RAFI-USA

Rural Advancement Foundation International - USA

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Rural Economic Growth through Investment in Rural Innovation

Executive Summary: *RAFI-USA's Tobacco Communities Reinvestment Fund (TCRF) demonstrates that small, strategic capital investments in agricultural entrepreneurship can return significant job creation and economic impacts that far exceed the initial investment. The TCRF program provides grants between $10,000 and $30,000 to farmers and farmer groups who are piloting innovative enterprises on North Carolina farms. A University of North Carolina-Greensboro study measured the economic impact of the $3.6 million granted over the last three years and found the investment resulted in:*

- *4,100 new jobs between 2008-09 and 2010-11*
- *More than $700 million in total economic impact between 2008-09 and 2010-11*
- *$205 in economic activity for every $1 granted*

Introduction: The Tobacco Communities Reinvestment Fund (TCRF), a program of RAFI-USA, demonstrates that small, strategic capital investments in agricultural entrepreneurship can return significant job creation and economic impacts that far exceed the initial investment. TCRF utilizes a model of rural economic development that provides capital through cost-share grants where there is already a proven capacity for growth in rural communities. TCRF removes the initial economic barriers that farmers face when trying to make innovative changes. North Carolina farmers are eligible to apply for Producer Grant Awards of up to $10,000 for individuals and Community Grant Awards of up to $30,000 for collaborative farmer projects. In the last three years, the program has invested $3.6 million in 367 projects, which has resulted in more than 4,100 new jobs.[i] Over 80 percent of surveyed grantees report that their project remains a successful operation three years after the grant.

Economic growth of this kind is made possible by providing farmers the initial capital needed to invest in growing markets. For example, USDA reports that the number of farmers' markets in the United States has grown from 1,755 markets in 1994 to over 4,685 in 2008.[ii] In addition, direct-to-consumer sales increased from $551 million in 1997 to $1.2 billion in 2007.[iii] Recognizing this surge in demand for local food, TCRF helps small farmers develop farmers' markets and increase direct-to-consumer sales. Access to small amounts of capital enables farmers to finance innovation without the use of expensive credit cards. Participating farmers indicate that further access to financing is a barrier to even greater growth.

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Grantee Stories: The on-farm stories are as compelling as the larger economic figures. In 2007, the Scott family farm in New Bern, North Carolina, was not in production, but a TCRF grant enabled two family members to move back to the farm and work full-time growing organic vegetables. The result was Scott Farm Organics, a USDA certified organic farm.[iv] Currently, the farm has 2 full-time employees and 6 part-time employees in addition to the family.[v]

The impact is not limited to on-farm growth. It can have significant impacts throughout a community. For example, Cassie Parsons from Lincoln County, North Carolina, received a $10,000 grant in 2009 to start a local-food food truck featuring her pastured pork. This project has grown into the Harvest Moon Grill, a downtown Charlotte restaurant employing 49 people and reporting $1.5 million in new income last year.[vi]

TCRF Economic Impact: Research confirms TCRF's significant economic growth beyond a single grantee and program year. Dr. Andrew Brod at the University of North Carolina-Greensboro Center for Business and Economic Research studied TCRF's three-year economic impact beginning with the 2008-09 program year. Over the three years, $3.6 million were strategically invested in small family farms. The final impact was measured by combining the investment impact, equipment, buildings, etc., and the operational impact, which results from farm operation expansions. Brod's research found:

- **More than 4,100 new jobs were created between program years 2008-09 and 2010-11**
- **More than $700 million in economic impact between program years 2008-09 and 2010-11**
- **$205 in economic activity resulted from every $1 granted**[vii]

Summary: The TCRF cost-share program has enabled farmers to invest in new markets by removing the initial economic barriers farmers face when trying to transition into new markets. Over 80 percent of grantees report that their project remains a successful operation three years after the grant. This model is boosting rural economies and creating jobs. This growth and job creation will be sustained through further investments in innovative ideas and growing markets in rural communities.

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[i] Brod, Andrew. (2011). *The Economic Impact of RAFI-USA's Tobacco Communities Reinvestment Fund since 2008*. The University of North Carolina at Greensboro: Center for Business and Economic Research.
[ii] United States Department of Agriculture. (September 1, 2009). Organic Agriculture: Organic Market Overview Retrieved July 22, 2011, from http://www.ers.usda.gov/briefing/organic/demand.htm
[iii] United States Department of Agriculture. (May 2010). *ERS Report Summary*. Retrieved July 25, 2011, from http://www.ers.usda.gov/Publications/ERR97/ERR97_ReportSummary.pdf
[iv] Scott farm Organics. Retrieved July, 27, 2011, from http://www.ncagr.gov/ncproducts/ShowSite.asp?ID=100317
[v] Rural Advancement Foundation International-USA. Annual Report 2007. (2007). Retrieved July, 22, 2011 from http://www.rafiusa.org/aboutus/RAFI07AnnualReport.pdf
[vi] Rebecca Scott, personal communication, July, 27, 2011.
[vii] Brod (2011).

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Remarks to Select Committee on Agriculture Regulations

Introduction

Thank you to Chairmen Dixon and Bradley and committee members for the work that you do to sustain agriculture and family farms in North Carolina, and thank you for the opportunity to speak with you today. I am Scott Marlow, the Executive Director of the Rural Advancement Foundation International – USA, a national non-profit organization based in Pittsboro, NC.

The two areas that this committee has chosen to address, the regulation of agricultural businesses and the availability and need for protection for contract producers from financial loss due to weather disasters, are two that we often hear about from farmers, and that will have a significant impact on the potential for job growth in agriculture. Your work here will be a major determining factor of the success of agriculture as job growth driver in our state's economic recovery.

While my fellow panelists will address several specific areas of concern in agricultural regulations, I would like to place these issues in the context of the structure of North Carolina's agriculture, and potential for agricultural economic development.

Changes in North Carolina Agriculture

Since 1980, the source of North Carolina farm receipts has changed significantly. In 1980, tobacco alone comprised more than 30% of farm receipts and brought in $1.1 billion in farm receipts. In 2010, with record high prices for corn, soy and cotton, all crops, including tobacco, comprised just 34% of farm income. Once number one on the list of farm receipts, tobacco was tied in 2010 with turkeys in the number 4 slot behind broilers, hogs and greenhouse / nursery.

Within crops, specialty crops have also risen in importance. The green industry, greenhouse and nursery, is now a greater percentage of farm income than tobacco. In an example for the season, Christmas trees now represent as high a percentage of NC's farm income as peanuts.

The other significant change to NC agriculture is the rapid rise of direct market and local food sales. According to the US Census of Agriculture, the value of products that NC farms sold direct to consumers increased by 139% between 1997 and 2007. As is true in the equivalent small business sector, the growth in farm entrepreneurship can be a job growth driver.

Over the last three years, RAFI-USA has administered the Tobacco Communities Reinvestment Fund. With funding from the NC Tobacco Trust Fund Commission, RAFI's TCRF has given over $3.6 million in

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small cost-share grants to entrepreneurial farmers. A UNC-Greensboro study of this program documented the creation of over 4,000 new jobs and $700 million in economic impact – approximately $205 in economic activity for each dollar invested.

The significant shift in importance from row crops to specialty crops, direct markets, and livestock, especially livestock grown under production contracts, creates a significant challenge in the mission of this committee. While our agriculture has changed, the programs and regulations that support it have often not kept up.

Our agricultural economy has largely shifted from products with well-developed disaster assistance and risk management programs to ones with few or no programs, and from a fairly simple regulatory environment to one of complexity and competing priorities. For instance, in 2010 only 15% of North Carolina farm income was covered by crop insurance, a significant area of vulnerability for the North Carolina agricultural economy in the event of the next major hurricane.

Natural Disaster Protection

Three of North Carolina's five top agricultural commodities in terms of farm receipts, broilers, hogs and turkeys, are produced predominantly under production contracts. According to the USDA, under a production contract, the farmer provides services to the contractor, who usually owns the commodity under production, and the farmer's payment resembles a fee paid for the specific services provided instead of a payment based on the market value of the product. This core characteristic – that the farmer does not own the commodity under production – significantly changes the ability for federal disaster assistance and risk management programs to provide farmers the assistance they require.

In recent years, several of the federal standing disaster programs have been amended to include payments for contract production. The Livestock Indemnity Program provides direct payments at a reduced rate to contract producers for livestock mortality due to natural disasters. For example, the 2011 payment for broiler chickens is $0.26 per bird as compared to $2.39 for the owner.

There are also private insurance products available to contract producers, including coverage for income loss, equipment failure, business interruption and damage to poultry facilities or equipment. Because these are private insurance products, farmers do not receive the federal subsidy of policy premiums that they receive through federal crop insurance, reducing their cost effectiveness.

While the authorizing language for this committee specifies an assessment of existing and needed disaster assistance for farmers producing livestock under production contracts, I would urge the committee to also examine the disaster assistance situation for specialty crops and farm entrepreneurship as well. As farmers seek to replace tobacco income with income from specialty crops

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and markets, they are often finding that they have walked off of a safety net cliff, and lack the risk management tools that determine both their ability to survive and their ability to access the financing needed to grow their businesses and create jobs.
One of the most exciting developments that we are seeing nationally in disaster assistance is states and local municipalities using federal programs as a base on which to build programs to address local needs. For instance, states have used the federal emergency loan program as a base and have bought down the interest rate from 3.75% to 1 or 2%. In one case, the city of Fresno California was able to work with local banks to further buy down the interest rate to provide 0% loans to local farmers.

The federal programs also provide a low-cost mechanism for implementation. In North Carolina, county offices of the USDA Farm Services Agency were able to implement state-level assistance programs following Hurricane Floyd.

A Regulatory Environment That Fosters Entrepreneurship

As this committee examines the regulatory environment in North Carolina agriculture, it is important that regulatory steps taken match the risk represented. All of us share a commitment to such goals as safe food and clean water. While the size of farms has often been examined, especially in the food safety arena, we must also look at the context of what happens after the product leaves the farm.

For instance, a product that is sold direct to a consumer has a radically different public health risk profile than one that will be co-mingled with hundreds or thousands of pounds of other product before it reaches the table, regardless of the size of operation that it comes from. It is important that requirements are commensurate with risk.

There are significant regulatory issues with entrepreneurial farmers in both the nature and implementation of regulations. In our experience farm entrepreneurs have as much difficulty in negotiating the maze of agencies and confusing, sometimes conflicting regulations. The user-friendliness of regulations are often as much of a determining factor in their effect as the regulations themselves.

Farm entrepreneurship has the potential to be a major driver of job growth, especially in North Carolina's rural counties. In order for this potential to be achieved, the regulatory and risk management environment must fit the risks addressed in both development and implementation.

Thank you very much.

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