



Strategic Goal 2

Enhance the Competitiveness and Sustainability of Rural and Farm Economies

An economically prosperous agricultural production sector contributes to the Nation's economic vitality and standard of living. Consumers benefit from efficiently produced and marketed agricultural products that minimize their food costs and maximize their consumption choices. The sector's success depends on the ability to expand into new markets, gain adequate capital, protect itself adequately against financial risk and adjust to changing market conditions. This success also depends on the economic well-being of producers and their ability to increase production potentially through increased farm acreage and/or other methods, maintain their farms and equipment, and utilize tools to mitigate risks associated with various aspects of production. There is much diversity in the farm sector driven by diversity in resources, climate, individual preferences, and even lifestyles. The needs, concerns, and opportunities of larger, commercially-oriented farms differ from those of smaller, intermediate farms, regardless of location. For these reasons, USDA has a variety of farm related programs designed to enhance the economic opportunities for all agricultural producers, while providing individual producers options in terms of what is best for them in their specific situations. Through the Federal Crop Insurance Corporation (FCIC), the Department provides insurance that allows the individual producer the flexibility of determining the appropriate level and type of insurance they need to protect their operation. The Department partners with commercial lenders to guarantee ownership and operating loans. It also makes direct loans to producers to finance operating expenses and farm ownership loans. USDA provides income stability to keep producers economically viable through economic safety net programs in the form of crop insurance, direct payments, marketing assistance loans and commodity support programs. When natural disasters strike, USDA reacts quickly to help affected producers recover from their losses and restore their lands to prior productivity levels. USDA supports much-needed basic research, economic analysis, and baseline information

to identify new uses and more efficient technology for producing and marketing agricultural products.

USDA marketing programs help agricultural producers to determine consumer preferences, find more efficient and effective ways to transport and market and receive fair payment for their products. USDA constantly works with the agricultural community to monitor changes in production and processing methods, and in consumer preferences. By adjusting services or developing new market facilitating programs, USDA ensures that these programs continue to help producers to be successful in meeting the needs and expectations of consumers.

Strategic Result: Expanded Domestic Markets for Agricultural Producers

OBJECTIVE 2.1: EXPAND DOMESTIC MARKET OPPORTUNITIES

Technological progress is increasingly pushing the market for agricultural products in new directions. Biobased technologies promise new opportunities for energy, industrial, and pharmacological markets for U.S. farmers. For example, agriculture is the source of: clean-burning fuel and industrial ethanol, a variety of specialty chemicals, soy-based inks, home heating and diesel fuel, industrial adhesives, biopolymers, and films, all derived from plants rather than from petroleum and other mined raw materials. In addition to the emergence of new markets for products made from agricultural materials, new markets are emerging for environmental activities and products that mitigate environmental concerns, such as offsetting greenhouse gas emissions through carbon sequestration and other farming and ranching activities. Key priorities for USDA will be development and implementation of a model procurement program for biobased products, promotion of the Government-wide use of biobased products, research to support development

of new markets and products, and collaborating with Government officials to support these activities through USDA policies and programs, energy policy and other legislation.

Key Outcome:

- Increased use of alternative fuels and biobased products throughout the agricultural sector.
- Increased production of economically viable alternative energy sources.
- Researched, demonstrated and promoted new biobased products and new energy production technologies.

Performance Measures

2.1.1 Increase the amount of ethanol consumed in the United States

Baseline 2005
4 billion gallons of ethanol consumed.
Target 2010
7.2 billion gallons of ethanol consumed.

2.1.2 Increase the amount of biodiesel produced in the United States

Baseline 2005
70 million gallons of biodiesel produced.
Target 2010
320 million gallons of biodiesel produced.

2.1.3 Increase the number of products designated under the Federal Biobased Products Preferred Procurement Program (FB4P)

Baseline 2005
6 items proposed for biobased designation in FB4P.
Target 2010
140 items proposed and finally designated in FB4P.

Actionable Strategies

USDA will continue research, education and technical assistance activities related to expanding domestic agricultural markets via sound science and technology. USDA also will focus on technologies that help commercialize new processes and new uses of agricultural products and activities that improve energy security, promote sustainable agricultural and forest practices, and stimulate farm income and rural economic activity.

Actions include:

- Expand research to assess the effectiveness of developing profitable alternative crops and on- or near-farm processing that add value to agricultural products and enhance the economic viability of rural communities and families, particularly socially disadvantaged farm operators;
- Focus existing research, education and marketing programs to encourage new, innovative, and alternative uses for agricultural products, including increasing the use of biomass, biofuels and bioproducts;
- Increase the amount of ethanol produced through cellulosic conversion technology;
- Qualify and test biobased products for inclusion in a preferred procurement list;
- Expand the preferred procurement program for the mandatory procurement of biobased products by Federal agencies by demonstrating new uses and promoting biobased products;
- Expand the information system for manufacturers and vendors of biobased products and for Federal agencies and consumers;
- Create and promote the voluntary labeling program for biobased products to increase awareness among consumers about the availability and benefits of using biobased products;
- Expand research, education and extension to help producers, processors, and distributors address changing consumer needs, tastes, and preferences;
- Strengthen working relationships with other Federal agencies and departments, including the Department

of Energy, the Environmental Protection Agency, the Department of the Interior and the Office of Federal Procurement Policy, to coordinate programs related to development of new markets for agricultural products and activities; and

- Use loan and grant programs to increase energy production from the Nation's farms, ranches, and forests.

OBJECTIVE 2.2: INCREASE THE EFFICIENCY OF DOMESTIC AGRICULTURAL PRODUCTION AND MARKETING SYSTEMS

Fundamental to the long-term viability of an agricultural producer is the ability to manage an efficient and profitable operation. USDA activities make this possible through programs that develop and transfer to producers the technology, production practices, and business and marketing tools and information that are the center pieces for an efficient and economically sustainable agricultural sector. To support an efficient marketing environment, efforts are directed toward providing the necessary infrastructure and market information to reduce per unit and overall production costs; improve quality and yields, and improve management and marketing decisions. These USDA programs provide the scientific, marketing, and other assistance necessary to increase the efficiency and correspondingly, the competitiveness of the agricultural producer.

Key Outcome: Agricultural Producers Who Compete Effectively in the Economic Market

Performance Measures

- 2.2.1 **Use of new production technologies developed by USDA research that reduces costs, increases efficiency and improves yields and product quality**

Baseline 2005
19 new technologies.
Target 2010
39 new technologies.

- 2.2.2 **Quality standards needed for agricultural commodity trading are developed and maintained by USDA**

Baseline 2005
95 percent of the quality standards currently needed to facilitate commerce for grain, cotton, dairy product, fruit, vegetable, specialty crop, livestock, meat, poultry product, egg and tobacco.
Target 2010
100 percent of the quality standards currently needed to facilitate commerce for grain, cotton, dairy product, fruit, vegetable, specialty crop, livestock, meat, poultry product, egg and tobacco.

Actionable Strategies

- Provide timely and accurate agricultural statistics, information, economic research, and education to assist USDA executive decision-making.
- Provide research, analyses and data on agricultural market conditions and policies to enable producers to understand and respond to changing markets; and improve market-related data collection, information dissemination and technical guidance to assist in decision making;
- Conserve, characterize and make available genetic resources for research and development;
- Integrate new science-based knowledge, technologies, decision-support systems and best-management practices to optimize efficient, economical and environmentally sustainable production systems that are size- and scale-appropriate;
- Expand the knowledge base that informs policymakers seeking solutions to increase the profitability, efficiency and competitiveness of American agriculture;

- Conduct and support research, education and extension to 1) better understand and address consumer needs, tastes, and preferences, 2) inform consumers, 3) provide continuing professional development throughout the agricultural and food system;
- Support market development, expansion and promotion activities through industry, Federal, State, regional and local partnerships;
- Facilitate agricultural industry transactions and consumer purchases through the creation and verification of product specifications and marketing. Verify product specifications and market claims to facilitate agricultural industry transactions and consumer purchases;
- Strengthen and expand partnerships with State and private entities to improve the availability and cost effectiveness of grain inspection and weighing services, and to conduct programs to ensure an adequate capacity of approved and licensed storage facilities for agriculture products;
- Deploy an accessible, real-time electronic inspection and weighing service system nationwide to improve the responsiveness, efficiency and effectiveness of service delivery;
- Implement new technology and information systems to improve the effectiveness and efficiency of front-line inspection and weighing services; and
- Expand the availability of quality-assessment services regionally and nationally to support a market need for greater differentiation of grain and related product quality.

OBJECTIVE 2.3: PROVIDE RISK MANAGEMENT AND FINANCIAL TOOLS TO FARMERS AND RANCHERS

Agricultural producers are subject to a wide array of natural, financial and market risks. Like other business owners, agricultural producers use a variety of tools to manage these risks, including crop insurance, non-insured crop disaster assistance, credit and direct payments.

USDA works diligently to provide financial tools to producers. The Department strives to provide prompt and equitable assistance, direct income payments, disaster assistance and marketing assistance loans to farmers, ranchers and eligible landowners. This assistance helps maintain economic stability in the agricultural sector. When natural disasters strike, USDA reacts quickly to help affected producers recover from losses and restore their lands to pre-disaster productivity levels. Additionally, the Department partners with commercial lenders to guarantee farm ownership and operating loans, and makes direct loans to producers to purchase properties or finance farm expenses. USDA provides agricultural credit to beginning farmers and ranchers, and those producers who traditionally have difficulty obtaining commercial credit. USDA also provides necessary capital to producers to help them recover from emergencies.

USDA Federal crop insurance provides an actuarially sound risk management program to reduce agricultural producers' economic losses due to natural disasters. Recently, USDA has seen dramatic growth in this program. In FY 2005, the Department insured 48.7 million acres more than it did in 1999, and approximately 16 percent or 39.2 million acres more than it did 5 years ago. Federal crop insurance is available to producers solely through private insurance companies that market and provide full service on policies upon which they share the risk with USDA.

Producers participating in the Federal crop insurance program determine the level of coverage they need to manage risks for their particular situations. This allows them to mitigate revenue losses from price or yield fluctuations. It also allows producers to reduce their cash-flow difficulties arising from production misfortune by receiving timely claim payment. Additionally, they can even use their crop insurance as collateral to qualify for commercial loans. This program, along with diversified production and marketing techniques, the use of futures and options contracts, and other tools allow producers to customize their respective risk management strategies. Due to commodity price fluctuations, USDA designed a "normalized" value for data submission that averages prices.

USDA's Noninsured Crop Disaster Program (NAP) reduces agricultural producers' economic losses due to natural disasters. NAP provides financial assistance to producers of noninsurable crops when natural disasters cause low yields, loss of inventory or prevent planting. To be eligible for NAP assistance, crops must not be insurable through the Federal crop insurance program.

The USDA farm credit programs provide an important safety net for producers temporarily unable to obtain credit from commercial sources. Financial risk derives partially from the lag between the costs incurred and the revenue generated. Agricultural producers unable to obtain sufficient credit at reasonable rates and terms risk being unable to afford the up-front costs for a successful farming operation. The Department expands and improves these safety net programs, and provides research and education to help producers better manage their natural, financial and market risks. USDA also ensures that minority and socially disadvantaged farmers and ranchers have the opportunity to participate fully in all programs.

To provide income stability, USDA makes direct payments to farmers, ranchers and eligible landowners. The Department works diligently to provide assistance and marketing loans promptly, efficiently and equitably. During the next six years, USDA plans to increase the percentage of transactions completed via the Internet. Administering farm programs in a Web environment will reduce greatly the number of hours needed to verify and disburse program benefits. This plan also will improve customer service and satisfaction by delivering benefits to producers in a timely manner.

USDA loan programs allow farmers and ranchers to acquire loans that they cannot obtain through traditional credit sources and reasonable rates and terms. USDA specifically allocates funds and offers programs to beginning farmers, minorities and women. By providing loans and loan guarantees, the Department aids and sustains the productivity of family-sized farms and ranches. USDA underwrites high-risk loans to minimize losses caused by loan defaults.

One major initiative that will improve USDA's loan programs is the development of a Web-based farm business plan. This Web-based system provides farmers and ranchers with better business and management planning. It also enables USDA to manage its loan portfolio better.

Once the system is populated adequately with borrower data, USDA will be able to perform more thorough analyses of its borrowers' financial positions. This effort will lead to earlier identification of borrower financial weaknesses, enhanced performance measurement and improvements in overall program management.

Farming in the 21st century requires substantial resources and extensive management skills. USDA farm programs help agricultural producers obtain the commercial and non-commercial credit they need, manage the risks associated with agricultural production, improve good farming practices and become good stewards of the land, and recover economically and structurally when natural disaster strikes.

Key Outcome: Economically Sound Agricultural Production Sector

Performance Measures

2.3.1 Increase the normalized value of risk protection provided to agricultural producers through FCIC-sponsored insurance

Baseline 2003
\$40.7 billion of Federal crop insurance risk protection.
Target 2010
\$50.3 billion of Federal crop insurance risk protection.

2.3.2 Increase the percentage of eligible crops with NAP coverage

Baseline 2005
12.82 percent.
Target 2010
15 percent.

2.3.3 Maintain gross farm cash income

Baseline 1996 – 2005
\$268.2 billion.
Target 2010
\$268.2 billion.

2.3.4 Maintain or increase percentage of gross farm income from non-Governmental sources

Baseline 2005
94.3 percent.
Target 2010
94.4 percent.

2.3.5 Increase percentage of program benefits delivered through a Web environment

Baseline 2005
22 percent.
Target 2010
33 percent.

2.3.6 Increase percentage of loans made to beginning farmers, racial and ethnic minority farmers; and women farmers financed by USDA

Baseline (Average of 2002-2004)
35.67 percent of farm loans.
Target 2010
37 percent of farm loans.

Actionable Strategies

To improve the effectiveness of risk management and financial tools provided to U.S. agricultural producers, USDA will:

- Realign USDA business practices and structure to increase efficiencies;
- Increase the comprehensive internal adaptation of available technology to further efficiency and effectiveness;
- Expand the use of information management systems and data mining operations to improve data comparison and reconciliation gathered by multiple internal components within USDA;
- Continue to ensure that Federal crop insurance products are fundamentally and actuarially sound and continue to review products and make appropriate changes.
- Increase available coverage of risk management programs to additional products including livestock, pasture, rangeland, forage, and specialty crop production needs;
- Encourage agricultural producers in the use of good farming practices;
- Continue to work aggressively to increase farm program participation rates among underserved populations and communities;
- Continue risk education initiatives to help farmers and ranchers develop production, marketing and risk management skills;
- Reduce the average processing time for direct and guaranteed loans, and improve operational efficiencies;
- Monitor loss rates and repayment activity for early detection of potential financial problems for borrowers;
- Encourage producers to utilize computer-based record-keeping systems and other financial planning and risk-management tools;
- Focus outreach efforts on minority producers, beginning farmers, and women by or through 1) expanding efforts to partner with other Federal, State and local agencies, and non-Governmental

organizations that serve these targeted populations of agricultural producers; and 2) enhancing existing partnerships with land-grant universities and other educational organizations to identify and assist minority and women producers and to remove program barriers to participation. Ensure adequate funding for direct operating loans for minority, small, beginning, limited resource and other farmers;

- Modernize program-delivery systems and convert as many programs as possible from “legacy” to integrated, Web-enabled platforms to benefit both customers and employees; and
- Modernize information technology delivery systems to reduce the average processing time for direct and guaranteed loans; and other program benefits.

Key External Factors

There are a number of external factors that could influence the outcome of this strategic objective. They include the demand for risk management and financial tool options, the local and the national economies or environmental conditions, bad weather, natural disasters, animal and plant pests and diseases, sharp fluctuations in farm commodity prices, insufficient funding, legislative changes, shifts in the Administration or USDA policies, and the extent of marketing by the private insurance companies. Producers unfamiliar with new products may be uncomfortable using tools other than those they have traditionally used and may assume that the Government will provide assistance in the event of disasters, as it has through former disaster programs, leading to reluctance to utilize risk management alternatives.