ERS Report Summary

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Geographic Targeting Issues in the Delivery of Rural Development Assistance

Richard Reeder and Faqir Bagi

The U.S. Department of Agriculture (USDA) administers rural development programs that assist rural housing, businesses, public utilities, community facilities, renewable energy systems, and cooperatives. The programs are designed to combat barriers to rural development like high poverty, population decline, low population density, underemployment, and isolation. Forms of assistance include direct payments to individuals (such as rent subsidies), technical assistance, grants, direct (Government-issued) loans, and Government guarantees of loans issued by financial institutions.

What Is the Issue?

Federal agencies are under pressure to economize. Economic development agencies might save money by shifting from more costly grants and direct loans to less costly guaranteed loans. This report examines potential tradeoffs for distressed rural areas when shifting from one form of assistance to another, particularly from grants and direct loans to guaranteed loans. Although such shifts might reduce program costs to the Federal Government, small or distressed rural communities might be less able to take advantage of guaranteed loans. This study used 2005 Census data on the geographic distribution of Federal funds to examine the extent of targeting of USDA's rural development programs and to provide insights on what some of the tradeoffs would be in shifting from one form of assistance to another.

What Did the Study Find?

What Happens Under Existing Programs? Distressed nonmetro counties receive more Federal grants per capita than nonmetro counties in general, with the highest average grant level, $2,586, going to persistent-poverty counties.

USDA's rural development programs provide more funding per capita to totally rural areas (nonmetro counties with less than 2,500 census-defined urban residents) and to distressed nonmetro areas (persistent-poverty, low-employment, and population-loss counties) than to nonmetro areas in general.

The extent of geographic targeting by rural development programs varies by program and type of assistance, with grants and direct loans generally favoring distressed nonmetro areas of all types and guaranteed loans favoring totally rural and population-loss counties. Persistently poor and low-employment counties generally receive less assistance from guaranteed loan programs than does the average nonmetro county.

An exception to this pattern is the Business and Industry (B&I) Loan Guarantee Program. Its funding is correlated with the local rate of population growth—the more rapidly a county grew during the 1980s and 1990s, the more B&I loan guarantees it received per resident.

The Rural Telephone Guaranteed Loan Program is the only one of the five large USDA guaranteed loan programs examined in this study that clearly favors distressed counties: It provides higher per capita funding to places with less population growth (or greater population decline). However, this program's funding is not correlated with poverty, and it provides higher per capita funding to more fully employed places (measured by share of working-age residents who are employed).

Of the large rural development programs, the one least targeted to distressed and rural areas is the Low Income Housing Loan Guarantee Program. This program's per capita funding is correlated with higher local employment and lower local poverty, and it provides more funding per capita to nonmetro counties that have lower shares of population that are rural.

The large rural development programs that exhibited the most targeting to distressed areas are Community Facilities grants and Rural Rental Assistance payments.

What Happens With a Shift in Funding? One or more distressed county groups might not fare as well as nonmetro areas in general from a shift from grants and direct loans to guaranteed loans. The outcome depends on which program's grants or direct loans are being cut and which program's guaranteed loans are being increased.

Guaranteed loans entail lower cost to USDA (which can allow USDA to finance a larger volume of loans) and more private-sector involvement in community projects, which can enhance program efficiency and build local development capacity. The guarantees can also provide below-market interest rates because of reduced risk to the lender. However, guaranteed loans are more subject to variable interest rates and shorter repayment periods than are USDA's direct loans, which can increase cost and risk to the recipient. In addition, the tax-exempt status of municipal projects often negates the benefit from lower interest rates. Since federally guaranteed loans lose their tax-exempt status, local lenders may choose not to participate in a guaranteed loan program.

Grants and subsidized direct loans are more costly to USDA, but they can significantly lower cost and uncertainty for the recipient, allowing some projects to go forward that would be otherwise unaffordable. Grants have been shown elsewhere to help leverage other forms of assistance, including funding from other Federal agencies, which offsets some of the cost to USDA. And grants help to pay for feasibility studies required before projects can get off the ground. Hence, grants are not strictly interchangeable with loans.

Three hypothetical cases of shifts from grants, direct loans, and other forms of assistance to guaranteed loans revealed that: (1) a shift in low-income housing funding from direct to guaranteed loans would particularly benefit the less poor and less employment-distressed areas, but it could reduce funding to some people and places in persistent-poverty and low-employment counties; (2) a shift in funding from rental assistance (direct payments to individuals) to low-income housing loan guarantees might also reduce funding to some people and places in persistent-poverty and low-employment counties; and (3) a shift in funding from community facilities grants to B&I loan guarantees might reduce funding to people and places in all three county distress types (persistent-poverty, low-employment, and population-decline counties).

Even in counties that are not particularly distressed, a shift away from grants, direct loans, and other assistance to low-income, unemployed, or disadvantaged people or places could reduce funding to low-income people and communities within these counties, possibly adding to the counties' development challenges. While we do not analyze subcounty funding patterns, the same factors influencing geographic patterns at the county level should apply to smaller geographic areas or population groups as well.

How Was the Study Conducted?

The ERS Federal funds database was analyzed to show how USDA's rural development programs were allocated across geographic areas nationwide. The funding data come from the U.S. Census Bureau's Consolidated Federal Funds Reports (CFFR) data for fiscal year 2005. This analysis aggregated Federal program funding using ERS' county typologies that represent different forms of socioeconomic distress. Funding levels were computed in per capita terms to provide comparability across different categories of counties. Correlation analysis was used to identify programs that appear to be targeting assistance based on various forms of distress. To better understand the importance of the alternative forms of assistance, interviews were conducted with USDA Rural Development employees, both in the national headquarters and in the field.