FARMERS' GUIDE TO APPLYING FOR VALUE-ADDED PRODUCER GRANT (VAPG) FUNDING

FISCAL YEAR 2013 & 2014 GRANT CYCLE

November 2013

Inside:

- **Examples of Eligible Projects**
- **Program Priorities**
- **Application Scoring Guide**
- **Application Timeline and Checklist**
- **VAPG and the Farm Bill**
- **Additional Resources**

National Sustainable Agriculture Coalition

Program Basics

The **Value-Added Producer Grant** program provides grants, awarded on a competitive basis, to individual independent agricultural producers, groups of independent producers, producer-controlled entities, organizations representing agricultural producers, and farmer or rancher cooperatives to create or develop value-added producer-owned businesses. These value-adding enterprises help create new jobs, contribute to community and rural economic development, and enhance food choices for consumers by generating new products, creating or expanding marketing opportunities, and increasing producer income.

Agricultural producers eligible for the program include farmers, ranchers, and harvesters, including loggers and fishermen. The applicant producer(s) must supply at least half of the commodity needed for the project and demonstrate the project will expand the customer base and increase revenues. Farmer coops are eligible. Businesses with majority farmer ownership are eligible but cannot make up more than 10 percent of total awarded funds. Contract producers who do not own the raw commodity or the value-added product are not considered eligible independent producers.

The term **"value-added"** includes an agricultural commodity or product that has undergone a change in physical state, was produced, marketed, or segregated (i.e., identity-preserved, eco-labeling) in a manner that enhances its value or expands the customer base of the product, or is aggregated and marketed as a locally-produced food.

Grants may be used to fund one of the following two activities:

- Engage in **economic planning to develop business plans and feasibility studies** (including marketing plans) needed to establish viable marketing opportunities for value-added products; or
- Acquire **working capital** to operate a value-added business venture or alliance. Working capital applications generally must be supported by an independent feasibility study and a business plan.

Project Eligibility Typology

Value-Added Activities Eligible for Grants	Description	Example Outputs	Type of Grant
Commodity Processing	Increasing value by changing commodity's physical state	flour, cheese, wine, jam, oils, yogurt	Economic planning or working capital
Market Differentiation	Increasing value by marketing the commodity's special identity or character	organic, grass-fed, humane, state branding	Working capital
Commodity Segregation	Increasing value by keeping the commodity physically separated in production and distribution	GMO-free, no-rBGH, varietal purity	Economic planning or working capital
On-Farm Renewable Energy	Realizing value by transforming natural resources into energy on the farmstead	on-farm biodiesel, on-farm electricity generation from on-farm sources	Economic planning or working capital
Local Food	Increasing value by aggregating and marketing food for local markets	buy local -buy fresh, community based food enterprises, supplying local procurement preferences	Economic planning or working capital
Mid-Tier Value Chain	Increasing value by linking farmers with local and regional supply networks in which they are equal partners	farm to institution, farm to food service or restaurant, value chain using a consumer seal or farmer identity-preserved label	Economic planning or working capital

Examples of Previously Awarded Projects in Each Category

Commodity Processing	*Prairie Fruits Farm, LLC, a small, diversified family farm in Illinois, received a planning grant to assist with a feasibility study, market assessment, and business plan for processing raw goat milk into goat milk gelato, creating a valuable outlet for seasonal surplus milk.*
Market Differentiation	*Pinn-Oak Ridge Farm, Delavan, Wisconsin received a grant to brand and direct market their pasture-raised lamb. It has allowed them to expand their market from 40 restaurants and grocery stores to 60 retailers in Wisconsin and Illinois.*
Commodity Segregation	*World Food Processing, Inc., Oskaloosa, Iowa, received a working capital grant to assist in the expansion of their production and marketing of new, high quality, non-GMO food grade soybeans into three markets previously untapped by WFP.*
On-Farm Renewable Energy	*Heimes Renewable Energy in Nebraska was awarded a planning grant to assess the feasibility of and develop a business plan for burning corn as a supplemental source of electricity*
Local Food	*Southern Plains Agricultural Resources Coalition in Oklahoma received a grant for the processing of no-till wheat into flour, and marketing the flour to public schools in Oklahoma.*
Mid-Tier Value Chain	*Wyoming Wheat Growers Association received grant funds to conduct a third party feasibility study for the development of a Regional Supply Network of Hard White Wheat blends to supply local and regional millers and bakers.*

VAPG Quick Facts

- *This grant round will combine 2013 and 2014 funds. $10.5 million in funding available nationwide for fiscal year 2013, with additional funds to be added from 2014 funding once that amount is finalized by Congress. We expect that amount to be $13 million or more.*
- *Maximum award per project:*
  - *Planning grant: $75,000*
  - *Working capital grant: $200,000*
- *Maximum grant length: 3 years. Work on project must begin within 90 days of award.*
- *Grant funds may not be used for repair, acquisition, or construction of a building or facility or to purchase, rent or install fixed equipment*
- *Cash and/or in-kind matching funds are required (see "match" section)*
- *Proposals are due February 24, 2014. Awards should be made in spring or early summer.*
- *The program is administered by USDA's Rural Business Cooperative Service and grant applications are first screened through each state's USDA Rural Development Office.*

Special Emphasis for this Grant Round

- USDA is particularly encouraging projects that support --
  - **food hubs** (aggregation**,** storage, processing, distribution, or marketing of locally or regionally produced food)
  - **bio-based products** (commercial or industrial products composed of biological products or renewable agricultural or forestry materials)
  - **tribal projects**.
- Food hubs can qualify if they are farmer cooperatives, majority farmer-owned businesses, an independent producer steering committee (see below), or are part of a mid-tier value chain.

Steering Committee Applicants

Within the Independent Producer applicant category, there is an option to apply as a **Steering Committee**, defined by USDA as "an unincorporated group of specifically identified Agricultural Producers that lacks a legal structure or identity and is in the process of organizing one of the four program eligible entity types that will operate a value-added venture and will supply the majority of the agricultural commodity for the value-added project." To apply as a Steering Committee, 100 percent of the group must be Independent Producers.

Simplified Application

USDA offers a simplified application form for working capital projects requesting less than $50,000. Many of the smaller grants are single farmer projects for which larger-scale working capital applications are unnecessarily complex. If you are applying for working capital under the simplified application, you are not required to provide an independent feasibility study or business plan. You are required to discuss how the project will increase your customer base and increase revenues. The more you can back up your projections with references to third party sources that support your conclusions the better your application will be received.

Market Expansion Proposals

Independent producer applicants who have successfully produced and marketed a value-added product for at least 2 years and who are applying to expand their market base must submit a business or marketing plan, but do not need to submit a feasibility study. An agricultural producer group, a farmer or rancher cooperative, or a majority-controlled producer-based business venture applicant must demonstrate that it is entering an emerging market they have not served for more than 2 years.

Matching Funds Requirement

All grant funds must be matched on a 1:1 basis. Matching funds may be in the form of **cash or eligible in-kind** contributions. Up to 25 percent of the total project cost, or in other words, up to 50 percent of the match, may come from the farmers' own time and effort (sometimes known as "sweat equity") put into the project. The other half or more of the match must be in cash.

Matching funds must be at least equal to the amount of Federal funds awarded, and must be expended in advance, such that for each grant dollar advanced, an equal amount of match must have been expended first.

Program Priorities

➔ *Small and Medium-Sized Family Farms and Beginning and Socially Disadvantaged Farmers and Ranchers*

In making grant awards, USDA is required by law to prioritize projects that increase opportunities for (1) **small- and medium-sized family farms and ranches,** (2) **beginning farmers or ranchers,** and (3) **socially disadvantaged farmers or ranchers**.

Family farms are defined as farms in which the members of the family provide all of the management and do a substantial amount of the labor. **Small farms** are family farms that on average generate less than $250,000 in gross annual sales. **Medium-sized farms** are family farms that on average generate less than $1 million in gross annual sales.

Beginning farmers or ranchers are those that have operated a farm or ranch for not more than 10 years and that are actively engaged in day-to-day farming. **Socially disadvantaged farmers and ranchers** are those who are members of a group that that have been been subjected to racial, ethnic, or gender prejudice because of their identity as members of a group without regard to their individual qualities.

In ranking VAPG applications, USDA awards 10 points to those projects that are focused on aiding farmers in these categories. If two or more applications have the same ranking point total, the one that addresses one of the program priorities will be ranked higher than one that does not.

To qualify for priority points, USDA requires that group applicants all operate small and medium-sized family farms or that 51% or more of the members are beginning or socially disadvantaged producers. An individual farmer applicant must be the operator of a small or medium-sized family farm or be a beginning producer or socially disadvantaged producer to qualify for the priority points. For an application from multiple entities, all the entities must qualify under the same rules.

In addition, though not directed to do so by Congress, USDA is also providing the same priority ranking points to farmer coops and to mid-tier value chains, regardless of their membership base. That means, in other words, that the only applicants that do not receive priority points are those from independent producers grossing more than $1 million in sales that are not applying as part of a mid-tier value chain and farmer-controlled entities that are neither farm coops nor part of mid-tier value chains.

APPLICATION SCORING

Applications are awarded points based on six scoring tiers. The maximum number of points is 100.

1. Nature of Proposed Venture (0 to 30 Points)
   Technical feasibility, economic sustainability, demonstration of expanded customer base for the product, identification of the number of jobs expected to be created or saved, etc. See complete description in the Federal Register Notice.

2. Qualifications of Project Personnel (0 to 20 Points)
   Credentials, education, experience of each person working on the project. (Note, if using consultants, they do not necessarily need to be identified beforehand, but you should describe the qualifications that will be sought)

3. Commitments and Support (0 to 10 Points)
   Show support from producers, end user buyers, and third party contributors. Include contracts or letters of intent, if any. Discuss all cash and in-kind contributions. (See match requirement information below).

4. Work Plan and Budget (0 to 20 Points)
   Detailed description of all tasks and who will accomplish them. Budget should include detailed breakdown of all estimated costs of project activities. Show both grant and matching funds for all tasks.

5. Priority Points (Lump Sum Score of either 0 or 10 Points)
   If the project if focused on assisting small and medium-sized family farms, beginning farmers, or socially disadvantaged (minority) farmers or if the project is a mid-tier value chain project, or submitted by a farm coop, it will receive the full 10 points.

6. Administrator Priority Categories
   USDA may award up to 10 points to an application to improve the geographic diversity of awardees in a fiscal year.

➔ *Mid-Tier Value Chains*

As noted above, mid-tier value chain projects also receive the priority ranking points. The definition of a value-added agricultural product includes – in addition to one that has been processed, segregated, produced or marketed with inherently value-added characteristics, and/or is a source of farm or ranch-based renewable energy – an agricultural commodity or product that is aggregated and marketed as a locally-produced agricultural food product or one that is part of a mid-tier value chain.

Mid-tier value chains assist farmers and ranchers who are too large or remote to substantially engage in marketing directly to consumers but too small to profitably engage in high volume, low margin raw commodity production. They are designed to capitalize on the increasing demand for high quality products from family farms adhering to strong environmental and social values.

Farmers can be funded for the development of mid-tier value chains, which the farm bill defines as **local and regional supply networks** (including aggregators and facilitation services) **that link independent producers with businesses and cooperatives that market value-added agricultural products** in a manner that:

- Targets and strengthens the profitability and competitiveness of small and medium-sized family farms and ranches; and
- Includes an 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.

Food hubs that meet these qualifications are eligible for VAPG awards as part of Mid-Tier Value Chain projects.

Funding Set-Asides – Confusing Situation this Time

By law, there are two 10 percent funding set-aside categories, one for mid-tier value chain projects, and one for projects creating opportunities for beginning or socially disadvantaged farmers or ranchers. The set-asides are intended to ensure that these objectives are more likely to be supported. The VAPG law ends the set-aside on June 30 of each year, so that any funds that are not being used within the set-aside can be put to use elsewhere.

USDA has decided that since June 30, 2013 had passed before they had even issued the Notice of Funding Availability that the set-asides will not apply to the $10.5 million available from fiscal year 2013 funds. However, when funding becomes available for fiscal year 2014, the two set-asides will apply to that portion of this funding cycle. Applications should indicate if applying for one of the reserved funds (set-asides) so that they can count toward the 2014 funding set-asides.

Mandatory Registrations

Before applying, VAPG applicants must obtain a Dun and Bradstreet Data Universal Numbering System (DUNS) number. A DUNS number can be obtained at no cost via http://www.dnb.com or by calling toll-free to 866-705-5711.

Applicants must also register in the System for Awards Management (SAM) prior to submitting the application. To register, go to https://www.sam.gov or call toll-free to 866-606-8220 and press 1.

2013 VAPG Application Timeline and Checklist

1. **Invitation for Applications for VAPG published in the Federal Register. (November 25, 2013).**

   ☑ Helpful hint – read the complete Federal Register notice, but be forewarned it is written in bureaucratic language. Be sure to consult with your state USDA Rural Development Office (see step 3) and with NGOs or consultants in your area familiar with the program.

2. **Applicants may use USDA application template.**

   ☑ Helpful hint – State economic development Extension specialists or NGOs with expertise may be able to provide assistance with application details.

3. **Draft applications may be sent to RD-State Offices for preliminary review & comment.**

   ☑ Helpful hint – Applicants may request technical assistance from their state RD office up to 14 days prior to the application deadline. Take advantage of their assistance and be sure to get a preliminary review and comment on your draft application to avoid problems that may otherwise void your final application.

4. **Applications are written and finalized.**

   ☑ Helpful hint - Applicants seeking Working Capital grants must also secure a business plan and independent feasibility study, which must accompany the application. These take time, so must be started immediately. Also note that these documents will not be provided to the project reviewers and thus should be summarized in the text of the application as well as be attached.

5. **Application deadline – February 24, 2014.**

   ☑ Helpful hint – Applications cannot be faxed or emailed. You must either (a) mail the complete application to the State RD Office located in the State where the project will primarily take place, postmarked and mailed or sent overnight by February 24, or (b) submit the application electronically through grants.gov. If you choose electronic submission, please note that you should (a) register beforehand to set up an account, and (b) try to file a few days ahead of time because grants.gov is notorious for problems that are difficult to deal with if rushing to get something in at the last minute.

6. **Proposals are reviewed for completeness and eligibility by RD-State offices.**

7. **Proposals are scored by the State office.**

   ☑ Helpful hint – By getting a draft proposal pre-reviewed by the state office you will have a better sense of how your proposal will score, and if there are particular problems that might indicate a lower ranking there may be time to adjust the proposal to gain a better ranking.

8. **Proposals are sent to the national office at USDA, which sends each proposal to at least one independent, non-federal reviewer to evaluate and rank.** The state office score is then averaged with the independent reviewer score.

9. **Final scoring.** This includes any additional Administrator priority points awarded for geographic diversity.

10. **Awards announced.**

    ☑ Helpful hint – The anticipated awards date is April 15, 2014 but this is just an estimation and it could be later. Project must have start dates of April 15, 2014 or later, and must be completed no later than within three years of the start date. Planning grants are generally only one year in duration.

VAPG and the Farm Bill

The program was first authorized in 2000 and was expanded as part of the 2002 Farm Bill to include inherently value-added production, such as organic crops or grass-fed livestock, and expanded again in the 2008 Farm Bill to include locally produced and marketed food products and mid-tier value chains. While it is not yet clear when the next farm bill will be completed, it is fairly certain that VAPG will be continued and will receive renewed funding when the new farm bill is finally passed. NSAC has advocated for the program since its creation and continues to do so in the context of the new farm bill and in the annual appropriations process.

This guide was produced by:

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For more information and resources:

USDA Rural Development:
http://www.rurdev.usda.gov/BCP_VAPG.html
or call 202-720-8460

National Sustainable Agriculture Coalition:
http://sustainableagriculture.net/publications/grassrootsguide/local-food-systems-rural-development/value-added-producer-grants/

The Agricultural Marketing Resource Center:
http://www.agmrc.org/

Oregon Rural Development:
http://www.rurdev.usda.gov/ORvapg.html

University of Nebraska- Lincoln:
http://fpc.unl.edu/web/food-processing-center/vapg

University of Wisconsin Cooperative Extension:
http://fyi.uwex.edu/aic/startup/grants/value-added-producer-grant/