the transition to regenerative farming systems yet is critical to food resilience in the UK and society's carbon and biodiversity footprint. It is also a sector that is struggling with low profit margins, labour challenges, and extreme weather impacts. Currently, we are heavily reliant on imports for fresh produce (we produce less than 1/5 of fruit consumed domestically, and just over half our vegetables⁴), presenting a huge challenge for long-term food [and climate and nature] resilience. Additionally, as it stands, the vast proportion of UK vegetables are grown on carbon-rich peat soils that need to be restored from carbon emitting sources to carbon sinks⁵. This is a sub-sector that is critical to the UK's food, climate and nature future, yet vulnerable to risk of the unknown unknowns in transitioning the farming system.

58.6% of respondents in the survey agreed or strongly agreed that the conventional farming system acts as an 'insurance' for my farm i.e., I know what outputs I can get

⁴ Home-Grown: A Roadmap to Resilient Fruit and Vegetable Production in England <https://www.sustainweb.org/assets/home-grown-report-1718965792.pdf>

⁵ As above

However, many farm advisors, and in particular agronomists, work for and/or represent the incumbent conventional farming industry. An agronomists' entire education and career may have been built around this system, meaning that their influence on farm business and financial decision-making through transition is likely to be significant.

Conventional system financial assumptions

The qualitative research also revealed long-term debt informed by existing farm financial models that are based on conventional farming system assumptions could create a financial 'lock-in' to that system. In other words, borrowing or other financial commitments that have been based on a level of financial certainty within a conventional farming system, and in some cases to invest in specific infrastructure related to the incumbent system, can act as a financial-related barrier to transition.

Transition to a new farming system also means transitioning the farm financial model including 'enterprise stacking', which may or may not stop at the farm gate and needs to balance financial outcomes and assets, with environmental outcomes. The 'enterprise stack' may include

accessing Environmental Land Management (ELM) payments and, potentially, private sector capital through the sale of climate and nature outcomes. However, as already noted, there were doubts amongst respondents as to the potential of nature markets to contribute to the farm business model at this stage.

The relatively new concept of 'enterprise stacking', i.e., multiple enterprises on farm to maximise resources and turnover for the farm business, added to the perception of complexity and risk of transition for farmers. **There was notable interest in financial advisory support alongside and as part of agricultural transition advisory. 43.2% of respondents prioritised this as a solution to address transition risk (the 2nd highest prioritised solution out of 10 possible others). This was second to 47.7% of respondents who prioritised 'Financial products with preferential terms for the transition period that might smooth over business risk or cash flow needs during this period' as a potential solution to address risk.**

Financial and business planning, alongside farm advisory for transition, appeared as a significant theme in the research findings and is an important recommendation to include alongside any innovative financial product offered to farmers.

5.4

Experimentation and innovation

“

Some people are sold a regen dream, with an expensive bit of kit, but there's a lot more to it and it's taking people huge amounts of time to get it right. It's not flicking a switch, you need to change a lot and do a lot”

55.9% percent of farmers agreed or strongly agreed that transitioning to a new farming system will mean having to experiment and learn but that they don't have the financial flexibility for experimentation within the businesses.

The time and the potential cost of experimenting and learning in the path to transition is difficult for an industry that has been pushed hard for many years to be more and more efficient and to maximise yields, nature outcomes, and farmer wellbeing. This is an industry that has ended up being, in the words of farmers as "price takers", susceptible to the vagaries of markets. Food produce has, in many cases, been commoditised, and farmers are pressured to produce more and more. There is little financial flexibility, time or incentive to learn and evolve the farming system.

One farmer reported that a shift to once-a-day milking, made possible by a dairy contract seeking full-fat locally produced milk, was allowing their husband-and-wife family-run farm the space and time to begin experimenting and learning about agroforestry within their farm system. This shift in practice, as well as out-wintering their dairy herd, had meant they had time to reflect on decisions on the farm, including nature-related business decisions.

They maintain that exploring nature-informed approaches to farming would not have been possible had they not had the chance to shift to once-a-day milking.

A theme that emerged in the research discussions and the survey is demand for financial and policy support for 'experimentation', potentially on a percentage of the farm's land, as a start point for transition and/or for developing Natural Capital. Some farmers drew parallels to the R&D tax relief that is available in other sectors to encourage and catalyse innovation, (although this is typically technology innovation focused), and called for similar incentives and mechanisms to 'smooth' the risk of experimentation and learning.

A lack of corporate innovation funds as well as government policy to support business model innovation as it relates to agriculture and food system transition was also noted. Transition innovation policy to catalyse and support innovation across the entire food and farming system, is critical to the UK's economy, climate and food resilience



“

Concerned how far we can go without compromising profit. Spent years and years as [dairy] farmers with consultants saying ‘marginal litres, add a penny’...

”



Government innovation support for agriculture has centred on the development and adoption of new technologies within ‘AgriTech’ and more recently, ‘Nature Tech’, through funds such as the [Farming Innovation Investor Partnership](#). UKRI’s [Farming Innovation Programme](#) provides financial support for key stages of research, product development through to implementation and commercialisation of ideas.

However, the programme is targeted at individual farm product and technology innovations, largely in the form of technical solutions to advance one component of a farming system i.e., to reduce carbon emissions. Support is also evident in seeding Natural Capital project development and investment readiness through the [Natural Environment Investment Readiness Fund](#) (NEIRF).

In addition, the Government has offered its backing to learning and advice services during the early years of agricultural transition, through the [Farm Resilience Fund](#) and deployed through advisory partners. The Farm Resilience fund will close its window by March 2025.

5.5

Role of banks in transition

“

Our Relationship Manager brought up a discussion about transitioning but only because of the relationship between SAX and Lloyds Bank. I mostly feel that there isn’t any interest from the banks ”

The research highlighted that there is a need and an opportunity for banks to take an active role in supporting farmers to transition from conventional systems to systems that prioritise climate and nature outcomes, and in particular managing the business and financial risk of transition during the transition period. However, banks did not fare well in the research in their capacity to understand the nexus of agriculture, climate and nature.

There was a unanimous view in the farmer research discussions that banks do not understand climate and nature risks, and in some cases, participants referred to banks ‘paying lip service’ to these issues and their impact on farming. Though this sentiment was less evident in the quantitative data, with 45% of farmers undecided that “*Banks understand climate and nature risks and priorities*”, and 25.2% disagreeing or strongly disagreeing with this. Despite this, 69.4% farmers agree or strongly agree that “*It would make them think positively about our bank/*

banking if they offered support with transitioning our farm”.

There is strong evidence in literature that agriculture presents material climate and nature risks for financial institutions. Green Finance Institute’s report ‘Assessing the Materiality of Nature-Related Financial Risks for the UK’ (2024)⁶, highlighted that agriculture, manufacturing and utilities face higher levels of nature-related risk. The analysis estimates that some banks could see reductions in the value of domestic portfolios of around 4-5% due to material nature risks, which are conservative estimates. Damage to the natural environment is slowing the UK economy according to the report and could lead to an estimated 12% reduction in gross domestic product (GDP) in the years ahead.

Despite this, banks have yet to acknowledge this as it directly relates to their financial relationship with farmers – who will have to respond to these risks in the choices they make. Efforts from banks to engage in the ‘race for Net Zero’ to date

6 <https://www.greenfinanceinstitute.com/wp-content/uploads/2024/06/GFI-GREENING-FINANCE-FOR-NATURE-FINAL-FULL-REPORT-RDS4.pdf>



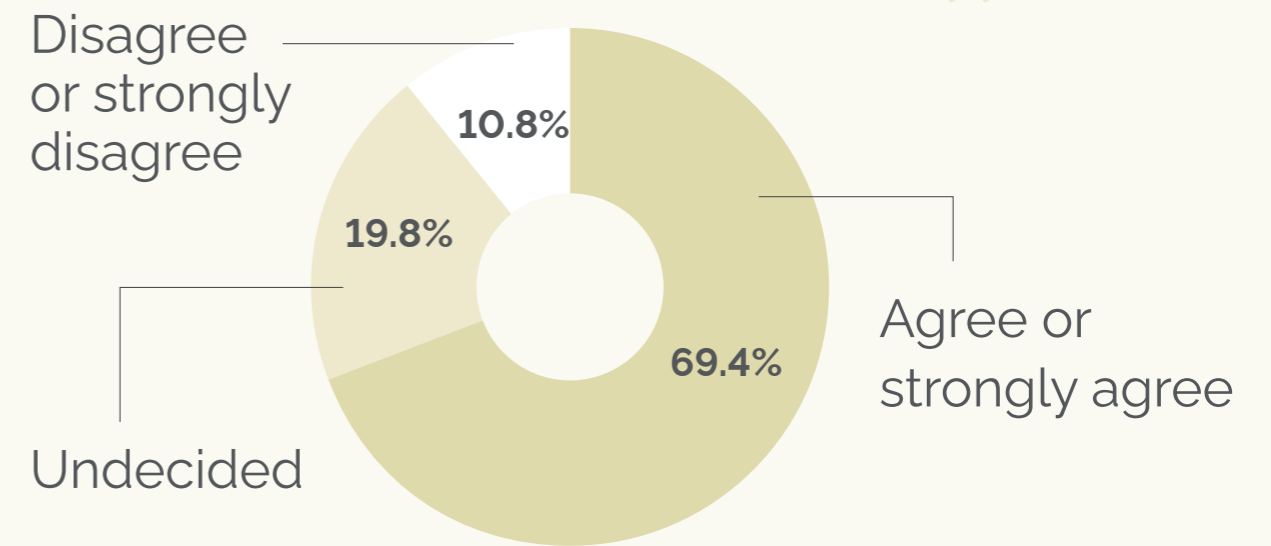
Farm Financing Gaps for Transition

have largely focused on ‘Sustainable Agriculture’ positioning, offering preferential lending products for decarbonisation of the agriculture industry (e.g., preferential loans to invest in energy efficient infrastructure and renewable production on farm).

The research highlights an opening for banks. They have a wide reach and a high level of trust, given that they may have been working with farms for generations. Pair this with the sentiment that ‘support for transition to a farming system to prioritise climate and nature outcomes’ would make the sector think positively about banks, there is an opportunity for collaboration and for acknowledgement of the climate and nature risks through their entire financial chain.

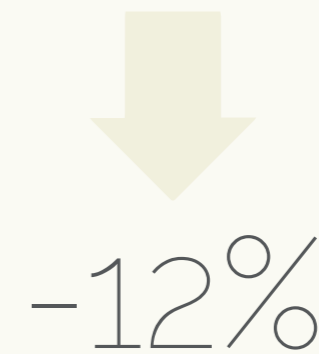
How banks respond will be key to the success of their impact on their own nature-related risks. Getting closer to the farming community at large and individuals’ customer journey through transition is an opportunity, as is deepening the capacity of their people to work with climate and nature outcomes, alongside financial outcomes.

“ It would make me think positively about our bank/banking if they offered support with transitioning our farm ”



Farm Financing Gaps for Transition

According to Green Finance Institute's report 'Assessing the Materiality of Nature-Related Financial Risks for the UK' (2024),⁷ damage to the natural environment is slowing the UK economy according to the report, and could lead to an estimated 12% reduction to GDP in the years ahead



⁷ <https://www.greenfinanceinstitute.com/wp-content/uploads/2024/06/GFI-GREENING-FINANCE-FOR-NATURE-FINAL-FULL-REPORT-RDS4.pdf>



“
We need financial protection
to pilot new practices on
a percentage of the land
instead of relying on the ‘big
boys’ being funded to try new
[regenerative] approaches
”

5.6

Role of nature markets in transition

“
We are a small operation on very valuable land. Trying to monetise land
will bring the wrong people to the table and this is very concerning at a
time when there is need to financially buy-out one side of the family
”

The research highlighted concerns and a lack of confidence about private capital financing nature recovery in farm context. However, this does not preclude the innovative work being led by many of the established and larger Farm Cluster groups, such as the Environmental Farmers Group, North East Cotswolds Farmer Cluster, Wylde Valley Farmer Cluster, and Weald to Waves.

This is not a new issue, but these concerns are notable because potential income for the development of Natural Capital, as part of a farm Enterprise Stack, does not yet alleviate the financial risk of wider transition of the farm business model.

Some farmers were not only sceptical about nature markets as part of their farm business model but were very concerned that farm ownership and governance would come into the hands of private sector investors. Farmers that are asset rich with good farmland in well located geographies, but cash poor, expressed the most concern. This included concern about family members selling out to new, non-farming investors or project developers. Other concerns related to the increasing cost of short-term tenancies on land in areas where ‘handing land over to nature’ could generate higher levels of income compared to renting it as farmland, pushing up rental prices.

The research highlighted the desire of farmers to take ‘stepping-stone opportunities’ to participate in nature markets i.e., on a small area of land and in partnership with the banks operating as buyers of carbon and nature outcomes. There is a sense from research participants that the ‘big players’ in farming are self-organising in clusters, accessing seed funding, coordinating themselves to deliver at landscape scale and access Natural Capital payments. Meanwhile, respondents perceived that the majority of farmers are not yet confident enough to do the same.

As it currently stands, mainstream banks do not offer financial products or advice to farmers or landowners to invest in the development of Natural Capital projects and to become ‘investment ready’ to transact within nature markets.

Triodos Bank is an exception here. Although not considered a mainstream bank, in May 2024, Triodos provided a £3.85m loan to Avon Needs Trees for acquisition of 422 acres of land in the Chew Valley, Somerset, with a plan to plant 100,000 trees and scrubs. Capital repayment has been innovatively structured to be linked to sale of BNG units⁸.

⁸ Available online: <https://hive.greenfinanceinstitute.com/wp-content/uploads/2024/08/GFI-BNG-ROADMAP-FULL.pdf>

5.7

Nature as a driver for better decisions

“There are skylarks everywhere, if that is the sign of things to come maybe there will be curlews. Shifting from the plough means there’s stubble for the birds. They want stubble. The traditional plough-based farmer can’t stand it to look scruffy, but then does it matter?” ”

The research highlighted that nature returning to the farm can be a driver for change, and that “acknowledging nature in decision-making makes us think through what we can do better on the farm”. 52.3% of survey respondents identified that “Acknowledging climate and nature in decision-making makes you think more strategically about the business”, within their top five out of ten responses to the benefits of transition. So, starting to think about or work with a farming system that prioritises climate and nature can have a positive impact on business and financial decision making.

Acknowledging nature is also an opening to building new knowledge, and new knowledge is leading to new passions. One dairy farmer remembered her grandfather removing trees in the farm’s fields. “We now know the impact of this [taking out trees from fields]. It is this growing knowledge and understanding of nature that is starting to inform our decisions.”

Research has shown that “passion has an impact on entrepreneurs’ performance, creativity and persistence. Passion can positively affect success.”

Further study is needed to assess the relationship between ‘a passion for regenerating nature and soil health’, and with ‘business persistence and success.’⁹ It is theme that emerged consistently in the research discussions and the survey responses, and one that is being explored in research buy others¹⁰.

“Visible signs of supporting an ecosystem really motivates us. Leaving the straw on the ground and seeing the worms break this down (clumps in the soil) ”

Farmer connection with nature, at an emotional level, is increasingly being recognised as both a driver for and outcome of practice change leading to economic stability in response to external system shocks.

“I remember my grandfather taking the trees out of the ground in fields. We now know the impact of this. It is this growing knowledge and understanding of nature that is starting to inform our decisions”

”



⁹ <https://www.forbes.com/sites/forbesbusinesscouncil/2022/11/08/how-passion-can-translate-into-a-successful-business/>

¹⁰ Nikki Yoxall, Head of Research at Pasture of Life, is undertaking academic research that builds on the role of nature connection within agriculture as a driver for, and outcome, of practice change. The research explores nature connection as a ‘leverage point’ in systems change, which is calling us to rethink how we learn, how we govern, and our economic decision-making.

Financial related impact of Wildfarmed

Wildfarmed is revolutionising arable agriculture by supporting its growing community of farmers to grow with regenerative farming practices that promote soil health and diversity across their fields. It is the UK's first regenerative food business to launch with significant promotion in a supermarket.

Of notable interest in the research was a discussion about the financially related impact of working with Wildfarmed. One farmer who recently started as a grower for Wildfarmed, and is working closely with her assigned agronomist, shared that close collaboration with the agronomist and Wildfarmed's own financial model and commercial requirements with farmers, had helped her to get to a true financial picture of the farm – field-by-field. This had given her the confidence to begin the transition on her farm (a mixed dairy and arable farm). This is alongside a strong and growing community of farmers who

are also providing technical and emotional support to farmers starting out on their Wildfarmed journey.

Having to report soil and crop data to the Wildfarmed ecosystem, and then assigning relevant inputs based on actual soil needs, had catalysed the beginnings of an updated financial model for the arable revenues on her mixed farm and a financially informed approach to transition.

The relationship with Wildfarmed in many ways sets out the recommendation in this report that financial advice and modelling, at a field level, should go hand-in-hand with regenerative farming advice and financial support or investment. The relationship with Wildfarmed has given the farmer the confidence to move forward on a number of significant commercial, structural and farm system changes.

6.0

Recommendations

This section outlines the top-level recommendations for banks, development finance, funders, and the agriculture sector. The recommendations are based on ideas that emerged in the qualitative research discussions, which were further validated and prioritised in the survey responses. Farmers were asked to contribute and/or rank ideas to address the financial barriers to transition, for banks and government to respond to.

6.1

Recommendations for banks

Recommendations for banks are focused on two areas:

- 1) Nature Transition Finance – a call for banks to acknowledge that transition in agriculture demands much more than preferential lending for investment in infrastructure or technology to decarbonise farm businesses; and
- 2) Nature Transition Products – recommendations on innovative financial solutions as part of a package that includes financial and farm advice to support farmers during the (six-year) transition period.



“
The transition phase is the financially risky phase. Even an experiment on a 10 acre field, on a mid sized farm, can have a significant financial impact.
”

6.11

Nature Transition Finance

Recommendation: Acknowledge that farm transition to a system that prioritises climate and nature outcomes amounts to business model innovation, and this presents financial risk – as well as opportunity – for farm businesses. This report calls for the need for ‘Nature Transition Finance’, (a term coined by Soil Association Exchange), in place of what has been supported to date under the term, ‘Sustainable Agriculture’.

Nature Transition Finance would provide banks with a focus that goes beyond Sustainable Agriculture, where preferential lending is offered for investments in farm business decarbonisation, renewable energy infrastructure, and innovative Agri-Tech or Nature-Tech solutions.

Nature Transition Finance is holistic and supports transition across the entire farm enterprise, balancing the need for food production and distribution, alongside prioritising climate and nature outcomes on land. It could also integrate decarbonisation and renewable energy, as well as adoption of new technologies, within the business model stack.

According to the UK Department for Energy Security and Net Zero, the definition of ‘Transition Finance’ is “financial products and services that support higher emitting companies and activities to decarbonise over time”.¹¹ Nature Transition Finance expands on this definition, emphasising the need for investment in farming system transition and business model innovation

that prioritises climate and nature outcomes over time.

A shift from a focus on Sustainable Agriculture to Nature Transition Finance, acknowledges the interdependence of thriving biodiversity and healthy soils, with climate change, farm resilience (including long-term financial resilience) and food security. It acknowledges that nature risk, at the farm level, presents material risks to the financial system.

It also acknowledges the significance of the transition for the agriculture sector, requiring farmers to work through business model innovation, including evolving the farm financial model, in order to prioritise climate and nature outcomes. Although this report is focused on the farm level, Nature Transition Finance could also be relevant at the system level i.e., finance for adjacent economies and enterprises to enable transition across the food system, such as regional procurement, processing and distribution of food.

Agriculture is a sector that historically has had little encouragement and financial support to evolve the farming system and invest in business model innovation – when compared to investment in farm infrastructure and new Agri-Tech solutions. This is because the sector had been committed to the incumbent conventional farming system. Within policy, agriculture, land-use and nature aren’t well integrated within the UK’s industrial strategy, although land and nature are critical infrastructure.

¹¹ <https://www.gov.uk/government/publications/transition-finance-market-review/transition-finance-market-review-terms-of-reference>

There is an opportunity for the UK's banking sector to get behind agricultural transition and become global leaders in financing and guiding this transition, and in turn address climate and nature risk exposure within the banks' own value chain. But there is some way to go.

This research reveals farmers have come to rely on the conventional farming system as an 'insurance' for the outputs they get, across farming types, and existing farm financial models have been built on assumptions based on this system. Banks do not fare that well in the qualitative research in terms of level of contact with agriculture customers, and their understanding of climate and nature risks.

However, 69.4% of respondents in the research agreed or strongly agreed that they would think positively about the bank or banking if they offered support with transition. Nature Transition Finance, therefore, presents an opportunity for banks.

In summary, actions for banks:

- Recognise that there is a risk of business interruption in the transition from a conventional farming system to a system that prioritises climate and nature, and therefore financial risk to the farm business. This risk is being compounded by macro market conditions such as climate change, evolving agricultural subsidies policies, and a 'cost-of-living crisis'. In some cases, it might also be compounded by existing borrowing and financial models built on conventional system assumptions.
- Banks should publicly recognise the business risks to farm enterprises of not transitioning and remaining in a conventional farming system, given the backdrop of climate change impacts combined with depleted soil and biodiversity loss and rising fossil-fuel derived input costs. This risk needs to be factored into the banks' financial decision-making. Climate and nature risk that is not being addressed on farms ultimately presents short and long-term risk for lenders and the financial sector at large.

- Offer Nature Transition Finance packages – for instance in partnership with other aligned funders, such as development finance, impact investment, and philanthropy – which combine financial advice and farm advice that goes hand-in-hand with financial products (see Nature Transition Products, outlined below). Advisory packages should be mobilised by banks, collectively, with consistent data reporting and evidence of transition as part of this. This could also be delivered by a coalition of partner organisations that are place-based.
- Commit to investing in agriculture banking teams, or forming strategic partnerships with advisers, that have financial capability which is embedded in climate and nature outcomes, to work with customers to financially support transition. In particular, these teams and advisers should support business model design and financial modelling for transition (including accessing payments for the recovery and stewardship of nature), alongside offering other advisory services such as farm baselining and regenerative agriculture advice through partners such as Soil Association Exchange.



Note the author of this report is aware of the 'Transition Finance Market Review'¹³, which is exploring what UK financial and professional services need to do to become a hub for, and a provider of, transition financial services to invest in credible Net Zero pathways. The author has contributed insights from this report to the review, recognising that the need for transition finance in agriculture is much broader than decarbonisation of the agriculture sector and farm enterprises.

¹³ <https://www.gov.uk/government/publications/transition-finance-market-review>

Lloyds Bank's recent announcement to offer loans for agroforestry to assist UK farmers reduce ecological impact and improve environmental resilience¹², through its Clean Growth Financing Initiative (CGFI), which includes zero percent set-up fees, is illustrative of the role that banks can play. De-risking finance for uptake of this sort of agroecological loan, alongside farm level and financial advisory support, would allow much greater participation for farmers to experiment with integrating agroforestry within a farming system.

The Farming Resilience Fund, due to be phased out by March 2025, was designed to provide business support to English farmers and land managers during the early stages of agricultural transition. It did this by awarding grants to advisory organisations and individuals that could then offer support to farmers and land managers for free. Nature Transition Packages, mobilised by the banks and designed as a package of support alongside innovative financial solutions, could make use of the network of place-based advisors.

¹² <https://www.fruitnet.com/fresh-produce-journal/lloyds-bank-to-provide-over-25000-to-farmers-for-agroforestry-projects/261400.article>

Nature Transition Products

Recommendation: Offer financial products and services that acknowledge and address the financial risk of transition to farming systems that prioritise climate and nature outcomes for farmer customers, and in doing so acknowledge that climate and nature risks are also the banks' risks. The report frames these as 'Nature Transition Products' but makes it clear that financial products need to go hand-in-hand with financial advice and farm advice to support transition.

It should be noted that the research has presented the need for innovative financial products to go hand-in-hand with financial modelling and planning for transition – as

a package. Adding additional debt burden to a farm business in the absence of careful business and financial planning for transition is not the recommendation of this report. Instead, it proposes that redesigning lending products, offering repayment flexibility, or offering other long-term financing with preferential terms that respond to 'transition risk', over a six-year period, could address the financial risk barriers.

Strategic, financially-informed transition planning, including integrating the right mix of nature-related payments for your farm (e.g., SFIs) as part of the farm financial model, should be part of any Nature Transition Finance package.

Nature Transition Package (Illustration)

Recommendations for financial solutions emerged from the qualitative research discussions, and were further prioritised in the quantitative research survey, and are outlined below. These ideas all require further financial design and product validation but are included to illustrate the mechanisms for financial institutions to respond to.

Banks could offer a Nature Transition Package to farm businesses, which might include:

- **Loan guarantee products for transition – with preferential terms, and a zero-risk period for farmers** during up to six years of transition, with terms linked to simple environmental outcomes metrics and reporting
- **Alternatively, flexible and long-term payment holidays on existing or new long-term debt and asset finance commitments**, for up to six years of transition, with terms linked to simple environmental outcomes metrics and reporting
- **Independent financial advice and farm advice, as a package, mobilised through the banks** and as a requirement alongside Nature Transition Products, including setting-up monitoring and evaluation of environmental outcomes
- **Hands-on support for farmers, from the financing of Natural Capital project development through to the sale and transaction of environmental outcomes** on-farm or with farmer clusters. This includes banks participating as 'outcomes buyers'

Nature Transition Finance may require a blend of public or impact funds (for instance to guarantee loans and reduce the cost of lending), guarantee flexible holiday periods on loans, and/or take on some of the technical assistance (TA) cost needed to offer financial and farm support for transition.

Equally, banks themselves should participate in some of these innovative financial products by operating as 'buyers' of climate and nature outcomes i.e., payment for outcomes within a financial product (or 'insetting'), and offering technical assistance funding to fund adjacent services. A strong sentiment in the research is that banks should be both enablers and participants in the transition to markets that reward environmental outcomes.

Further detail on Nature Transition Product ideas

Guaranteed loan products for transition

Banks could facilitate guaranteed loan products with preferential terms and lower cost lending, backed by government and/or corporations where there is an incentive to support farms to transition, to smooth over business risk or cash flow needs during the transition phase. Banks are trusted channels to deploy development finance in the form of innovative financial products and advisory support with partners, for farmers. This was the highest prioritised/most popular solution in the research.

47.7% of respondents prioritised a "Financial product with preferential terms for the transition period (or longer-term) that might smooth over business risk or cash flow needs during this period", as their top solution out of 10 ideas to address transition risk. 43.2% of respondents agreed that Transition advisory, which includes financial planning integrated with farm transition planning, is needed. This was the second most prioritised solution.

These products would be specifically designed for the six-year transition period. It's possible this

could be launched as a new Nature Transition Finance type product with development finance guarantees, similar to the ENABLE guarantee transaction with Oxbury Bank¹⁴, but linked to farm business model transition and financial planning, and available through all institutions that lend to farmers.

Guaranteed loan products for Natural Capital Projects

Banks could facilitate guaranteed loan products with preferential terms. These may be: backed by development finance and/or corporate actors that are exposed to climate and nature risk; specifically designed to invest in Natural Capital development; and integrated as part of the farm business model and/or deployed at landscape scale via Farmer Clusters or other groups.

Loan guarantees, here, address the need to manage the risk of lending to unproven business models that depend on nature outcomes and outcome buyers operating in a nascent market.

Additionally, banks can participate as first-mover buyers of environmental outcomes generated by their farmer customers, helping to catalyse private markets and other buyers.

32.4% of respondents prioritised 'Stepping-stone' opportunities to participate in nature markets, and access private capital payments, with the banks operating as buyers of climate and nature outcomes within their top three out of ten ideas to address transition risk.

In other words, this means backing the mechanisms that support farmers to develop small-scale Natural Capital projects, (e.g., on a percentage of the farm), with a guaranteed outcomes buyer being the bank or other corporate buyers facilitated by the bank. This may not require additional farm financing if it operates as 'an offtake', or 'Advance Market Commitment', and provides the security for farmers to develop Natural Capital outcomes having already realised the value of their asset.

¹⁴ <https://www.british-business-bank.co.uk/news-and-events/news/british-business-bank-doubles-existing-enable-guarantee-transaction-oxbury>

Triodos Bank

Loans linked to Natural Capital development

As detailed in GFI Hive Roadmap to BNG report (2024)¹⁵, in May 2024, Avon Needs Trees, a tree-planting charity based in Bristol, purchased 422 acres of land to create the Lower Chew Forest. The plans include establishing a new forest of 100,000 trees and shrubs and the creation of complementary habitats, including wetlands, miles of hedgerow and species-rich grassland, partly funded through the sale of BNG units. Triodos Bank provided a £3.85m loan for the acquisition and its Corporate Finance team advised the charity on sourcing repayable capital. While it's generally expected that Section 106 agreements, conservation covenants and the sale of BNG units will have a downward impact on land valuation due to the 30-year land use restriction, valuers often face challenges at this stage in quantifying the land value impact due to the many variables, including the stage of the BNG project delivery at the given point in time. Consequently, Triodos Bank needed to navigate these uncertainties by structuring the lending in a manner that takes into account the uncertainties of the BNG markets.

¹⁵ <https://hive.greenfinanceinstitute.com/wp-content/uploads/2024/07/BNG-ROADMAP-SUPPLY.pdf>

Flexible repayment during transition

Banks could offer flexible repayment periods (or 'repayment holidays') on long-term loans and asset finance during an up to six-year transition period. This could take the form of a 'grace period' agreement on a loan or even potentially credit with the bank during a period of transition uncertainty, again linked to a strategic and financial plan for the transition, and a requirement to reporting on environmental outcomes over time. This could be applied to existing products and customer loan agreements.

All repayments and interest on repayments of long-term loans and asset finance would 'freeze' during an agreed period of the transition, (ideally being as flexible as possible), in line with the financial and farm system plan for transition. Flexible mechanisms could also be offered to short-term loans or credits, depending on the farm type and financial needs.

Additionally, following the transition period or when the farm business is ready to resume repayments on the finance, the cost of capital could be linked to the level of outcomes achieved (e.g., simple soil health and/or biodiversity indicators) to incentivise transition as well as the sharing of outcomes data to the wider industry. The cost of monitoring and measuring outcomes should be factored into the cost of the capital and/or factored as part of a (government or other supported) technical assistance budget.

29.7% of respondents prioritised 'Flexible holiday periods on loan payments during the transition period on farm (e.g., 3-5 years or more)', the fourth out of 10 ideas to address transition risk, as well as being a key theme in the qualitative research discussions.

Shared resources and shared risk

The theme of shared resources and shared risk emerged in the research discussions, including Share Farming Agreements' that facilitate new

entrants, and 'Farm Syndicates'¹⁶ as mechanisms for sharing the risk and the cost/infrastructure needs for new farming systems. Although not specifically the focus area for this research, it is worth noting the interest in these concepts and how they are working for some farmers.

It is well known that new entrants to farming struggle to access finance from lenders given their lack of farm business and financial track record. New entrants also face high costs and lack of availability of land to purchase, and in the same vein, high demand for, and uncertainty of, accessing tenanted land. Additionally, the cost of living often prohibits access to farming, and lack of affordable housing makes it difficult to farm on land that does not include housing.

Share Farming Agreements set out a mutual upside for both farmer and landowner/ estate i.e., sharing in the land, the risk, and the revenues to achieve climate and nature outcomes and potential income from these. One new entrant farming partnership, who was interviewed as part of the research, had successfully set up their mixed regenerative farm operation, and soon to include agroforestry venture, in a Share Farming Agreement with the landowner of a private estate.

The partnership is nearly three years in, and despite the hurdles of a start-up business and a first-time farmer duo, the agreement has unlocked benefits for both sides. It is providing access to land and housing for the farmers, and a new business of farming that regenerates the land and achieves nature outcomes for the landowner. The new entrant farmers have also built a strong brand for the estate, through their regenerative farming approaches and bold start-up mentality. The start-up partners borrowed money from four sets of families to finance their initial working capital needs.

Farm Syndicates are where neighbouring farmers jointly and equally run a partnership

company, as a Limited Liability Partnership (LLP) across their farming businesses. These emerged in the research as a potential solution for managing the risk and cost of transition, though not specifically for new entrants. Farm Syndicates can facilitate sharing the cost and ownership of farm machinery and infrastructure, and shared depreciation of the asset across the group.

Banks could facilitate support for Shared Farming Agreements that prioritise climate and nature outcomes, including offering micro-lending as part of the start-up costs and strategic, legal and financial advice i.e., hand-holding through the process. Banks could also encourage, and facilitate, the concept of Farm Syndicates as part of the transition planning process. Note that both themes, which emerged in the research, require greater exploration of what's working and what's not, and what could effectively address financial risk and other barriers to transition for farmers.

Transition financial advice

Weaved throughout the research findings and central to the recommendations of this report is the need for financial advice and transition planning to go hand-in-hand with farm advice and innovative financial products. The research outcomes are clear that lending, or short-term credit facilities, are not enough in isolation to overcome the financial risk barriers to transition. A strategic and financially well-planned approach to a farming system transition is critical.

One arable farmer interviewed for the research had engaged a financial advisor to work with her to do this, factoring nature-related revenue alongside revised yields and costs in their farm financial model. This work was designed to sit alongside farm advisory support for transition of the arable farm. The financial advisor had

¹⁶ 'Farm Syndicates', where neighbouring farmers jointly and equally run a partnership company, as a Limited Liability Partnership (LLP), across their farming businesses, emerged in the research as a potential solution for managing the risk and cost of transition. Farm Syndicates can facilitate sharing the cost and ownership of farm machinery and infrastructure, and shared depreciation of the asset across the group. Typically, the capital of the partnership is funded in proportion to acreage farmed. "Having a share farming agreement as "top tier" agreement to the LLP offers an additional way of beneficial mutual responsibility over and above standalone machinery sharing agreement" (Farmers Weekly, 2024), as parties are then farming as one.

helped the husband and wife owner-farmers to financially plan, field-by-field, an approach to transition, how to finance it, and their financial goals. The same financial planning is applicable to grazing management and planning for livestock farming, or indeed other farm type, for a system that prioritises climate and nature outcomes.

This type of 'technical assistance' could be made available and deployed through banks to support nature transition financial modelling and farm planning advice, as a package.

43.2% of respondents agreed that "Transition advisory, which includes financial planning integrated with farm transition planning," is needed. This was the second most prioritised solution.

Other solutions: transition insurance

Risk exposure poses a significant barrier in the transition process, and the insurance sector's expertise in modelling, pricing, and transfer of risk can play a crucial role in overcoming this challenge. An innovative approach is the 'transition warranty' concept, named Eden, being developed by the agriculture lead at [ARK Venture Studio](#) - a venture builder specialising in insurance. This warranty aims to serve as a 'guarantee' of post-transition profitability for farmers, compensating for potential losses during the transition period.

It ensures that farmers remain profitable and capable of covering overhead costs despite any yield and profit losses that would be greater than expected. The warranty is designed to be funded by agrifood businesses, allowing them to share transition risks with farmers and support their climate and nature-related commitments. By contributing to the costs of potential losses for farm businesses during the transition, agrifood companies demonstrate their dedication to supporting farmers through this change.

Additionally, this guarantee mechanism could enable financiers to offer more favourable interest rates to transitioning farmers, as their credit risk is significantly reduced with assured repayments. This approach has been successful in unblocking transition capital in other green transition areas, such as wind farm development.

Currently, the Eden project is in the early design and testing phase.

6.2

Recommendations for development finance

The report has called for a shift from offering Sustainable Agriculture banking solutions to comprehensive Nature Transition Finance packages.

This recommendation extends to UK development finance, and the report calls for the government to mobilise development finance as a mechanism for catalysing one of the most important economic transitions of our time on UK soil: the transition from an industrial agriculture sector and conventional farming system, to a regenerative farming system that prioritises nature (and climate and nature outcomes). Nature is central to the UK's industrial strategy and Net Zero ambitions.

Nature and land use sit at the nexus of food, energy, health, and housing, as well as other adjacent industries such as materials. Farmers and land managers manage more than 70% of the UK's land, which means agriculture is the manager of one of the UK's capital stocks – nature. This is regardless of the direct contribution agriculture makes to the economy. Nature is critical to other sectors as well as the country's climate, food, and health related resilience.

Development Finance Institute for Nature

Development Finance Institutions (DFIs) are specialist development banks set up to support private sector development, typically in developing countries. The UK has its own international DFI in the [British International Investment](#) bank. Typically majority owned by national governments, these institutions invest

in private sector businesses, banks, and projects to achieve economic, social and environmental outcomes. DFIs are well positioned to take greater commercial risk on investments, often taking 'first loss' positions within an investment transaction, or guaranteeing lending mechanisms through financial institutions, and in doing so paving the way to catalyse private sector capital. Development finance is used where investment in the private sector to support 'development' goals is high-risk, complex, and/or unprecedented.

Development finance as a mechanism to 'de-risk' agricultural transition – and to develop a world leading nature-based economy in the UK, which addresses climate, food, energy, health and housing objectives – is urgently needed to catalyse and speed up the transition. The report sees a powerful role for a 'Development Finance Institute for Nature' to de-risk capital through participation with mainstream banks with a specific focus on Nature Transition Finance and nature-based economic development.

This will require collaboration between mainstream banks and UK development finance actors, or policy makers. It might also require other local financial service providers, such as Community Development Financial Institutions and Local Agricultural Banks/Lenders, to deploy Nature Transition Finance for, and with, farmers, locally and regionally. It will mean upskilling and outreach by banks' teams, and it will require partnerships with advisors and organisations.

Community Development Financial Institutions (CDFIs)

CDFIs could play an effective role, in collaboration with mainstream banks, in offering innovative financial products that go hand-in-hand with financial advice and farm advice to support agricultural transition. These institutions exist in the UK but are less prominent. Unlike mainstream lenders, CDFIs get to know your business and take in-depth and supportive financial positions.

The US has a history of CDFIs playing an important role in generating economic growth and opportunity in the nation's rural communities and disadvantaged communities. CDFIs offer tailored services and innovative financial resources, making use of federal dollars and private sector capital. CDFIs serve as mission-driven financial institutions, and can be banks, credit unions, loan funds, microloan funds, or even venture capital providers. There are 1,000 CDFIs operating across the UK, supporting economic transformation.

Advance Market Commitments in the form of off-taking

The recommendations to banks also called for “stepping stone opportunities” to participate in the development and sale of Natural Capital credits, with banks as the buyers of climate and nature outcomes. The report suggests that ‘off-taking’, or ‘Advance Market Commitments’, could act as a catalyst for on-farm development and sales of Natural Capital into Nature Markets, as well as incentivising the banks as buyers of environmental outcomes.

A development finance institute for nature could operate as an off-taker, collaborating with the banks to guarantee the purchase of nature outcomes at farm level and setting the terms for the transaction i.e., in a way that is transparent and clear to the farmer/Natural Capital project developer. These mechanisms could help to catalyse both the supply and the demand side of nature markets, and they would directly address material nature-related risk within the UK's financial system.

Technical assistance for nature transition

A critical part of the recommendation for Nature Transition Finance is that it comes as a package of financial and farm system advice alongside innovative finance. This package of support will require funding for ‘technical assistance’

(non-financial support provided by experts). A development finance institute for nature should work with banks on funding technical assistance for transition packages for farmers as a critical component of the Nature Transition Finance package of support.

New entrants / farm startups

Although not the primary focus of this report, a future development finance institute for nature along with policy makers and banks should consider mechanisms for better supporting new entrant farmers to access finance and access start-up support. With the average age of existing farmers in the UK at 59-years-old, new entrant farmers on the nature transition path must be given support to get going. New entrants can bring new ideas, networks, and entrepreneurial energy to the sector, and are key to mobilising transition alongside established farmers and landowners.

But the barriers to entry, in terms of land access and upfront financial needs, are high. The report has highlighted a potentially effective mechanism in the form of new entrant Share Farming Agreements for Nature Transition, which needs further exploration but could be supported and guided by banks, alongside wider start-up support for new entrants.

6.3

Recommendations for funders

Farming system transition equates to business model innovation. A theme emerged in the research for the need to experiment and learn in order to innovate and evolve the farming system, and yet as the research has concluded, there is little financial flexibility, or the time and head-space, for a large percentage of farmers to be able to do this.

The recommendation to funders and policy makers is that the agricultural transition needs ‘market building’ support – i.e., creating the conditions for new food and farming systems that prioritise climate and nature to innovate and evolve locally, regionally, and nationally.

Corporate innovation funding and early stage ‘strategic investment’ is well established within other sectors, as is publicly funded R&D tax relief and innovation funding support (e.g., through Innovate UK), with the objective of unlocking innovation through entire sectors. As an example, UK Government support for FinTech ecosystems has transformed the UK's financial sector.

Models exist to invest in innovation, deploying corporate capital and public funds, such as Founders Factory, TechStars, and Bethnal Green Ventures. But these models do not exist for business model innovation and experimentation at a farm level or across the food system to support transition.

Philanthropic funding has targeted individual initiatives within the food and farming transition, but without a specific mandate to unlock innovation and build thriving innovation

ecosystems for food and farming. A gathering in June of 2024, convened by the Environmental Funders Network and Rothschild Foundation at Waddesdon Estate, concluded that although environmental giving has grown substantially in recent years, less than 10% of green grants support agriculture and food, and only half of this is spent in the UK¹⁷.

Experimentation and learning, fostering new knowledge, building evidence of what works within farm system transition, and business model innovation does need support — both in terms of grant funding, or other financial instruments, and technical assistance. Although this report is targeted at the banks' role in acknowledging that transition presents business and financial risk for farmers, the report also calls on philanthropic funders, corporate funders, and impact-oriented investors to acknowledge their role in the transition and their support for the ‘entrepreneurs’ mobilising the transition – farmers, and food and fibre businesses. Who will fund high-risk innovation for systems-wide transition of our food and farming system, such as radically new food or fibre production and distribution?

¹⁷ Regenerative Food and Farming - Why Philanthropy is Needed (2024). Available online: <https://rothschildfoundation.org.uk/buckinghamshire-grants/sustainable-food-systems/regenerative-food-and-farming-why-philanthropy-is-needed/>

The report also calls on corporate, philanthropic and public funders to collaborate with banks to mobilise Nature Transition Finance, specifically supporting food systems-wide innovation and market building as part of this.

6.4

Recommendations for agriculture

Acknowledge the significance of transition to farming systems that prioritise climate and nature outcomes as an industry

The recommendations call on banks to acknowledge that farm transition to a system that prioritises climate and nature outcomes requires farmers to evolve the entire farm business model, including the financial model. The following recommendations for the agriculture sector underpin this.

Acknowledge the significance of transition as an industry

The significance of transition to a new farming system and the risks it presents should also be acknowledged by the agriculture industry itself – farmers, farmer clusters, farmer groups, networks, and member organisations. In doing so, this acknowledges that transition requires strategic, long-term and holistic thinking and financial planning, designed around the unique context of a farm, alongside building regenerative farming capacity and new knowledge. This type of long-term and holistic design for a farm is not

the norm in an industry that works in relatively short-term production cycles and is subject to short-term climate and financial shocks.

Acknowledging that transition equates to business model innovation and holistic planning across the farm and family context is important. This might require new knowledge and skills development, new networks, experimentation, mistakes and trade-offs, and even accommodating failures. The reality of this journey is not always talked about publicly and openly during the transition period, which only serves to isolate farmers who have not yet begun the transition. The agriculture sector could be better at championing the voices of those who are working on long-term thinking, and transition planning, as well as offering recognition of the real challenges of this journey. This could be something that banks, with their close connection to customers, could help to facilitate.

The report encourages farmers and farmer groups to speak up about the business model challenges, and the related financial risks, of transition. This includes communicating with the farming bodies and networks that they are supported by, as well as with the media, and – importantly – with the banks directly. Farmers should expect support for business model innovation, including space to design a farm enterprise that is unique to their farm context and their own desired outcomes of transitioning their farm, as well as support with a financial plan.

Continue to have a voice and engage with the banks

Farmers in the research discussions expressed a growing desire to contribute to shaping policy and to have a ‘voice’ to influence the changes happening in farming. This report encourages the ongoing contribution to research like this, as well as voicing sentiments directly to the banks. Banks have expressed that they are “not hearing [from their customers] about the need for financial products to support transition”, yet the findings of this research point to otherwise.

A significant theme in the farmer research discussions reported overall poor communications with banks, so this is not easy. But vocalising the need for financial flexibility and financial advice to support transition is crucial, as this research has revealed.

A number of the farmers interviewed for this research had contacted the researcher through Just Farmers, who had kindly communicated the call for farmer research participants. Just Farmers offers a fully-funded pioneering communications and media skills training for farmers with the objective of enabling farmers “to use their voice for positive change in UK farming”. Just Farmers has enabled farmer voices in this research. Others, like RuralPod Media offer podcast training for both hosting and being a guest on other’s podcasts. The report recommends capacity building in communications for farmers to be able to better influence discussions with banks or other

financial institutions.

Collaborate with others and look for opportunity to share risk/costs

The theme of shared learning, shared risks, costs and revenue emerged in the research discussions. For instance, Farm Syndicates, where neighbouring farmers jointly and equally run a partnership company, as a Limited Liability Partnership (LLP), across their farming businesses, were presented in the research as a potential solution for managing the risk, and potential costs of new machinery or infrastructure for transition. This is expanded in the Recommendations to Development Finance section (6.2) but it is worth noting here as a recommendation to farmers to consider.

Additionally, Shared Farm Agreements with landowners, to share in the risk and upside of transition to farming systems that prioritise climate and nature were also a theme emerging from the research, which might warrant further exploration by farmers and in particular new entrant farmers.

7.0

Next steps

This report sends a message to banks to acknowledge the systemic risks of not supporting farmers and farm business to transition to a farming system that prioritises climate and nature outcomes, and suggests that banks mobilise Nature Transition Finance with the support of wider financial and public funding actors.

Soil Association Exchange, with support from the British Business Bank, is inviting all mainstream banks, and other financial institutions, who have a role in lending to the agriculture sector and who are invested in the future of farming and food in the context of the climate and nature emergency, to a roundtable in December 2024. The roundtable will create a space to respond to the recommendations in this report as well as collectively agree on actions to take forward.

The effort to support farm transition must be acknowledged across the breadth of the financial system and must generate a collaborative response from all banks. We invite banks to work together to mobilise Nature Transition Finance packages for farm businesses.

We will be seeking shared commitments from all banks in the response for the need for Nature Transition Finance. We will also be seeking commitments from at least one bank to rapidly mobilise a pilot in response to the recommendation for Nature Transition Finance.

Policy makers will be invited to consider the role of development finance, de-risking and catalysing the banks' efforts to deliver Nature Transition Finance.

Corporate, philanthropic and public funders, as well as impact investors, will be invited to contribute to how innovation funding, impact investment, and technical assistance can play a role within transition and market building for new food and farming systems. They will also be invited to participate in rapidly mobilising a pilot that responds to the recommendations for Nature Transition Finance, together with banks.

Finally, in keeping with the farmer-led approach of this research, which has highlighted real world experiences of farmers in the UK, we will continue to include farmers, farm advisors, and food systems entrepreneurs as co-designers of any convening and resulting outcome of this report and its recommendations.

