Chapter 7

Rural Development Policies

In the United States, about 50 million people live in rural areas, which cover 75% of the total land area. These areas are extremely diverse in geography, population density, economic and social assets. They have lagged behind urban areas and have higher poverty rates, lower incomes and lower rates of employment growth. This chapter focuses on rural development programmes in the United States, including the specific provisions of the 2008 Farm Act.

7.1. Policy background

In the United States, about 50 million people live in rural areas, which cover 75% of the total land area. These areas are extremely diverse in geography, population density, economic and social assets. They have lagged behind urban areas on key indicators of economic well-being, having higher poverty rates, lower incomes and lower rates of employment growth. Nonetheless, since 1990 the rural-urban gap for some of these indicators has diminished and some rural areas have experienced higher growth rates (Cowan, 2001; USDA, 2006c).

In the US, as in many OECD countries, agriculture is no longer a dominant segment of the rural economy, which has become highly diverse. Less than 4% of the rural population currently live on a farm and only 3% of the rural workforce is directly employed in farm production. Moreover, nearly 90% of total farm household income comes from off-farm sources, and only one in five rural counties relies on farming for significant employment or earnings. Nevertheless, while the dominance of agriculture in the rural economy has declined sharply over time, and almost three-quarters of rural land remains agricultural.

The service sector, as with the US domestic economy as a whole, is the principal source of employment opportunities in the rural economy, while manufacturing accounts for about 12% of employment. The largest growth in rural population and employment has generally occurred in areas that have capitalised either on natural resources for recreation and retirement, or on their proximity to urban areas. In contrast, those rural areas that rely on traditional sources of income, such as farming, or which lack urbanisation or are remote from large cities have experienced a decline in population.

7.2. Rural development programmes

Rural development programmes provide grants, direct loans, loan guarantees and technical assistance to rural residents, businesses, and private and public sector entities. Their key objectives are: *i)* to expand economic opportunities for residents in rural areas by using USDA's financial resources to leverage private sector resources and create opportunities for growth; and *ii)* to improve the quality of life, including housing, community facilities and rural infrastructure (USDA, 2006c). Key performance measures include the number of jobs created or saved, the number of home ownership opportunities provided and the number of rural residents served by USDA-financed facilities. In FY2008, rural development accounted for 14% (USD 18.97 billion) of USDA expenditures and loans, of which around 90% was in infrastructure, including water, electricity, telecommunications and housing.

Only a very few of the many rural development programmes operated by USDA are directly relevant to agriculture and could be considered as part of agricultural policy. Most USDA rural development programmes are targeted to geographical areas, as they have eligibility requirements defined by recipient location, or the location of services provided by recipients. In addition, many programmes either restrict eligibility to lower-income individuals, or give preference to low-income areas when awarding grants or loans. Funding is provided directly to local or regional entities, such as individual businesses, governments, non-profit organisations, tribes or regional organisations. Moreover, there are several federal-state partnerships that provide development assistance to rural (and urban) areas within single- and multi-state regions (examples of which are the Appalachian Regional Commission, the Delta Regional Authority and the Denali Commission in Alaska).

Under the 2002 Farm Act, the aims of USDA rural development programmes could be grouped into three main categories (USDA, 2006c):

- *Economic development:* to bring new business and employment to rural areas and introduce new opportunities for income enhancement.
- *Infrastructure development:* to counter the deficiencies caused by rural poverty, or to raise the level of community amenities.
- *Special needs programmes:* to provide individuals and communities with insufficient income access to some level of basic services such as housing, sanitation or health care.

In contrast to the European Union, agri-environmental programmes in the United States are not considered to be part of rural development programmes, although they may help ensure the long-term economic viability of rural areas by protecting and enhancing environmental amenities and by encouraging sustainable farming practices which reduce environmental degradation of surrounding rural communities.

Table 7.1 displays the main rural development programmes administered by USDA, by type of support for FY2008. Around 54% of USDA rural development programme funds are directed towards rural utilities and around 38% are devoted to basic services and housing. Over half of USDA rural development programme funds (57%) were expended in the form of direct loans; around 35% were dedicated to loan guarantees; and only about 8% was disbursed in the form of grants.

Over time, there has been substantial growth in programmes that guarantee loans made by private lenders, particularly for home-ownership purposes. Financing for businesses has also been made available primarily through guaranteed loans and, to an increasing extent, in conjunction with leveraged financing from other sources. The direct loan programmes for electric and telecommunication facilities have expanded, although these programmes operate at virtually no cost to government.

Two programmes specifically targeted to agricultural business are the Value Added Agricultural Product Market Development and the Renewable Energy Program, which provide guaranteed loans and grants for value-added agricultural and farm-based renewable energy projects (USD 19 million and USD 202 million in FY2008, respectively).

Economic development[1]

Overcoming perceived market failure in rural financial markets is a long-standing federal concern and was accorded a significant share of rural development funds under the 2002 Farm Act. Economic development programmes, which are operated by the Rural Business-Cooperative Service (RBS), serve both non-farm businesses and producer co-operatives. These programmes generally fall into two categories: those that focus on enhancing entrepreneurship through direct assistance, training, information

Table 7.1. **USDA's rural development programmes, 2008**

USD million

	Direct loans	Guaranteed loans	Grants	Total
Economic development	***33***	***1 232***	***106***	***1 371***
Business and Industry Guaranteed Loans		993		993
Rural Economic Development	33		10	43
Rural Energy for America Program		205	16	221
Value-added Agr. Product Market Development			19	19
EZ/EC			8	8
Other		34	53	87
Infrastructure	***8 604***	***575***	***536***	***9 715***
Electric Programs	6 599	500		7 099
Water and Waste Disposal Programs	1 022	75	469	1 566
Telecommunication Programs	685			685
Broadband Programs	298		13	311
Distance Learning and Telemedicine Programs			35	35
High Energy Costs Grants			19	19
Special needs	***1 569***	***4 526***	***622***	***6 717***
Single Family Housing	1 121	4 191		5 312
Multi Family Housing	70	129		199
Community Facility Programs	295	206	44	545
Farm Labour Housing Program	28		10	38
Rental Assistance Program[1]			479	479
Other	55		89	144
Total	***10 206***	***6 333***	***1 264***	***17 803***

1. The programme provides direct payments to individuals and therefore, technically speaking, is not a grant programme.

Source: USDA (2009), *FY2010 Budget Summary and Annual Performance.*

dissemination and enterprise development; and those that enhance capital formation in rural communities.

The number of jobs created and saved under the programmes aimed at expanding economic opportunities in rural areas – which is the performance indicator for assessing the impact of these programmes – was estimated at 34 715 in FY2009 (72 373 in FY2008).

Business

The primary purpose of these programmes is to create and maintain employment in rural communities and to improve their economic climate generally. Financial assistance is provided to support economic and community development projects, new businesses and/or the expansion of existing businesses.

It is estimated that in FY2009, over USD 738 million was made available for the business and community development in the form of grants, direct loans and loan guarantees. These business programmes created over 72 000 jobs in FY2008 (over 34 000 in FY2009) and "impacted" over 12 000 businesses.

The largest of these programmes, in terms of level of assistance, is the Business and Industry (B&I) Guarantee Loan Program, which provides guarantees up to 90% to commercial lenders. The primary purpose of the B&I programme is to create and maintain employment and improve the economic climate in rural communities. It is targeted on the needs of rural residents and of communities suffering from out-migration, persistent poverty, long-term population decline and job deterioration, natural disasters, and fundamental structural changes in their economic base.

Under this programme, during the FY2002-05 period, over 2 200 loans were guaranteed, and almost 23 000 jobs were created and 68 000 jobs were saved. Alternatively, the cost of each job created or saved amounted to USD 1 500 (USDA, 2006c). In FY2009, the B&I programme represented about 80% (USD 700 million) of the funds allocated to business programmes. This level of support is expected to save or create 25 836 jobs.

A recent study by Johnson (2009) provides an empirical evaluation of the effectiveness of the B&I programme in increasing employment, using standard econometric techniques based on a sample of 1 369 loans. The study found a robust association between loan reception and increased employment growth: a county that receives a loan of USD 1 000 *per capita* experiences a 3-6% increase in employment-per-capita-growth over the two years following the granting of the loan, but also experiences a 3-5% decrease in earnings-per-worker growth, which leaves the effect on total county earnings unclear. The cost to the federal government per job created is estimated at USD 1 827. The study concludes that the B&I loan programme subsidises loans associated with increased employment growth, although the jobs created pay less than average wage.

Co-operatives and producer enterprises

Co-operative programmes, through the provision of loans and grants, support co-operatives with technical assistance, development assistance, research and education. The Cooperative Development Program does not provide funding to co-operatives, but assistance may be made available to universities to conduct research on market structures and farmer organisations.

The Value Added Producer Grant Programme (VAPG), which came into force with the 2002 Farm Act, provides grants for the marketing of value-added products and farm-based renewable energy. Its ultimate goal is to enhance the economic well-being of rural areas. The programme does not allow the grants to be used for on-farm or business purposes, such as acquiring or repairing equipment. Under the 2002 Farm Act, this programme was authorised for six years with an annual allocation of USD 40 million. In FY2006, there were 185 beneficiaries, who received a total of USD 21.2 million.

The US Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) assessment undertaken in 2006 found the programme to be both well-designed and managed (US Government, 2006a). The overall assessment rating, however, was only "adequate" and some performance indicators lack data. In terms of improvement, the assessment suggested actions in various areas, including continuous re-assessment of existing performance indicators, evaluation of potential new indicators and increased targeting towards emerging markets.

Energy

A new and expanding area for USDA to administer is that of alternative energy and energy conservation. The 2002 Farm Act authorised loans, loan guarantees and grants for farmers, ranchers and small rural businesses to produce alternative energy or makes changes to their operations so as to conserve energy. Most of the funding for the FY2008 went to loan guarantees (over USD 205 million) (Table 7.1). Moreover, USDA has a range of other loan, research, and procurement programmes that support alternative energy and bio-products.

According to a USDA report on rural development programmes, in FY2006 the Renewable Energy Loan Program provided USD 24.2 million to 17 businesses and is estimated to have generated or saves 170 jobs (USDA, 2006d).

Infrastructure development

Electricity

Loans and loan guarantees are available through several long-standing programmes to supply, expand and modernise vital components of the electric infrastructure of rural areas. More recently, financing assistance is offered for solar, wind, hydropower, biomass and geothermal energy generation. In FY2009, electricity programmes are estimated to have provided more than USD 4 billion and to have benefited around 6 million people. In FY2008, the actual number of beneficiaries exceeded the target by 14% (968 000).

The OMB FY2005 PART review for the Rural Utilities Service (RUS) Electric Loans Program raised a concern that, except for the Hardship loans, RUS electric loans are not provided in such a way that would focus support on the areas of greatest need.[2] In addition, under this programme, loan funds were allocated to non-rural areas.

Telecommunications and rural broadband

A new programme to provide rural areas with broadband internet access was established under the 2002 Farm Act. The programme was designed to fund the cost of constructing, improving, and acquiring facilities and equipment for broadband service in certain rural communities. Direct loans are made for the life of the facilities financed. Loans are made at a 4% rate of interest to rural communities where broadband service currently does not exist. The educational and health care needs of rural America are also supported by loans and grants under the distance learning and telemedicine programmes. Equipment, land, facilities and other needs are supported by an array of funding activities.

The broadband programme has come under some criticism. In 2005, the USDA Office of the Inspector General (OIG) found that during its first four years, the programme's focus had shifted away from those rural communities that would have been unable to access broadband technologies in the absence of government assistance. In total, OIG questioned over half of the funds reviewed. The OMB FY2007 PART review for the programme points out that, while the programme has a clear objective, it is flawed in that although there are still rural areas that do not have broadband, the programme is under-utilised by borrowers.

Customers served by new or improved broadband facilities totalled 755 342 in FY2008, almost twice the target of 394 931. In FY2009, around USD 690 million were provided for telecommunications loans. The 2009 budget also includes USD 20 million in grants for the distance learning and telemedicine programmes, and USD 298 million in loans for broadband and internet services. It is estimated that around 0.3 million people benefited under the telecommunication and broadband programmes in FY2009.

Water and waste disposal

Loans and grants are provided to rural communities for the construction, replacement, or upgrading of water treatment and waste disposal facilities. In addition, technical assistance to local and regional governments is also provided. Eligibility is limited to communities with population of 10 000 or less and with low median household income levels that are unable to obtain credit elsewhere. Grants are limited to a maximum of 75% of project costs.

In FY2008, over 4 million customers (almost 3 million more than the target of 1.4 million) were served by new or improved water and wastewater disposal systems funded by the programmes. In FY2009, these programmes are estimated to have provided USD 1.1 billion in loans; USD 75 million in guaranteed loans; and USD 397 million in grants for water and waste disposal projects, for a total of USD 1.6 billion.

The OMB PART assessment for the RUS water and wastewater disposal loan programme undertaken in 2005 found that the programme is successful in targeting assistance for water and wastewater infrastructure to poor rural areas, and that, overall, resources are used effectively.[3] It also noted that RUS has established a priority ranking system in its regulations to target financial and technical resources to the neediest communities. Water and wastewater projects designated as priorities for financial assistance are those that: *i)* serve sparsely populated communities; *ii)* address health risks; and *iii)* serve communities with median household income less than the poverty level or the State non-metropolitan median. However, the federal underwriting of the investments has been called into question on efficiency and equity grounds (Renkow, 2007).

Special needs

Housing

The housing programmes help finance new or improved housing for low- to moderate-income families and individuals.[4] Grants, direct loans and loan guarantees in several programmes are used by individuals to build, purchase or repair their homes and remove health or safety hazards. In others, rental subsidies are paid directly to renters who meet certain qualifications.

The Single Family Housing Direct and Guaranteed Loan Programs help rural families who would otherwise not be able to buy their own homes. Funds in other programmes can be used to build multi-family rental housing; purchase and develop building sites with associated roads, streets and utilities; and for the rehabilitation of multi-family dwellings.

The rental assistance – provided as part of its Multi-family Housing Program – makes up the difference between the 30% of income that low-income tenants contribute towards their rent and a "basic" rent that reflects the operating costs of the project, including the project's debt servicing requirements. About 60% of the units in USDA's multi-family housing portfolio receive rental assistance payments.

In FY2009, expenditure of USD 6.7 billion is estimated for grants, direct loans and guaranteed loans for rural housing and related purposes. Of this amount, three-quarters (USD 4.8 billion in guaranteed loans) are for the Single Family Housing Direct and Guaranteed Loan Program, which is estimated to have provided around 43 000 home-ownership opportunities, which is more than the target of 42 362.

The average annual income for families receiving direct loans is approximately USD 22 200, while the average for guaranteed loans is approximately USD 40 627. Families obtaining repair loans had average incomes of USD 11 330, while elderly households receiving repair grants earned only USD 10 240.

Community facilities

USDA provides a series of grants, loans, and loan guarantees to finance the development of facilities essential to a modern standard of living in rural communities. A wide range of public facilities and equipment can be financed by these programmes including hospitals, fire trucks, police cars, child-care centres, food banks, schools, medical clinics, nursing homes, community centres, town halls, jails, and street improvements. The programmes leverage federal funds with private capital to invest in rural infrastructure, technology, and human-resource development.

Under the Community Facility Program funding is provided for a wide range of essential community facilities in rural areas. Priority is given to health care facilities. In FY2009, the community facilities programmes are estimated to have provided USD 512 million for essential community facilities for public use (USD 302 million in direct loans and USD 210 million in loan guarantees). In FY2009, it is estimated that the target of 6% of rural population to be served by new or improved health-care community facilities and 1.5% for public-safety facilities was exceeded.

The OMB FY2005 PART review for the RHS community facilities programme noted that the programme had clearly stated population and income requirements targeting low-income rural communities which, by definition, have severely limited resources to meet the needs of their residents. Priority is given to communities with populations of 5 000 or less and priority points are also given to communities where the median household income of the service area is less than the poverty line for a family of four, or less than 80% of the state-wide non-metropolitan median household income.

7.3. Rural development provisions under the 2008 Farm Act

Overall, the 2008 Farm Act addressed similar issues as those considered by the 2002 Farm Act. It expanded broadband access in rural areas, authorised a new micro-entrepreneurial assistance programme and a new rural collaborative investment programme, and authorised three new regional economic development commissions.

In response to the increasing concerns being raised as to whether rural development funding is in fact being targeted to the neediest rural communities (because of the way in which the concept of rurality is defined) the 2008 Farm Act also modified the 2002 definition of the term "rural" to include "urbanised areas rural in character" as determined by the Under Secretary for Rural Development. The Act further directed the Secretary of Agriculture to produce a report within two years on the various definitions of the term "rural" used by USDA in designing rural development programmes. The report will also assess the impacts these various definitions have on the delivery of rural development programmes, with the objective of better targeting assistance to where it is most needed.

Other amendments made include the following:

- *Business and Industry Guarantee Loan Program:* higher priority is accorded to loans and loan guarantees for locally or regionally produced agricultural food products (*i.e.* those products that are transported less than 400 miles between their place of production and point of sale), reserving 5% of funding annually for this purpose. Priority is given to projects benefitting under-served communities.
- *Farm Labor Housing Program:* broadens eligibility to include projects for low-income individuals who receive a substantial portion of their earnings from processing agricultural or aquacultural commodities.

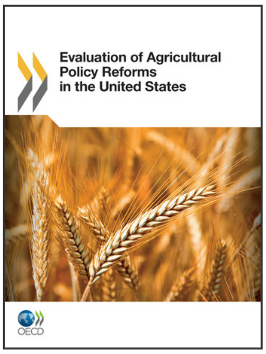
- *Energy efficiency and renewable energy programmes:* clarifies that loans can be made for energy-efficiency purposes and redefines eligible renewable energy sources as energy conversion systems fuelled from solar, wind, hydropower, biomass or geothermal sources.
- *Small business programmes:* authorises the Rural Micro-entrepreneur Assistance Program to offer loans and grants to economically disadvantaged micro-entrepreneurs (*i.e.* those who could compete in the private sector but who experience difficulties due to a lack of credit opportunities and limited equity capital options).
- *Regional development: i)* The Rural Strategic Investment Program, which was never funded, is replaced with authorisation of a similar programme, the Rural Collaborative Business Investment Program (which has also not received any funding to date (March 2010); *ii)* Authorises three new regional economic development commissions: 1) the Northern Border Regional Commission, 2) the Southeast Crescent Regional Commission, and 3) the Southwest Border Regional Commission. As of March 2010, only the Northern Border Regional Commission has received any funding.

In addition to these provisions, the 2008 Farm Act also includes other rural development-related provisions to create/re-authorise/and/or amend a wide variety of loan and grant programmes to provide further assistance in four key areas: 1) broadband and telecommunications; 2) rural utilities infrastructure; 3) business and community development; and 4) regional development.

Unlike the 2002 Farm Act, the rural development provisions of the 2008 Farm Act contain only three programmes with mandatory funding: Value-Added Product Grants (USD 15 million); the Microenterprise Assistance Program (USD 15 million); and one-time funding for pending water and waste water projects (USD 20 million). In addition, several programmes previously authorised to receive mandatory funding under the 2002 Farm Act were re-authorised with discretionary funding (*e.g.* the Rural Fire Fighters and Emergency Medical Personnel Program).

Notes

1. The text concerning evaluation of the various programmes draws primarily on the USDA's *FY2008 Performance and Accountability Report* and the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) reviews.
2. See *www.whitehouse.gov/omb/expectmore/summary/10000456.2004.html*.
3. See *www.whitehouse.gov/omb/expectmore/summary/10000458.2005.html*.
4. Out of the 2 000-plus non-metro counties, 302 are defined as housing stressed, according to ERS's county typology.



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