

The Evolution and Expansion of Risk Management Education Programs in the United States

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THE EVOLUTION AND EXPANSION OF RISK MANAGEMENT EDUCATION PROGRAMS IN THE UNITED STATES

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ABSTRACT

A rapidly changing business environment has dictated a need for farmers to improve their risk management skills. The 1996 Federal Agricultural Improvement and Reform Act (FAIR) also created a new environment for American farmers by eliminating planting restrictions and deficiency payments. Congress recognized the changing environment by mandating the Secretary of Agriculture to initiate a risk management education program. A memorandum of understanding specified the responsibilities of the federal agencies involved in risk management services and education. A work group representing all public and private organizations concerned with risk management services and strategies was convened. The work group established a set of objectives, the five major areas of risk to address and an overall educational plan. Five regional extension coordinating offices were established to coordinate activities with federal agencies and the private sector and to distribute funding for extension based educational programs. The initiative originally received funding of \$5M in 1997. In 2000, the Agricultural Risk Protection Act, which primarily revised the crop insurance program, provided an additional \$5M for risk management education for the 2001 fiscal year and the succeeding four years. The initiative has provided an impetus to look at risk management in a broad and comprehensive manner. This has resulted in the development of very creative and innovative programs, in terms of materials and methods of delivery. The working partnerships between public and private sector organizations have been a key to the success of the programs.

BACKGROUND

Legislation

The 1996 Federal Agricultural Improvement and Reform (FAIR) Act created a new environment for American agriculture. Farm programs became less restrictive; deficiency payments and ad hoc disaster aid were eliminated. Producers were charged with the responsibility to manage their own risk. With new freedom came new risks and it was determined that growers had a new need to learn the tools and strategies available to deal with these new risks.

The FAIR Act addressed these needs in Section 192, which gave a mandate to the Secretary of Agriculture to, “.....provide such education in management of financial risks inherent in the production and marketing of agricultural commodities... In implementing this authority, the Secretary may use existing research and extension authorities and resources in USDA.” The act went farther in Section 194 and created the Risk Management Agency (RMA) within USDA, and assigned it a task to “...pilot programs involving revenue insurance, risk management savings accounts, or the use of futures markets to manage risk and support farm income that may be established under the Federal Crop Insurance Act or other law.”

Response to Legislation

On October 10, 1996 Kenneth Ackerman, then Acting Administrator of the newly formed Risk Management Agency, forwarded a Decision Memorandum to the Secretary to address the mandate. The Decision Memorandum proposed a framework as follows:

1. Leadership/Structure: A three member Steering Committee would be formed, chaired by the Administrator of the Risk Management Agency (RMA) and consisting of representation from the Commodities Futures Trading Commission (CFTC) and the Cooperative State Research Education and Extension Service of USDA (CSREES). The Steering Committee has subsequently been expanded to include the USDA

Outreach Agency. The CFTC is responsible for monitoring and regulating the activities of the commodity futures markets. The CSREES links the research and education programs of the USDA and works with the land grant institutions in each state and territory. This includes 130 colleges of agriculture, and 59 agricultural experiment stations and 57 cooperative extension services associated with these universities.

2. **Projects/Goals:** Three major goals would be initially addressed. These were: 1) The development of “training programs for farmers at the local level, integrating basic information on risk management from all relevant sectors such as insurance, futures and forward contracting”; 2) Providing a source of neutral information and “up-to-date data on new risk management products that farmers and agricultural advisors across the country can turn to for unbiased background when confronted with decisions, questions, and solicitations”; and, 3) To kick the whole program off with a national symposium of interested organizations to “discuss plans, share ideas and develop support for the new program”.
3. **Initial Funding:** It was proposed that an initial allocation of \$5 million be obtained from the FCIC insurance fund to “demonstrate a strong USDA commitment...”

Secretary Glickman signed the Decision Memorandum on March 21, 1997 charging the three major federal agencies involved in farm level risk management to initiate an educational program. Subsequently, on April 8, 1997, the three agencies signed a Memorandum of Understanding (MOU) that outlined the responsibilities of the three agencies.

The Memorandum of Understanding directed the Risk Management Agency to:

- a.) Provide copies of crop insurance material and information, including insurance policies, publications and program releases, to CSREES and CFTC;
- b.) Assist in identifying problems and gathering information needed to conduct educational programs related to producers' crop insurance decisions and the overall risk management programs of individual producers;
- c.) Encourage RMA personnel at all levels to communicate with and assist CSREES and CFTC with risk management research and education projects in the agricultural sector; and,
- d.) Cooperate with CSREES and the State Land Grant System (LGS) in maintaining membership and support for the Advisory Council, established in 1983, which involves LGS faculty in the design and conduct of research and education programs related to risk management.

Agency Responsibilities

The MOU further directed CSREES to:

- a.) Assist RMA and CFTC, through cooperation with State Land Grant Institutions, in assessing research and educational needs of producers and agribusinesses at the local, state, regional, and national levels and conduct research projects and educational programs through the effective involvement of the State Land Grant University Agricultural Experiment Stations and Cooperative Extension Services;
- b.) Provide feedback and information from the Agricultural Experiment Stations and Cooperative Extension Services to assist in evaluating the effectiveness of programs targeted toward agriculture and agribusiness;
- c.) Provide RMA and CFTC with pertinent Agricultural Experiment Station and Cooperative Extension Service research and educational materials; and,

- d.) Cooperate in maintaining membership and support for the Advisory Council, established in 1983, that involves LGS faculty in the design and conduct of research and education programs related to risk management.

The CFTC was directed to:

- a.) Provide guidance in identifying risk management alternatives;
- b.) Provide information on educational programs deemed relevant to agricultural producers; and,
- c.) Coordinate at the national level in the design, development, and support of national informational programs.

THE RISK MANAGEMENT EDUCATION WORK GROUP

Following empowerment of the federal agencies involved, the next step was to solicit the commitment and cooperation of the farm organizations and the public and private agencies involved in delivering risk management services to farmers. Shortly after the signing of the MOU, an RME Work Group consisting of representatives from the public and private sectors was convened to address the challenge of risk management education as posed in the FAIR Act and subsequent directives by the Secretary.

Vision and Mission Statements

The vision established by the Work Group was: Risk Management Education, provided by a coordinated public/private sector effort, is a powerful management element that enables U.S. agriculturalists to manage enterprise risks, taking advantage of change and improving business performance and family well-being while satisfying community and societal demands.

The mission was to: Lead a comprehensive educational program that assists producers and agribusinesses in understanding their increased risk exposure and their responsibility in the current economic environment; to understand and make effective use of risk management tools and strategies; and, to integrate these

strategies in decision making that enables them to meet business, personal and community goals.

Objectives

The objectives of the Work Group are as follows:

1. Identify the most critical short and long-run risk management educational needs within the U.S. agricultural sector, recognizing the increased risk exposure that exists in the post-1996 Farm Bill era.
2. Develop and make available a comprehensive resources inventory of risk management educational materials.
3. Identify existing educational programs focusing on mutually acceptable components that can be used in broader more coordinated educational effort.
4. Interactively develop methods and procedures that will coordinate the educational efforts of public and private organizations toward common educational goals.
5. Implement short-run methods in a timely manner to assist producers in meeting approaching decision deadlines while being consistent with longer-run educational objectives and planned programs.
6. Develop a framework to continue the educational thrust on an on-going basis that more effectively equips producers and agribusinesses to develop and implement longer-run risk management strategies.

Major Areas of Risk

The Work Group identified five major areas of risk that would be addressed in the National Risk Management Educational Effort. These were the risks associated with production; marketing; finance; legal, including environmental; and, the human resources that are involved in the farming operation. A handbook, Introduction to Risk Management, written by Baquet, Hambleton and Jose (1997) describing these risks and their interactions, was prepared to introduce the topics to agribusiness and producers.

Work Group Activities

The first major product of the Work Group was the Risk Management Education Summit held in Kansas City, Missouri on September 16 & 17, 1997. This conference attracted over 400 leaders of the agricultural community and introduced them to the concept of Risk Management Education.

In February of 1998 the Work Group met again and determined that Regional Conferences would be an appropriate follow up to the National meeting the fall before. Cooperative Extension and the Regional Service Offices of the RMA cooperated to deliver these regional conferences across the various regions of the United States.

CSREES – RMA COOPERATION

The philosophical and institutional groundwork had been set for the collaboration between RMA and CSREES. RMA had 10 regional service offices (RSOs) which had historically administered the crop insurance program. Cooperative Extension traditionally has been aligned into four regions but the two regional structures were not quite consistent. To coordinate the risk management educational activities at the state level, five Extension Regional Coordinating Offices were established and aligned with the RSOs as follows:

1. The Northeast RME Coordinating Office is located at the University of Delaware and works with the Raleigh, NC RSO to serve the 14 states from North Carolina up to Maine.
2. The Southeast RME Coordinating Office at Auburn University in Alabama works with the Valdosta, GA RSO to work with extension faculty in South Carolina, Georgia, Alabama, Florida, and Puerto Rico.
3. The South Central RME Coordinating Office is located at Texas A&M and serves the two RSOs located in Oklahoma City, OK and in Jackson, MS. The region includes 8 states extending from Kentucky in the east to New Mexico in the west.

4. The North Central RME Coordinating Office at the University of Nebraska works with three RSOs including Topeka, KS, St. Paul, MN, and Springfield, IL. The region includes 11 states extending from Ohio to Colorado and from Minnesota to Missouri.
5. The Western Region Coordinating Office by Washington State University works with RSOs located at Billings, MT, Spokane, WA, and Sacramento, CA. The region includes 13 states extending from North and South Dakota to Arizona and includes Hawaii and Alaska.

The RME Regional Coordinating Offices administer the programs of the Steering Committee to the 1862, 1890, and 1994 Land Grant Institutions and endeavor to facilitate the cooperation of those Universities with their respective Regional Service Offices of the Risk Management Agency/USDA.

FUNDING THE INITIATIVE

In accordance with the Secretary's Decision Memorandum, \$5million was made available from the FCIC insurance fund for the purpose of risk management education. The Steering Committee determined that these funds should be distributed as follows: \$1M should be retained by the Risk Management Agency to fund RME activities by the Regional Service Offices and to finance publication of the various risk management materials that might be developed over the year. These funds would also be used to finance the regional risk management conferences recommended by the RME Work Group.

A sum of \$3M was used to fund a Request For Proposals (RFP) to support: 1) research into risk management topics; 2) the development of curricula for risk management education; and, 3) the delivery of risk management educational programs. The response to the RFP was substantial with 107 proposals received, requesting approximately \$20M in funding. A panel of 18 individuals was convened to evaluate the proposals and recommend funding to the Steering Committee. The panel consisted of: seven individuals from the private sector,

seven people from the Land Grant System, three government representatives, and a panel manager.

On June 8, 1998, in Grand Forks, ND Agriculture Secretary Dan Glickman announced 17 education grant awards. The projects funded in the Land Grant System included projects to: develop the knowledge base to guide the design and implementation of effective risk management programs for agricultural producers; develop a risk management educational curriculum for dairy producers; conduct symposia and regional training workshops; create risk management educational materials to help socially disadvantaged and limited-resource farmers; and, help Pacific Northwest cereal grain producers improve and apply risk management skills. A substantial number of projects were also funded in the private sector. The National Crop Insurance Services, Inc. received funding for a project to broaden the understanding of risk management principles among more than 15,000 crop insurance agents nationwide. The Association for Community Based Education received funding for an effort to improve the risk management of limited- resource Latino family farmers in California's central coast.

The final \$1M of the original allocation was passed to CSREES for use by the Land Grant University System to deliver educational programs. Approximately 60 percent of these funds were distributed through the Regional Coordinating Offices to the 1862, 1890, and 1994 Land Grants Universities. This was to insure a relatively uniform level of risk management education activities in all states. Careful attention was paid to the distribution funds to insure that the small and limited-resource farmers as well as the Native American producers had access to educational opportunities. Approximately 15 percent of CSREES funds were designated for an electronic national database of risk management materials to comply with objective 2 of the RME Work Group. Extension funds were also to be used for National Symposia, such as the Pre Session at the AAEEA Meetings in Salt Lake City in August 1998, to help determine future direction for the risk management educational effort. Finally, an evaluation project was conducted to

ascertain if any changes in behavior by growers had resulted from the expenditure of these public funds.

CARRYING OUT THE PLAN

Risk Management Education Initiative is still a work in progress. Between the National Symposium, which was held in September 1997, and the spring of 2000, over 1400 RME conferences and meetings were held with over 40,000 people in attendance. The creativity that has evolved through these programs has broadened and strengthened our ability to deliver risk management programs to all sectors of production agriculture including many that were ignored or only given passing consideration in the past. The Risk Management Education Database has been put in place and is available on the World Wide Web. This electronic library contains over 1100 of the “pertinent Agricultural Experiment Station and Cooperative Extension Service research and educational materials” referred to in the MOU. This interactive web site includes, but is not be limited to, fact sheets and other written materials, decision aids and spreadsheets, teaching curriculum and materials, an Agricultural Risk Management Directory of Expertise, and a Directory of RME events. The address of the website is: www.agrisk.umn.edu.

By the spring of 2000 the seventeen original RFP projects funded in 1998 were completed. It was determined that the information gained in these projects could be best distributed and shared by holding a national symposium. In June of 2000 the National Extension RME Workshop was held in St. Louis, MO. Over 40 major papers were presented to more than 160 workshop participants from Land Grant Universities, the USDA, and the private sector. The following list of a sample of the projects presented demonstrates the creative work that has occurred: 1) a set of materials developed and used in workshops with managers of horticultural businesses; 2) educational materials developed for dairy farmers in partnership with all sectors of the dairy industry; 3) a set of materials that will be delivered through the dealers of a major farm machinery was developed by a university in partnership with the machinery company; 4) risk management clubs

have been developed in some states which allow producers to discuss risk management issues and strategies relevant to their local production and marketing situation; and, 5) a variety of marketing simulation games and tools that have been developed, many in partnership with the private sectors. A complete listing of the abstracts presented is available on the web at: www.udel.edu/FREC/ERME. Click on “program day one” or “program day two” and then click on an individual presentation to access the abstract. See www.udel.edu/FREC/ERME and click on “participants” for a list of the workshop attendees. The evaluations of the workshop were extremely positive, with most people agreeing that additional workshops should be held periodically to keep the risk management stakeholders up to date on the latest developments in the field. See www.udel.edu/FREC/ERME/evaluations.pdf for the workshop evaluation comments.

FUTURE FUNDING

Congress broadened the scope of Risk Management Education in 2000 with the passage of the “Agricultural Risk Protection Act of 2000.” In Section 524, (a), (3), the authorization was stated as follows:

(A) **AUTHORITY.** The Secretary, acting through the Cooperative State Research, Education, and Extension Service, shall establish a program under which competitive grants are made to qualified public and private entities (including land grant colleges, cooperative extension services, and colleges or universities), as determined by the Secretary, for the purpose of educating agricultural producers about the full range of risk management activities, including futures, options, agricultural trade options, crop insurance, cash forward contracting, debt reduction, production diversification, farm resources risk reduction, and other risk management strategies. This section was funded with \$5M for the 2001 fiscal year and each year thereafter for a total of five years.

A Request for Proposals was issued by CSREES in March of 2001 to re-establish RME coordinating offices in four regions of the country for the competitive distribution of 80 percent these funds within the regions, while the remaining 20 percent of funds was distributed at the national level, for projects that were national in scope.

THE FUTURE OF RISK MANAGEMENT EDUCATION

The Teachable Moment

At the time of preparing this paper in the spring of 2001, the teachable moment is still with us. Regional droughts and disease problems have continued to plague agriculture along with low commodity prices for almost all farm products. Congress continues to send mixed signals on risk management responsibilities to producers. Ad hoc disaster and market price supplemental programs have been implemented concurrently with enhancing the crop insurance program with higher subsidies for premiums, for example. Regardless, it is not politically feasible or economically advisable for the federal government to provide full risk protection for farmers. Producers must come to the realization that it is now their responsibility to improve their risk management skills and select the risk management strategies that are consistent with their situation and preferences.

With a vision that: “Producers will be able to identify, assess and manage risks to best meet business and personal financial goals and objectives, and evaluate outcomes,” and using the funds to be supplied through the Regional Coordinating Offices, it is anticipated local risk management educational programs will be revitalized over the next year. Subject matter and format for these local activities will vary from state to state in order to meet the needs of the clientele, but should focus on the five major risk areas outlined by the RME Work Group.

The Role of the Land Grant Universities

The infrastructure of the Land Grant System combined with the core of research and the education faculty in those universities, provide the basic building blocks for a comprehensive risk management education program. One needs but to stop

and think of almost any risk situation on the farm or ranch and there is unbiased expertise within the Land Grant System to address the problem and deliver analyses and alternatives. Plant scientist, animal scientists and agricultural engineers as well as economists address production risk problems. Risks that are inherent in marketing and finance are intertwined and have long been the subject of research and education by the agricultural economists. The human resources issues of family estate planning and labor management have been addressed by social and behavioral scientists. Legal and environmental risks cut across all the above areas and are becoming more critical for producers to consider. Many universities have legal and production scientists who are addressing these issues. The rapidly changing business environment combined with changes in government farm programs has provided an opportunity to capitalize on risk management education as means to upgrade management skills.

Partnering is a Key Element

Regardless of the direction for the educational program, one aspect that will remain vital is the partnering with the private sector. With the overall decline of resources available to CSREES and the Land Grant Universities, it is incumbent on Extension to join forces with all those sectors of the agribusiness community who have a vested interest in seeing the American farmer and rancher succeed. These partners include all components of commodity marketing systems from the initial handlers to the commodity futures markets; lenders and financial institutions; general farm and commodity organizations; risk service providers including crop insurance companies; and, other financial and legal consultants. Extension has a critical asset to bring to any of these partnerships and that is the reputation of being unbiased. The partnering, from the establishment of the RME Work Group to the delivery of local educational programs, has been a hallmark of the risk management activities over the past four years. And even though government policies may be ambivalent, Congress is a strong proponent of our extension system. This is verified by the priority Congress has placed on risk management education programs and the financial support they have designated for extension based programs.

REFERENCE

Baquet, Alan, Ruth Hambleton and Doug Jose. 1997. Introduction to Risk Management. Understanding Agricultural Risks: Production, Marketing, Financial, Legal and Human Resources. United States Department of Agriculture, Risk Management Agency. See the following website for a copy of the publication: www.act.fcic.usda.gov/pubs/1997/riskmgmt.pdf

BIOGRAPHICAL SUMMARIES

H. Douglas Jose: Professor and Extension Farm Management Specialist, University of Nebraska. His interests include crop insurance, risk management strategies, rental arrangements, farm machinery custom charges and dairy economics. He is a member of the Executive Committee of the International Farm Management Association. He was a charter member in 1982 of the Extension Advisory Committee to the Federal Crop Insurance Corporation, which became the Risk Management Agency of USDA in 1996. He has been the extension coordinator for the North Central Region for the risk management education initiative. He is a past president of the University of Nebraska-Lincoln Academic Senate.

H. Don Tilmon: Extension Farm Management Specialist, University of Delaware. He was also a charter member of the Extension Advisory Committee to the Federal Crop Insurance Corporation. He has been the extension coordinator for the Northeast Region for the risk management education initiative. He also served as the National Program Leader for Risk Management Education in USDA in Washington for two and a half years when the initiative was being organized. He was a co-leader of a project to develop a risk management workshop for operators of horticultural businesses. He coordinated the national extension risk management symposium held in 2000.