

# Value-Added Agricultural Product Market Development Grants

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LAULIMA CENTER

FOR RURAL AND COOPERATIVE  
BUSINESS DEVELOPMENT™



A program of  
The Kohala Center

# The Farm Security and Rural Investment Act of 2002

Re-authorized the Value-Added Market Development Grant Program (pilot project in 2001)

## Four components to the program

- Value-Added Producer Grants
- Agricultural Innovation Centers
- Agricultural Marketing Resource Center
- Agricultural Innovation Research Grant



# Producer Grant Overview

(based on 2002 program)

## The primary objective:

To help eligible producers of agricultural commodities develop business plans for viable marketing opportunities and develop strategies to create marketing opportunities in emerging markets.



# Producer Grant Overview

## The primary objective--what does this mean?

- **Get producers into adding value to the products they produce.**
- **Need to deal with concepts such as:**
  - **increasing the customer base,**
  - **more revenue available to producers, and**
  - **emerging markets.**



# Producer Grant Overview

## Philosophy of the Program

- Help producers (farmers) expand their customer base for their products or commodities and ensure that a greater portion of the revenues derived from the value-added activity is available to the producer.
- Help as many producers as possible



# Producer Grant Overview

Three Levels of Eligibility--must meet all three.

*Applicant*-- (1) independent producer, (2) agricultural producer groups, (3) farmer or rancher cooperative, and (4) majority-controlled producer-based business venture.

*Product*--value-added agricultural commodity.

*Purpose*--planning or working capital.



# Producer Grant Overview

## Applicant

### 1. Independent Producer

- An individual producer of agricultural commodities or products;
- An association of producers such as a producer owned corporation, LLC, or LLP solely owned by producers.
- A steering committee composed of agricultural producers in the process of organizing an association to operate a value-added venture.
- An independent producer can not produce under contract or joint ownership with any organization other than their own.



# Producer Grant Overview

## Applicant

### 2. Agricultural Producer Groups

- Any organization that represents independent producers such as a producer trade association or a state or national commodity group.
- Must be providing assistance directly to a specifically identified group of independent producers.
- Must propose ventures that are entering into emerging markets.





# Producer Grant Overview

## Applicant

An emerging market is a new or developing market for the applicant--a market the applicant has not traditionally supplied.

The venture must be focused on this new or developing market.

- It can be a new product going into a new or existing market.
- It can be an old product going into a new market.



# Producer Grant Overview

## Applicant

### 3. Farmer or Rancher Cooperative

- A business incorporated under state cooperative or corporation statutes that is farmer or rancher owned, farmer or rancher controlled, and benefits are returned to the farmer or rancher owner on the basis of patronage of the cooperative (HRS 421).
- Must propose ventures that are entering into emerging markets.



# Producer Grant Overview

## Applicant

### 4. Majority-Controlled Producer Based Business Ventures

- A corporation, LLC, LLP, or other type of business structures where producers have more than 50 percent ownership and control of the entity.
- Must propose project activities that are entering emerging markets.



# Producer Grant Overview

## Product

Four distinct categories are considered value-added. The value-added activity must:

- expand the customer base for the product or commodity, and
- result in a greater portion of the revenues derived from the value-added activity being available to the producer.



# Producer Grant Overview

## Product

1. The changing of the physical state or form of the product.
  - Examples include processing wheat into flour, corn into ethanol, slaughtering livestock or poultry, or slicing tomatoes.
2. A product produced in a manner that enhances its value, as demonstrated through a business plan.
  - An example is organically produced products.



# Producer Grant Overview

## Product

3. The physical segregation of an agricultural commodity or product in a manner that results in the enhancement of the value of that commodity or product.
  - Examples: include an identity preservation system for a variety or quality of grain desired by an identified end-user or the traceability of hormone-free livestock to the retailer.
  
4. Any agricultural commodity or product that is used to produce renewable energy on a farm or ranch.
  - Examples: collecting and converting methane from animal waste to generate energy



# Producer Grant Overview

## Purpose

- Planning
  - a defined program of economic activities to determine the viability of a potential value-added venture including feasibility studies, marketing plans, business plans and legal evaluations.
- Working capital
  - Funds which are used to operate the venture and pay the normal expenses associated with the operation of the venture.



# Producer Grant Overview

## Purpose

### What's Not Eligible

- Plan, repair, rehabilitate, acquire, or construct a facility,
- Purchase, rent, or install processing equipment,
- Pay for the preparation of the grant activity,
- Pay expenses not directly related to the funded venture,
- Pay costs incurred prior to receiving the grant,
- Fund political and lobbying activities,
- Pay any expenses related to agricultural production.





# Producer Grant Overview

## Application Process

1. Submitted to the Hawaii State Office.
2. State Office determines eligibility, number of producers, if bio-energy points apply.
3. State Office scores eligible applications.
4. Application submitted to USDA contractor for two other independent scores.
5. If scoring discrepancy, then two other scorers review the application. (The high and low are tossed out).
6. A “Z-Score” is obtained (mathematical model that weighs scorers tendencies and other factors).
7. Applications funded on top “Z-Scores” until money is gone.



# Producer Grant Overview

## Planning

### Scoring Criteria

Nature of the Proposed Venture	(Maximum 5 Points)
Qualification of Those Doing the Studies	(Maximum 5 Points)
Project Leadership	(Maximum 5 Points)
Commitment	(Maximum 5 Points)
Work Plan/Budget	(Maximum 5 Points)
Amount Requested	
– \$450,000 - \$350,001	.5 Point
– \$350,000 - \$250,001	1 Point
– \$250,000- \$150,001	1.5 Points
– < \$150,000	2 Points
Project Cost Per Producer	(Maximum 5 Points)
Presidential Initiative: Bio-energy Production	(5 percent of total score)



# Producer Grant Overview

## Working Capital

### Scoring Criteria

- Business Viability (Maximum 5 Points)
- Customer Base/Increased Returns (Maximum 5 Points)
- Commitment (Maximum 5 Points)
- Management Team/Work Force (Maximum 5 Points)
- Work Plan/Budget (Maximum 5 Points)
- Amount Requested
  - \$450,000 - \$350,001 .5 Point
  - \$350,000 - \$250,001 1 Point
  - \$250,000- \$150,001 1.5 Points
  - < \$150,000 2 Points
- Project Cost Per Producer (Maximum 5 Points)
- Presidential Initiative: Bio-energy Production (5 percent of total score)



# Producer Grant Overview

## General Information

1. Changes being made to program, but probably minor.
2. National Office is working on program regulations. Should be out in final form summer 2003.
3. \$40 million per year for 6 years (includes other 3 components of the program (Innovation Center, etc.)).
4. Applicants must provide matching funds at least equal to the grant.
5. Max. amount is \$500,000.

<http://www.rurdev.usda.gov/rbs/coops/vadg.htm>



# Producer Grant Overview

## Lessons Learned

1. If time, run your proposal by USDA staff before deadline.
2. If using “in-kind” contributions for the matching portion--”in-kind” MUST be reasonable and standard for the industry.
3. Match must for an eligible purpose.
4. Address criteria thoroughly especially:
  - commitment (from applicant, other producers, end-users),
  - increased returns to producers,
  - increased customer base.
5. Production expenses and equipment/land acquisitions are NOT eligible purposes.



# Producer Grant Overview

## 2002 Results

711 applications received Nationwide.

231 funded in 43 States.

\$37,358,397 spent for an average of \$161,725

3 funded in Hawaii--total \$338,195

14 applications received:

1--incomplete

4--determined ineligible (two included production expenses, one entity was not eligible, one State-wide organization did not target a specific group of producers).

9--scored



