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Limited-Resource Farmers: Their Risk Management Needs

The risks of crop loss and price declines have long been facts of life in agricultural production. Recent changes in Federal programs have focused attention on the need for U.S. farmers to manage these risks and to examine available risk management options more closely.

USDA's Economic Research Service (ERS) has been working with the Department's Risk Management Agency (RMA) to improve RMA's products and expand its outreach efforts aimed at limited-resource farmers. One RMA product, multi-peril crop insurance (MPCI), has been commonly used by farmers as a risk management tool. While MPCI is sold to farmers primarily by private insurance agents, RMA develops the policies and the underwriting terms, and provides subsidization and reinsurance. As a result, RMA has an interest in knowing how MPCI has been serving the needs of limited-resource farmers.

Using data from USDA's Farm Costs and Returns Survey (FCRS) and from the Census of Agriculture, which provide information on individual farms and on the principal operator of each farm, ERS identified characteristics of socially disadvantaged, small, and limited-opportunity farm operators. The two agencies also examined such farmers' interest in and use of various risk management programs, particularly Federal crop insurance. In both the Census and FCRS, the principal operator of a farm may be the owner, a tenant, or a hired manager.

Results of the research indicate that socially disadvantaged, small, and limited-opportunity operators tend not to purchase crop insurance nor to participate in insurance-type programs operated by USDA. This article traces the reasons behind lack of use of these risk management tools by limited-resource farmers.

Who Are the Limited-Resource Farmers?

Limited-resource farmers are defined by RMA as farm operators having less than $20,000 in income from all sources in the previous 2 years. While not all socially disadvantaged and small farms fall into this income category, the term "limited resource" loosely refers to these types of farms as well as to limited-opportunity farm households.

A socially disadvantaged group is defined by the 1987 Equal Credit Opportunity Act as one whose members have been subjected to racial, ethnic, or other forms of prejudice because of their membership in the group. USDA defines women, African Americans, American Indians and Alaskan Natives (Native Americans), Asians and Pacific Islanders, and Hispanics as ***socially disadvantaged groups***. Data presented on these groups were obtained from the 1992 Census of Agriculture.

Except for women, socially disadvantaged farmers tend to be concentrated in particular regions of the U.S. Approximately 90 percent of the 18,800 African American-operated farms are in the South. In two southern states—South Carolina and Mississippi—African American-operated farms account for 8-9 percent of all farms, compared with 1 percent of all farms nationwide. Most (81 percent) of the 8,300 American Indian-operated farms identified in the Census of Agriculture are west of the Mississippi River. North Carolina, however, has 600 American Indian operators, many of whom specialize in tobacco.

Of the 8,100 Asian/Pacific Islander-operated farms, most (79 percent) are in California and Hawaii, and most of the 21,000 Hispanic-operated farms (72 percent) are in California, Colorado, Florida, New Mexico, and Texas. The 1992 Census of Agriculture identifies about 145,000 farms (8 percent of all U.S. farms) with women as their principal operators, and these are distributed throughout the U.S.

Older operators are more common among farmers in certain socially disadvantaged groups than among the U.S. farm population in general. African American and female operators tend to be older, with at least 36 percent of each of these groups at least 65 years old, compared with 25 percent of all farm operators.

Small, full-time farms were also identified using 1992 Census of Agriculture data. The small, full-time farm designation is based on three criteria: sales of agricultural products were less than $20,000; principal occupation of the operator was farmer or rancher; and the operator worked less than 50 days of the year off the farm. About 350,000 farms fit this definition. Financial data other than sales (e.g., off-farm income) cannot be used as a definitional criteria in the Census.

As with socially disadvantaged farmers, small farms are often associated with age. According to the Census, nearly 60 percent of the operators of small full-time farms were 65 years old or older in 1992.

Limited-opportunity farm households are defined by economic criteria, which include off-farm income and other related financial information. The data source for this definition is USDA's 1992 FCRS. Limited-opportunity farm households exhibit three characteristics: gross household income of less than $20,000; farm sales of less than $100,000; and farm asset value of less than $150,000. In 1992, there were about 185,000 limited-

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Livestock Is the Key Commodity on Most Socially Disadvantaged and Small Farms

Farm category	Farm type*		Type of crop farm*		
	Livestock	Crop	Cash grains	Vegetables & melons	Fruit & tree nuts
			Percent of farms		
Socially disadvantaged					
African American	58.6	41.4	13.3	3.7	2.0
Native American	70.7	29.3	8.8	1.3	3.9
Asian/Pacific Islander	15.9	84.1	4.5	14.6	16.6
Hispanic	56.4	43.6	6.7	4.7	15.3
Women	62.5	37.5	10.3	1.5	6.2
Small	59.9	40.1	14.9	1.7	4.4
All U.S. farms	55.2	44.8	21.0	1.5	4.6

*At least 50 percent of a farm's total value of sales comes from the specified commodity.
Source: 1992 Census of Agriculture, U.S. Department of Commerce.
Economic Research Service, USDA

opportunity farm households in the U.S. (out of 2.1 million total farms). Although these farms were less geographically concentrated than the farms of socially disadvantaged groups, 60 percent were in the South.

Livestock Dominates Production

Farms operated by members of socially disadvantaged groups and limited-opportunity households are more likely than farms in general to depend on livestock production. Although most socially disadvantaged farm operators harvest cropland, crops generally provide a smaller share of their farm income than livestock, a sector that government-sponsored insurance programs do not cover. Livestock for these operators frequently means beef cattle, which often have relatively flexible labor requirements that can combine well with an off-farm job or provide a supplement to retirement income.

More than 70 percent of farms operated by Native Americans obtained half or more of their total sales from livestock, as did more than 60 percent of farms operated by women and more than 50 percent of farms operated by both African Americans and Hispanics. Among limited-opportunity farms, crop sales accounted for only 30 percent of the gross farm income, compared with more than 40 percent for all farms.

An exception to the livestock "rule" are farms operated by Asians/Pacific Islanders. More than 80 percent of Asian/Pacific Islander farms derived at least half of total sales from crops. In addition, many of these farmers, as well as other socially disadvantaged groups who raise crops, concentrate on specialty crops such as fruits and vegetables. Although Federal insurance is available for most fruit and nut crops in selected areas, many vegetables, as well as livestock, are not yet covered by Federal insurance programs.

The types of crops harvested by socially disadvantaged farmers, and therefore the extent to which these farmers may be covered by crop insurance, depends to a great extent on where socially disadvantaged groups are geographically concentrated. Tobacco, for example, is grown primarily in the upper South, where many African American-operated farms are concentrated. Since tobacco is eligible for crop insurance, these socially disadvantaged farmers may be covered. According to the 1992 Census of Agriculture, tobacco accounts for half or more of total farm sales on nearly one-third of African American-operated farms in the RMA Raleigh service region (the east coast states from North Carolina to Maine).

Hay, on the other hand, associated with livestock farming, is the most commonly harvested crop on farms operated by Native Americans and Hispanics. Almost all land farmed by Native Americans, most of which is used for grazing, is in RMA's Oklahoma City (Southern Plains) and Billings (Northern Plains) regions, where many large reservations are located. Almost half of all Hispanic-operated farms are also located in the Oklahoma City (Southern Plains) region, which includes traditional Hispanic farming and ranching areas in New Mexico and Texas.

RMA's Group Risk Plan (GRP) crop insurance for forage has so far been available only in selected counties in the Lake States and Northern Plains. RMA plans a significant expansion of GRP crop insurance for forage in 1998. GRP benefits are based on variations in county-level yields. An individual-yield forage policy is also widely available under the Federal crop insurance program. The RMA regional service offices have considerable discretion in deciding the types of forage covered under the individual-yield and GRP policies, although alfalfa and alfalfa mixes are the primary types covered in many areas.

Most Asian/Pacific Islander farms are in California and Hawaii, areas where significant acreage is planted to fruits and vegetables. According to the 1992 Census of Agriculture, nearly 60 percent of the Asian/Pacific Islander-operated farms in RMA's Sacramento region (California, Hawaii, Arizona, Nevada, and Utah) grew fruits, nuts, or berries.

The Sacramento region also contains about 20 percent of all Hispanic-operated farms, and slightly more than half of these farms grew fruits, nuts, or berries. Nearly half (48 percent) of these Hispanic farmers obtained most of their sales from fruit and tree nuts.

While farms operated by women are geographically distributed much like all U.S. farms, they obtained a smaller portion of their income from crop production than all farms. Just 63 percent of farms operated by women harvested some cropland, compared with 78 percent of all farms, and only 38 percent of female-operated farms obtained half or more of their sales from crops, compared with 45 percent of all farms.

The Menu of Crop Insurance Programs

Since the early 1980's, USDA has moved to make ***multi-peril crop insurance*** (MPCI) the primary form of disaster assistance for farmers. Crop insurance coverage has grown since then, despite the availability of ad hoc disaster assistance for specific emergencies legislated after crop losses from 1988-94. Following major reform in 1994, participation in the Federal crop insurance program has dramatically increased, covering about 70 percent of eligible acres.

Currently, coverage is available for all major field crops (e.g., corn, wheat, and soybeans) and some fruit, vegetable, and nut crops. Crop insurance is available for about 60 crops, though in some locations coverage is not available for all these crops, since climate and other factors dictate feasible production areas. RMA does not insure citrus in Alaska, for example, because citrus is not viable in that area. MPCI is sold primarily by private insurance agents, with USDA setting premium rates, subsidizing producer premiums, paying administrative costs, and providing reinsurance.

MPCI covers crop losses that result from natural perils such as drought, floods, hail, and high wind. The most popular form of MPCI is ***actual production-history insurance***, under which coverage level is based on a farm's historical average yield. The farmer can purchase coverage at up to 75 percent of the farm's historical yield and up to 100 percent of the projected season-average price. For example, if a farmer has a 100-bushel average yield for corn and chooses a 65-percent coverage level, the yield guarantee would be 65 bushels per acre. If an insurable peril causes the farm's actual yield to drop below 65 bushels, MPCI will pay the difference between 65 bushels and the actual yield. If the actual yield is 50 bushels, the payment would be 15 bushels multiplied by the price election.

Another form of MPCI, which has been offered on a limited basis beginning in 1993, is the ***Group Risk Plan*** (GRP), with coverage based on the average county yield rather than the individual farm yield. A producer can purchase a guarantee based on the county yield, and if the county yield falls below the insured level, then the producer will receive a payment regardless of his or her individual farm yield.

A major change in MPCI occurred in October 1994 with enactment of the Federal Crop Insurance Reform Act, which made future outlays of ad hoc disaster assistance more difficult to approve and introduced an additional form of MPCI, the ***catastrophic (CAT) level of crop insurance***. CAT provides the option of a low-cost, basic level of yield protection (50 percent of average yield is covered at 60 percent of the expected price), with producers paying a processing fee instead of an insurance premium. The processing fee is $50 per crop per county, and a producer's total cost cannot exceed $600. The fee is waived for limited-resource farmers, defined as having less than $20,000 in income from all sources in the previous 2 years.

In addition to CAT coverage, producers can purchase ***"buy-up" coverage***, which is available at up to the 75-percent yield guarantee (based on the individual farm's historical yields) and 100 percent of the expected season-average price. "Buy-up" coverage requires a processing fee, plus a premium payment based on the yield risk associated with the policy. Farms in areas with greater annual yield fluctuations pay a higher premium than farms in areas where yields are more uniform.

A ***Non-insured Assistance Program*** (NAP) is provided at no cost for crops for which insurance is not offered. NAP coverage is similar to CAT coverage, but requires a 35-percent area loss before individual payments can be made. An area is defined as a county, a geographic parcel of at least 320,000 acres, or a parcel accounting for a crop value of at least $80 million. Unlike MPCI, NAP is administered by USDA's Farm Service Agency. To be eligible for NAP, producers are required to sign up (reporting their acreage and past yields) before the beginning of the season.

In the spring of 1996, RMA introduced two new risk management products (*AO* October 1996) offering revenue insurance on a pilot basis for selected crops, adding a third product in spring 1997. These ***revenue insurance policies*** provide farmers with protection against low yields, low prices, or both. In contrast with simply a yield guarantee, as with MPCI, a producer's guarantee is for a level of revenue, which is the product of the farmer's historical yield and the expected harvest-time price. Indemnities are paid when the producer's actual yield, multiplied by the actual harvest-time price, falls below the guarantee. These new programs expand the types of risk protection available to producers, and allow producers additional options for helping them best manage the risk associated with their operations.

While crop production varies by region, the pattern of crops harvested on farms operated by socially disadvantaged operators often does not match the farms typical to a region. Cotton, for example, is more commonly harvested on African American-operated farms in RMA's Jackson region (Arkansas, Louisiana, Mississippi, Tennessee, and Kentucky) than on all farms in that region.

In addition, African American-operated farms in this region were twice as likely as all farms to harvest vegetables. In the Sacramento region, fruits and tree nuts account for more than half of sales on over 50 percent of the Asian/Pacific Islander farms, but on less than 40 percent of all farms.

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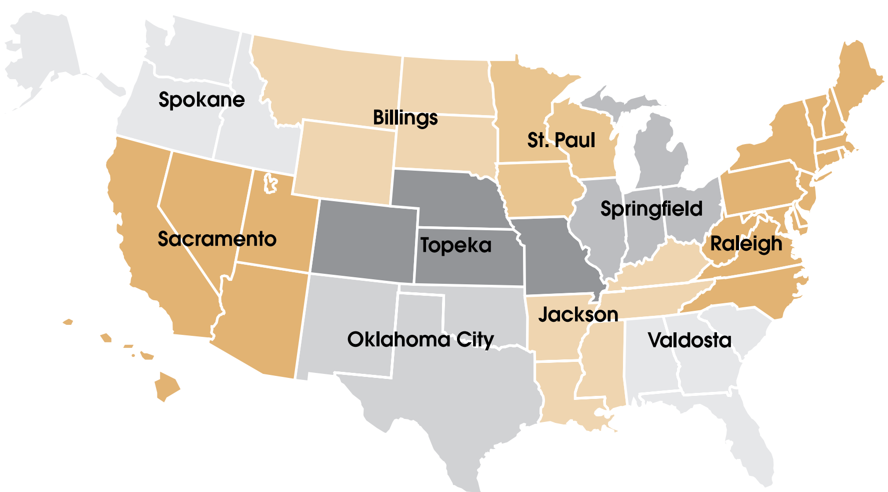
Risk Management Agency Service Regions



Although crop insurance is not currently available for many specialty crops (particularly vegetables), risk protection is available through the Non-insured Assistance Program. RMA is expanding the crop insurance program, adding new crops each year. At the request of RMA, ERS has completed feasibility studies on expanding crop insurance to 45 additional specialty crops (the program currently covers about 35 fruit, vegetable, nut, and specialty tree crops). In 1998, for example, RMA plans to begin offering coverage for pecans and sweet potatoes. So while some socially disadvantaged and limited opportunity farmers may currently be unable to obtain crop insurance coverage for their operations, the situation is changing.

Farm Size, Income Can Affect Insurance Needs

Farm size can be a factor in assessing the need for agricultural insurance. For many operators of small farms, farm income contributes little to the household's income. Off-farm income, such as wages and salaries earned from off-farm jobs held by farm household members, can sometimes offset low farm income and provide protection against agricultural risks. A lack of insurance for the farm enterprise may be less important to such households than for those more reliant on farm income.

Most U.S. farms—both full- and part-time enterprises—are small. More than 60 percent of the 1.9 million U.S. farms had annual sales of less than $25,000, according to the 1992 Census of Agriculture. Farms operated by the socially disadvantaged, however, are even more likely to be small—70 percent or more of the farms operated by African Americans, Native Americans, Hispanics, and women sold less than $25,000 in agricultural products in 1992.

Asian/Pacific Islander-operated farms were an exception. More than 50 percent of these farms had at least $25,000 in sales, and more than 10 percent had $500,000 or more in sales. Just 2.4 percent of all U.S. farms had sales of $500,000 or more.

Limited-opportunity farm households obtain, on average, virtually all their income from off-farm sources, according to the FCRS. For households with younger operators, the source is often off-farm work; for older operators, Social Security and other retirement income may be more important. Operators of these limited-opportunity farms may have taken off-farm work because their farms were too small to support the household, or they may be forced to farm on a small-scale because of the requirements of off-farm employment. In either case, farm income usually provides only a small portion of overall income.

Many households with small farms actually lose money farming. It may be that some operators of small farms could be interested in agricultural insurance to protect their off-farm resources from farm losses. On the other hand, income from farming may be too limited for many of these operators to justify increased expenditures for crop insurance.

What Limited-Opportunity Farmers Want

RMA's marketing plans for limited-resource farmers, developed through its regional service offices, have focused on outreach tailored to individual areas and groups of producers. These marketing plans are aimed at increasing the number

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of minority insurance agents and companies and ensuring inclusion of minority farmers in the activities of farm associations, the farm media, and extension agents. RMA has also conducted educational programs in partnership with established minority farmer organizations like the Federation of Southern Cooperatives, a grassroots organization in rural communities.

These educational efforts included about 60 Federation workshops on crop insurance reform for minority and low-income farmers during a 6-month period in early 1995. At the conclusion of each workshop, participants were given a questionnaire on their interest in alternative crop insurance products and their suggestions for improving the program's effectiveness. The 268 respondents, mainly African Americans, were asked to indicate changes in RMA programs that would be of most help to them. A small number of Native Americans and Hispanics farming in the Southeast and Texas were also among the respondents.

Several questions focused on the levels of subsidization and coverage preferred by respondents. Twenty-six percent of the respondents indicated that they would like to see the basic catastrophic (CAT) coverage available at a higher level than the current 50-percent yield/60-percent price coverage. Essentially, these respondents would like to see greater catastrophic protection offered at minimal (or no) charge.

In contrast, relatively few of the respondents indicated they would like to see changes in the "buy-up" coverage levels. Only 8 percent indicated a desire for "buy-up" coverage above the 75-percent yield guarantee level, and only 6 percent favored a higher premium subsidy at the buy-up coverage levels.

Respondents across all ethnic groups requested that RMA offer coverage for additional crops, as well as for livestock. African American respondents were most likely to indicate they would like to see crop insurance for vegetables, while Native Americans most often favored insurance for timber, and Hispanics most frequently indicated a need for insurance for such crops as pecans, hay, and watermelons. Several respondents indicated they would like to see protection from higher feed costs, which suggests they might be interested in revenue insurance coverage.

A number of respondents designated continued outreach and education efforts as a preferred policy change, particularly one-on-one assistance. Nine percent indicated they would like regular group update workshops and information sessions, while 16 percent noted the need for personal assistance in understanding sign-up procedures and program changes. The high percentage indicating a desire for individual assistance parallels findings by other USDA agencies—in particular, the Natural Resources Conservation Service—that personal assistance is helpful in reaching socially disadvantaged and limited-opportunity farmers.

Results of this survey, as well as ERS's identification of the characteristics of socially disadvantaged, small, and limited-opportunity farm operators, suggest that certain types of insurance products and outreach may be of particular assistance to these farmers. Program changes and additions currently under study, especially coverage of additional crops, may be most useful. At the same time, expanded outreach and educational efforts already underway at RMA may encourage socially disadvantaged and limited-opportunity farmers to make greater use of programs for which they are eligible.

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Current RMA Efforts to Assist Limited-Resource Farmers

RMA continues to develop new insurance products, many of which will help meet the needs of socially disadvantaged, small, and limited opportunity farmers. In 1998, RMA plans to make new pecan and sweet potato programs available. Further, a significant expansion of Group Risk Plan crop insurance for hay and forage production is anticipated. Research continues on insuring cabbage, cucumbers, melons, and other direct market crops. Other options mentioned by participants in crop insurance workshops—increasing the guarantee level of catastrophic crop insurance and offering insurance on livestock production—would require legislative changes and have major budgetary impacts.

Efforts to reach socially disadvantaged, small, and limited opportunity farmers need to include the private insurance companies and agents that sell crop insurance to farmers. RMA has proposed changes to its Standard Reinsurance Agreement with insurance companies that would increase incentives for selling crop insurance to small-scale farmers. RMA has also proposed that the companies collect and report data on participation in the crop insurance program by socially disadvantaged farmers.

RMA is also working with the Federation of Southern Cooperatives and the Intertribal Agriculture Council to identify minority insurance agents and companies that may be interested in marketing crop insurance. RMA's Valdosta regional service office will provide loss adjustment training for minorities identified by the Federation of Southern Cooperatives.

RMA's educational outreach programs continue to target minority farm operators. For example, RMA distributes information about risk management programs through the North American Precis Syndicate, a media placement service that provides access to rural Hispanic and African American audiences. Messages have covered crop insurance reform, sales closing dates, and NAP sign-up dates.