Union of Concerned Scientists

EXECUTIVE SUMMARY

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Ensuring the Harvest

Crop Insurance and Credit for a Healthy Farm and Food Future

Healthy eating is key to a healthy lifestyle. For decades, nutritionists and government agencies have urged Americans to eat more fruits and vegetables, yet we are still not eating enough of them. One largely untried way in which government policy could encourage Americans to eat more healthy foods is by making it easier for farmers to grow more of them, which would increase their availability to consumers. Instead, federal farm subsidies are disproportionately directed to the production of ingredients for unhealthy processed foods, using methods that degrade our environment and squander scarce resources. Even worse, farmers who want to grow a variety of fruits, vegetables, and other healthy foods, or who want to farm with organic methods, often encounter hurdles that other farmers do not.

The most important and overlooked impediments to fruit and vegetable production on sustainable "healthy-food" farms are planting restrictions and lack of access to effective crop insurance and credit. But there are a number of practical ways in which a forward-looking food and farm policy could help farmers overcome these obstacles.

What Are "Healthy-Food" Farms?

The Union of Concerned Scientists (UCS) defines healthy-food farms as farms that grow fruits, vegetables, and other healthy crops rather than crops such as corn and soybeans that are primary ingredients in processed foods. We will focus on a critical subset of healthy-food farms: those that also use environmentally friendly farming practices that are sustainable over the long term.

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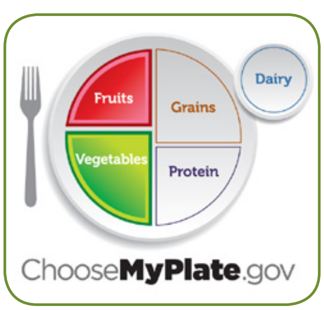
Sales of locally grown food, of which fruits and vegetables are a significant percentage, now total $5 billion per year, but more growth is needed.

This includes diversified farms that produce an array of healthy crops and/or livestock, and farms that undertake organic and similar practices. Such farms supply a significant amount of food sold locally through farmers markets and other avenues, yet their sales nationally are small compared with conventional food product sales.

In its 2011 MyPlate dietary guidelines, the U.S. Department of Agriculture (USDA) recommends that fruits and vegetables constitute 50 percent of each American's daily food intake, but these foods are currently grown on only 2 percent of U.S. farm acres. Greater consumption of fruits and vegetables can help reduce the health costs associated with weight gain and obesity, while also decreasing our food system's energy footprint and other environmental impacts. Moreover, increased production of healthy foods on U.S. farms would have a sizable impact on regional economies. For example, local-food sales could increase by up to $9.5 billion, creating as many as 189,000 new associated jobs, if Americans ate enough fruits and vegetables to meet the USDA's dietary recommendations.



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Healthy-food farm sales have increased rapidly in recent years. Sales of locally grown food, of which fruits and vegetables are a significant percentage, now total $5 billion per year. But more growth is needed, and federal farm policy has not kept pace with farmers' and consumers' interest in healthy and sustainable food production. In order to meet the growing demand, it is important to identify and remove the policy barriers that confront these farmers.

Policies that Help (or Hinder) Healthy-Food Farmers

Under current federal farm policy, farmers participating in commodity-production subsidy programs are prohibited from planting fruits and vegetables except under certain conditions. To expand the production of healthy food, the federal government should eliminate restrictions that provide disincentives for farmers to plant fruits and vegetables, and it should require that healthy-food farmers be able to access effective crop insurance and credit.

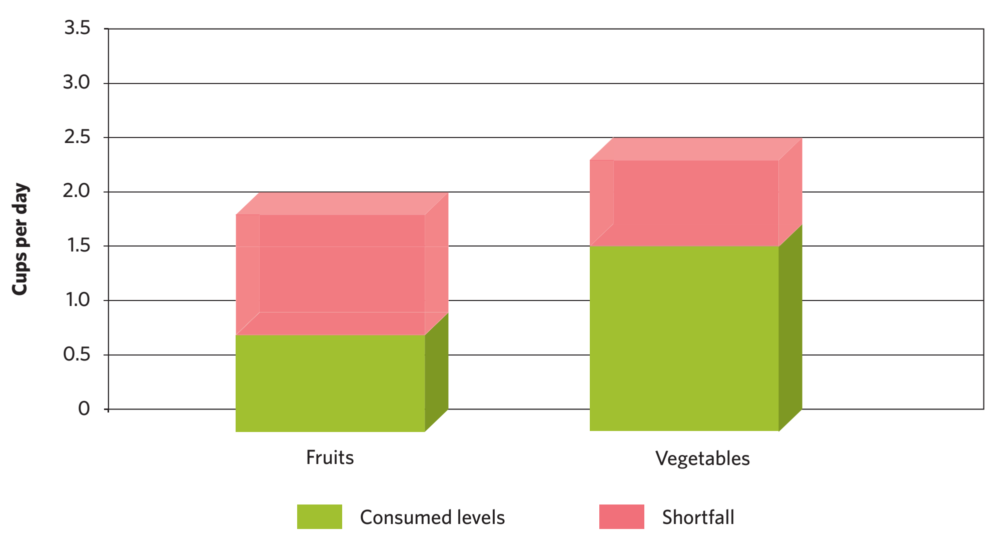
Because farming entails considerable economic risk, an effective crop insurance policy protects farmers from the loss of income that can result from a weather-related disaster or revenue decline. In addition, having crop insurance helps farmers obtain credit, which is essential to the success of most farm operations. Farmers need to purchase "inputs" such as seeds and fertilizer before the growing season begins, but it is usually many months before they earn revenue from the sale of their products. Lenders are more willing to extend credit to farmers who have crop insurance, which protects lenders' investments. Farmers without access to farm loans may need to finance expenses using consumer credit cards that charge much higher interest rates, presenting a challenge to the successful operation of their business.

Among this report's major findings are:

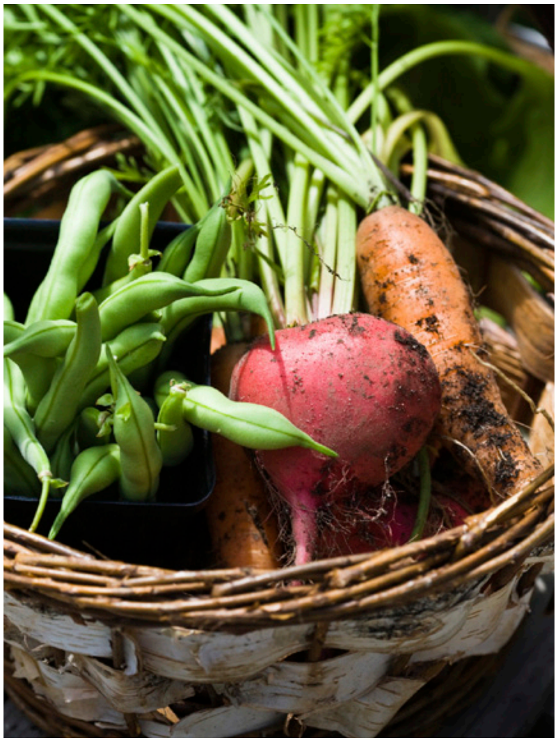
1. Healthy-food farms using sustainable practices are not well served by federal crop insurance policies.

Because food production is important to society and crop insurance is only offered through private markets to a limited extent, the federal government fills this gap through a USDA-administered and -subsidized insurance program. The program is oriented toward farmers who grow a handful of subsidized, non-perishable commodity crops including corn, soybeans, and cotton. The USDA has developed effective crop-specific insurance policies for some fruit and vegetable producers, but there are still many sustainable healthy-food farms without an accessible policy. Developing insurance policies for farms that produce a more diverse array of crops, and sometimes livestock, on the same farm presents challenges. These farming practices are not as widespread, in part because they are not as extensively subsidized, and as a consequence,

Underconsumed Food Groups Relative to USDA Dietary Recommendations, 2005 (per capita)



Source: Wells and Buzby 2008.



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data on yields and market prices needed to design insurance policies are less available.

The lack of access to crop insurance for diversified healthy-food farms is ironic, because diversification helps farmers self-insure against annual variability in crop yields or prices. For example, a price decline or pest outbreak for a single crop could devastate a farm's revenue for the year if that was its only crop. The same event on a diversified farm may reduce the revenue from some crops but spare others. An insurance policy based on revenue from the entire farm would incentivize farmers to plant crops even when there are no policies specific to those crops. A comprehensive revenue insurance policy would also be cheaper for diversified farms to purchase (and would reduce taxpayer subsidies) relative to multiple crop-specific policies, since the premium would reflect the fact that the farms were undertaking diversified practices.

In 1999, the USDA developed a pilot "whole-farm-revenue" insurance policy that enables farmers growing an array of healthy foods to obtain insurance. In practice, few farmers purchase the policy due to its limited availability and burdensome structural design.

Certified organic farms also face obstacles to acquiring adequate crop insurance. Historically, such farms were not eligible to purchase government insurance policies; the USDA removed this restriction in 2004 but required all organic farms to pay a 5 percent premium surcharge because the department did not have data to assess the actuarial risk of organic farming. This surcharge remains in effect for most policies, but several years' worth of data suggest such an across-the-board surcharge is unwarranted because the extent to which organic or conventional practices pose relatively greater actuarial risk can vary considerably by crop or region. Also problematic is the fact that, while organic foods typically command higher prices in the marketplace, most organic growers cannot insure their crops above conventional market prices.

The USDA has recently developed a handful of policies allowing growers of some organic crops to insure those crops at prices that more accurately reflect their market value. However, such a provision remains unavailable to organic farmers who grow fresh fruits and vegetables.

2. Existing crop insurance and other subsidy programs hinder healthy-food farms' access to credit.

Like other growers, many healthy-food farmers require financing to purchase inputs for their farms. However, farmers without access to crop insurance have a harder time accessing credit. When considering business loans for farmers, lenders want to know that the farms have crop insurance to help pay back loans if something goes wrong. Further, some sustainable healthy-food farms operate smaller farms using less-conventional practices. Farm size affects access to credit because large farms can obtain loans on better terms than small farms. Diversification can also increase borrowing costs because lenders may be less familiar with business plans involving sustainable and diversified practices (relative to subsidized conventional practices), and with the challenges these farmers may face in developing business plans a lender can evaluate.

Some economic development institutions have done a better job than others of providing credit on favorable terms to healthy-food farms. However, U.S. farm policy could do more to encourage lenders to service these farmers appropriately.

Recommendations

Expanding the growth of healthy-food farms can have multiple positive impacts: it can reduce the societal costs associated with obesity, reduce the energy-use footprint of our food system, and provide employment in rural areas. Based on our review of the literature and existing federal policies governing crop insurance and farm credit programs, we recommend that policy makers 1) eliminate obstacles in federal commodity and crop insurance programs that restrict fruit and vegetable production, 2) create a more effective whole-farm-revenue insurance policy, and 3) undertake

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steps to facilitate credit access for organic and sustainable healthy-food farms.

Congress should promote planting flexibility.

To increase the sale of fresh fruits and vegetables in local markets, we recommend that Congress remove barriers in commodity subsidy programs that prohibit farmers from planting fruits and vegetables. While we are not recommending that fruit and vegetable acreage receive the same production subsidies directed to non-perishable commodity crop producers, farmers should be provided with the flexibility to plant the crops they desire.

Congress should require, and the USDA should improve, federal crop insurance policies for healthy-food farms that use sustainable practices.

Interest in the USDA's whole-farm-revenue insurance policy has been modest not because of problems with the concept, but because of problems with the design. We recommend that the USDA augment the existing policy so farmers can have a suite of options available to help value their crops and livestock. This could entail using contract prices and pricing indices derived from USDA market survey data as well as submitting tax records (the current method).

The USDA only establishes insurance policies for crops in regions where there are extensive data on prices and yields. The lack of available insurance represents a disincentive for farmers to grow different crops in different regions, which needs to occur for farmers to grow healthier crops and adapt to climate change. Thus, in order to develop whole-farm-revenue insurance in regions where there may be insufficient data, we recommend that the USDA initially implement the policy with administratively determined premiums and collect data over time that can subsequently be used to calculate premiums more accurately.

These enhancements will not only make the whole-farm-revenue insurance policy easier for farmers to buy and agents to sell, but will also make the policy available to farmers engaged in community-supported agriculture (CSA) arrangements who currently cannot purchase the existing policy. Allowing diversified fruit and vegetable farmers to use market prices as an index in their insurance policies would make the standards for disclosing revenue more equitable and consistent across crop producers.

For certified organic crops, we recommend that the USDA change existing policies to enable organic farmers to insure their crops at prices that reflect their market value, and that the department develop distinct insurance policies for organic practices—rendering the arbitrary 5 percent premium surcharge assigned to organic farmers obsolete. While the USDA is already undertaking or contemplating these initiatives on a limited scale, further advancements are needed to support the expansion of the healthy-food and organic markets.

Congress should require, and the USDA should support, the expansion of smaller-scale lending programs.

As consumers are paying greater attention to the farmers from whom they buy their food, lenders should do the same. Expansion of micro-lending facilities can help foster growth in local-food sales, as some smaller programs that have been successfully established could be replicated or supported at a greater scale. This can be facilitated if the USDA works more closely with community lenders looking to provide loans in a more efficient and effective manner.

Lending conditions can be improved if the USDA and farming organizations collect better industry-level market data. The USDA can use these data to disseminate and establish insurance policies, and lenders can use this information to assess market conditions. We also recommend that the USDA, lenders, and farming organizations improve their outreach to farmers and assist farmers with their own data collection efforts. Farmers require information on yields, prices, and input costs for crops and livestock to understand how they can maximize profitability. This risk management activity is synergistic with facilitating credit access, since the data can be used to develop a business plan for a lender, and lenders will be more inclined to provide loans to farmers engaged

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in risk management. Evaluating the USDA's existing outreach programs will inform the effectiveness of different types of outreach strategies currently being employed.

Due to the lack of transparency and disclosure on financing for sustainable and diversified farms, we further recommend that an independent auditing or regulatory agency conduct a comprehensive evaluation of credit constraints confronting healthy-food farms that use sustainable practices. The findings of such a report can be used to assess how a greater public role in providing credit to these farms should be structured.

With demand for fresh, healthy foods from healthy farms on the rise, it is time for U.S. farm policy to catch up. By implementing these straightforward recommendations, policy makers can help farmers overcome barriers to producing more of the healthy foods consumers want and need, improving the nation's nutrition, protecting our environment, and growing local economies.

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The full text of this report is available on the UCS website at *www.ucsusa.org/ensuringtheharvest.*

Union of Concerned Scientists
Citizens and Scientists for Environmental Solutions

The Union of Concerned Scientists is the leading science-based nonprofit working for a healthy environment and a safer world.

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