FINANCING FARMING IN THE U.S.

OPPORTUNITIES TO IMPROVE THE FINANCIAL AND BUSINESS ENVIRONMENT FOR SMALL AND MIDSIZED FARMS THROUGH STRATEGIC FINANCING

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Abstract

In order to bring attention to the financing dilemma faced by both lenders interested in understanding new agricultural markets, and an increasing number of successful, innovative farmers hesitant to approach mainstream lenders, the C.S. Mott Group for Sustainable Food Systems at MSU (Mott Group), and The Carrot Project, a non-profit focused on increasing the availability of capital, undertook a purposeful exploration of farm viability and its relationship to capital access.

This article chronicles the coming together of a diverse group of people from across the country over a six-month period to explore (1) the reasons for the chasm between an emerging sector of smaller-scale agriculture producers and access to capital at the local level, and (2) workable strategies to create successful farmer-lender relationships that promote and affect capital access among small and mid-scale farmers nationally. The group purposefully focused on farmer-lender relationships that would spur growth in understanding of the smaller-scale farming sector, therefore expanding relationships with yet untapped capital resources.

Five exploratory Sessions and a concluding Session enabled a diverse, national group to describe the rapidly emerging agriculture sector to advance lending options; identify the key obstacles faced by borrowers and lenders; discern the most commonly used risk management strategies organized around five types of agricultural risks (production, marketing, financial, legal and environmental, and human resource); learn from organizations that are successfully bridging the relationship and knowledge gaps between willing farmers and local lenders; and establish meetings with federal agencies and national associations that participants believed could be helpful in leveraging capital and providing technical assistance at the local level for smaller-scale farmers.

Finally, participants established recommendations on three key findings: (1) capable agriculture borrowers need access to specialized business support; (2) financing entities need to possess significant knowledge about newer agriculture operations; and (3) access to capital could be improved by opening up new capital sources and expanding linkages to existing sources.

Background

Financing smaller-scale farms is a growing major obstacle in efforts to scale up food production and access at local and regional levels (RAFI-USA 2006; Land Stewardship Project 2003; The Carrot Project, 2008; Cocciarelli, 2009). The concern about capital access is not isolated to individual states or regions of the country, evidenced by the growth in discourse about financing smaller scale agriculture at the national level (Matteson and Heuer, 2008, Ahearn and Newton, 2009; ABA, 2009; Shuman, 2010; Longman and Boshara, 2009). At the macro level there is discussion about the extent to which traditional agriculture lenders may be starting to realize the investment potential in an emerging localized food system (Matteson and Heuer, 2008; Food Ethics, 2010, Longman and Boshara, 2009), while state-based programs such as the California Farmlink, the Land Stewardship Program's Farm Beginnings, Michigan State University's Student Organic Farm and many others across the country are challenging an aging farmer base and land development pressures by offering farm business support to an increasing number of people desiring to farm.

Michael Pollan (2009 & 2006) has provoked the nation into thinking about where our food comes from, and Woody Tasch (2008) and others have pressed us to think about the financial sustainability of industrial agriculture. But going beyond the provocative is the how. *How do we do make farming economically viable at a scale that satisfies the goals of localizing our agriculture and generating a return on investment for both farmers and lenders*? In other words, can we develop an agriculture financing system that is not region specific by bringing more clarity to what lenders are lending into?

This article documents the outcomes of a series of six conversations (Sessions) among stakeholders throughout the country addressing this very question.

An Overview of The Financing Farming in the U.S. Sessions

An overwhelmingly positive audience response to a presentation by The Carrot Project in October 2009 inspired Susan Cocciarelli (Mott Group) and Dorothy Suput (The Carrot Project) to write and disseminate a concept paper entitled, *Opportunities to change and improve the financial wherewithal of and the business environment for small and midsized farms through strategic financing mechanisms,* to participants on the call and select organizations meeting minimal criteria: actively working with new farmers, existing farmers, a cross section of lenders representing traditional and non-mainstream lending institutions, and others directly connected to urban or rural community-based economic development[1]. With the goal of developing both a deeper understanding of and desire to narrow the chasm between lenders and farmers, the groups reached consensus around the intent and method of addressing the issue by committing six months of their time. What resulted was a series of six facilitated national conversations entitled, "Financing Farming in the U.S.". These included five in-depth Sessions on a range of topics, plus a final Session focused on key points and recommendations:

Session I: What are the new, emerging agriculture models?

Session II: What are the major obstacles to bringing more financial capital to smaller-scale farms?

Session III: What are the metrics by which lenders evaluate risk in agriculture? Can these metrics be modified to reflect increased knowledge among lenders and the risk mitigation strategies now practiced by small farmers?

Session IV: What "hybrid" models could serve as examples of intervention strategies designed to close the knowledge and service gaps between small-scale producers and lenders?

Session V: What national institutions might add value to local financing entities' efforts?

Session VI: What are the key points and recommendations?

Cocciarelli and Suput coordinated preparation for the series and co-facilitated the calls. Each 90-

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Dorothy Suput, MA; Susan Cocciarelli, MI; Sue Milshaw, PA; Steve Schwartz, CA; Denise Dukette, MA; Maura Schorr Beaufait, MA; Mark Cannella, VT; Beth Rasgorshek, ID; Enid Wonnacott, VT; Gray Harris, ME; Chris Wendel, MI; Tom Spaulding, IL; Susan Stokes, CA; Janie Burns, ID; Beth Ragorshek, WA; Amy Bacigaulipo and Richard Ness, MN; Betty Wenglikowshi, MI; Jon Jaffe, MA; Scott Marlow, NC minute Session was divided into three components: (1) an introduction to the topic; (2) a review and discussion of topical materials prepared and distributed prior to the meeting; and (3) a summary which included input relative to the next Session's agenda.

Each Session focused on understanding financing and farming: What type of agriculture are we addressing? How can capital be responsive to meet demand for agricultural products? What brings lenders and farmers closer together so that capital works for both? Participants acted as advisors in preparing for the Sessions, provided insight from their work and personal experience, and helped craft recommendations for strategies to improve relationships between, and opportunities for, farmers and lenders. The group believed that their consensus-driven recommendations would be valuable not only to particular regions, but also to practitioners across the country.

I. What Are The New, Emerging Agriculture Models?

During the last decade, and especially in the last few years, efforts have been made to describe the "new farmers" and "emerging agricultural models" that a rapidly increasing number of Americans rely on for local, and often organically produced, fruits, vegetables, and meats. What are these models, and could such business models help small farmers gain fuller and more adequate access to the capital and technical assistance they need to grow and sustain their operations?

Why Understand This Emerging Market?

As one might guess from trips to Whole Foods Markets or farmers' markets in many large urban areas, small to mid-scale farms are finding robust markets that often provide generous margins for their products. These types of farms have the potential to provide livelihoods because their products are differentiated from the products of the larger-scale farms that compete on the global market. And though they have identified many successful strategies to penetrate local and regional markets, they are not coming to lenders with business plans that describe their operations. Instead, they often choose to finance their small farms with pricey (and sometimes abusive) credit cards or by undercapitalizing their businesses.

At the same time, some lenders serving other types of small businesses are asking, "How can we enter the field and enrich our communities?" But such lenders can find it difficult to do so until a question posed by participant Denise Dukette is addressed: "What are we lending into?" Ultimately, lenders were hopeful that these non-conventional, smaller farms could be organized and described as a "sector cohort," i.e., an operation easily identified by a descriptive business plan. What follows are some attempts to do exactly that.

Describing the Emerging Sector and Its Operators

The USDA, in its efforts to address the changing demographics and scale of farming, has offered new programs for specific, targeted farmers, as well as changes in farming typology to reflect the emerging sector. The USDA defines beginning farmers and ranchers as any principal operators farming for fewer than 10 years. The USDA ERS recently created a new category and included in it "small farms" with annual sales of $250,000 or less. Both of these descriptions capture a large number of the farmers discussed in this report. Beyond these descriptions, however, the USDA typology provides little information that differentiates this sector from conventional farming practices. This has created an opening for several groups that offer farmer education and business development support across the county to describe in greater depth this emerging sector of smaller-scale, more local market-driven farms. The Northeast Growing New Farmer Consortium, the Intervale Center in Vermont, Farm Beginnings in Wisconsin, and Coastal Enterprises, Inc. in Maine among others describe emerging farmer operators as those having farming knowledge, skills, and management expertise, but who, because many are first-generation farmers, lack farming knowledge handed down through a family business, access to land, and capital needed to begin their operations.

Several farm development groups were able to describe further the characteristics and challenges facing new farmers. In this effort, what became clear is that there are challenges in which the farmer has significant control (e.g., deciding what to grow based on polling of markets); challenges that require research, training, or technical assistance (e.g., cash flow modeling and incorporation into business practices); and challenges — across all five identified risk areas (production, marketing, financial, legal and environmental, and human resource) — that are outside of an individual farmer's control (e.g., food safety regulations, market saturation, or access to slaughter facilities). Table 1 summarizes these characteristics and challenges.

Table 1

EMERGING FARM SECTOR PRINCIPAL OPERATORS: CHARACTERISTICS & CHALLENGES

CHARACTERISTICS	CHALLENGES
Limited Start-up Capital, Cash, and Profits • Little or no collateral • Take longer for efficiencies of capitalization to kick in • Labor intensive but discounted in cash flow	**Production** • Furthering production expertise • Focusing on profitable parts of business
Preference for Credit Cards over Conventional Loans • Increasing numbers of 1st generation farmers choose maximize credit card debt as primary financing tool • Reluctance to borrow from more-mainstream lenders (e.g., USDA FSA or Farm Credit Services [FCS]) • Reasons include little equity; no assets at all; s expect being turned down; consider the process onerous • Undercapitalized start-ups that present performance challenges or cause miss market opportunities	**Financial** • Start-up or expansion capital • Lack of knowledge about capitalization strategies • Higher product margins not understood by lenders • With banks, little technical assistance or, follow-up • Lack of confidence that lenders will take farm businesses seriously
Leased Land, Limited Assets • Young farmers leasing land and/or equipment may put all their income/resources into operating costs and never develop any equity that they can leverage for future credit • Whether by choice or circumstance, failure to re-invest in the business may result in poor balance sheet	**Marketing** • Entering competitive markets • Direct market saturation or seasonal limitations • Product seasonality • Fresh-frozen market • Finding the right balance of different markets in terms of volume of sales and effort
Limited Financial Education • Poor understanding of how credit/debt tools can support business development or bridge cash flow issues may prevent some people from ever making an	**Other Challenges** • Difficulty securing land for purchase or long-term tenure • Lack of slaughter/butcher facilities and other

attempt to access credit	infrastructure • Management easily disrupted due to death, disability, divorce • Regulatory constraints based on scale

Common Themes and Characteristics of the Emerging Farming Sector in the U.S.

Agriculture, like any successful sector, is changing and expanding in response to changes in demand. Agriculture is obviously a broad term and, increasingly, encompasses more than commodity farming.

The diversity of these new, emerging farmers is considerable, and includes: beginning farmers entering the agriculture community; existing producers who need better or more cost-effective infrastructure in order to enhance production and distribution; farmers transitioning from conventional business models to diversified and/or direct markets; organic farms; farmers incorporating novel season-extension technologies; and urban farmers retrofitting old buildings for aqua-culture or hydroponics farming or rooftop or vertical urban farming. In short, this emerging sector includes farms that differ over a range of characteristics: stage of business development, degree of operator experience, and acreage held or in cultivation/active use, for example, but primarily comprises small and midsized farms as measured by sales. However, a large portion of these farms is operated by beginning farmers (10 years or fewer in farming), and includes very small farms with intensive production methods per acre.

Though the exact capital needs of each naturally vary, potential lenders will find useful three overarching themes common to operations in this sector:

1. USDA certified, organic non-certified organic, Integrated Pest Management products.
2. Diversified products and differentiated markets.
3. Emphasize local markets, connection between farm and community, larger share of food dollar.

Using these three themes as a foundation, both loan "prototypes" and farm development programs (tools, technical assistance, training, etc.) could be tailored to specific product — dairy, cash crops, poultry, and livestock — and innovative production practices —season extension, rotational grazing, and aquaculture. This approach could be superior to that of individual lenders trying to devise capital and credit products on a case-by-case basis without knowledge of these innovative practices and markets.

More specifically, case studies of emerging farmers revealed these additional shared characteristics. These farm operations generally:

- Are small to mid-scale[i] in size
- Need access to land beyond the number of acres in cultivation for ongoing soil management
- Have low-cost inputs, including: less equipment usage in start-up operations, personal and networked labor, cooperative information and resource sharing, and leased rather than purchased land
- Seek out agreements with purchasers of products prior to planting, such as up-front commitments through community supported agriculture operations (CSAs), product agreements with restaurants, institutional procurement, or vendor arrangements at farmers' markets

- Obtain information about markets, farm management, and innovative production practices through internet-based networks due to the lack of single-source information centers within their states
- Choose this form of farming to achieve dual goals of ecological practice and food production

Combined, these descriptions provide a starting point from which to build a more comprehensive and accurate picture of emerging, innovative farming in the U.S. Developing a descriptive classification system will help bring coherence to this rapidly emerging agriculture sector, thus enabling efforts to provide capital to match the stage, scale, and farming experience of operations for both beginning farmers and emerging but experienced farmers.

II. WHAT ARE THE MAJOR OBSTACLES TO BRINGING MORE FINANCIAL CAPITAL TO SMALLER-SCALE FARMS?

There is a knowledge gap between lenders and farmers. They don't understand each other and there seem to be few "icebreaker" tools that stimulate the relationship. — Mark Canella, The Intervale Center

To overcome this gap and ultimately increase access to capital for small farmers, participants in this Session reviewed recent studies by the Mott Group[ii] and The Carrot Project.[iii] These studies show that lenders are concerned about the riskiness of agricultural lending, while farmers have supplied little information to alter that perception. This is not surprising given the lack of incentives, language, and tools for effective communication and cooperation

Borrower Obstacles

We wish that we had another option for operating capital beyond ye olde credit card, but we never bothered to apply for fear of being laughed right out of the bank! — Rebekah, Vermont farmer, in response to a survey by The Carrot Project

Rebekah's comment captures well the sentiment of many small farmers which is frequently a function of both their lack of preparedness to address lenders' concerns and lenders' lack of tools and knowledge (about farmers' needs) that enable good decisions.

Lender Obstacles

In attempting to explain the lack of lending to smaller farmers, The Carrot Project cited significant obstacles farmers face in securing farm loans: (1) a decline in numbers of financial institutions providing agricultural loans; (2) decreases in lender staffing levels; (3) fewer staff with agriculture expertise even in rural areas; and (4) lenders' unwillingness to venture outside their specialty areas. More broadly, commercial lending is moving away from agricultural lending, and the commercial lending that does take place is based on standardized loan packages. In this environment, it is difficult for smaller-scale operations to meet larger commercial lenders' bottom-line requirements.

Those lenders *wanting* to work with these new, smaller farms stressed that they have the skills to analyze and make loans to this emerging sector, but what they do *not* have is the ability to assess the information presented to them. When listening to an entrepreneur's business idea, lenders want to hear details and numbers, but in order to understand the business details, they need context and background information to understand the plan and how realistic is it.

Significant information is available to analyze large, commodity operations, but this information has questionable relevance to these emerging smaller scale operations. Mark Canella, Success on Farms Manager at the Intervale Center in Vermont, asks, "Are standard agricultural ratios applicable? Aren't ratios going to be significantly different with the age of the business and with other factors that may nor may not be tied to viability?"

In addition to the tools and information that lenders need to assess individual loans, it was recognized that lenders are in business to make loans: they want to know a viable business when they see it, to be able to understand the metrics, and to grasp the economic value of the production methods. Model business plans or "portfolios" representing this emerging sector are needed. Lenders were clear that they are *not* in the business of building the infrastructure to address knowledge gaps.

Other Obstacles

Changes within the banking industry has resulted in the tightening of credit standards and, therefore, reduced access to capital at the community level. Few can predict with any confidence the influence of this trend on future capital availability. Even greater concern is that agricultural lending programs may be more diminished than general lending for enterprise development nationally.

Adding to this uncertainty in the banking sector are both the depth and length of what is now called The Great Recession — lenders will always be reluctant to make loans if they are worried about suppressed consumer demand — as well as the financial services overhaul recently passed by Congress and signed into law by the President. This new law – Dodd-Frank Wall Street Reform and Consumer Protection – is poised to alter significantly the types of loan, savings, and transaction products offered by major financial institutions, as well as the regulatory environment governing those products.

To convert sustainable production practices into relevant economic values, the lending industry requires translation tools and a map or guidelines on what is needed to serve this sector.

III. WHAT ARE THE METRICS BY WHICH LENDERS EVALUATE RISK IN AGRICULTURE?

What is the basis for starting the conversation between farmers and lenders that would lead to successful lending? In order to cultivate common, participants discussed the possibility of developing a "scorecard" that combines traditional agricultural ratios measuring production efficiency, profitability, etc. with areas of risk management, including financials. The result would be a hybrid tool to help lenders determine credit-worthiness and to assist farmers in describing the economic value of their production practices.

Agricultural Risk and Risk-Mitigation Strategies

From a lender's perspective, certainly a traditional lender, the concern is, if I lend to a particular farm and I'm secured by a tract or I can sell the tract, I'm essentially OK regardless. But if I'm lending to a farm on the promise of them selling their produce effectively, then they've got that marketing arm they are responsible for. Can the farmer get product to market before it spoils, and *get a fair price? So the farmer's capacity to produce is only one risk element out of several to look at. To really bring lending capital into the agriculture sector, we have to be able to address the continuum of risk farms present.* — Denise Dukette, Associate Director, Western Massachusetts Enterprise Fund

The first steps in the process — using case studies, business plans, and experiences of participants — identified the most commonly used risk-management strategies and production practices already in use as a useful scorecard starting point. The types of farms examined were diversified vegetable operations such as CSAs, small dairies, vegetable farms using season extension, and small animal operations.

The table below describes the five types of agricultural risk and the strategies farmers are using to mitigate risk. This tool could help farmers more accurately present their businesses and familiarize lenders with this farming sector.

Table 2

AGRICULTURAL RISKS AND MITIGATION STRATEGIES[iv]

AGRICULTURAL RISK	RISK-MITIGATION STRATEGIES USED BY SMALLER SCALE FARMERS
Production • Weather, including drought, freezes, excessive rainfall at harvest • Pests, including insect and disease damage	• Enterprise and crop diversification • Technology to protect crops (season extension) • Production methods yield per-acre return that would be higher than evidenced through USDA Ag. Census data • On-farm production of as many inputs as possible — e.g., fertilizer, hay • Knowledge of other production in area or cooperation with other farmers: e.g., Lancaster Farm Fresh Cooperative • Production of what grows well — skills and soils • Access to variety of seeds, locally adapted varieties
Marketing • Price risk due to increases in supply, or changed demand • Loss of market access due to the relocation or closing of a processing plant • Loss of marketing power due to small size of farm sellers relative to buyers, etc.	• Direct markets • Winter and summer markets/products • Market plans, and non-traditional methods for reaching (internet) • Informal cooperatives/relationships • Up-front contracts • Multiple markets • Mix of wholesale and retail markets • Online wholesale lists with support for aggregation and distribution • Demand forecasting • Special market niches, e.g., cut flowers for wedding planning • Testing markets before making huge investment • Customers as personal references or brokers • Knowledge sharing with other farmers and through farm organizations
Financial • Production risks and price risks from above • Inflation, especially cost increases on key inputs	• Financial ratios and expenses monitoring • Family expenses control • USDA loans, grants, Individual Development Accounts (IDAs), micro-financing • State Farm Viability programs

• Changes in interest and exchange rates	• Cost center calculations lower due to production practice • Use of sustainability practices as a way to cut costs • Off-farm income • Leased or creative farm tenure deals to reduce expenses • Bootstrapping farm growth for few years/investment of sweat equity • Focus on the money makers and those that support them • Tax filing and schedules that are appropriate • Boundaries between family and farm expenses • Debt reduction in good years to increase solvency • Debt pre-payment or establishment of capital reserve fund to enable a move into new arena • Improved understanding of the difficulties of undercapitalization
Legal/Environmental • Tort liability — being subject to a civil suit — is of special concern to direct marketers • Legal risk also relates to environmental liability and business structure	• Investment in good neighbor relationships • Use of sustainable practices to limit environmental risks • Knowledge of regulatory approval bodies and processes • Knowledge of food safety regulations • Knowledge of labor rules and regulations, i.e., housing and wages
Human Resource • The three D's: divorce, death, or disability of an essential owner, manager, or employee • Risks related to poor communications and people-management practices • Non-succession farm forced sale/ reduction of farming enterprises	• Investment time in training labor • Use of family labor • Acquisition of business and financial management training • State Farm Viability programs • Training on other farms • Sharing of marketing niche information through farmer networks

Bridging the Gap Between Risk Management and Financial Soundness

To help connect these risk reduction strategies to stronger financial footing by farmers, two questions were posed to rouse discussion:

Question 1: Can traditional agricultural ratios — measurements of liquidity, solvency, profitability, repayment capacity, and financial efficiency — and the five areas of risk management mentioned above be used to develop a hybrid scorecard or tool?

Though this question prompted some theorizing about how to translate production management techniques into an economic value, the conversation quickly moved into what types of templates, indexes, or matrixes might be used to quantify these practices. The group moved toward an affirmation that, as Barbara Wenglikowski of Frankenmuth Credit Union in Michigan put it, "It will still come back to a dollar return. A farmer can be productive and do a beautiful job, but if he or she doesn't generate enough production or the right kind of production to meet market demand, then it won't generate enough income for the lender to be confident in making a loan." —

The importance of understanding some strategies' "swing potential" magnitude to mitigate production or marketing risks was underscored. Lenders with this type of knowledge — combined with farmers' understanding of marginal financial impacts and financially draining aspects of their operations — could have a positive impact in facilitating farmer-lender relationships.

Question 2: Can lenders entertain different farm ratios if the cash flow, using traditional economic metrics, does not meet the bottom line? What is most important to your agency or business?

The responses to this question varied in the nature of different lenders' consideration of the non-financial components of farmers' business plans. The lenders' responses were based on their organizations' lending criteria and practices, and varied with whom they were representing: an agricultural credit association (e.g., Farm Credit Services), a CDFI, or an economic development agency. Community lenders indicated that they look at the economic viability of an operation and the probability of its success, and not at absolute compliance with ratios.

What all the lenders shared was the need to be repaid; they look closely at cash flow, collateral, and the likelihood of repayment. In general, it was the interplay of these factors and strength in one particular area that allowed a lender more latitude in another. For example, if the enterprise is more speculative and repayment capacity is questionable, then security becomes more important. A dramatic example of excellent repayment capacity is the presence of crop insurance, which mitigates the risk to the lender. As Jon Jaffe of Farm Credit East, ACA (Agricultural Credit Association), observed, "If money is borrowed to start a new crop, with 100% insurance, and the crop fails, the lender is compensated and will care less because they are not relying on the success of the farm." This also serves as an example of an infrastructure gap — suitable crop insurance is not available to many of the farmers being considered for loans.

In general, lenders base their decisions on many factors, including the lenders' experience and what they called "the art of lending" — the consideration of subjective factors, such as whether a farmer has the right mix of temperament, skills, and experience to lead this particular business. Lenders will also look at other financial variables, such as the type of farm and how it makes business decisions. For example, if a farm is primarily dependent on a product, such as milk, with highly variable pricing, lenders expect to see a balancing farm enterprise that provides more reliable cash and can be justified in separate enterprise budgets.

It is hoped that a better understating of agricultural risks, and the specific strategies small farmers now use to mitigate those risks, could help reduce the knowledge gap between lenders and small farmers and lead to a new type of tool — something concrete that could be used by farmers and lenders across the nation. Further research and investigation into the development of this tool is highly recommended.

At the same time, what knowledge might be gained from successful "hybrid" models in this emerging sector — organizations that are bridging the relationship and knowledge gap between willing farmers and lenders — in development of this and other tools and services?

IV. "HYBRID" MODELS: EXAMPLES OF DESIGNED INTERVENTION STRATEGIES

Innovative farm-financing programs have evolved around the country in response to the difficulty that some small and midsized farms are having in accessing adequate financing. These programs are not only models for others to learn from, but embody the key elements of successful financing programs.

Model Programs Connecting Farmers to Capital
Programs such as Coastal Enterprises, Inc. (Maine), California FarmLink (CA), the Land Stewardship Project (MN), and the Carrot Project (MA) focus on meeting the needs of small-to-midsize farmers unable to work within the traditional lending market as they begin or transition to specialized, higher-value agricultural enterprises. These organizations are public, non-profit organizations that sometimes partner with for-profit organizations as intermediaries. Each is organized around similar groups or characteristics of farmers — size, the non-commodity nature of production, access to business and financial management and production-specific technical assistance, capital, and farmer networks and markets.

Beyond just providing farm business planning or access to capital, these models programs described are "hybrids" — purposeful coalitions of resources essential for farm viability that serve as intermediaries between such resources and the farmers who need them. Those resources include (1) access to capital and land; (2) product-specific business planning and technical assistance; and (3) farmer networking.

1. Access to capital
Capital is needed at each stage of the farm enterprise, and the capital needs of farms change as they develop. This means that capital must be tailored or flexible enough to meet the needs of the largest number of farms. Capital needs are shaped by: the stage of the farm business (how long it has been in operation); the experience of the farm manager; the type product produced; the time it takes for a product(s) to be market-ready; types of markets; and the cost and value of land. Each farm-financing model program described above emerged out of necessity: new, smaller-scale farmers were having trouble reaching emerging market opportunities and accessing capital for all the reasons outlined in earlier Sessions.

2. Product-specific business planning and technical assistance
Presenters for these programs were all clear that capital without technical assistance — especially training focused on product-specific, long-term business planning — is insufficient. Technical assistance, however, goes way beyond the business plan. Ideally, it includes production assistance and ongoing support, particularly for beginning farmers, as they deepen their understanding of their businesses and the many factors that influence success. Some programs also help build the larger infrastructure (such as provision of access to crop insurance) for farm viability.

3. Farmer networks and markets
Each model program cultivates networks, which open doors to knowledge about land availability, market access, and successful farmers willing to share hands-on, practical advice about managing their enterprises. The Land Stewardship Project in Minnesota captured the essence of networks for

all the programs: "Our model is based on the commitment of farmers to grow the next generation of farmers. We are farmer led; farmers are the mentors and provide the training. Committed farmers rely on successful farmer-mentors who can share experiences that aid in the developmental stages of farming. How we bring people into agriculture is so important."

The model programs also share three challenges:

1. The Great Recession
The struggling U.S. economy and the accompanying turbulence in the banking industry have tightened lending and cast a shadow on the viability of many markets, including agriculture. As Gary Harris of Coastal Enterprises, Inc. remarked, "Due to the economy, I have seen a lot of market opportunity but people [farmers] don't want to take risks and invest. So lots of people do not want to borrow. We have lots of market opportunity but less borrowing, and less lending."

2. Securing funding for operations and re-lending
All of the programs must raise loan and operating funds. For some, sources of those loans are drying up because the fundraising efforts by others are failing or states and municipalities are slashing their budgets. To recover this funding, some programs are considering levying fees on farmers for services or training, additional fundraising aimed at generating loan guarantees from mainstream lenders, and moving lending operations in-house. One program, The Carrot Project, has secured loan capital from investors.

3. Finding enough qualified technical assistance providers and mentors
Programs are increasingly challenged in finding enough qualified people to provide technical assistance, business planning, and mentorship. In fact, many are deeply concerned that the knowledge and skills associated with agriculture will, due to the aging of the farming population, be extinct unless they are soon instilled in the next generation of farmers. Cooperative extensions services, too, are becoming more limited. Similarly, many newer farmers are first generation and cannot rely on the prior generation to hand down knowledge and skills. In response to these training and mentoring challenges, several programs are partnering with Small Business Development Centers.

V. NATIONAL INSTITUTIONS MAY ADD VALUE TO LOCAL FINANCING EFFORTS

Meetings in Washington, DC were held with the Community Development Financial Institutions (CDFI) and Opportunity Finance Network Fund (OFN) at the U.S. Department of the Treasury, the SBA Association of Small Business Development Centers (ASBDC), and USDA's Farm Service Agency (FSA).

The Community Development Financial Institution (CDFI), housed in the U.S. Department of the Treasury, promotes economic revitalization and community development through investment in and assistance to local CDFIs. CDFIs could help bridge a gap in lender knowledge about agriculture and the capital needs of small farmers.

The SBA's Association of Small Business Development Centers serves as a critical resource for many local or regional small-farm development programs by facilitating partnerships that promote access to business and financial technical assistance. ASBDCs are accordingly poised to help bridge gaps between small farmers and the technical assistance and business planning they need to start or grow their operations.

USDA's Farm Service Agency has made great strides in helping to meet the capital needs of small farmers. However, gaps in policy that drives infrastructure support for emerging agriculture still exist.

VI. Key Points and Summary

The table below provides an overview of key points from which take next steps.

KEY POINTS

Main Findings

- Capable agriculture borrowers need access to specialized business support.
- Financing entities need to possess significant knowledge about newer agriculture operations.
- Opening up new sources and improving linkages to existing sources could improve access to capital.

Obstacles to Financing the Agriculture Sector

Regarding the borrower:

- Farmers lack personal capital or equity base.
- Farmers lack business plan tools that convert farm production history and future plans to cash flow projections.
- Farmers lack significant personal credit histories.

Regarding the financing industry:

- Lending on a smaller scale typically does not meet commercial lenders' bottom-line requirements.
- There is a perception among lenders that all farms have access to programs that mitigate risk, but these are typically available only to larger-scale, commodity-driven farm operations.
- There are few lenders familiar with newer agriculture operations.
- Recent changes in the banking industry tighten credit flow to smaller financial institutions.

Opportunities and Promising Models

- State public/private partnerships show promise in comprehensive approaches to community economic development and viable farming operations.
- Local/regional intermediaries offering integrated capital, land access, technical assistance, and business planning hold potential.
- Farmer-driven pooled lending and technical assistance models show promise.

Fundamental Strategies

- Access to capital can be maximized through strategic and efficient partnerships to address gaps in the availability of capital or appropriate support services.
- Viable agriculture enterprises are sustained by integrated services, responsive infrastructure, and accessible, relevant capital.
- Significant gaps in public and private services warrant further exploration and action.

There was broad consensus that these Sessions succeeded in meeting their objective: to bring a diverse group of stakeholders together to begin to bridge the gap between this emerging sector of farmers and the capital they need to start or grow their operations. But it was also agreed that this effort achieved something much larger, as well: it tapped into and contributed new knowledge, ideas, and relationships to some of the country's larger food-related issues, including hunger, obesity, health, water shortages, and poorly targeted agricultural subsidies. More broadly, by advancing the economic viability of these smaller and localized farming operations, the Sessions are helping to overcome some of the most significant challenges the U.S. faces at this moment in our history: creating jobs, reducing corporate consolidation, revitalizing rural America, and promoting a culture that rewards conservation and stewardship, small-scale ownership, entrepreneurship, families and local communities, and the ability to define yourself not by what you consume, but by what you produce. These challenges are significant; the potential solutions and progress on them are exciting

The Larger Context and Contribution of This Report

As we look back over these recommendations and the broader Sessions conducted from December 2009 through May 2010, it is easy to see that the Sessions succeeded in meeting their objective: to bring a diverse group of stakeholders together to begin to bridge the gap between this emerging sector of farmers and the capital they need to start or grow their operations. The Sessions advanced this young field by connecting previously unconnected people who share this goal, clarifying the key issues, generating recommendations and next steps, and expressing a desire to continue to work together over the months and years ahead.

But this effort achieved something much larger as well: it contributed new knowledge, ideas, energy, and relationships to some of this country's larger food-related challenges. Consider this comment by Karl Weber, editor of *Food, Inc.: How Industrial Food is Making us Sicker, Fatter and Poorer — and What You Can Do About it* (2009):

> [S]omething bigger is happening in America today, represented not just by the tens of thousands who attended the [Slow Food] conference in 2008 in San Francisco but also by the millions of other people around the country who are engaged in similar activities: shopping at organic food stores, at local farmers' markers, or through CSAs; ordering fair-trade coffee when they get their morning caffeine fix; asking their kids' schools to get junk food out of the cafeterias; planting community gardens; and writing their representatives to call for changes in farm subsidies, better regulation of meat production, and clearer food labeling standards. Thanks to concerned Americans such as these, food-related issues — hunger, childhood obesity, rising food prices, water shortages, soil depletion, and many others — are finally achieving a critical mass of attention from the media and general public.

In our view, however, the significance of the Sessions goes even further. By advancing the future economic viability of these smaller, localized, health-oriented farming operations, the Sessions are helping to overcome a few of America's most significant, daunting, yet exciting challenges at the beginning of this century by:

Creating Jobs

It is well known that small businesses are the main source of job creation in the U.S., yet we are facing a prolonged jobs deficit and are undergoing what has been called a weak "jobless recovery."

The Great Recession has brought us double-digit unemployment, with even higher rates of under-employment. And the decade of 1999–2009 produced *zero* net job creation. We have destroyed jobs at rates consistent with those of prior decades, but simply have not created enough new jobs. Without new and expanding small businesses, the task of restoring hundreds of thousands or millions of jobs — to get us nearer to full employment — looks to be fairly impossible.

Reducing Corporate Consolidation

As documented in Barry Lynn's new book, *Cornered*, consolidation in the food and agriculture sectors has reached unprecedented levels. In the U.S., for example, two companies control more than 80% of dairy production, and one company controls more than 80% of the corn seed used domestically. This level of concentration, according to Lynn and others, has destroyed jobs, reduced profits of or run out of business critical suppliers of goods and services, stifled innovation, and thwarted entrepreneurship — and thus job creation — by erecting barriers for independent producers trying to enter new markets.

Revitalizing Rural America

As documented in their recent book, *Hollowing Out the Middle: The Rural Brain Drain and What It Means for America,* Patrick Carr and Maria Kefalas describe the exodus of youth from middle and rural America and its devastating effects on those communities. While significant challenges exist to reducing this brain drain, Carr and Kefalas see America's heartland becoming a hub of sustainable agriculture and green energy.

Promoting Ownership and a Producer Culture

As the President acknowledged in 2009, we no longer can count on American consumption — which makes up about 75% of U.S. gross domestic product and 25% of the world's GDP — to drive economic growth in the years and decades ahead. We must move, instead, to a "save and invest" economy in which Americans would generate more savings and more ownership — leading to a greater ability to *produce* the goods and services that Americans and the rest of the world want to buy.

In the end, we can also learn from the accomplishments of America's Progressive Era (roughly 1890 to 1920), which was defined by two broad ideas: thrift and yeomanry. In modern parlance, these Progressive Era values would likely include: conservation and stewardship of natural and financial resources; governance and control by families, communities, and local institutions; and an economy driven by (and a government organized around the needs of) small-scale, independent owners and producers. Today's smaller-scale farmers, the ones described in this report, are clearly setting a new example, and laying a foundation.

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Endnotes

[i] Small scale as defined by the National Commission on Small Farms (annual gross sales below $250k), and midscale as defined by the Agriculture of the Middle Project (www.agofthemiddle.org) farm operations operating in the space between the vertically integrated commodity markets and the direct markets.

[ii] Susan Cocciarelli, "Financing Sustainable Agriculture in Michigan" (unpublished white paper, C.S. Mott Group for Sustainable Food Systems, Michigan State University, December 2009); www.mottgroup.msu.edu.

[iii] John Moukad, "Small Farms in a Changing Credit Landscape" (unpublished white paper, The Carrot Project, 2009); beginningfarmers.org/carrot-project-beginning-farmer-loan-update.

[iv] Adapted from a previous version by: Jerry White, Department of Applied Economics and Management, Cornell University