RJ 1

FINANCIAL ARRANGEMENTS OF NEW FARM ENTRANTS IN THE EARLY EIGHTIES

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Introduction

Developments in agriculture during the past few years have resulted in hardships for existing farmers and difficulties for entering farmers. Farm Management and Agricultural Economics literature indicate the hardships for new entrants have always been prevalent--at least to a degree. The new entrants of the early eighties, however, did face a most troublesome phenomenon. Inflation and good economic conditions had driven up capital requirements for farm assets during the mid to late seventies. This condition had not gone away even though prospects for continuing farm prosperity were diminishing rapidly as the eighties began.

During 1984, almost four hundred new farm entrants in Manitoba were surveyed for a study to obtain information about how new farmers managed to start farming during this time period. The study attempted to learn about resource requirements of these new entrants and how they obtained the necessary capital. It examined the source of borrowed funds, and attempted to identify the many forms of family assistance and the importance of this assistance toward establishing the new entrant in farming.

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The purpose of this article is to describe the methods used to gather and analyze this information, and to report the results and conclusions of the study.

The Survey

The target population for this survey was new entrants who had started farming in Manitoba during the previous three years. This population was relatively large and difficult to identify. As a result, two sample populations were identified to represent the target population. The first consisted of diploma graduates from the University of Manitoba known to have started farming during that time period. The second was made up of nondiploma graduates known to have started during the same time period. These were identified by agricultural representatives of the Manitoba Department of Agriculture.

During the summer of 1984, the two sample populations received mailed questionnaires with identical questions and a covering letter explaining the survey. Mailing was timed so the questionnaire would be received between the busy seeding and haying seasons. Follow-up letters were sent to those who did not respond before a specified time period. A second follow-up letter was sent where appropriate.

Each individual surveyed was asked to volunteer more detailed information about their farm finances through a follow up questionnaire and interview. Those who agreed were contacted the following winter and provided this additional information through a questionnaire completed with the assistance of a personal or telephone interview.

The Questionnaire(s)

As becoming a farmer is a matter of degree and not well defined, all members of the sample were asked a series of questions regarding ownership or access to marketing rights, land and other productive resources to determine whether they had, in fact, started to farm. Further questions gathered information on the resources of the farm, how they were acquired, and if and how they were shared with family or others. A section of the questionnaire asked about family assistance, the form it came in, dependence upon it, and if the family had incurred hardships in order to provide the assistance.

A section of the questionnaire was devoted to credit requirements of the new entrants and how this had been met by both public and private lending institutions. New entrants were asked to describe how their farm operation was tied to the family farm operation and if the had goals toward farming independently. They were also asked about off-farm employment and whether this was a factor in establishing and/or continuing the farm operation.

Respondents who volunteered to provide more detailed information were sent a questionnaire following the same line of questioning but asking for specific family assistance, amounts of loans, sources of credit, repayment conditions, and problems encountered in these areas. The mailed questionnaires were completed with the assistance of either a personal interview or a telephone interview providing additional direction or interpretation.

Results of the Survey

a) Family Assistance

Considering the personal and sensitive nature of this questionnaire, the response rate was considered very good. From a total of 396 possible respondents, 204 replied (51.5 percent). Furthermore, over a third of the respondents agreed to the more detailed interview. As manpower and funds were not available for these many interviews, forty names were randomly selected. However, when confronted with the detail of this second questionnaire, a number of people decided against the interview, leaving the study with twenty-four respondents to provide the more detailed information. As this sample size was considered inadequate in size to draw conclusions from, the analysis of this information was only used to reinforce or support conclusions drawn from the initial, more general, questionnaire results.

At the time of the survey, only 23 percent of respondents were farming independently of their family. Of those who did, 64 percent had started as an independent farm unit. Of those who were still farming with their family, 55 percent believed they will be taking over the family farm. A subsequent question changing the "will take over" to a "may take over" changed that percentage figure to 94 percent. Only 32 percent stated they wanted to take over this farm as soon as possible, while the remainder indicated that they were in no hurry for the independence this would bring about.

Respondents were asked about the assistance received from family. Slightly less than half (49 percent) received inheritances and gifts to help get started. A significantly higher proportion of beginning farmers received indirect assistance. A majority (77 percent) provide labour to the family farm in return for resources to carry out their own farming operations. Furthermore, 85 percent were able to borrow farm machinery from their families at no cost, and 77 percent had free use of some farm buildings.

The family provided a significant amount of direct loan assistance. A third of all respondents obtained operating loans from their family and 30 percent received loans for capital items. There was considerable indirect loan support as 43 percent had parents co-sign loans and 36 percent had secured loans with collateral provided by their parents. Table 1 summarizes the percentage of survey respondents receiving these various forms of family assistance.

The significance of this family support toward entering farming is put into perspective as 73 percent of these beginning farmers stated it would not have been possible to start without the assistance. The sample was asked whether providing this assistance was a hardship on their families. Only 12 percent believed it was a serious hardship and an additional 39 percent felt that it had been a moderate hardship.

A series of questions was designed to estimate the degree of dependence on family for the capital intensive resources such as land

Table 1

Types of Family Assistance

Types of Assistance	Question Number	Percent Responding	Percent Yes
Inheritance and gifts received	15	98.5	49.3
<u>Indirect Assistance</u>			
- Labour for resources	16	98.5	77.1
Borrow machinery	19	99.0	85.1
Access to farm bldgs.	20	98.5	76.6
<u>Loan Assistance</u>			
- Direct loans			
Operating loan	17	97.5	33.2
Capital loan	18	98.0	30.5
- Indirect backing			
Parent co-signs loan	21	98.0	43.0
Provide collateral	22	98.5	35.8
Possible to begin farming without assistance	23	94.1	26.6

and machinery and to see what proportion of the total farm operation was, in fact, operated by the new entrant. Results are summarized in Table 2. It shows that most new entrants had acquired at least some land from their family, and that in 61 percent of the cases, more than half the machinery used in the total operation belonged to their family. The farming operation of the new entrant is half, or less than half, of the total family operation in 82 percent of the cases.

In summary, information about new entrants and their family shows that for the most part, the new entrant moves under the umbrella of the parental farm unit. He receives significant family assistance and is dependent upon it to start farming. The fact that most do not consider that their families are undergoing serious hardship indicates that the family farm has the resources and the will to provide what appears to be a necessary role in bringing new farmers into the industry.

b) Availability and Use of Loans and Grants

The sample was asked about their use of government lending programs and grants to start farming. Two thirds (67 percent) of respondents had obtained loans from government agencies and 9 percent had received government grants. A further breakdown of this is shown in Table 3.

Less than half (47 percent) of the respondents said that government loans made up more than half their total borrowings to start farming. Forty-six percent said government loans amounted to less than half their borrowings and the rest said "about half."

A number of questions were asked to develop a picture of new entrants' use of private lending institutions. Most new entrants (78

Table 2

New Entrants Access to Family Farm Resources

	Question Number	Percent Responding	Answer 0	< 1/2	1/2	> 1/2
Proportion of land acquired from the family & operated by the new entrant	26	85.8	4.6	48.6	12.5	34.3
Proportion of the machinery which belongs to the family	27	93.6	4.7	19.3	15.2	60.7
Proportion of total operation which is operated by the new entrant	28	78.9	1.2	60.9	21.1	16.7

Table 3

New Entrants Use of Public Lending Programs
and Grants

Public Institutions	Question Number	Percent Responding	Percent Yes
Loan from FCC	29	99.0	19.1
Loan from MACC	30	99.5	38.4
Loan from SBDB	31	93.1	3.1
Government guarantied loan	32	98.5	7.4
Received government grants	34	99.0	9.4

percent) used the private institutions as a source of operating funds. There is also considerable use of the private sector for loans for intermediate assets and real estate. The detailed results are shown in Table 4. A more detailed distribution of sources of loans, size of loan and purpose of loan was obtained from the smaller and more detailed second survey. This is reported in Table 5. This selected sample of 24 new entrants had borrowed a total of $3,238,150 in 60 different loans. It is difficult to draw firm conclusions from this particular small sample but it does show the magnitude of direct family loans relative to loans from both public and private lenders, and it also shows the public institution concentrating on real estate loans and private institutions more active in providing intermediate loans and operating funds.

Some respondents felt that larger loan limits, less equity requirements and more lenient repayment terms would lessen the need for family assistance (Table 6). Generally, respondents were equally divided on preference for public or private lenders, and only 22 percent felt that they were forced into bank loans because they had been unable to secure a government loan (Table 7). There was general agreement that government loans should be subsidized (90 percent), that repayment periods should be lengthened, and that interest rates should be lower. These answers are not surprising considering that this group of new entrants started farming during a time period when interest rates reached unprecedented levels.

In summary, new farm entrants appear to have been using both public and private lenders in their traditional capacity. There is very little use of government grants and direct lending by family is a significant

Table 4

Purpose of Loans from Private Lending Institutions

Private Institutions	Question Number	Percent Responding	Percent Yes
Operating loan	44	98.5	77.6
Farm equipment loan	46	93.6	45.6
Livestock breeding loan	47	88.2	17.0
Real estate loan	48	76.5	19.9
Land improvement loan	49	76.5	9.6

Table 5

Distribution of Sources and Purpose of Loans

	Public		Private		
	FCC	MACC	BANKS	SUPPLIERS	FAMILY
#Loans	4	14	25	6	11
Range	4000-80000	10000-200000	2000-800000	5000-100000	3000-154650
Mean	62500	74050	56640	36750	28050
Total	250,000	1,042,900	1,416,100	220,500	308,650
% Purpose					
Land	75	57.1	8	17	45.4
Equipment	0	0	36	67	36.3
Operating	0	0	28	17	0
Multiple	26	28.5	12	0	18.1

Table 6

Loan Characteristics and Need for Family Assistance

Limitations	Question Number	Percent Responding	Percent Yes
Larger loan limit would mean less assistance required from the family	40	74.5	69.5
Less equity required for the loan would ease the family from providing assistance	41	71.1	42.1
Smaller repayment would lessen family assistance	42	95.7	62.1

Table 7

Respondents' Assessment of Current Credit Situation

	Question Number	Percent Responding	Percent Yes
Interest rates on government loans should be subsidized	38	95.6	89.7
Repayment periods should be lengthened	39	92.2	55.8
Forced into bank loan because unable to secure a government loan	51	88.2	22.2

source of debt capital. New entrants do not have strong preferences for one source of credit over another, but do identify a perceived limitation in credit availability (size of loan) and repayment terms. They feel that less stringent credit programs could ease the reliance on assistance from their families.

c) <u>The Importance of Off-Farm Work</u>

The first and more general questionnaire asked about the importance of off-farm work to getting established in farming. In a majority of cases (64 percent), either the new entrant or spouse worked off the farm. Of these families, 55 percent felt the money that they earned was very important to the operation of their farm and an additional 24 percent believed the money to be moderately important.

More detailed questioning of the second smaller sample revealed that 29 percent felt that they would not have been able to start farming without the off-farm job. The most prevalent use of earned off-farm income was for family living (57 percent of respondents). Respondents recognized that off-farm work interfered with their ability to operate the farm, but 71 percent said it only "partially" interfered. Twenty-four percent said it did not interfere and 6 percent gave an unqualified "yes" answer. When asked if they would quit off-farm work once they were established farmers, 29 percent said "no," 59 percent "maybe" and 12 percent said "yes." These results indicate significant dependence upon off-farm work to provide income for new farm entrants, and a definite unwillingness to give it up even after that dependence may diminish.

Summary and Conclusions

The main conclusion from this study is that new entrants are very dependent upon family assistance. This assistance comes in many forms and provides equity that allows the new farmer to enter with a leveraged position that can tolerate the instability inherent in agricultural prices and yields.

It can also be concluded that the families providing this assistance were able to do so without incurring undue hardship. There is, however, no assurance that this condition will continue. The farm economy could deteriorate to the level that assistance may be withdrawn. If this happens, there would be a serious void in meeting entry requirements of new farmers. The people surveyed feel that lending institutions could provide more lenient credit policies to take some of the responsibilities from their families. If this were to happen, the equity provided by family would be replaced by debt capital and new farmers would be leveraged higher rather than lower. Policy changes in this direction may have to consider more stabilization programs to counteract the higher leveraged situation.

Another consideration may be to develop a policy to encourage and make it easier for farm families to continue to provide the kinds of assistance identified in the study. The fact that his level of assistance was a factor in the apparent successful entry of the large majority of the sample, and the lack of perceived hardship on families provides evidence that it is an expedient and effective means of entry. It may be less costly to society to subsidize this status-quo situation than to subsidize credit and/or stabilization programs in order to have an adequate supply of new farmers coming into the industry.

It can also be concluded that off-farm employment is a significant factor to both new and continuing farmers. The new entrants surveyed do not intend to give up this income and satisfaction, even after they have become established farmers.