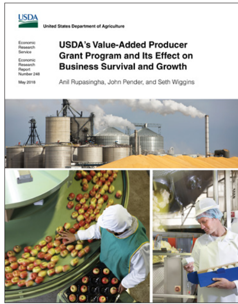
United States Department of Agriculture

A report summary from the Economic Research Service *May 2018*



USDA's Value-Added Producer Grant Program and Its Effect on Business Survival and Growth

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What Is the Issue?

USDA's Value-Added Producer Grant (VAPG) program provides grants to enable agricultural producers to enter into value-added activities related to the processing and/or marketing of value-added products. Generating new products, creating and expanding marketing opportunities, increasing producer income, and contributing to community economic development (save jobs and create new jobs, increase earnings) are the goals of this program. The program provided 2,345 grants with a total value of $318 million (about $136,000 per grant) to farmers and ranchers between 2001 and 2015. Even though the VAPG program has been active since 2001, little information is available on the outcomes of the program. This report assesses the impact of the VAPG program on the survival and growth of recipient businesses, the outcomes of which are related to the goals of saving and creating jobs. To this end, survival of VAPG recipient businesses and their employment growth since the receipt of a VAPG are compared to the survival and growth of a comparable group of businesses that never received a VAPG. Because business size (number of employees) was needed to identify the comparison groups, the analysis excluded startups with no employment history. On average, recipient and nonrecipient businesses had about 14 employees and had been in business about 7 years old at the time of receiving a VAPG.

What Did the Study Find?

Businesses that received VAPGs were less likely to fail. VAPG recipients were 89 percent less likely to fail 2 years after the grant than the group of similar nonrecipients. That is, the predicted likelihood of failure for VAPG recipient businesses 2 years after receiving a grant was about 0.23 business out of 1,000 VAPG recipient businesses, versus the likelihood that 2.04 of 1,000 nonrecipient businesses of the same age and other characteristics would fail. The effect of VAPG on survival dropped with time: VAPG recipients were 71 percent less likely to fail than similar nonrecipients 4 years after receiving a VAPG and 57 percent less likely to fail than nonrecipients after 6 years. For the 6-year time period, this implies that 18.5 out of 1,000 VAPG recipient businesses were likely to fail, compared with about 42.3 likely failed businesses per 1,000 nonrecipients.

Greater VAPG funding decreased the risk of failing for recipient businesses. In examining the ***size*** of a grant rather than simply whether an establishment received a grant or not, the risk of failing decreased significantly with increasing grant size. For example, increasing the

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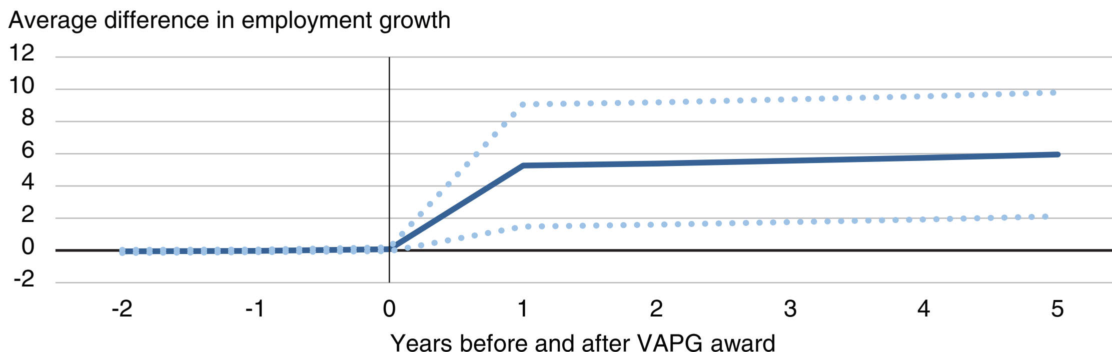
average size of a VAPG from the current $136,000 to $236,000 is associated with a 47-percent decrease in the likelihood of failure for a recipient business 2 years after the grant.

VAPG recipient businesses provide more jobs than the comparison group. There is no significant difference in average employment levels between grant recipients and nonrecipients before the grants are received (see chart, up to year 0). However, grant recipients employed five to six more workers, on average, than nonrecipients 1 to 5 years after the grant was received. This job increase represents an increase of about 40 percent in average employment for recipient businesses.

Summary figure

Difference in average employment growth between VAPG and non-VAPG recipients



Notes: This chart is based on multiple regression analysis that—in addition to VAPGs—accounts for differences in establishment characteristics that could also affect employment growth in businesses that did and did not receive grants. The dotted lines are the bounds of the 95-percent confidence interval, based on standard errors. “0” in the chart is the grant year, “-2” is 2 years before grant, and “5” is the fifth year after grant. VAPG = Value-Added Producer Grant.

Source: USDA, Economic Research Service using data from USDA’s Rural Business-Cooperative Service and National Establishment Time-Series.

Greater VAPG funding creates more jobs. A separate analysis that examined the impact of the size of a grant, rather than simply whether an establishment received a grant or not, showed that larger grants had greater employment impacts: An increase of the average size of a grant by $100,000 increases employment, on average, by about four jobs for recipients over the 2- to 4-year periods considered after the grants. Given that a $100,000 increase in VAPG funding increases employment by about four jobs and assuming that the cost of the program includes only VAPGs (and not administrative costs), the cost of the VAPG program to taxpayers is around $25,000 per job created. Although not grant programs, the cost of Federal guaranteed loan programs per job may provide some interesting comparisons. Based on a recent study of the impact of Small Business Administration (SBA) loans on employment growth, rough calculations of the cost of SBA loans to taxpayers per created job ranged from $21,580 to $25,450—similar to what is estimated as the cost per job for VAPGs.

How Was the Study Conducted?

To estimate the impacts of the VAPG program on rural business survival and growth, administrative data on the VAPG program from USDA’s Rural Business-Cooperative Service (RBS) were combined with establishment-level data from the National Establishment Time-Series (NETS). The report compares business survival and employment growth outcomes of VAPG recipients to the outcomes of businesses having similar observable characteristics and employment growth histories that did not receive VAPGs.