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POSTER I

Business Risk Management Programs and On-Farm Capital Investment of Canadian Farms

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The objective of most farm-support programs is to manage risk that is prevalent in agricultural production. These business risk management (BRM) programs in agriculture are commonly in the form of insurance (yield insurance, net margin insurance, etc.). These programs can help reduce risk associated with income variability and uncertainty. There is a vast literature on investment decision under risk and uncertainty, but there exists a gap in the empirical analysis of the risk-reducing effect BRM programs on investment. This project examines the relationship between Canadian BRM programs, specifically AgriStability/CAIS and crop insurance, and on-farm capital investment through theory and empirical analysis under a risk-balancing framework put forward by Gabriel and Baker (1980). Previous papers have researched BRM programs using the risk-balancing approach, but do not separate investment and refinancing as components of financial risk (Uzea et al. 2014; de Mey et al. 2014). This distinction is important to make to parse out the effects that BRM programs have on capital investment and risk management decisions at the farm level. Analysis on repeated cross-sectional data from the Farm Financial Survey is conducted. Preliminary results show that there exists a significant and positive correlation between Canadian BRM programs and the decision to invest. Results also show that BRM program participation is positively correlated with higher levels of financial risk, consistent with theory and as well as findings by Uzea et al. (2014). Understanding the effects of BRM programs on investment is important for designing and directing Canadian agricultural policy, with implications for technology adoption and long-term farm productivity.