

# Effective Rural Development Requires Targeted Assistance

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The Federal Government creates programs to meet specific identifiable needs, and initially programs tend to be well defined. However, somewhere along the way, some programs lose focus and extend benefits to groups not included in the program's original scope. Political economists call this the "spread effect." It results from administrative actions and the continual process of legislative modification.

The present Administration is concerned that the spread effect is reducing many programs' ability to meet the needs of persons and areas originally intended as program participants. As a consequence, the President has called for tighter control over the targeting of Federal programs.

## How FmHA Targets Its Programs

The Department of Agriculture is giving serious attention to targeting the delivery of its rural development activities. In particular, the Assistant Secretary for Rural Development has directed that the rural development programs of Farmers Home Administration (FmHA) be targeted to distressed areas and to disadvantaged people. FmHA reorganized its field operation, and is encouraging its State directors to become "rural development leaders" by developing a State management strategy. The agency's priorities are to allocate resources so a significant share goes to areas of greatest need and potential for development.

All program changes are intended to make Farmers Home a more conscious agent of rural development. As viewed by FmHA, three general goals of rural development are to:

—Increase the earning capacity of rural people so local economies will be strengthened by the direct and indirect effects of improved private sector employment;

—Improve rural standards of living, including better housing, clean and safe water, and the other public services and facilities; and

—Build the private and Government capacities of local areas to sustain development.

"Targeting" and "rural development" have special meaning in changes the Administration is bringing to Farmers Home. They are at the center of a mild controversy within the Department of Agriculture that has gone on for many years. FmHA personnel have viewed the Agency as an effective rural developer because of its farmer programs and variety of other loan and grant activities. Critics, without disputing the importance of FmHA programs, have argued that opportunities were being missed and that services were disproportionately going to those with less need. This difference in views was reflected in the Rural Development Act of 1972. FmHA administers many of the specific programs covered by this legislation. A separate agency, the Rural Development Service, was created to deal with the broad questions of rural poverty, general economic development, and the development of improved local capacities to deal with such questions.

The present Administration has combined in a single agency the broad view of rural development and the resources of the Farmers Home Administration. Though FmHA had been a sort of bank, concerned with lending and then collecting, the proposed Farm and Rural Development Administration (the Administration's name choice for the combined agency) would use its financial resources more directly to stimulate economic development and improve services for the poor. The consolidation took place in May 1978, but without the name change.

FmHA's targeting and rural development strategy is the result of the commitment of the Administration to goals in the Rural Development Act of 1972. The changed Farmers Home policies and actions are an effort to alter the course of a large, old, and, by most measures, successful agency. The effect of these changes is still in question. Some call for subtle alterations in attitude and behavior. They depend on existing personnel and resources at a time when new programs and increases in funding are rare. They presuppose that conscious efforts to develop rural areas will be more effective than merely extending

the private capital and credit markets. Finally, they must be accomplished within the context of program guidelines that include, in most cases, the ability of borrowers to repay, and which therefore discourage risktaking by the agency.

### Implementing Targeting Strategy

The most obvious and direct manifestation of targeting is putting the agency's resources where the need is greatest. FmHA has adopted a two-tiered approach in allocating funds among the States.

First, national funds are allocated on the basis of each State's fraction of the Nation's rural population and program need. Up to a third of the allocation is simply on the basis of the State's fraction of the total U.S. rural population. The portion of each State's rural population with incomes below the median per capita income for rural areas nationally is also a part of the allocation formula.

Other need measures are appropriate to the particular programs. The level of unemployment, for example, is significant in distributing Business and Industry Loan Guarantees. The portion of the State's rural families living in substandard housing, as a fraction of the national total, influences housing fund allocations. For community facilities and farmer programs, need measures are more difficult. Complex formulas have several components, such as number of farms, number of tenants, net farm income, and past program activity. A portion of program funds is reserved for special projects and for later allocation to States that have obligated their initial allocation and still have significant need.

The second step consists of targeting programs funds within each State. Methods differ among States depending on local conditions, availability of data, quality of State planning, and the differing role of substate development districts.

In addition to general targeting to low-income areas, specific goals are established. The national office has specified base amounts of funds to be used in assisting minorities and women. Each State is encouraged to establish goals for loan and grant awards to women and minorities, consistent with

other targeting measures, or if necessary, in addition to those efforts. The Administration feels that, historically, even though resources have gone to areas and income groups having the greatest need, minorities within those areas have not shared equitably in program benefits. Discrimination, even if passive, may occur in directing assistance.

Reorganization of State FmHA staffs and the assignment of new responsibilities exemplify the Administration's efforts to develop a targeted State rural development strategy. FmHA has county offices in about 1,800 of the 2,500 rural counties. Historically, these offices have been key operational units. Most farm and housing loans have been and continue to be administered at the county level. Until recently, the State offices, having a State director and a staff in each of four program areas, supplemented the county operation and provided administrative guidance. The Business and Industry and Community Facilities Programs were operated by the State program staff.

Recognizing the potential significance of substate development districts, FmHA has begun to increase the responsibilities of its district operations. Each State is working to increase the capabilities of district FmHA directors to administer the multifamily housing, Business and Industry, and Community Facilities programs. District directors will continue to have oversight responsibilities over county supervisors in administering the farm and housing programs. The FmHA districts in nearly every State now have boundaries that are coterminous with substate planning districts (though FmHA's approximately 300 districts frequently embrace more than one development district).

More than 7,000 of FmHA's personnel are in county, district or State offices. The vast majority are at the county level. The agency places great emphasis on its delivery system, and contends that its extensive field service network is critical to administering a program in the rural portion of the Nation.

Though the agency has made a case for greater resources to take an active part in rural development, national resources are limited. Coordination of FmHA program activities with those of other Federal agencies of Government in behalf of the rural poor thus has become a major agency objective. Departments of Health, Education, and Welfare, Labor, Commerce, Housing and Urban Development, the Environmental Protection Agency, and

other agencies also serve rural people. FmHA now cooperates with such agencies to maximize the rural development benefits of these complementary programs. Specific examples are interagency agreements with the Departments of Labor and Health, Education, and Welfare to coordinate FmHA resources with their job training and health services activities.

Similarly, FmHA has broad rural development agreements with North Carolina, Florida, and New Mexico. Under these agreements, to be replicated elsewhere, FmHA resources will supplement State resources toward fulfilling the State's rural development plan. A similar agreement has been reached with the Appalachian Regional Commission.

Each FmHA State director is developing a rural development management plan to instill a broader perspective and compel more active management of FmHA programs. The plan includes identification of needs, identification of possible assistance available from other agencies, and perhaps most important, opportunities to direct FmHA program resources into concerted rural development efforts with State and substate units of government. Although State planning for rural development is uneven, good planning is increasing. Cooperative use of FmHA program resources with those of the State and substate planning districts is a means of achieving some targeting influence. A long-term task for State directors will be to plan for future staffing in the counties and districts where needs are the greatest.

Changes in staffing and an expanded effort are underway to overcome a previous lag in applications from high need areas. By assigning more of the State's staff to those areas having large distressed populations, by increasing public knowledge of FmHA programs, and by working with local governments and community-based organizations, FmHA hopes to increase the participation of the poor and disadvantaged without wholly abandoning the long-time principle of first-come, first-served.

### Obstacles to Targeting

Can FmHA's targeted investment strategy succeed in measurably hastening rural development? In addition to the resistance and inertia common to any large organization—the obstacle most often discussed—other factors inhibit the targeting potential of FmHA. One is the lack of precision in the tools available for implementing targeting. Another is the limitations imposed by statutory features of the various FmHA programs, reducing the potential of the agency to serve the most disadvantaged.

Many means for measuring distress or disadvantage have serious problems when used for targeting. Target populations and areas often mentioned include the poor, unemployed, minorities, women, the elderly, very young adults; and areas of declining population, those with seriously inadequate public services and facilities, and areas impacted by circumstances that create an immediate need for expanded public services (energy impacted areas, for example). While all of these situations may represent dimensions of distress or disadvantage, statistics identifying them usually present problems. Statistics on rural poverty are developed on a county basis only once every 10 years. Unemployment rates vary widely from month-to-month, partly because of the small sample used for making estimates in rural counties. Some demographers and economists believe that current measures of unemployment do not adequately reflect low-income distress, particularly in agricultural areas. The quality of housing is partially a function of the weather in a particular locality or of other conditions, not merely the size, number of rooms, or plumbing.

Because adoption of an indicator of distress becomes a subject of more than academic interest when it results in the allocation of considerable resources, the method of fixing targets is critically important.

As indicated earlier, State allocations are made on criteria including rural population, families in poverty, families in substandard housing, and similar indicators. To assist State directors in preparing their plans, the national office supplied a variety of data available on a county basis. In addition, State directors were encouraged to gather similar information from State agencies with jurisdiction for economic planning, State universities, or development

districts. Each State director, using assembled national and State data, then develops targets and identifies specific operational goals.

The term "investment" is misleading in the context of FmHA programs, at least in a strictly economic sense. FmHA does not invest in the sense that it participates in risks with others. It can make loans and guarantee loans to families and some jurisdictions. Of the approximately \$11 billion obligated by the agency in 1978, only \$690 million consisted of grants and interest subsidies.

The bulk of funds in the four program areas is in the form of Congressional appropriations for direct or insured loans, or authority to act as a guarantor. While appropriations for the new Home Ownership Assistance Program are being proposed, no change in the authorizing legislation or program regulations that would change the loan and guarantee nature of the programs is contemplated. The most obvious implication is that there are very real limits to direct assistance to the very poor. Many farm and housing loans are made to people whose incomes are below the level at which they could get private financing. But the relatively good record of repayment of FmHA loans is clear evidence that there is limited risk-taking. In many cases, FmHA resources can be directed to where the poor live, but many of the poor may not be eligible for FmHA assistance. The Community Facilities and Business and Industry programs, for example, mainly benefits the poor through a "trickle down" effect. Most housing loans are made to people who, by general standards, have below average personal income, but many are not actually close to the poverty line. Poverty is probably less common among people obtaining farm loans.

The administrative configuration of the agency, the delivery system, is potentially an obstacle to targeting. Though the delivery system is widely deployed and therefore presumably responsive to local needs, it may be unduly responsive to those special needs most effectively articulated at the local level. The State and county autonomy derived from the organization of the system requires the current Administration to convince, educate, and inspire the field staff toward targeting goals, rather than merely complying with orders.

## Conclusion: FmHA Success

FmHA's difficulties in implementing the Administration's directive to target assistance to persons and places of greatest need is probably indicative of problems being encountered by many other agencies. Farmers Home is grappling with bureaucratic inertia, difficult problems of measurement of need, inadequate data, and fundamental questions concerning the nature of rural development. Nonetheless, the agency is attempting to implement the fundamental aims and intentions of the Rural Development Act and the Administration's expressed desire to deliver program assistance to citizens in greatest need.

To make matters more difficult, demographic and socioeconomic conditions are vastly different from those of earlier years. For example, many rural areas are no longer sending their surplus labor to the cities. In fact, the growth of population and employment in rural areas now exceeds that of urban areas. These changes require new thought on the meaning of need in rural America.

The dislocations resulting from rapid unanticipated growth, along with traditional focuses such as low income, unemployment, and poor health, are legitimate targets for the agency's community facility, housing and business development programs.

Targeting for rural development means that FmHA must achieve its original goals at the same time it helps persons and areas adjust to recent social and economic changes. It means FmHA must be a forward-looking agency, planning for and anticipating change affecting rural America. The strengths of its traditional field structure and its progressive leaders who recognize the importance of research on the structure and change of rural areas suggests the agency will be successful in matching its considerable resources with the emergent needs of rural America. ■