

Sustainable Agriculture Coalition



SAC Recommendations For Implementation of the 2008 Farm Bill Changes to the Value-Added Producer Grants Program

The Three Program Priorities

In granting awards under Value-Added Producer Grants (VAPG) program, priority will now be given to projects that increase opportunities for (1) beginning farmers or ranchers, (2) socially disadvantaged farmers or ranchers, or (3) operators of small- and medium-sized farms and ranches that are structured as a family farm.

These three priorities are programmatic priorities and apply to the entire range of value-added granting categories (processing, segregation, differentiation, on-farm energy, local food, and mid-tier value chain) and to both types of grants (feasibility and working capital).

In the evaluation process for all applications, then, these three statutory categories should serve as the highest funding priorities. In no instances should an administrative priority supplant or outrank these statutory priorities.

In order to make these priorities operative, we recommend that if an application specifically targets or very substantially benefits one or more of these categories, significant additional points should be awarded in the review process. In addition, in evaluating proposals, if there are otherwise equally ranked proposals except that one addresses the programmatic priority and the other does not, the former should always be the more highly ranked.

In order to ensure the submission of quality proposals that meet these programmatic priorities, the agency should conduct specific outreach to the prioritized communities and should encourage its partners in the non-profit, academic, and business and cooperative communities to do the same. In order to ensure that grant evaluators grasp the significance of the priorities, specific instructions should be provided by the agency. In order for proposal writers to provide the pertinent information, the agency should include specific instructions for how the applicant should indicate whether or not the project addresses one of the three priorities, and if so, to what extent it does so.

Projects by a single beginning or socially disadvantaged farmer or rancher or by a group of beginning or socially disadvantaged farmers and ranchers should be strongly encouraged. However, in our view, it is not necessary for all the independent producers who benefit from a particular project to be beginning or socially disadvantaged for the project to count under the priority or under the set aside. Rather, the project must include substantial participation of beginning or socially disadvantaged farmers and ranchers. We suggest setting the threshold for “substantial” at no less than a third for multi-producer projects of all sizes, or alternatively, to establish a graduated point system in which more points are awarded for each 10 percent (or

some similar break point) increase in the ratio of beginning or socially disadvantaged farmers to the total number of farmers involved in the project..

Given the new priorities, the new additional granting categories, and the high demand for the program, all grant awards in the future should fall within the the third priority – increasing opportunities for small and medium-sized farms and ranches structured as a family farm. Projects that do not meet this priority should be funded if and only if there is insufficient demand for the program relative to available funding.

We suggest the following criteria be used in determining whether a project increases opportunities for small and medium-sized family farmers and ranchers, including beginning and socially disadvantaged farmers and ranchers:

1. Does the project increase earnings per acre or per unit of production and thereby make it possible for farms to make a better livelihood at this scale, as an alternative to getting bigger to increase income?
2. Does the enterprise enable operators of small- and medium-sized family farms to add value to their production and increase income by making greater use of their management or skilled labor?
3. Do all of the project beneficiaries meet the regulatory definition (attached at end) as being a family farm? Do the independent producer owners of the value-added enterprise and their family members provide the management and a majority of the labor as specified in the regulatory definition?
4. Are all or most of the beneficiaries of the project operators of small or medium-sized family farms?
5. Does the enterprise, if a joint enterprise, have a process for beginning farmers, socially disadvantaged farmers, or other operators of small- and medium-sized farms to join the joint enterprise as some members retire or exit for other reasons?
6. How does the project affect capital requirements and other entry barriers for beginning and socially disadvantaged farmers?

There is no existing statutory definition for small and medium-sized family farm, and therefore to implement the new farm bill language the agency will need to develop one for purposes of the VAPG program. Clearly Congress intended by the modifier “small and medium-sized” that not all farms that qualify under the current regulatory definition of family farm would qualify. These definitional issues are always tricky, but in our experience, if they are to have any meaning and be easily understood by customers, it is necessary to use a fairly straightforward line of demarcation.

We therefore suggest that for purposes of this program, a small or medium-sized family farm is one that (1) meets all the requirements of the regulatory definition of a family farm, and (2) generates or will generate in a typical year annual gross farm income (exclusive of cost or other

basis of livestock or other items purchased for resale, on-farm processing businesses, and other on-farm businesses not directly related to the farming operation) which does not exceed \$1,000,000, except that in the case of an entity made up of two or more families each of which meets all the other requirements of the family farm regulatory definition, this gross farm income level may be multiplied by the number of qualifying families in the entity.

We call to your attention that there are two different statutory definitions of socially disadvantaged farmers and ranchers and that the one that Congress has applied to the VAPG program includes women farmers. We strongly support this inclusion and urge you to solicit and fund qualified value-added projects that are women-owned ventures or that involve a significant number of women farmers or ranchers. In doing so, we would also, however, urge you to take steps to ensure that projects are not put forward as qualifying for the priority or the set-aside which purport to be women-controlled but in reality are controlled by men and the women are merely lending their name to the proposal to get it qualified under the priority or set-aside.

Local Food and Mid-Tier Value Chains

The new farm bill adds a new, fifth category of value-added products which are eligible for project grants under VAPG -- projects which aggregate and market locally-produced agricultural food products. In addition, the new farm bill creates a special granting category and set-aside for projects which engage independent producers in mid-tier value chains.

There is high and growing demand for healthy and nutritious food from local family farmers who farm in concert with the environment. This growing interest and demand has now vaulted locally-produced food to value-added status. As a result of the change in the new farm bill, projects aimed at this market will now be listed in the VAPG NOSA as an equal partner alongside the processing, differentiation, segregation, and on-farm renewable energy categories.

In defining locally-produced, we recommend the agency start off by adopting the statutory definition provided in the new farm bill for the Business and Industry Loan Program (attached at the end of this document), which says in essence the product is shipped less than 400 miles from its point of origin, or within the same state. This is not a perfect definition, but we do think there is some benefit to having some consistency between rural development programs. We suggest it be adopted on a temporary basis and revisited in future granting years should experience suggest there is a compelling need for some modification.

Congress created a new VAPG project category and set-aside for mid-tier value chains, but did not amend the definition of value-added to include mid-tier value chains. Therefore, it is our understanding that the mid-tier value chains that receive support under the program must fall under one or more of the five value-added categories. That is, the product or products being marketed through the mid-tier value chain must have undergone processing, be a differentiated or segregated product, be a renewable energy, or be a locally-produced food product.

The 2008 Farm Bill defines mid-tier value chains as:

local and regional supply networks that link independent producers with businesses and cooperatives that market value-added agricultural products in a manner that --

(A) targets and strengthens the profitability and competitiveness of small and medium sized farms and ranches that are structured as a family farm; and

(B) obtains agreement from an eligible agricultural producer group, farmer or rancher cooperative, or majority controlled producer-based business venture that is engaged in the value chain on a marketing strategy.

The Statement of Managers elaborates further as follows:

The Managers are aware of the increasing producer interest in mid-tier value chains that are strategic alliances between small and mid-sized farms and ranches and other supply chain partners that deal in significant volumes of high-quality, differentiated food products and distribute rewards equitably across the supply chain. The Managers expect that awards under this new mid-tier value chain component of the program will support strategic alliances in which the producer, producer group, farmer cooperative, or majority-controlled producer based venture participate in developing the overall framework and specific rules for the alliance.

The mid-tier value chain provision is aimed at assisting producers who do not engage substantially in direct farmer-to-consumer marketing (or are ready to scale-up their direct marketing to the next level), but who also do not engage or do not want to engage in high volume, low margin raw commodity production. It is intended to capitalize on the increasing consumer and food service demand for high quality products from family farms with strong environmental and social values.

As with other VAPG grants, the award will be made, in the case of an individual farmer grant, to the eligible independent producer engaged in the mid-tier value chain, or, in the case of a multi-producer project, to an eligible producer group, farmer or rancher coop, or majority-controlled producer business.

As indicated by part B of the statutory language and the last sentence of the report language, a key criterion for analysis of these applications is assuring that the producers engaged in the value chain have a stake in determining the price, or added value, of the product being sent from the farmers up the value/supply chain to the consumer. This assurance could be based on a legal agreement between all the partners in the value chain or, alternatively, could be secured by a producer-controlled coop or business entity that collectively bargains with the buyers in the value chain to meet buyers' standards and coordinating production and delivery to add value both to producers and buyers.

Funding Set-Asides

There are now to be two funding set-asides, a joint 10 percent set-aside for projects significantly benefiting beginning and socially disadvantaged farmers and ranchers and a 10 percent set-aside for mid-tier value chain projects. The reservation of funds under both set-asides remains in effect until June 30 of each fiscal year, at which point any remaining funds that have not been obligated are returned to the general pool.

Many though not all project proposals dealing with aggregating or marketing locally-produced food would also qualify as mid-tier value chain projects. We encourage you to include an emphasis within the mid-tier value chain project set-aside for local food projects and to make that inclusion clear in the NOSA.

In making awards under the two 10% set-asides, the evaluation schedule should be staggered such that applications for these two categories are reviewed first and appropriate funding is allocated if viable applications exist. In essence, projects meeting the terms as eligible under either set-aside would be competing among themselves. Should the funding reservations be fully subscribed, eligible projects that do not make the cut as part of the set-aside would still be eligible to compete in the general pool. Timelines would be staggered to accommodate the set-asides, but it seems to us it would still be possible for only one evaluation process to exist overall.

Simplified Application Process

We have written the agency in the past urging a simplified application form for smaller grants and less complexity for applications overall. We are very pleased that Congress has directed the agency to develop a simplified application form and process for smaller grants, those requesting \$50,000 or less. It has been a common refrain from customers for many years now that the application form and process are unnecessarily complex for smaller projects, including individual producer projects and grants.

We are pleased the agency adopted earlier suggestions for a preliminary review of grant proposals (similar to a pre-proposal in other programs) and for an eligibility assessment tool. Continuation of these good program practices, in combination with the new simplified small grant application form and process, should go a long way toward making the program accessible to more farmers.

We are aware of simplified application forms and procedures in other USDA programs, including FSA farm loans and CSREES sustainable agriculture producer grants, and trust the agency will glean usable pieces from those and other models in developing its own simplified VAPG form and procedure.

We also urge you to continue to find ways to make the general application form more streamlined. Perhaps after the simplified application process has been implemented and is running smoothly, portions of the process might be applied to the overall VAPG application process as well to make it accessible to more producers and less time consuming for program applicants.

Underserved Areas and Enhanced Outreach and Technical Assistance

There are many states that have competed very, very well for VAPG grants, but nearly an equal number of states that have had very few grants. For instance, from 2001-2007, the top ten states have received 57 percent of the total number of awards, while the bottom 20 states received under 10 percent, even though among their number were very significant agricultural states. In

the most recent set of awards for 2007, 13 states received no grants and an additional 14 states received just one grant. This inequity will only fully be overcome when adequate technical assistance and outreach is available through the agency and its many partners inside and outside of government in those underserved areas. Indeed, one of the most important techniques of attracting qualified applicants for VAGP is for enhanced technical assistance and outreach, especially to underserved areas and states with few grant writing centers. We urge you to do everything possible to foster those technical services and outreach functions.

While that capacity is built up, we urge you to award eligible projects from underserved states a significant number of additional ranking points so that, all other things being equal, the underserved areas are receiving more awards.

Also, if Ag Marketing Resource Centers could move from primarily web-based assistance to more hands on staff assistance for active technical assistance and outreach it would benefit applicants and the quality of their applications. Continuing to have a USDA employee dedicated to helping individual state offices with VAPG applications and business planning is also be very helpful for continued success with the VAPG program.

Rural Cooperative Development Grants could also be used to build the capacity of organizations that assist producers in underserved states. One criterion for selecting RCDG recipients should be an evaluation of an organization's history in helping producers not only apply for but also receive VAPG grants over the past seven years. When applied to organizations that have not assisted a VAPG applicant in the past, an annual review process should take place to validate the RCDG's assertion that effective technical assistance for grant writing and application reviews were being put into practice. Ensuring that RCDG recipients are effectively assisting VAPG applicants should be a major priority so states with none or only a few VAPG recipients can begin to take advantage of the program. Economic benefits will then spread from the local to regional level and the programs, in coordination with one another, can help achieve rural economic growth.

In-Kind Contributions

Matching fund requirements for the program are clear. The match must be at least equal to the grant and must be spent at a rate equal to or greater than the rate at which grant funds are used. Matching funds may be provided by the applicant or a third party, and may be in cash or in kind.

For individual farmer grants, and for project grants to producer associations and non-profits, in-kind contributions are an essential and critical part of the equation. We are aware, however, that not all reviewers seem to treat in-kind contributions as of equal stature with cash contributions. We urge you therefore to provide clear and forceful instructions to reviewers that matching funds may be of either type and in any combination, and the type or the combination, by itself, is immaterial to the evaluation of the project.

DEFINITIONS

Beginning Farmer or Rancher

(from Section 343(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1991(a))

The term “qualified beginning farmer or rancher” means an applicant, regardless of whether the applicant is participating in a program under section 310E-

- (A) who is eligible for assistance under this title;
- (B) who has not operated a farm or ranch, or who has operated a farm or ranch for not more than 10 years;
- (C) in the case of a cooperative, corporation, partnership, or joint operation, who has members, stockholders, partners, or joint operators who are all related to one another by blood or marriage;
- (D) (i) in the case of an owner and operator of a farm or ranch, who-
 - (I) in the case of a loan made to an individual, individually or with the immediate family of the applicant-
 - (aa) materially and substantially participates in the operation of the farm or ranch; and
 - (bb) provides substantial day-to-day labor and management of the farm or ranch, consistent with the practices in the State or county in which the farm or ranch is located; or
 - (II) (aa) in the case of a loan made to a cooperative, corporation, partnership, or joint operation, has members, stockholders, partners, or joint operators, materially and substantially participate in the operation of the farm or ranch; and
 - (bb) in the case of a loan made to a corporation, has stockholders, all of whom are qualified beginning farmers and ranchers;
- (E) who agrees to participate in such loan assessment, borrower training, and financial management programs as the Secretary may require;
- (F) who does not own land or who, directly or through interests in family farm corporations, owns land, the aggregate acreage of which does not exceed 30 percent of the median acreage of the farms or ranches, as the case may be, in the county in which the farm or ranch operations of the of the applicant are located, as reported in the most recent census of agriculture, except that this subparagraph shall not apply to a loan made or guaranteed under subtitle B; and

(G) who demonstrates that the available resources of the applicant and spouse (if any) of the applicant are not sufficient to enable the applicant to continue farming or ranching on a viable scale.

Socially Disadvantaged Farmer or Rancher

(from Section 355(e) of the Consolidated Farm and Rural Development Act)

(1) SOCIALLY DISADVANTAGED GROUP- As used in this section, the term “socially disadvantaged group” means a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as members of a group without regard to their individual qualities.

(2) SOCIALLY DISADVANTAGED FARMER OR RANCHER- As used in this section, the term “socially disadvantaged farmer or rancher” means a farmer or rancher who is a member of a socially disadvantaged group.

Family Farm

(from Section 761.2 of title 7, Code of Federal Regulations)

Family farm is a farm that:

(1) Produces agricultural commodities for sale in sufficient quantities so that it is recognized as a farm rather than a rural residence;

(2) Has both physical labor and management provided as follows:

(i) The majority of day-to-day, operational decisions, and all strategic management decisions are made by:

(A) The borrower and persons who are either related to the borrower by blood or marriage, or are a relative, for an individual borrower; or

(B) The members responsible for operating the farm, in the case of an entity.

(ii) A substantial amount of labor to operate the farm is provided by:

(A) The borrower and persons who are either related to the borrower by blood or marriage, or are a relative, for an individual borrower; or

(B) The members responsible for operating the farm, in the case of an entity.

(3) May use full-time hired labor in amounts only to supplement family labor.

(4) May use reasonable amounts of temporary labor for seasonal peak workload periods or intermittently for labor intensive activities.

NOTICE FLP-252

May 13, 2003

Farm Service Agency

Washington, DC 20250

For: State and County Offices

Clarifying Family Farm Definition

Approved by: Deputy Administrator, Farm Loan Programs

1 Overview

A Background

The definition of a family farm used in implementing FLP is general, by necessity, in recognition of the diversity of agriculture across the country. Because of this diversity, it is important to consider the definition of a family farm on an individual, case-by-case basis.

B Purpose

This notice provides guidance in determining whether an applicant's farming operation meets the family farm definition in the following FSA directives:

- FmHA Instruction 1941-A
- FmHA Instruction 1943-A.

C Contact

If there any questions about this notice, State Offices shall contact LMD at 202-720-1632.

2 Guidelines for Determining Family Farm

A Introduction

The guidelines in this notice shall be used to ensure that all FLP applicants' farm operations receive due consideration under the family farm definition. These guidelines apply to the family farm definition in the direct loan programs.

B Factors to Consider

The following factors should be considered when determining whether an applicant meets the family farm definition.

Item Factor Consideration

1. Recognized in the community as a farm

Consider how the applicant's farm operation compares to similar farm operations in the community. In most areas of the country and in most farming enterprises, the family will provide most of the day-to-day labor on a family farm. An exception may be made for enterprises that produce high-value, labor-intensive crops, such as fruit or vegetables.

2. Management and control of the farm business

All of the day-to-day management and operational decisions should be made by members of the farm family. Using consultants, advisors, and similar experts is certainly acceptable provided someone in the farm family is the decisionmaker.

3. Amount of labor

A substantial amount of the full-time labor required must be contributed by family or entity members to the operation. Using seasonally hired labor should not be precluded. The applicant may not necessarily perform a majority of the labor, but the amount of labor provided by the applicant is significant. One distinguishing characteristic of a family farm is that the family members provide both physical labor and management for the farm. Consider the labor requirements that are necessary for the production of specific high-value, labor-intensive crops.

4. Credit needs

Congress established FSA's loan limits to assist family-sized operations. The loan limits generally ensure that loans are made to family farm operations. It is also important that every effort be made to ensure that loans are made only when it is certain that other credit is not available. Loan participation arrangements are acceptable when FSA farm loans cannot meet the total needs; but, if maximum FSA farm loans are a small portion of the total credit requirements, this may be another indicator of a larger than family-sized farm when considered with other factors, or that credit is available from another store.

C Making Decisions

FSA decisionmakers shall:

- analyze all the components that make up the regulatory definition of family farm and the items discussed in subparagraph B
- look at all aspects and the circumstances of the farm operations.

Note: Consider and analyze these factors, and how the factors relate to 1 another.

Application of judgment, combined with documentation of all the factors for the decision, should provide reasonable determinations of an applicant's qualifications as a family farm.

Locally-Produced Food Products

(from Section 6015 of the 2008 Farm Bill)

The definition of value-added now includes an agricultural commodity or product that is aggregated and marketed as a locally-produced agricultural food product. This term is defined under Sec. 6015 of the 2008 Farm Bill, which pertains to loans under the B&I program to food enterprises that serve local or regional markets, as:

“any agricultural food product that is raised, produced, and distributed in the locality or region in which the final product is marketed, so that the total distance that the product is transported is less than 400 miles from the origin of the product; or the State in which the product is produced.”

Mid-Tier Value Chain

(from Sec. 231 of ARPA (2000) as amended by Sec. 6202 of the 2008 Farm Bill)

MID-TIER VALUE CHAIN.—The term ‘mid-tier value chain’ means local and regional supply networks that link independent producers with businesses and cooperatives that market value-added agricultural products in a manner that—

(A) targets and strengthens the profitability and competitiveness of small and medium-sized farms and ranches that are structured as a family farm; and

(B) obtains agreement from an eligible agricultural producer group, farmer or rancher cooperative, or majority controlled producer-based business venture that is engaged in the value chain on a marketing strategy.

SAC’s Proposed VAPG Regulatory Definition of Small and Medium-Sized Family Farm

For the purposes of the VAPG program, a small or medium-sized family farm is a family farm as defined by Section 761.2 of title 7, Code of Federal Regulations that generates or will generate in a typical year annual gross farm income (exclusive of cost or other basis of livestock or other items purchased for resale, on-farm processing businesses, and other on-farm businesses not directly related to the farming operation) which does not exceed \$1,000,000, except that in the case of an entity made up of two or more families each of which meets all the other requirements of this definition, the gross farm income level may be multiplied by the number of qualifying families in the entity.