MASSACHUSETTS FOOD SYSTEM COLLABORATIVE

Exploring of the feasibility of a state working capital loan for Massachusetts farmers

Introduction

Massachusetts' agricultural producers face ongoing financial pressures that can threaten the viability of their businesses. Farm viability, as defined in a presentation given by The Carrot Project, American Farmland Trust, and Essex County Greenbelt, is when a farm business is able to cover its operating costs, including fair compensation to the farmer and farm workers and costs to maintain infrastructure.[1] Limited market access, extreme weather, equipment failures, repairs, and on-farm emergencies often interrupt farm revenue while routine expenses continue for farmers. For farms that struggle to turn a profit, even a short-term disruption can make it impossible for a farmer to make the necessary investments to keep their farm viable.



Massachusetts currently lacks a statewide source of affordable working capital designed around these economic, climate, and disaster challenges. Existing commercial loans and funding may be too costly or burdensome to access, especially for farms already operating on thin margins. While state disaster assistance programs such as the Natural Disaster Recovery Program for Agriculture[2] can be essential after climate disasters, these programs are tied directly to specific climate events within a growing season. Current climate relief programs do not fill the working capital gap for farmers dealing with emergencies outside the specific events, such as barn fires, silo collapses, and other capital infrastructure failures. Currently, MDAR has no way to assist farmers when these types of events occur, and no grant programs MDAR administers accommodate these types of requests.

The Massachusetts Food System Collaborative supports efforts to increase farm viability across the Commonwealth. One proposed way to do this is to establish a $10 million working capital revolving loan fund for agricultural use. This loan would fill the gap described above and address a pressing need for additional and more flexible sources of capital for farmers.

Background

The Need for a Working Capital Loan Program

Access to working capital is difficult for farmers

Agriculture is a significant contributor to the Massachusetts economy; providing food to local communities and environmental and social benefits. Still, many farmers operate without the ability to absorb losses or reinvest in their businesses. In the 2022 Census of Agriculture, 64% of farms in Massachusetts reported net cash losses, meaning that their production expenses exceeded their income (see Table 1). Farms reporting losses had an average net cash loss of $32,000, with more than 600 farms reporting losses of at least $50,000.[3] Most Massachusetts farms also operate at a relatively small scale. More than seventy percent of all farms reported less than $25,000 in agricultural product sales and government payments in 2022.[4] While these data points do not show why an individual farm has low sales or a net cash loss, they illustrate that many farms may have limited capacity to finance an unexpected expense, withstand an interruption in revenue, or take on high-cost commercial debt.

Table 1. Number of farms reporting net cash farm losses and interest payments by farm size, Massachusetts, 2022*

Farm Size (acres)	Number of Farms (%)	Number of Farms with Net Losses (%)	Number of Farms with Interest Expenses (%)
Total	7,083 (100)	4,528 (63.9)	1,585 (22.4)
1-9	2,171 (30.7)	1,378 (63.5)	391 (18.0)
10 - 49	2,719 (38.4)	1,866 (68.6)	592 (21.8)
50 - 99	958 (13.5)	621 (64.8)	228 (23.8)
100 - 499	1,138 (16.1)	629 (55.3)	325 (28.6)
500 - 999	74 (1.0)	22 (29.7)	37 (50.0)
1000 or more	23 (0.3)	12 (52.2)	12 (52.2)

*See Appendix: Table 1 for data sources, definitions, and calculations.

As seen in Table 1, the majority of farms regardless of farm acreage experience net losses, with smaller acreage farms more likely to report net losses than large acreage farms. Furthermore, 22% of all farms reported interest expenses, indicating that many farms already carry costs associated with financing their operations. Lower reported interest expenses among small acreage farms should not be read as proof that they can readily self-finance their operations. While true for some farms, this may also reflect differences in borrowing access, capital needs, or financing sources. These figures do not show whether farms without reported interest expenses have savings or can access credit when an unexpected cost arises. They also do not show whether farms already carrying debt have room to borrow more. A working capital loan program could give farms another option for addressing urgent expenses, including when existing financing is unavailable or insufficient.

MA Precedent for Farm Viability Assistance

Massachusetts has demonstrated its commitment to helping farms recover from widespread climate-related disasters, but its current assistance program is primarily designed for specific events rather than ongoing farm financial viability. Recent weather disasters demonstrate the scale of financial risk facing Massachusetts farms and ways that the state has intervened. In 2023, the Legislature allocated and MDAR awarded $20 million in disaster relief to 347 farms affected by a deep freeze, late frost, and catastrophic flooding.[5] Farmers later reported more than $65 million in losses from the July 2023 flooding alone.[6] At the time of this writing, MDAR has published an RFP for the NDR II program, $42 million in assistance for the 2023-24 growing season, funded by Congressional appropriation through USDA. While this assistance was essential, it was again developed in reaction to specific weather events and focused largely on qualifying crop losses. Massachusetts still lacks a standing source of affordable recovery financing when an individual farm experiences a fire, structural failure, equipment loss, or another emergency that interrupts production.

Outside of disaster-specific farm assistance, the PVGrows Investment Fund is an example of an important local source for flexible financing for farm businesses in Massachusetts. Administered by the Franklin County Community Development Corporation, the Investment Fund offers loans for working capital as an alternative for farms that may not otherwise qualify for commercial loans.[7] While this program has helped numerous farmers over the past decade, it is largely limited to the Connecticut River Valley region of the state, with only 30% of the Fund leaving that region.[8] However, the PVGrows Investment Fund is a strong example of how a flexible working capital program paired with technical assistance could be utilized for farmers across the Commonwealth.

Massachusetts already recognizes working capital as a legitimate need for small businesses through the Massachusetts Development Finance Agency (MassDevelopment). MassDevelopment offers statewide financing ranging from $5,000 microloans to $2 million term loans.[9] However, the Commonwealth's general small-business financing programs are not designed specifically around the seasonal revenue, emergency recovery, and affordability realities of farm businesses. A farm-focused program could build on the state's existing commitment to working capital access while offering terms that are better suited to agricultural operations, including lower interest rates and repayment structures aligned with seasonal farm cash flow.

Disaster Case Study: On-farm fire disasters

A farm in Massachusetts experienced two separate fire-related disasters within five years. A fire destroyed an uninsured portion of the farm's barn. The fire destroyed grain storage, housing and supplies for animals, and a well pump, leaving the farm without water. The farm raised funds through community efforts to help replace these essential operating supplies.

Four years later, a fire in a silo at the farm's other property threatened its winter feed supply. Beyond the impact on the farm's ability to sustain its animals over the winter, this feed also represented months of labor, time, and capital investments. The farm worked to salvage what it could and construct a replacement bunk silo with an estimated cost of $90,000.

These incidents illustrate how farm emergencies can create immediate capital needs, from restoring water access to rebuilding infrastructure to protect inventory. A working capital loan program could give farms a source of capital to respond to these emergencies before a short-term disruption becomes a larger operational or financial crisis.

Economic Case Study: Fertilizer cost spike

Farmers across the state have been struggling to absorb the increased cost of fertilizer, due to supply constraints from the war on Iran. Some farms have raised prices of their products, while others are holding their prices steady as they are mindful of how consumers' budgets are also pinched at this moment. Massachusetts farmers already make $0.95 for every $1 they invest in their business, and this sudden spike in the cost of inputs like fertilizer and diesel will further erode any margin.

Climate Resiliency Case Study: Building a new well

As drought and extreme weather become more prevalent, farms are increasingly in need of efficient irrigation. A Massachusetts farm recently used MDAR grant funding to install a well and irrigation system to improve water management and prepare for those conditions. While this farm secured state support, other farms may need different sources of capital to make similar investments. A working capital loan program that includes resilience improvements could help finance these projects while preserving cash for ongoing operating expenses.

Similar Policies from Other States

Maryland and Minnesota offer two examples of state programs providing working capital loans to farmers. Administered by the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO), the Agribusiness Equipment and Working Capital Loan Fund offers loans ranging from $15,000 to $100,000 to Maryland farm businesses for working capital and equipment purchases.[10] Applicants must generally contribute 10% of the project's total cost, provide collateral for the loan, and have a credit score of at least 620. Interest rates range from 4.75% to 6.75% and terms last between one year for operating loans and up to eight years for equipment loans.[10] While this program is helping to fill a gap in working capital for agricultural businesses, it is marketed as a moderate cost loan, indicating that it may be a strong option for farmers with established capital but a weaker option for farmers struggling financially. A Massachusetts program should consider what loan terms can build and maintain accessibility while encouraging loan repayment.

Minnesota's Agricultural Microloan Program is administered by the state's Department of Agriculture, and is a loan program focused specifically on providing working capital to emerging farmers, defined as specialty crop producers and producers who are racial minorities, people with disabilities, and women.[11] Farmers can borrow up to $20,000 with interest rates no higher than 10%, depending on the lender chosen from a preapproved list. While supporting emerging farmers, these loans have limited uses, eligible uses of the loan include land rent, annual expenses, and equipment with a common useful life of ten years or less; this loan cannot be used for infrastructure investments. For example, this program would likely not lend to a farmer looking to rebuild a barn; however, a farmer looking to buy new feed due to a barn fire could apply. While the program's use of multiple approved lenders may expand farmers' access to lenders with different geographic reach and community relationships,interest rates, underwriting, and borrower experience may vary by lender. Massachusetts should consider how it defines working capital, whether to use multiple lenders or a central administrator, and how to build equity into the program so that farmers most in need of support can access it.

Future Actions and Next Steps

As we discuss the idea of a down payment assistance program in Massachusetts, **we are asking our advocates and partners to help inform the development of such a program.**

In upcoming agricultural advocacy meetings and internal discussions, we are continuing to explore what kinds of emergency expenses farms struggle to finance and where federal programs or crop insurance may leave gaps.

We also need to consider what loan sizes, interest rates, and repayment terms would work for farms facing different expenses.

Finally, we are weighing whether a CDFI partnership or a direct state partnership would be most accessible. A CDFI seems like the most feasible option, but we should continue exploring what would work best for farmers.

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Appendix: Table 1

Sources: Data obtained from the 2022 Census of Agriculture: Massachusetts Table 71. Summary by Size of Farm: 2022.

Farm size includes all owned or rented land used for agricultural purposes, such as land for grazing, crops, or pasture. This does not include non-agricultural woodlands or wastelands.

Net losses are calculated by “subtracting total farm expenses from total sales, government payments, and other farm-related income.”

Percentages in the table are calculated by dividing the number of farms with net losses in each farm size by the total number of farms in each farm size category.