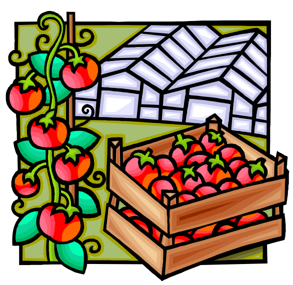
Building Wealth in Rural Communities: USDA's Value-Added Producer Grant Program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Established in 1973, the Center for Rural Affairs is a private, non-profit organization working to strengthen rural communities through action oriented programs addressing social, economic, and environmental issues.

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BUILDING WEALTH IN RURAL COMMUNITIES: USDA'S VALUE-ADDED PRODUCER GRANT PROGRAM

EXECUTIVE SUMMARY

The Value-Added Producer Grant program (VAPG) is a competitive grants program administered by the Rural Business Cooperative Service at USDA to help producers move into value-added agricultural enterprises. Authorized in the 2002 Farm Bill Rural Development title, this program aims to provide assistance to farmers and ranchers in planning and capital investment for value adding enterprises. A precursor of the VAPG program existed in 2001.

The VAPG program helps leverage private dollars for critical investments in business enterprises that strengthen struggling rural economies. Since 2001, USDA has received over 2,500 applications, funding 575 projects totaling nearly $100 million.

The major goal of the Center for Rural Affairs is to target the VAPG program to small- and mid-sized farms, ranches and agricultural businesses pursuing new consumer driven markets for sustainably raised agricultural products, thus creating enhanced opportunities in rural communities. By supplying these markets to farmers and ranchers, the VAPG program addresses agricultural profitability, economic decline and poverty alleviation in rural areas in new ways.

Among recommended changes to the VAPG program is a recognition of the importance to create a program with the stated goal of funding a broad diversity of projects that increase agricultural producers' share of the consumer dollar. Points in the funding decision making process should be awarded based on contributions to that purpose, language outlined in the Congressional Manager's report. USDA has yet to comply with that Congressional mandate.

There are four main issue areas where attention to legislative and administrative policy changes will greatly improve the Value Added program. The four issue areas are:

- Improved program outreach and staffing support at the state and federal level
- Simplified application process
- Transparent and organized review process
- Reporting requirements and the USDA payment mechanism

Debate will begin on the next Farm Bill in early 2006. The 2007 Farm Bill is a venue through which the VAPG will be reauthorized, the program evaluated and changes made. The VAPG program can better serve small- and mid-sized farmers and ranchers, thus better addressing the economic forces affecting rural America.

The Farm Bill and preliminary policy options are discussed in more detail in the recommendations section.

About the Value Added Producer Grant Program

Background

The Value-Added Producer Grant program (VAPG) is a competitive grants program administered by the Rural Business Cooperative Service at USDA to help producers move into value-added agricultural enterprises. Authorized in the 2002 Farm Bill Rural Development title, this program aims to provide assistance to farmers and ranchers in planning and capital investment for value adding enterprises.

Earlier value-added programs within USDA provided funding only for the processing of agricultural products. The VAPG program included in the 2002 Farm Bill expanded the definition of "value-added" to include how agricultural products are grown or raised, e.g., organic, grass-fed, as well as processing. As a result, funding for the VAPG program expanded from $10 million annually to the Farm Bill authorized and current level of $40 million annually.[1]

Individual producers, alliances, networks and cooperatives of producers, and agricultural trade groups are eligible applicants for up to $150,000 in working capital or up to $100,000 in planning grants to enter into a new or emerging market. The VAPG program focuses on increasing farm and ranch income by diversifying operations by "adding value" in the way agricultural products are marketed, processed, or grown/raised.

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Types of Grants

When applying for a grant applicants must choose between two types of activities for funding. Funding is available for:

- Developing feasibility studies or business plans, which include marketing plans
- Working capital to operate a value-added business or alliance

Matching Funds

The VAPG program requires a one-to-one match from the grant recipient. A cash match is defined as actual funds dedicated to the project. An in-kind match includes items such as time, equipment, space, office supplies, and staff salaries.

[1] Despite this authorized level, actual appropriations have been less in recent years.

AUTHORIZING LANGUAGE

The Conference Report accompanying H.R. 2646, the Farm Security and Rural Investment Act of 2002 (the official title of the 2002 Farm Bill) adopted a set of broad purposes for the VAPG program that address the basic policy objectives to be advanced by the program. Similar language was included in the House Agriculture Appropriations Subcommittee's Fiscal Year 2003 report. Language from the 2002 Farm Bill conference report includes:

> *The Managers intend that the Department (of Agriculture), in administering the (VAPG) program, will seek to fund a broad diversity of projects that help increase agricultural producers' share of the food and agricultural system profit, including projects likely to increase the profitability and viability of small and medium-sized farms and ranches. The Managers intend for the Department to consider a project's potential for creating self-employment opportunities in farming and ranching and the likelihood that the project will contribute to conserving and enhancing the quality of land, water and other natural resources.*[2]

Language from the 2003 House Agriculture Appropriations Subcommittee Report includes:

> *The Committee is aware the Department (of Agriculture) will develop application and evaluation guidelines for the Value Added Agricultural Product Market Development Grant program. The Committee expects the Department to develop ranking criteria to reward projects that help increase self-employment and entrepreneurial opportunities in farming and ranching, enhance the profitability and viability of small and medium-sized farms and ranches, and contribute to conserving and enhancing the quality of land, water and other natural resources.*[3]

Both the Farm Bill and subsequent appropriation bills clearly intended that the VAPG program have broader goals than to increase value-added products and markets. The VAPG program was intended to be an integral part of rural development policy by funding projects that both enhanced farm and ranch incomes and increased self-employment opportunities in rural areas. As such, it was intended to go beyond other farm income support programs – the VAPG program was anticipated to be part of an asset- and wealth-building strategy of American rural development policy.

USDA has not completely recognized this aspect of the VAPG program. USDA has failed to follow the directives of Congress as expressed in the language quoted above. USDA has not incorporated the Congressional language in its funding notices, review process nor in the program rules, regulations, or program evaluation criteria that award points to proposals. It is important for the VAPG program to clearly and specifically have a stated goal of funding a broad diversity of projects that help increase agricultural producers' share of the consumer dollar while contributing to broader rural economic opportunities such as self-employment opportunities.

Since the 2002 Farm Bill , several members of Congress have suggested to USDA administrative policy changes to the program. For example, former Secretary of Agriculture Ann Veneman received a Congressional letter urging her to include the criteria quoted above and to release a final program rule reflecting 153 similar public comments.[4] Several state departments of agriculture also wrote USDA with a similar message.

[2]H.R. 2646, page 565.

[3]House Appropriations Subcommittee Report 107-623, page 92 (2003).

[4]Members of Congress signing that letter included former Rep. Doug Bereuter (NE) and Senators Chuck Hagel (NE) and Gordon Smith (OR).

PROGRAM FUNDING AND LEGISLATIVE HISTORY

The program was originally adopted in 2001 as part of a crop insurance reform bill and was dubbed "The Value Added Agricultural Products Marketing program." It was funded through $10 million in mandatory crop insurance bill monies and $10 million in discretionary dollars from an emergency supplemental appropriation bill. The original program focused solely on processing of agricultural products.

Table 1 below shows funding levels for the VAPG program between 2001 and 2005. Through its short existence, the program has suffered a 63 percent decrease in funding and a change in funding status from "mandatory" to "discretionary." Appropriations for FY2006 are uncertain. The House proposes a major increase for the program at $55 million and the Senate proposes level funding at $15.5 million.

Program	2001	2002	2003	2004	2005
Annual Appropriations	$20M	$40M mandatory	$40M mandatory	$15M discretionary	$15.5M discretionary

TABLE 1. Program Spending, 2001-2005

In 2002, the VAPG program was authorized in the Farm Bill with $40 million in mandatory funding. The definition of "value-added" was amended to include not only processing, but how something was grown or raised.

In 2003, the program remained at the $40 million level despite efforts by the Bush administration to cut the program funds from $40 million annually to $2 million annually. Since 2003, Congress has modified VAPG spending from its mandatory nature in the Farm Bill to an annual discretionary appropriation; this makes potential spending cuts easier to accomplish in each annual appropriation process.

One goal of program advocates was to publicize the program and demonstrate need through the submission of a large number of proposals. Demand for the program is high, higher than the available funding. Table 2 below shows the number of applications submitted and the number of projects funded.

Year	Proposals Submitted	Proposals Funded	Pct. Funded
2001	654	62	9.4
2002	714	231	32.3
2003	781	186	23.8
2004	389	96	24.7
2005	381	?	?

TABLE 2. VAPG Program Proposal Submissions, 2001-2005

Clearly, the demand outstrips the funding for the program. Demand has also decreased as program funding has decreased. If the VAPG program is to reach its potential as a rural development program, Congress must at least fund the program at its mandatory and authorized level of $40 million a year.

Tables 3 and 4, on the next page, analyze the percentage of funded projects and the percentage of funds to types of projects. The 2001 program year is included for comparison with the VAPG program established by the 2002 Farm Bill.[5]

[5]"Miscellaneous and Other Crops" includes projects related to items such as fish, hay, fiber, nuts, wood, sugar, beans, and community food and marketing projects. "Organic" projects are those specifically identified as organic, and may include a product from any of the other categories.

Year	Grain/ Oilseeds	Livestock/ Poultry/Meat	Misc. & Other Crops	Dairy	Fruits and Veg-gies	Energy	Organic
2001	24	29	16	5	8	13	5
2002	22	16	21	5	15	16	5
2003	17	17	27	4	11	16	7
2004	8	14	18	16	18	21	6
TOTAL	18	17	22	6	13	16	6

TABLE 3. Percentage of VAPG Program Proposals Funded by Project Type

The program began in 2001 as a traditional value-added program, focusing primarily on projects related to grains, livestock, and other crops. Since 2001, the program's focus has been less traditional, with a greater focus on non-grain crops, fruits and vegetables and energy production from agricultural products. As such, it has provided a source of funding for farmers and ranchers and other entities looking to alternative products and alternative marketing mechanisms.

Of the nearly $100 million granted by the program since 2001, nearly a quarter has gone to projects related to grains and oilseeds. However, the amount granted to grain and oilseed projects has declined in the past two funding cycles. Since the 2001-2002 funding cycles, there is a more diverse distribution of funds by project type.

Year	Grain/ Oilseeds	Livestock/ Poultry/Meat	Miscellane-ous and Other Crops	Dairy	Fruits and Vegeta-bles	Energy	Organic
2001	27	26	17	3	9	15	3
2002	29	15	17	4	12	21	2
2003	21	16	25	2	9	17	9
2004	11	14	17	12	23	21	3
TOTAL	24	18	17	4	12	19	4

TABLE 4. Percentage of VAPG Program Funds by Project Type

RULES AND IMPACT OF PUBLIC COMMENTS

In 2002, an interim program rule was published for public comment in the Federal Register. A total of 153 public comments were submitted.

The final rule was issued in April 2004. The final rule differed significantly from the interim rule as a result of public and Congressional comment. Positive changes in the final rule included a tightening of definitions favoring small- and medium-size farms and ranches and forest-based businesses and exclusion from eligibility of producers contracted with another entity and who did not own the product produced.

Out of the 153 comments, 116 comments urged USDA to evaluate proposals based on their contribution to improving "environmental health and sustainability" and "strengthening small- and medium-size farms." Unfortunately, USDA made no change to reflect this request.

Related comments stated that the authorizing legislation for the VAPG program does not give special consideration to any size, type, or class of producer. Given Congressional language (such as that quoted above), that argument seemed mistaken. The Center for Rural Affairs and others argued that the report language (referenced above) gave the necessary Congressional guidance to USDA to develop criteria for evaluating proposals based on, for instance, how likely they were to increase the profitability and viability of small- and medium-sized farms and ranches.

Interestingly, USDA suggested creation of a special presidential initiative for small- and medium-size farms and ranches. They also suggested that administrator points in the VAPG program could be awarded to proposals that focus on these farms and ranches. Program advocates urged USDA and the administration to consider such a special presidential initiative in addition to the current presidential initiative on bioenergy.[6] No such addition has been made thus far.

Consequently, a key policy recommendation for the 2007 Farm Bill will be to develop authorizing language for the VAPG program that accomplishes the goal of targeting the program to small- and medium-sized farms and ranches.

IMPACTS AND CHANGES TO VALUE ADDED APPLICATION PROCESS

The June 2004 VAPG program funding notice contained language to evaluate proposals for how they serve small farms. This was a significant victory for family farm and sustainable agriculture advocates of the program. While significant, more work can be done by USDA to target the program not only to small farmers, but also to mid-size and beginning farmers/ranchers utilizing stewardship practices.

The most recent Request for Proposals (RFP) was published in March 2005. Language with a more direct focus on small- and mid-size farmers and ranchers was not included. The March 2005 RFP did contain a pre-review process whereby grantees receive help from state USDA Rural Development staff to ensure proposals are complete before the deadline. USDA also allowed a longer turn around on grants (from 30 days to 60 days) giving applicants more time to complete their proposals. USDA also agreed with program advocates and included language targeting the cooperative eligibility criteria to mid-scale cooperatives and tightening the definition of cooperative enterprises. The RFP also contained language prohibiting multiple year grants by the same enterprise and language limiting grant amounts.

USDA also considered a suggestion from program advocates and applicants concerning the application period. Until recently VAPG program application periods have been 30 days, a very fast and often unworkable deadline for individuals and groups without professional grant writing services. It was suggested the period be extended to 90 days. USDA agreed and will incorporate this extension into the 2006 funding round.

[6] Beginning in 2003, the VAPG program contained a special presidential "bioenergy initiative" created by the administration that set aside a percentage of VAPG program funds for projects related to bioenergy.

Barriers and Solutions

Outreach

VAPG program outreach, education and technical assistance varies from state to state. USDA has put more resources into improving the implementation of the VAPG program. However, a combined lack of outreach and assistance to potential applicants and a cumbersome application process continue to create barriers. These issues are problematic for applicants as well as USDA staff in charge of administering the program application process at the state level.[7] More resources are needed for an improved and streamlined implementation process.

Because of these barriers program advocates (including the Center for Rural Affairs) have produced and nationally distributed educational materials to assist potential grantees in accessing the program. Non-profit and educational institutions have also helped potential grantees navigate program hurdles by providing technical assistance by phone and e-mail. As a result of these efforts and pressure on state USDA Rural Development offices, an increasing number of state Rural Development offices or state agencies now offer training to potential grantees on how to develop successful value added grants.

Reviews

Family farm and sustainable agriculture advocates have witnessed many successes in efforts to nominate VAPG program grant application reviewers.[8] Advocates have built a relationship with USDA where such individuals and organizations are now called on to suggest changes to improve the overall program. Advocates have been asked to give input on the application process, the state level implementation, to suggest reviewers and develop the review process. Family farm and sustainable agriculture advocates continue to grow a proposal reviewer e-mail list that updates people of opportunities to review value added and other federal grant proposals. This list currently contains 150 individuals.

Reporting Process

Some grantees report that the reporting required on expenditures and the USDA reimbursement process is cumbersome and creates barriers for smaller entities that have less access to capital and tighter cash flow. These are issues USDA must resolve if the VAPG program is to have credibility with and serve small- and medium-size farmers, ranchers and other eligible entities.

Policy and Program Recommendations

There are four main issue areas where attention to legislative and administrative policy changes will greatly improve the VAPG program. The four issue areas are:

- Improved program outreach and staffing support at state and federal level
- Simplified application process
- Transparent and organized review process
- Reporting requirements and the USDA payment mechanism

Outlined on the following pages are specific recommendations and the policy avenues where changes can be made.

[7]VAPG program applications are submitted to state USDA Rural Development offices, and then sent to USDA headquarters in Washington, DC where proposals are then each distributed to three separate reviewers and where final funding decisions are made.

[8]For greater objectivity, USDA seeks private parties to act as reviewers of grant proposals in addition to USDA state and federal staff.

RECOMMENDATIONS FOR CONGRESS

1. 2007 Farm Bill
   - Congress should develop authorizing language placing a high priority for use of the VAPG program grant funds on proposals that are most likely to increase the profitability and viability of small- and medium-sized farms and ranches. A stated goal in the authorizing language of the Value-Added program should be to create self-employment opportunities for farmers and ranchers that increase the profitability and viability of small and mid-sized farms and ranches, as well as encourage protection of land, water and other natural resources.
   - Create a set-aside of no less than 10 percent but up to 15 percent of VAPG program funding for projects concerning beginning farmers and ranchers.
   - Target the presidential initiative on bioenergy in the VAPG program to small-scale startup initiatives and to beginning and small- and mid-sized farmers and ranchers. Other energy-related programs within USDA and other agencies better fulfill the requirements of large-scale commercial bioenergy enterprises. Funds appropriated to the VAPG program should be used for targeted purposes that meet the general purposes of the program.
   - Include funding in the Farm Bill to train national and state level Rural Development staff in ways the VAPG program can assist small- and mid-size and beginning farmers and ranchers and rural communities. Include small- and mid-size farmers and ranchers and rural community business and other leaders, rural researchers, extension agents and other potential beneficiaries in the training – to share "best practices" from the agricultural and rural development perspective.

2. Budget Legislation
   - Fully fund the VAPG program at its authorized level of $40 million
   - Reinstate the mandatory budget status for the VAPG program.

RECOMMENDATIONS FOR THE U.S. DEPARTMENT OF AGRICULTURE

- Develop a less complicated and more accessible application process by:

  →developing a separate application that is less complex and involves less paperwork for smaller grant requests

  →requiring careful reading and review of the grant funding notice and application guidelines by USDA staff outside of Washington, DC and outside of the authors of the VAPG guidelines prior to its being published. Taking this extra step to have non-Washington and non-VAPG staff reviewers of the funding notice will help to identify areas where the guidelines can be improved and simplified before release to the public.

  →developing an eligibility assessment tool handbook for potential applicants

  →offering training for grant reviewers
- Eliminate the "project cost per producer" criteria from the application process. This feature favors projects for sheer numbers and cost per producer rather than weighting positively toward projects of merit. It also shifts points to projects with high numbers of producers and disadvantages smaller scale projects.
- Include farmers and other end-users, including organizations representing sustainable agriculture issues and concerns, in the review and ranking of VAPG program proposals.
- Make available on the USDA website two models of completed grant applications, one for the planning grant applicant and one for the applicant applying for a working capital grant.

- ○ Keep state Rural Development offices as the first point of contact for grant applicants. USDA should conduct regional workshops emphasizing interaction between state Rural Development staff and applicants in order to facilitate communication and education about the application process.
- ○ Partner with non-profit organizations and state departments of agriculture to offer workshops on business development and grant writing skills, with a particular focus on the VAPG program.

Recommendations for Administrative Branch

○ Establish a presidential initiative within the VAPG program that specifically targets proposal evaluation points to proposals that *add value to rural communities* by:

- ○ creating the potential to increase income and self employment opportunities in farming and ranching
- ○ benefiting the local economy through social and environmental improvements to the area
- ○ increasing diversification of agriculture and industry on the farm and within the local economy
- ○ retaining and enhancing small- and medium-sized farms and ranches and preserving productive farm and ranch lands. This would again be in keeping with the goals and outcomes identified by Congress in the 2002 Farm Bill.

Conclusion

The VAPG program offers an important opportunity to target funding to small- and mid-sized farms, ranches and agricultural businesses pursuing new consumer driven markets for sustainably raised agricultural products. If USDA and Congress recognize this opportunity, the VAPG program will enhance economic opportunities in rural communities and create a new spectrum of rural businesses. If properly focused and fully funded, the VAPG program can contribute to a new rural economy that addresses agricultural profitability, economic decline and poverty alleviation.

Congress and USDA must recognize that the VAPG program was not solely intended to provide another source of funding for farmers and ranchers and agribusiness concerns. The VAPG program was intended – and Congressional language is clear on this point – to create self-employment opportunities and to contribute to asset- and wealth-building in rural communities. The VAPG program was intended to be neither solely an agricultural program nor a farm income support program – it was intended to be a rural development program in the comprehensive sense of the term.

To recognize the true and intended nature of the VAPG program, USDA must incorporate the Congressional language meant to guide the program as one that enhances farm and ranch incomes and increases self-employment opportunities in rural areas. USDA must clearly state these purposes in its funding notices, review process and in the program rules. USDA must also make these purposes clear in the regulation and program evaluation criteria that award points to proposals. Strong and clear Congressional language targeting the VAPG program in this way exists. USDA must now listen and make the necessary changes.

As debate begins on the next Farm Bill, the purposes and funding of the Value-Added Producer Grant program will be one of the major issues facing Congress and the administration. The VAPG program can and should better serve America's small- and mid-sized farmers and ranchers. If Congress and USDA design and implement the VAPG program as it was intended and authorized by Congress, it can be a vital contributor to the revitalization of the rural economy and a source of building assets and wealth for rural people and in rural communities across the nation.