


CREDIT, CROP INSURANCE AND SUSTAINABLE AGRICULTURE in IOWA

A project of the Center for Rural Affairs, Iowa Farmers Union and the Leopold Center for Sustainable Agriculture

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Introduction and Methodology

As part of a project funded by the Leopold Center, Iowa Farmers Union (IFU) and the Center for Rural Affairs (CFRA) undertook a survey of Iowa producers, agricultural lenders and crop insurance agents. The purpose was to understand each groups attitudes toward "sustainable agriculture," and to determine the extent, if any, of discrimination against sustainable agriculture in lending and crop insurance practices.

The groups surveyed included:

◊ **Agricultural Lenders**—A mailing list was developed in house by searching for banks located in rural counties in Iowa . One hundred eighty-six (186) surveys were mailed to this group.

◊ **Crop Insurance Agents**—A mailing list of those insurance agents specializing in crop insurance was developed from searching for insurance agencies in rural Iowa counties. One hundred twelve (112) surveys were mailed to this group.

◊ **Producers**—Iowa Farmers Union shared their current database of 295 members. Each member received one survey by mail. A web link to the survey was also shared through CFRA's online newsletter and IFU's online newsletter.

Specific surveys were mailed to each group. 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 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.

For purposes of reference, the following definition of sustainable agriculture was used in the surveys: "Sustainable agriculture has been described as having the goal of incorporating more ecologically-sound practices that preserve and renew the nation's soil, water, plant and animal resources through the elimination or substantial reduction of dependence on energy, synthetic fertilizers and pesticides."

Surveys were returned to the Center for Rural Affairs and tabulated through the online services of SurveyMonkey®. Response rates varied by group with a 10 percent response from bankers/lenders, a 17 percent response rate from crop insurance agents and a 28 percent response rate from producers.

Results

Knowledge and Awareness of Sustainable Agriculture

Each surveyed group was asked the identical question on knowledge and awareness of sustainable agriculture (as defined above). The results are outlined in Table 1 below.

Group	***Great Deal of Knowledge***	***Some Knowledge***	***Aware***	***Unaware***
Bankers/Lenders	5.6%	66.7%	27.8%	0%
Crop Insurance Agents	5.6%	61.1%	27.8%	5.6%
Producers	25.8%	28.8%	43.9%	1.5%

* Numbers represent the percentage of respondents in each group in each response category. Numbers may not equal 100% due to rounding.

Table 1. Knowledge and Awareness of Sustainable Agriculture

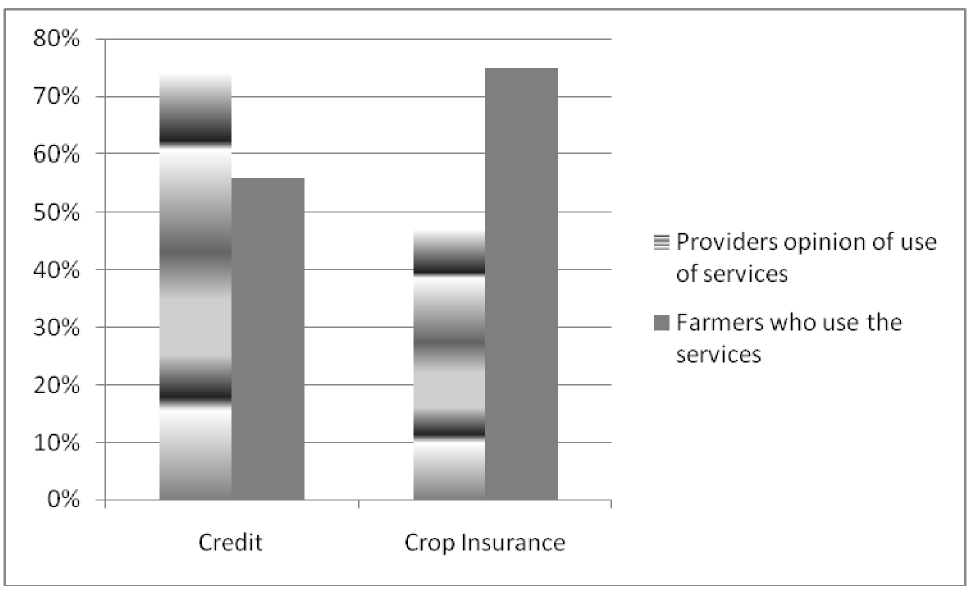
From these responses, there isn't a significant amount of awareness and knowledge of sustainable agriculture. As one would expect, the depth of knowledge is greater among producers than the other groups. But considering who the surveyed farmers were and how their names were obtained, it is interesting that the depth of knowledge is not greater among the farmer respondents. It is also clear that more education on sustainable agriculture is necessary among crop insurance agents—more than one-third of the respondents indicated only awareness or less of what sustainable agriculture is. Awareness by nearly half of the producer respondents is a good basis for an educational program aimed at that cohort.

Availability of Credit and Crop Insurance to Sustainable Agriculture

Lenders and crop insurance agents were asked whether their products (loans, credit and crop insurance policies) were provided to farmers and ranchers using sustainable agricultural practices.

Among responding lenders, a strong majority of 74 percent said they do provide loans and credit to farmers and ranchers using sustainable agricultural practices. Among crop insurance agents, however, barely half—47 percent—said crop insurance policies were provided to those using sustainable agricultural practices.

Despite this difference in availability among the non-producer respondents, use of crop insurance was more widespread among the respondent producers. Among those producers responding, 75 percent purchased crop insurance, while 56 percent obtained operating credit.



Lenders and crop insurance agents were also asked, if applicable, why their products were not provided to those who practice sustainable agriculture. Among lenders, the reasons provided generally concerned a lack of requests for credit by those who define themselves as sustainable farmers or ranchers. There appear to be two potential explanations for this—1) that producers using sustainable practices and systems do not seek operating credit, or 2) that producers do not define themselves as "sustainable" when seeking credit, and that lenders are not concerned with labels and are concerned foremost with cash flow and other economic/ financial considerations.

The use of operating credit by the responding producers who identify their operation as "sustainable" (21) or "a combination of sustainable and conventional" (32) would seem to argue for the latter explanation. Producers surveyed indicate that 56 percent have sought operating credit and 75 percent have purchased crop insurance (of any kind). There does, however, appear to be a possible perception of discrimination against sustainable producers that may account for producers not defining their practices or operation in certain ways. This issue will be discussed in more detail below.

Reasons Given by Crop Insurance Agents and Lenders for Denying Policies to Sustainable Operations

Crop Insurance Agents	Lenders
Lower productivity from those practices	Don't know how those practices work
Don't know how those practices work (3)	None in the area (3)
Economic reasons	
No reduction of risk to farming perils	
No requests or unaware of operators in the area using sustainable agricultural practices (2)	

Actions Against Sustainable Agriculture: Non-Producers

Lenders and crop insurance agents were asked if they had specifically ever requested a farm or ranch client not use sustainable agricultural practices. Only one lender responded that they had. Optional clarification provided related to the belief that sustainable practices and the programs available to such producers are not economically feasible.

Lenders and crop insurance agents were also asked if they were aware of other lenders and/or crop insurance agents speaking against sustainable agriculture and its practices; lenders were also asked if they were aware of other lenders denying operating credit to those employing sustainable practices. Among lenders, one respondent was aware of other lenders doing so, and one respondent was aware of crop insurance agents doing so. Among crop insurance agents, one respondent was aware of other agents doing so.

Both groups were asked if they were aware of farmers being denied crop insurance coverage because of the use of sustainable agricultural practices or systems. None of those surveyed were aware of such actions.

Finally, both groups were asked if they believed crop insurance and agricultural credit discriminated against those farmers and ranchers who use sustainable agriculture practices. One crop insurance agent believed that, but none of the lenders agreed with that.

While actual knowledge or awareness of discriminatory practices or differential treatment appears rare among the respondents, there is some degree of perception that those who employ sustainable agriculture are discriminated against for credit and crop insurance purposes. That perception appears to be significantly more common among producers than with crop insurance agents and lenders.

Actions Against Sustainable Agriculture: Producers

Based on producer respondents, the instances of denial of credit or crop insurance were more numerous than the non-producer responses would lead one to believe. But those instances are still relatively rare.

Among producers who had ever had operating credit or loans, a mere 3 percent had been prevented from using sustainable practices by their lender or crop insurance agent. Among the examples provided were:

> *"He did not think I should be involved with Niman Ranch hog production."*

> *"When faced with skepticism by credit sources we chose to opt out of that entire system and became entirely self-financing. It has required slower growth in our operation, but we have minimal debt as a result and are probably more economically sustainable than if we used the same model we did as conventional commodity producers."*

> *"Indirectly, in that crop insurance must be purchased in order to be eligible for any disaster payments. Yet the payment rate is based on conventional prices. The economics of crop insurance discourages sustainable farming practices."*

Five percent of producers also responded that their banker had spoken against sustainable agricultural practices or asked that such practices not be used. Reasons provided (respondents could provide multiple reasons) were perception of lower productivity (3); economic reasons (2); and lack of knowledge or understanding (2). One producer responded that their crop insurance agent has spoken against the use of sustainable practices. However, more than one respondent gave reasons for crop insurance agents advise against the use of sustainable agriculture (respondents could provide multiple reasons): perception of lower productivity (2); economic reasons (2); and lack of knowledge or understanding (1).

And while few lenders and crop insurance agents believed crop insurance and agricultural credit discriminated against sustainable agriculture, 37 percent of responding producers believe such discrimination exists.

Reasons Given by Producers for Belief There Is Bias Against Sustainable Agriculture

Because of perceptions and understandings

Crop Insurance is lower if you plant certain GMO seed

They always prefer bigger operations that don't absolutely need the credit. Ironically, as operations have become bigger they start to by-pass smaller suppliers and banks (local usually) so it seems size is upstaging efficiency! However, in the very long run, good management and efficiency become very important! Sustainability fits well here, then.

Our banker has never even asked if we practice "environmental" or "sustainable" agriculture. Our credit history speaks for itself and he is comfortable with our methods.

I am certain they do, but have no examples to offer

Especially the kind of farming we teach at the Marshalltown Community College. Entrepreneurial Ag is not something that agents have any experience with and their risk is too high to offer any of their products to us.

No personal experience, have heard antidotal comments from others

Conclusions

The survey results point out some obvious disconnects between producers and non-producers. Some of the more significant divides and their implications are:

- *Differences in the amount of knowledge concerning sustainable agriculture possessed by the different groups may be to partially blame for other differences.* While 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 would bankers or insurance agents, it may be that a lack of knowledge and understanding of sustainable agriculture by bankers and insurance agents is 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, there are a large number of producers who practice sustainable agriculture. This disconnect may indicate that it is easier and better not to mention their use of sustainable practices. While bankers and insurance agents see no issues of 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 be making for a less-than-honest relationship between producers and lenders and/or insurance agents. This relationship appears to be at least partially due to different planes 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 also be changed if evidence of profitability and positive cash flow can be presented by the farmer or rancher using sustainable practices. Information and education is the key here – education for lenders on the economics and relative profitability of sustainable practices and the markets those systems can tap, and information through data sets for producers to enable them to present evidence of profitability to lenders.

Basic Recommendations

- These results suggest ***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 where lenders and crop insurance agents congregate is an example of how such a program could reach large numbers of both groups. Examples would include annual banker association conventions and annual, local crop insurance information meetings. The results also suggest that an education effort should focus on the economics of sustainable agriculture (i.e., profitability, yields and like issues). Other topics of focus 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. Local lending practices under the CRA could be developed in a way to provide enhanced lending and credit to small-scale farmers and ranchers, beginning farmers and ranchers and those employing practices that benefit the natural environment of the community. Ideas and models of how financial institutions could develop such lending practices to meet their CRA requirement should be developed and provided to lenders at educational forums.

  The 2008 Farm Bill includes conservation provisions tailored to producers employing sustainable and organic farming or ranching practices. While there are some implementation glitches to continue to work out, these programs can and should enhance the profitability of such producers. Introducing lenders and crop insurance agents to those provisions, how they can be used and the impact for producers should also be a focus of educational efforts.

  Producers should also not be forgotten 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 information regarding how to use that information and data to best persuade lenders and crop insurance agents 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 agricultural lenders and crop insurance agents throughout the state. As new items and research concerning sustainable agriculture becomes available, it would be disseminated to lenders and crop insurance agents across the state.

- The disparities in views and perceptions suggested by these results point to the need for ***an ongoing communications and outreach effort***. Of the three groups surveyed, bankers and insurance agents appear to believe that no bias against sustainable agriculture exists, yet there was some recognition of why 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 cannot co-exist, but according to these results they do, and they likely affect the behavior of the group holding them.

  From the answers provided by survey respondents, a lack of honest communication among the groups may be at least partially to blame for these perceptions and opinion discrepancies. While the educational forums and events will provide an arena for discussion, they are unlikely to bring about immediate communication sufficient to provide benefits to those producers employing sustainable agriculture practices. For that reason, a more formalized communication and outreach effort would be in order. For example, the *Communities of Practice* model could be adapted to this issue to provide further facilitation towards communication and mutual understanding.

  Organizations could come together to build a project with the goal of developing publications for producers on how to work effectively with lenders for sustainable agriculture ventures. Such a project could also work to develop model business plans that could help lenders work with producers in sustainable agriculture and direct markets. These projects would involve the various stakeholders and through the development of these resources, relationships and trust are built, which leads to further understanding and working relationships. The Communities of Practice model has four core functions:

  - ◊ Information Hubs
  - ◊ Catalysts for Cooperation
  - ◊ Magnets to attract funding (grants and loans)
  - ◊ Scouts to identify the most cutting-edge opportunities or future challenges

Application of these four core functions would spur greater support and likely further adoption of sustainable agriculture across Iowa.

- ***Information sharing of research projects*** already undertaken is critical as well. For example, the project and report *Financing Farming in the US* (available at http://thecarrotproject.org/yahoo_site_admin/assets/docs/FINAL_July_2010_2.20883625.pdf) examines the barriers smaller-scale producers practicing sustainable agriculture and direct markets face when it comes to accessing capital. The project is identifying what can be done to address those issues and build effective relationships between lenders and producers. This project brought together a diverse group of stakeholders and will result in development of a scorecard tool that can help build understanding between such producers and lenders in order to more successfully access capital.

Policy Recommendations

The policy recommendations focus on the possible barriers created by three areas of federal policy—crop insurance, the commodity program and conservation programs. Below we discuss some clear areas for policy changes and improvements that could serve to foster sustainable and organic agriculture systems.

Crop Insurance Policy

To level the playing field, the 2012 Farm Bill should include direct language that would ***remove a 5 percent surcharge on insurance premiums for organic producers and provide insurance claim payments equal to the market premium for organic products.*** The current law puts organic producers at a significant disadvantage by charging a 5 percent surcharge for organic producers and only providing conventional price coverage in times of crop failure.

The 2008 Farm Bill made some progress in this regard by requiring a process that could eliminate the surcharge through data collection and review of that data. It also outlined a goal for offering an organic price election for all organic crops within 5 years. However, implementation of this plan is lagging and there is slow progress being made. USDA conducted the data review using only their own data, which is very limited and biased since the organic growers most likely to have purchased crop insurance are those that are most risky. USDA should conduct a broad-based data collection and analysis to better inform policy development for organic insurance options.

USDA and Congress should also pull together stakeholders to gather information on how an Adjusted Gross Revenue (AGR) type of insurance product could be constructed to work for highly diversified sustainable and organic agriculture operations, rather than trying to shoehorn an insurance policy fit for conventional agriculture. AGR insurance is based on actual income history, and if done right, could balance the playing field for organic producers.

In addition, the 2012 Farm Bill should consider structural reforms to the crop insurance program. Under current law, the crop insurance subsidy is unlimited, which means that farmers can receive subsidized crop insurance on every acre they add to their operation. Considering the fact that crop insurance seems to work best for commodity-driven agriculture, and not so well for those using sustainable or organic cropping systems, this also adds to the competition for land among farmers. That competition favors the former and creates a barrier to the adoption of sustainable or organic agriculture practices. The 2012 Farm Bill should reduce by half the subsidy on crop and revenue insurance coverage on production exceeding $1 million, and it should eliminate the subsidy on production exceeding $2.5 million.

Commodity Program

The current structure of the commodity program, with several loopholes that allow unlimited payments, is creating a barrier for the adoption of sustainable and organic agriculture practices. Unlimited payments to mega-farmers applies pressure to land values and cash rental rates. If mega-farmers can be guaranteed a subsidy on every acre they add to their operation, those subsidies are built directly into land values and cash rental rates. Moreover, commodity prices are currently seeing record high levels. Therefore, unlimited commodity program payments are adding insult to injury in the current climate.

Modest reform measures would bring back the balance of the program and level the playing field. The 2012 Farm Bill should place a hard cap of $250,000 a year on commodity program payments, close all the existing loopholes, and improve enforcement to crack down on abuse.

Conservation

The 2008 Farm Bill made significant strides to ***support organic farming systems through conservation programs***. The farm bill mandated assistance to those using or converting to organic farming systems. USDA has directed $50 million annually to the Environmental Quality Incentives Program Organic Initiative and allocated that to states based on their share of land in agriculture production. USDA should continue to improve the program's reach and ability to utilize the full $50 million.

Training for NRCS staff members on organics should be mandatory as well in order to improve their ability to serve organic farmers and ranchers. Outreach efforts could also be improved to reach different audiences. For example, USDA should extend their outreach beyond press releases and promote these programs directly to agriculture lending institutions. This could encourage lending institutions to examine their lending capacity in this regard. They may be more interested in serving this segment of agriculture if they understand there is additional assistance available. The 2012 Farm Bill should reauthorize this program.

The NRCS should also ensure the Conservation Stewardship Program accurately rewards the conservation benefits of sustainable and organic agriculture practices. The Conservation Measurement Tool (CMT), which determines eligibility, ranking and payment rates, is a key part of reaching that goal. Several organizations, including the Center for Rural Affairs, are working together on a complete review of the CMT. NRCS should adopt recommendations stemming from this collaboration to make sure the Conservation Stewardship Program is accessible to conservation-based sustainable and organic farm and ranch systems.

The 2012 Farm Bill should provide full funding for the Conservation Stewardship Program to enable the program to grow, moving more farmers and ranchers towards conservation farming systems that employ sustainable and organic methods. Overtime, federal policy should move in the direction of providing farm support through conservation programs and incentives.

ABOUT THE AUTHORS

Traci Bruckner has been with the Center for ten years and serves as the Assistant Director of the Rural Policy Program. Traci worked extensively on the 2008 Farm Bill, guiding advocacy to include beginning farmer and rancher provisions in the bill, as well as conservation and value-added agriculture programs. She has also guided our farm bill program implementation efforts on those programs. She has brought a national voice to beginning farm and ranch issues with her service on USDA's Beginning Farmer Committee. Traci also works closely with other organizations on organic and sustainable agriculture, and speaks frequently to groups across the nation.

Kim Preston has been with the Center for Rural Affairs since September 1999. Her work with the Rural Policy Program has included many issues at the state level including public education finance, property tax policy, microenterprise/small business and agriculture. She has worked at the grassroots level to block or advance key issues within the legislature. She has trained groups and individuals on the policy making process and citizen advocacy. As part of the Rural Research and Analysis Program, she has contributed to major reports and studies affecting rural America, including *Swept Away: Chronic Hardship and Fresh Promise of the Great Plains* and Fresh *Promises: Highlighting Promising Strategies of the Rural Great Plains and Beyond*.

ABOUT THE PARTNERS

This is a publication of the Rural Policy Program of the Center for Rural Affairs. Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

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The Iowa Farmers Union is a grassroots network of farmers and food activists dedicated to strengthening independent family farms through education and cooperation. This grant will focus on education. The goal of the Iowa Farmers Union (IFU) is to achieve sustainable production, a safe food system, a clean environment, and healthy communities. The organization has been a chapter of the National Farmers Union since 1915. There are over 1,200 members who guide the organization and participate in activities.