USDA Rural Development

Committed to the future of rural communities.

Partners in Value

Value-Added Producer Grants:
Building a stronger rural economy through value-added business

Why Should Producers Add Value?

As producers of crops and livestock, American farmers and ranchers receive only what the market pays for a raw commodity. But when they are able to perform further processing themselves, they can reap far greater rewards—money that would otherwise go to other "middlemen," often in distant locations.

Examples of producers' adding value themselves could include a co-op or other group of wheat growers processing their own grain into bread or pizza crusts, or corn growers processing their grain into ethanol. Value-added efforts such as these not only help producers keep more of the profits derived from their efforts, but they usually help to keep more dollars in rural areas of the nation. As more foreign nations develop modern agricultural systems, it becomes ever more imperative for American producers to pursue value-added activities.

It is the goal of the Value-Added Producer Grants (VAPG) program of USDA Rural Development to help accelerate the pace of the transformation of the nation's agricultural economy into one focused on producer-owned, value-added businesses.

Since 2001, USDA has awarded $180 million for 1,200 VAPG projects.

What Is Value-Added?

Value-Added is defined as the incremental value that is realized by the producer from an agricultural commodity or product as the result of:

1. a change in the physical state (e.g., wheat into flour);
2. production in a manner that enhances the value of the agricultural commodity or product, as demonstrated through a business plan;
3. physical segregation in a manner that enhances the value of the agricultural commodity or product (e.g., organic carrots);
4. farm- or ranch-based renewable energy (e.g., electricity generated from an anaerobic lagoon); or
5. aggregation and marketing as a locally produced agricultural food product.

Regardless of the method used to add value to agricultural commodities, applicants must demonstrate an expansion of customer base and an increase in revenue to agricultural producers.

Applications may also be considered for reserved funds if they meet the definition of a Mid-Tier Value Chain, which involves local and regional supply networks that contain at least two alliances, linkages, or partnerships and which directly impact the profitability and competitiveness of small and medium-sized family farms and ranches.

Program Background

The VAPG program was first authorized by the Agricultural Risk Protection Act of 2000 and was amended by the 2002 and 2008 Farm Bills. Grants are made to enable producers to develop businesses that produce and market value-added agricultural products. It is the policy of the Secretary of Agriculture to fund a broad diversity of projects that help increase the agricultural producers' customer base and share of the food and agricultural system profit.

The 2008 Farm Bill also reserved funds for projects benefiting beginning farmers or ranchers, socially disadavantaged farmers or ranchers, and mid-tier value chains.

Applicants may propose a timeframe for the project up to 36 months in length.

Eligible Applicants

1. Independent producers;
2. Farmer or rancher cooperatives;
3. Agricultural producer groups;
4. Majority-controlled producer-based business ventures.

Priority will be given to projects that contribute to increasing opportunities for beginning farmers or ranchers, socially disadvantaged farmers or ranchers, or operators of small- and medium-sized farms and ranches that are structured as a family farm.

Eligible Purposes

- Planning activities, such as conducting feasibility studies and developing business plans for processing and marketing value-added agricultural products.
- Working capital expenses for processing and marketing value-added agricultural products, including inventory, salaries, and office supplies.

Ineligible Uses of Funds

- Pay costs of preparing the application package for funding for the VAPG program;
- Pay costs of the project incurred prior to grant approval;
- Fund political activities;
- Plan, repair, rehabilitate, acquire, or construct a building or facility (including a processing facility);
- Purchase, rent, or install fixed equipment.
- Pay for the repair of privately owned vehicles;
- Fund research or development;
- Pay for production-related expenses;
- Purchase land;
- Pay for goods and services provided by a person or entity who has a conflict of interest.

Grant Selection

Planning grants will be evaluated based on the following criteria:

1. Nature of the proposed venture;
2. Qualifications of those doing the work;
3. Commitments and support;
4. Project leadership;
5. Work plan/budget;
6. Amount requested;
7. Project cost per owner-producer;
8. Business management capabilities;
9. Sustainability and economic impact;
10. Type of applicant (beginning farmer or rancher, socially disadvantaged farmer or rancher, or operator of a small or medium-sized farm or ranch structured as a family farm).

Working capital grants will be evaluated based on the following criteria:

1. Business viability;
2. Expanded customer base/increased returns;
3. Commitments and support;
4. Management team/work force;
5. Work plan/budget;
6. Amount requested;
7. Project cost per owner-producer;
8. Business management capabilities;
9. Sustainability and economic impact;
10. Type of applicant (beginning farmer or rancher, socially disadvantaged farmer or rancher, or operator of a small or medium-sized farm or ranch structured as a family farm).

Applications will be evaluated by technical experts appointed by USDA Rural Development.

Recipient Responsibilities

1. Recipients will need to submit documentation substantiating information regarding ownership, finances, and support referenced in the application. Those groups receiving working capital awards will need to provide feasibility studies and business plans;
2. Recipients will need to enter into a grant agreement with Rural Development;
3. Recipients should use grant and matching funds within the timeframe proposed in the application;
4. Recipients will need to report on the progress of the project on a semi-annual basis, with a final report due at the end of the project.

For Additional Information

For more information, visit our Web page on the Internet:

www.rurdev.usda.gov/rbs/coops/vadg.htm.

Or contact your USDA Rural Development State Office or any Rural Development field office. You can reach your State Office by calling 800-670-6553 and pressing “1”.

You may also contact USDA Rural Development Cooperative programs at (202) 720-8460 or by e-mail: CPGrants@wdc.USDA.gov.

PA 1810
February 2005
Revised May 2009