

Newsletter of the National Sustainable Agriculture Information Service: A project of the National Center for Appropriate Technology (NCAT)

Resources for Farm Financing and Planning... Page 2
 New and Updated ATTRA Publications Page 2

ATTRA Resources for Financing Your Farm Page 2
 Some Less Obvious Financing Options Page 3

Questions to Answer When You Are
 Planning for Profit Page 4

Financing and Planning Your Farm and Enterprises



These beginning farmers are signing loan forms in an Iowa Farm Service Agency office after receiving approval for an equipment loan. Photo: Dennis Chamberlin

What Are Your Objectives?

Adapted from *Evaluating a Farming Enterprise* by Tammy Hinman, NCAT Horticulture Specialist

Most enterprise guides ask readers to assess their personal and family objectives before they go through the process of evaluating an enterprise. They all stress the importance of having a business plan, a financial plan, and a marketing plan.

A business plan will outline how the business should work and generate its overarching plans. It also typically includes a financial and marketing plan. Perhaps the best thing about creating a detailed business plan is simply that it causes you to think in detail about what you are getting into.

The financial plan outlines expectations in terms of costs and potential revenue for the first few years of your business. Due to the volatility of such unpredictable factors as weather and market conditions, your financial plan may not accurately reflect the reality of your farm business. Still, it is important to have the plan to help you meet your financial goals and to demonstrate to a bank or creditor that you have thought out the financial aspects of your business.

A marketing plan outlines the specific markets you intend to pursue and how you intend to enter them. See the many ATTRA publications on business and marketing for specific details.

Know What You Want and Why

Adapted from *Financing Your Farm: Guidance for Beginning Farmers* by Hannah Lewis, NCAT Agriculture Specialist

Most business start-ups require more cash than the business owner has on hand. This applies to farmers—even small- and medium-scale farmers—who need access to land, equipment, seeds, and other materials.

The topic of financing is intimately connected to setting goals for a farm enterprise, writing a business plan, keeping records, and establishing access to land. Financing must be considered alongside and in relation to these other topics. For instance, if your goal is to start drawing a significant income from your farm in the next five years, then you need to plan for fairly fast growth, which may require higher capital investments (and borrowing) up front.

However, if you envision your farm

operation to be one part of a diversified household-income strategy that also actively seeks to minimize household and farm expenses through self-sufficiency (such as growing all the food your family eats), then your credit needs will reflect that start-small approach.

To make the relationship between financing your farm and these other topics crystal clear, please understand this: in order to get a loan, you must have a business plan and financial statements. To create a business plan, you must be very clear about why you are starting a farm business and what you hope to achieve (your goals). In order to create financial statements, you must have developed a system for keeping accurate, consistent records about your farm and household income and expenses and production yields. Finally, in order to gain access to land, you might need a loan to purchase the property.

Resources for Farm Financing and Planning

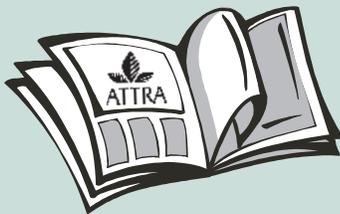
- **Agricultural Diversification Compass: A Guide to Choosing New Directions for Your Farm.** 2011. Minnesota Department of Agriculture. www.mda.state.mn.us
- **Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses.** 2002. Minnesota Institute of Sustainable Agriculture. www.misa.umn.edu/Publications
- **Exploring the Small Farm Dream: Is Starting an Agricultural Business Right for You?** New England Small Farm Institute. www.smallfarm.org
- **Farmer's Guide to the Bottom Line.** 2002. By Charles Walters. Acres U.S.A. www.acresusa.com/magazines/magazine.htm
- **Guide to Financing the Community Supported Farm,** University of Vermont, Montpelier's Center for Sustainable Agriculture. www.uvm.edu/sustainableagriculture
- **Iowa Fruit & Vegetable Production Budgets.** 2011. By Craig Chase. Iowa State University Extension and Outreach. www.extension.iastate.edu/agdm/crops/html/a1-17.html
- **Making Your Small Farm Profitable.** 1999. By Ron Macher. Storey Publishing. www.storey.com
- **Organic Farmer's Business Handbook: Complete Guide to Managing Finances, Crops and Staff—and Making a Profit.** 2009. By Richard Wiswall. Chelsea Green Publishing. www.chelseagreen.com
- **Small Farm Funding Resources,** Rural Information Center of the National Agricultural Library. www.nal.usda.gov/ric/ricpubs/small_farm_funding.htm
- **Starting and Running Your Own Small Farm Business.** 2007. By Sarah Beth Aubrey. Storey Publishing. www.storey.com
- **Sustainable Vegetable Production from Start-up to Market.** 1999. By Vernon P. Grubinger. Natural Resource, Agriculture, and Engineering Service. www.nraes.org
- **You Can Farm: The Entrepreneur's Guide to Start & Succeed in a Farming Enterprise.** 1998. By Joel Salatin. Polyface Press. www.polyfaceshop.com
- **UVM's New Farmer Project** provides a website with extensive information about land access, marketing, production, business management, and planning. The site offers farmer profiles and networking opportunities. www.uvm.edu/newfarmer

New and Updated ATTRA Publications

- Organic Tomato Production IP439
- Crop Insurance Options for Specialty, Diversified, and Organic Farmers IP438
- Social Media Tools for Farm Product Marketing IP435
- Tips for Marketing Sheep and Goat Products: Dairy IP396
- Tips for Marketing Sheep and Goat Products: Live Animals IP398
- Tips for Marketing Sheep and Goat Products: Meat IP399
- Tips for Marketing Sheep and Goat Products: Vegetation Management IP403

The articles in this issue of *ATTRAnews* are adapted from three recent ATTRA publications:

- **Evaluating a Farming Enterprise** IP041
- **Financing Your Farm: Guidance for Beginning Farmers** IP420
- **Planning for Profit in Sustainable Farming** IP419



ATTRA Resources for Financing and Planning Your Farm

The following ATTRA publications and resources include useful information for farm financing and planning. These resources and many more can be found in the business planning and management section of ATTRA's website, www.attra.ncat.org/marketing.html#business. Call 800-346-9140 for a printed copy. Prices vary and many resources are free.

- Agricultural Business Planning Templates and Resources RL042
- Beyond Basic Compensation IP360
- Building Sustainable Farms, Ranches and Communities IP354
- Community Supported Agriculture IP289
- Crop Insurance Options for Specialty, Diversified, and Organic Farmers IP438
- Evaluating a Farming Enterprise IP041
- Federal Conservation Resources for Sustainable Farming and Ranching IP294
- Financing Your Farm: Guidance for Beginning Farmers IP420
- Finding Land to Farm: Six Ways to Secure Farmland IP349
- Keys to Success in Value-Added Agriculture IP172
- Planning for Profit in Sustainable Farming IP419
- Positive Practices in Farm Labor Management IP324
- Social Media Tools for Farm Product Marketing IP435
- ATTRA's Funding Opportunities Database provides current announcements for grants, loans, scholarships, awards, challenges, and cost-share and research programs. Online only. www.attra.ncat.org/calendar/funding.php

Some Less Obvious Farm Financing Options

Adapted from *Financing Your Farm* by NCAT Agriculture Specialist Hannah Lewis

State Agricultural Development Programs

Most states have some type of state-based agricultural finance program. Such programs range from tax credits for landowners who rent land to beginning farmers, to direct- and guaranteed-loan programs and Aggie Bonds, which lower interest rates on loans to beginning farmers. Many of these programs are geared toward beginning farmers. Visit www.stateagfinance.org.

Personal Savings

Farming is often a long-term, lifetime goal for which aspiring farmers save money while working a nonfarm job over many years, the same way that families set up savings accounts for college. Some nonprofits and state agencies can help meet savings through Individual Development Accounts (IDAs), which match new farmers' savings account one dollar (or more) for every dollar saved.

California FarmLink and Practical Farmers of Iowa (PFI) both have programs like this. PFI's Savings Incentive Program requires beginning farmers to attend business management trainings, meet with a farmer mentor, save money regularly, and complete a business plan. Graduating farmers receive their match funds to use for purchasing land, machinery, or livestock.

FSA Transition Incentive Program (TIP)

TIP provides incentives to retiring or retired farmers to rent or sell farmland to beginning farmers. Retiring owners or operators with land coming out of the federal Conservation Resource Program (CRP) are permitted to continue to receive CRP payments for two years if they rent or sell the land to a non-family beginning farmer who will graze or farm the land using sustainable practices. This subsidy might allow the farmer to rent this land at a lower rate to a beginning farmer.

Microenterprise Lenders and Private Financing Programs

Microenterprise lenders are nonprofit organizations dedicated to supporting microentrepreneurs who are unable to access business loans at commercial banks. Microenterprise lenders offer smaller loans at higher interest rates (around 10%). They also provide training and technical assistance in business start-up or management. Microenterprise lenders include the following:

- ACCION USA, www.accionusa.org
- The Carrot Project, www.thecarrotproject.org
- North Carolina Rural Economic Development Center www.ncruralcenter.org/business-programs/microenterprise.html
- Whole Foods Local Farmer Loans www.wholefoodsmarket.com/values/local-producer-loan-program.php

Crowd Funding: Brand New Online Source of Capital

A new and potentially interesting system of internet-based funding, crowd funding lets many individuals donate money to a business for a specific goal. Some crowd-funding sites aim at sustainable practices. Search for "farm" at www.kickstarter.com, www.startsomegood.com, www.indiegogo.com, www.threerevolutions.com, and similar sites. This is a new funding approach, so exercise caution.

Friends and Family

New farmers can approach friends and family members who believe in their farm business vision and mission for a loan. For example, in the winter before their first year of operation, TableTop Farm in Nevada, Iowa, worked with a lawyer to develop a letter to send to friends and community members requesting small loans of at least \$1,000.

Lenders had the option of providing loans of two to five years at interest rates of 2% to 4%, with the longer loans receiving higher interest rates. TableTop used these funds to purchase supplies and make improvements that their FSA equipment loan would not cover.

Private Contracts with Retiring Farmers

Beginning farmer and land link programs connect new farmers with retiring farmers to assist in the transition of land or farm business operations. These programs can ease transitions within a family or make matches across families based on a synchronicity of goals, values, personality types, etc. The combination of an older farmer's wealth and experience and a younger farmer's energy can bring a fruitful farm transition.

Community Supported Agriculture

Community Supported Agriculture (CSA) allows farmers to develop relationships with their customers and local community members that can be deep and long-lasting. At its basic level, a CSA provides operating capital for farmers by requiring up-front payments in return for a weekly share of produce throughout the growing season. This allows farmers to purchase seeds and other inputs and to share the risk of crop failure with their customers. Customers may also become long-term investors in the farm by lending money to help farmers acquire land or make other significant investments.

Vendor Financing

Some agricultural suppliers have flexible payment terms that let farmers align their payment plan with their cash flow.

FSA Microloans

The Farm Service Agency has proposed, but not yet implemented, a new category of microloans up to \$35,000 for seeds, animals, small equipment, etc., to jumpstart a small farm operation. Contact your county FSA office to learn whether the program has gotten underway.



Return Service Requested

Return Service Requested

Non Profit Org
US Postage
PAID
Permit No. 381
Butte, MT 59701

Questions to Answer When You Are Planning for Profit

Adapted from *Planning for Profit in Sustainable Farming*

by Jeff Schahczenski, NCAT Agriculture Specialist

Planning for profitable farming requires careful investigation in order to answer some basic questions:

- Why do I want a farm business?
- What is my financial capacity to farm profitably?
- What price/revenue can I count on?
- What are profitable alternative market strategies?
- Why do I need a business plan?
- What is my ability to adapt/change?

What Are My Production Costs?

It is very likely that successful farmers can tell you with a fair degree of accuracy how many dollars per bushel, pound, row foot, dozen, head, carton, etc. it costs to produce every crop or livestock product they grow.

Without tracking costs per unit of production for each enterprise, it is hard to answer some very basic and

important questions, such as these:

Does crop X cost more to produce than crop Y? Does crop X use more of my limited labor than crop Y? Do I spend more tractor expenses producing crop X or Y?

The answers to these questions can only come from keeping good records and carefully analyzing costs. Your answers can help predict how potential changes in costs will affect profitability and income in the future. For example, with a good system of cost tracking, you might better understand how a dramatic change in diesel prices will impact your bottom line and the relative costs of every crop or livestock product you produce. Thus, in planning for a given production year, you will be able to adjust what you produce to limit the impact of sudden dramatic changes in any input cost.

ATTRAnews

Carl Little, Project Manager
Karen Van Epen, Editor

October 2012 • www.attra.ncat.org

ATTRAnews is the newsletter of the National Sustainable Agriculture Information Service. The free newsletter is distributed throughout the United States to farmers, ranchers, Cooperative Extension agents, educators, and others interested in sustainable agriculture. ATTRA is funded through the USDA Rural Business-Cooperative Service and is a project of the National Center for Appropriate Technology (NCAT), a private, nonprofit organization that since 1976 has helped people by championing small-scale, local, and sustainable solutions to reduce poverty, promote healthy communities, and protect natural resources.

Printed on recycled paper 

