



FACT SHEET | MAY 2024

# Building resilience to climate extremes

## Part 1: Financial risks and resilience

### About the Building Resilience Series

The five-part series from the Soil Wealth ICP project presents a risk-based approach to assessing resilience to climate extremes and impacts for vegetable and melon businesses. The series encourages growers to complete their own risk assessment and action plan for improving resilience as required. It presents a model of farm resilience that focuses on four interlinked areas of a business:

- Overview: Getting ready for changing conditions
- Part 1: Financial risk and resilience
- Part 2: Farm management risk and resilience
- Part 3: Personal and social risk and resilience
- Part 4: Environmental risk and resilience

Links to additional resources are provided in each fact sheet.

The Building Resilience Series has been produced to help Australian vegetable and melon growers to:

- Look at risk and resilience across multiple connected areas of the business
- Create a useful action plan for addressing individual risks and improving overall adaptability to climate extremes

- Find other helpful sources of information and support on the areas of risk and resilience.

Part 1 of the Building Resilience Series focuses on the financial risk and resilience of a vegetable or melon business.

### KEY MESSAGES

- Resilience means being prepared and able to cope and adapt when unexpected and extreme events happen.
- Building financial resilience by addressing business capacity and liabilities increases the ability of a business to respond to shocks, take advantage of opportunities, and recover effectively when needed.
- This guide provides resources and suggestions on assessing and improving business resilience through risk-based planning and actions.



## What is climate resilience and why does it matter?

*Resilience measures the ability of a system, such as a business, to absorb, respond to and recover from shocks<sup>1</sup>.*

In agriculture, this is influenced by the degree of a farm's overall risk, the ability to reduce risks and to adapt to change in the medium to long-term.

## Financial risks and resilience

Financial risk and resilience affect the ability to address each of the other fundamental areas. The more financially resilient a business is, the better resourced it will be to implement changes across farm management, social and personal, and environmental areas, and respond effectively to climate shocks.

A resilient farm business is profitable and has access to cash reserves in times of need. It has a strong and up-to-date balance sheet which identifies farm asset value, liabilities and equity. Farmers that are able to improve profitability and understand and manage their finances more proficiently are in better stead when challenges and unforeseen events arise. There are many high-quality resources available to assist farmers before things get tough, as well as some resources to call upon in difficult times.



**Figure 1:** Financial resilience is a key part of the bigger picture of farm business resilience.

<sup>1</sup> Hughes, N, Burns, K, Ying Soh, W and Lawson, K 2020, Measuring drought risk: the exposure and sensitivity of Australian farms to drought, Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), Department of Agriculture, Water and the Environment



**Table 1:** Example questions and strategies to consider when assessing financial resilience.

Potential areas of risk	Key questions to ask	Possible actions
Financial management and business planning	<ul style="list-style-type: none"> <li>• How could business finances be affected by climate extremes?</li> <li>• Is the business profitable?</li> <li>• Does the business have access to cash reserves?</li> <li>• Is the farm business or financial plan up to date?</li> <li>• Is there software or other tools to help manage finances efficiently?</li> <li>• What recovery support is available?</li> </ul>	<ul style="list-style-type: none"> <li>• Improve financial skills and understanding via training and education, or exploring available resources</li> <li>• Training in business management</li> <li>• Find assistance through a financial advisor</li> <li>• Use farm finance software, e.g., Xero, Agrimaster, Figured etc.</li> <li>• Develop a succession plan, if applicable</li> <li>• Join a support program, e.g., the <a href="#">Farm Business Resilience Program</a></li> <li>• Explore disaster relief, e.g., <a href="#">Rural Aid</a>, <a href="#">Drought Angels</a>, <a href="#">Recovery Connect</a></li> </ul>
Debt and liability	<ul style="list-style-type: none"> <li>• Is the business' level of debt manageable?</li> </ul>	<ul style="list-style-type: none"> <li>• Seek advice through your accountant or financial advisor about improving your debt position</li> <li>• Seek advice through the free <a href="#">Rural Counselling Service</a></li> </ul>
Equity	<ul style="list-style-type: none"> <li>• What is the equity level of the business?</li> </ul>	<ul style="list-style-type: none"> <li>• If there is a concern about equity, consider working closely with a financial advisor, accountants, and/or your bank/lenders to evaluate the farm's equity position</li> <li>• Set realistic financial goals and implement strategies to strengthen equity reserves and financial resilience over the long term</li> </ul>
Income diversification or specialisation	<ul style="list-style-type: none"> <li>• Could other income streams help mitigate against risks to production income?</li> <li>• Could specialisation reduce exposure and be a risk management strategy?</li> </ul>	<ul style="list-style-type: none"> <li>• Explore options for income diversification both on and off-farm which do not take you away from your core business</li> <li>• Discuss diversification with personal and professional networks</li> <li>• Consider greater specialisation if you are trying to do too many things; maybe concentrate on business ventures you are really good at</li> </ul>



Potential areas of risk	Key questions to ask	Possible actions
Insurance	<ul style="list-style-type: none"><li>• Which insurance offers the best protection against the impacts of climate extremes?</li><li>• Would the business benefit from advice from an insurance broker?</li></ul>	<ul style="list-style-type: none"><li>• Investigate the different types of insurance available</li><li>• Compare insurance options and rates (information provided by Farm Insurance Australia)</li></ul>

## CASE STUDY: BUILDING FINANCIAL RESILIENCE

Brothers Ed and James Fagan run a diversified farm near Cowra, NSW, producing vegetables, broadacre crops and running livestock. The Fagans have trialled many approaches to building their soil health since becoming involved in the Soil Wealth ICP project in 2014, and working out what systems worked best for both their soil and their wallet was the key to their current success.

Many of their problems originally stemmed from the fact that their soil had been worked intensively for 70-odd years, leaving little organic matter, a deteriorated structure and poor infiltration.

Since their involvement in the program, they have trialled biofumigants, compost, strip tillage, cover cropping and reduced tillage with mixed success. Assessing the long-term financial viability of each method, in careful consideration with other factors such as irrigation and crop selection, has been an important part of their process of adopting new technologies and practices.

*“There’s no point having the best dirt in the district if you go broke. So you have to make sure that it’s financially viable. You have to make sure you’re making money out of it,”* Ed said of their learning process. Through their commitment to trialling different methods, the Fagans have found that cover cropping, reduced tillage and softer tillage methods were the most effective and financially sustainable methods for improving soil health and financial resilience on their farm. More details can be found on the [Soil Wealth ICP website](#).



**Figure 2:** The state of cropping soils on the Fagan’s farm in 2018





## Further resources

**Table 2:** Further resources for financial risk and resilience

Source	Resource
AgHealth Australia	Free farm safety resources for farmers – <a href="https://aghealth.sydney.edu.au/resources/resources-for-farmers/">aghealth.sydney.edu.au/resources/resources-for-farmers/</a>
Better Health	Advice on safe manual handling for farms – <a href="https://betterhealth.vic.gov.au/health/healthyliving/farm-safety-manual-handling">betterhealth.vic.gov.au/health/healthyliving/farm-safety-manual-handling</a>
Farmsafe Australia	Farm safety talks, podcasts, library and tools – <a href="https://farmsafe.org.au/resources">farmsafe.org.au/resources</a>
Farmsafe Australia	Improving workplace culture and psychosocial safety on your farm – <a href="https://farmsafe.org.au/resources">farmsafe.org.au/resources</a>
National Centre for Farmer Health	Farmer Wellbeing Toolkit – <a href="https://farmerhealth.org.au/farmer-wellbeing-toolkit">farmerhealth.org.au/farmer-wellbeing-toolkit</a>
National Centre for Farmer Health	Links to social and emotional wellbeing support – <a href="https://farmerhealth.org.au/support">farmerhealth.org.au/support</a>
National Farmers Federation	National Farmers Federation Leadership programs – <a href="https://nff.org.au/programs/leadership/">nff.org.au/programs/leadership/</a>
SafeWork NSW	The A-Z of Farm Safety – <a href="https://safework.nsw.gov.au">safework.nsw.gov.au</a>
University of Western Australia	Review of the social impacts of drought – <a href="https://gsdc.wa.gov.au/app/uploads/2022/07/Understanding-the-Social-Impacts-of-Drought-UWA.pdf">gsdc.wa.gov.au/app/uploads/2022/07/Understanding-the-Social-Impacts-of-Drought-UWA.pdf</a>

