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Business story: Farm Dairy

First Transition Loan granted to Farm Dairy

ABN AMRO's new Transition Loan uses financial incentives (an interest rate markup or reduction) to encourage companies to take steps towards more sustainable ways of running their business. For the first time, this type of financing is available for companies requiring loans of 1-25 million euros. One of the first Transition Loans, during the pilot phase, was granted to dairy producer Farm Dairy.

Farm Dairy is largely unknown among the public, even though millions of households around the Netherlands have fresh products by the family-owned company in their refrigerators. The private labeller develops a range of milk, yoghurt and custard products for supermarket chains throughout the country such as Albert Heijn, Jumbo, Lidl, Aldi and Plus. According to Managing Director Arend Bouwer, Farm Dairy has matured over the past few years into one of the biggest players in fresh dairy. “At the moment, we're processing 240 million kilograms of milk per year at our factory in Lelystad. That will increase to 300 million kilograms soon.”

Sustainable growth in a contracting dairy market

So how is Farm Dairy achieving that growth in a contracting dairy market? Bouwer explains, “The dairy market is undergoing a huge transition. The focus is now much more on sustainability, for example, with the emergence of quality marks such as On the Way to PlanetProof. We've managed to respond to these developments, which is what sets us apart as a private labeller. We made the switch from regular milk to at least grass-fed milk two years ago. In fact, by the end of this year we'll be going to 100 percent certified-sustainable milk flows. For us, sustainable is the new standard. Another trend is a shift among consumers from traditional, sugar-rich dairy to healthier dairy products. We're following this by focusing on protein-rich products such as quark, yoghurt and Skyr. We've also begun to develop plant-based alternatives.” Lastly, according to Bouwer, own brands are seeing a tremendous boost. “With the economy the way it is, consumers are becoming more and more price-conscious and opting for own brands. In the milk segment, over the past two years the share of own brands relative to premium brands has actually risen to 85 percent.”

Energy-neutral cooling cell and filling hall

Farm Dairy is riding the wave. Scaling up to 300 million kilograms of milk means increasing capacity, and the company is adding an energy-neutral cooling cell and filling hall. To finance the 3.35 million euros necessary for this expansion, Farm Dairy turned to its regular bank ABN AMRO, where relationship manager Theo Paardekooper suggested a Transition Loan. This loan links the interest rate to a sustainability goal (KPI), based on a target. If the company achieves its target, the interest rate on the loan is reduced. If the company is unable to meet the target, the bank adds a markup. As Paardekooper explains, the loan is intended to accelerate clients' switch to more sustainable ways of running their business. “We want to try and help our clients to take steps towards a more sustainable future. The Transition Loan can be a good tool for achieving this.”

Financing loans of 1-25 million euros

The Transition Loan is similar to the Sustainability-Linked Loan (SLL), which is intended for corporate clients that need 25 million euros or more in financing. Where an SLL uses goals that are custom-selected for each client, the Transition Loan is based on standardised KPIs that ABN AMRO has defined along a series of themes. Examples include reducing energy usage, achieving B Corp certification or cutting back waste flows and packaging. This makes it the first loan of this type to be available to companies applying for a loan of as little as one million euros.

Energy use per 1,000 litres of milk

In the pilot phase for the Transition Loan, ABN AMRO and Farm Dairy established the sustainability goal together: Farm Dairy will reduce the amount of energy per 1,000 litres that it uses for its milk production. So how does ABN AMRO verify whether Farm Dairy has achieved its target? “When the loan is first taken out, an independent external auditor carries out a baseline measurement,” explains Paardekooper. “Every calendar year for a three-year period, we use that baseline to determine whether the company has met the target, and so whether the interest rate will be marked up or reduced.”

Extra nudge in the right direction

Farm Dairy immediately became excited about the Transition Loan. “It’s important for the entire supply chain to move in the same direction, with the same sustainability incentives,” Bouwer comments. “The more actors are pushing the market in the same direction, the more likely they are to succeed. With this product, ABN AMRO is giving that extra nudge in the right direction. I think that’s a wonderful move by the bank. We sat down with ABN AMRO to establish a KPI that aligns with our strategy. The targets are challenging, but feasible.”

Expanding and making production more energy-efficient

Farm Dairy is using its Transition Loan to finance the cost of building its energy-neutral cooling cell and filling hall. Not only will Farm Dairy expand its business, its production will also be more energy-efficient. “The new buildings are energy-neutral, thanks to solar panels and insulation. We’ll be able to produce longer batches as well,” Bouwer explains. “Now we don’t have enough storage, so we have to run multiple batches every week of several products. By reducing the changeover and cleaning times, we’ll be making much more efficient use of our filling lines, and so using less energy per 1,000 litres of milk.”

More information about the Transition Loan

To find out more, visit https://www.abnamro.com/transitielening