Credit, crop insurance and sustainable agriculture

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Abstract
Various factors make it harder for farmers using sustainable practices to access financial resources. This project used surveys and interviews to pinpoint what these factors are and how they might be alleviated.

Keywords
Policy

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Credit, crop insurance and sustainable agriculture

Are the systems that provide the financial underpinning of modern farming in the Midwest—credit and crop insurance—naturally biased toward intensive commodity agriculture systems that reduce the risk of lenders, insurance companies and the government? If so, does this stem from a lack of information and understanding regarding sustainable agricultural practices and markets?

The study found that there are obvious disconnects between producers and non-producers in regard to knowledge of sustainable agriculture.

Background

The Iowa Farmers Union (IFU) and the Center for Rural Affairs (CFRA) gathered data and analyzed the interplay of Iowa farmers engaged in sustainable farming operations and two major financial components of American agriculture, crop insurance and credit. IFU is an organization of independent family farmers whose mission is to build strong rural communities while protecting Iowa’s natural resources for future generations. CFRA is one of the nation’s leading rural advocacy, research and service organizations.

Based on previous research by CFRA and others, this project investigated the hypothesis that the mechanisms that provide the financial underpinning of modern farming are biased toward systems (notably intensive commodity agriculture) that reduce the risk of lenders, insurance companies and the government. The biases appear to be centered on a lack of knowledge about sustainable agriculture and a perception that sustainable agricultural practices and systems are not economically viable. The project tested this hypothesis in Iowa by gathering data on the experiences and perceptions of farmers, agricultural lenders and crop insurance agents, and provided policy recommendations that mitigate such biases and promote use of sustainable agriculture practices.

Approach and methods

CFRA designed two surveys on sustainable systems and practices and their perceptions. The groups surveyed included:

- Agricultural Lenders – 186 surveys were mailed to banks located in Iowa’s rural counties.
- Crop Insurance Agents – 112 surveys were mailed to insurance agencies in rural Iowa counties.
- Producers – Each member (295) of the Iowa Farmers Union received a survey by mail. A web link to the survey also was shared through CFRA’s online newsletter and IFU’s online newsletter.
The surveys mailed to lenders and crop insurance agents inquired about their experience in agriculture lending or crop insurance and about their knowledge of sustainable agriculture. They were asked if they provided credit or insurance to farmers using sustainable agriculture practices, and whether they had ever requested a that client not use sustainable agriculture practices. Finally, they were asked about discrimination in providing credit or crop insurance coverage or payments. Producers were asked about their farming operation, use of sustainable agricultural practices and any discrimination they or other farmers may have been subjected to by lenders or crop insurance agents.

Response rates varied by group with a 10 percent response from bankers/lenders, a 17 percent response rate from crop insurance agents and 28 percent response rate from producers. To augment the data obtained from the surveys, IFU and CFRA convened focus groups of Iowa farmers, agricultural lenders and crop insurance agents.

**Conclusions**

The survey results pointed out some obvious disconnects between producers and non-producers. Among the more significant areas where the groups diverged:

Differences in the amount of knowledge concerning sustainable agriculture possessed by the different groups may be partially to blame for other differences. It may be reasonable for those actually involved in farming to have greater awareness and depth of knowledge about sustainable agriculture and its practices than bankers or insurance agents. However, a lack of knowledge and understanding of sustainable agriculture by bankers and insurance agents may be influencing how they deal with farmers using sustainable practices.

While bankers and insurance agents claim they receive few, if any, requests for services from producers employing sustainable agriculture practices, there are many producers who use these practices. This disconnect may indicate that it is to the farmer’s advantage not to mention the use of sustainable practices. While bankers and insurance agents claim no bias against sustainable agriculture, producers are hiding the truth of what they are really doing on the farm or ranch. Perceptions or fears that an open discussion of their practices and systems will lead to a loss of insurance coverage or operating capital may result in a less-than-honest relationship between producers and lenders and/or insurance agents. This problem may stem partially from different levels of knowledge and understanding among the parties.

Profitability is the foremost consideration, particularly for lenders. When making lending decisions concerning farmers and ranchers, lenders are most concerned with the profitability and cash flow of the farming/ranching operation. While there appears to be some perception that sustainable agricultural practices may be less profitable than conventional practices, this presumption may be challenged if evidence of profitability and positive cash flow can be presented by the farmer or rancher who uses sustainable practices. Information and education are keys here – education for lenders on the economics and relative profitability of sustainable practices and the markets those systems can reach, and information through data sets producers can use to present evidence of profitability to lenders.
**Recommendations**

An ongoing program of education on sustainable agriculture needs to be undertaken for lenders and crop insurance agents. Seminars and workshops at forums or events for lenders and crop insurance agents would be one way to reach both groups. The results also suggest that an educational effort should focus on the economics of sustainable agriculture (i.e., profitability, yields, etc.). Other topics could include new crop insurance laws (particularly laws and regulations concerning sustainable and organic practices as acceptable farming practices) and the Community Reinvestment Act (CRA). The CRA requires banks with federal charters to undertake lending practices that benefit the community and underserved populations in a community. Ideas and models of how financial institutions could develop such lending practices to meet their CRA requirement should be developed and provide to lenders at educational forums.

Producers should not be overlooked in any educational effort. Roughly 68 percent of producer respondents indicated they either did not use sustainable practices in their operation or used a combination of sustainable and conventional practices. Information and outreach targeted to producers should focus on productivity, “how to” case studies, research and data sets, as well as suggestions on how to use that information to best persuade lenders and crop insurance of the viability of sustainable agriculture.

► Resources outlining the economic, environmental and social benefits of sustainable agriculture and its practices should be more available, particularly to lenders and crop insurance agents. A packet of research, case studies and other basic information on sustainable agriculture and its practices should be prepared and disseminated widely to Iowa agricultural lenders and crop insurance agents.

► The disparities in views and perceptions shown in the results point to the need for an ongoing communications and outreach effort. Bankers and insurance agents appear to believe that no bias against sustainable agriculture exists, yet there was some recognition that they would not offer services to producers using sustainable practices. Half of the insurance agent responses indicate they do not offer policies for such producers, yet they don’t believe there is discrimination against such producers. The producers believe there is some bias against sustainable agriculture, with some offering clear examples of it and others not necessarily able to pinpoint direct examples. Obviously, these views and perceptions co-exist, and likely affect the behavior of the groups holding them.

A lack of honest communication among the groups may be at least partially to blame for these discrepancies. While educational forums and events will provide an arena for discussion, they are unlikely to bring about communication sufficient to provide benefits to those producers employing sustainable agriculture practices. A more formalized communication and outreach effort may be needed. For example, the Communities of Practice model could be adapted to this issue to improve communication and mutual understanding. Organizations could come together with the goal of developing publications for producers on how to work effectively with lenders for sustainable agriculture ventures. Such a project also could develop model business plans to help lenders work with producers in sustainable agriculture and direct markets.
Impact of results

A statewide information and outreach effort targeted toward traditional lenders, demonstrating the profitability and market potential for such operations would be beneficial for the growth of sustainable agricultural opportunities across the state. Iowans can use these project recommendations and conduct outreach to promote the adoption of sustainable agriculture practices.

There needs to be a strong shift in policy to further sustainable agriculture goals as well. Crop insurance is a barrier under the current federal policy. If the new Farm Bill makes positive changes to crop insurance, it will provide an opportunity for more farmers to consider sustainable and organic agricultural systems.

Education and outreach

Information on this project was shared with major media outlets in Iowa. The investigators wrote op-ed articles for Iowa weekly papers, issued a press release about the report and conducted radio interviews. Results were disseminated in a report to Iowa state legislators as well as Iowa’s U.S. senators and representatives and agriculture organizations and associations in Iowa.

Leveraged funds

The Center for Rural Affairs had McKnight Foundation funding that supported similar aspects of this project, such as policy option development relating to conservation policy supporting sustainable agriculture.

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