

Initial Assistance Grant

Information and Application

Sponsored by the

Kansas Cooperative Development Center (KCDC)

The KCDC is a program of the Arthur Capper Cooperative Center in Kansas State University's Department of Agricultural Economics. It operates in partnership with the Agricultural Value Added Center, a unit within the Kansas Department of Commerce and Housing's (KDOCH) Agriculture Products Development Division and the cooperative development program of the Kansas USDA/Rural Development office. The KCDC is funded by a USDA Rural Cooperative Development Grant to Kansas State University with matching fund participation by Kansas State University. The Initial Assistance Grants are awarded by Kansas State University from funds received from USDA's grant.

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Background

The Kansas Cooperative Development Center (KCDC) was established in 1998 to assist agricultural producers and businesses improve their economic condition by developing value-added businesses. One form of assistance provided by the KCDC is an Initial Assistance Grant (IAG). This document provides information for those interested in applying for an IAG.

A critical need exists in Kansas to improve the rural economy and to reduce the economic stress in rural areas. An effective strategy is (1) to use an economic sector-based approach that targets the predominant economic sector, agriculture, and (2) to develop new business enterprises that add value to the agricultural products produced in this region, thereby improving employment opportunities and income.

The opportunity to create new value-added, cooperative businesses is rising, in part because of a new tide of increased interest that reached its highest level in the northern states of North Dakota and Minnesota during the mid 1990s and is now flowing south through the Great Plains states. The Freedom to Farm Act created another major reason farmers are interested in value-added cooperative businesses. The shift away from government programs and towards a more market-oriented economy is requiring farmers to develop different marketing strategies. One strategy farmers might pursue is adding value to their products by marketing them through vertical marketing systems that include vertical integration (ownership) and coordination (contracts) that rely on the cooperative form of business.

This increased interest requires a major educational and assistance program. Many of those who want and need help are highly motivated to improve their situation and also have promising business venture ideas. A first step many individuals pursue is to join together in a group with common interests by creating formal or informal organizations. These organizations often have the potential to evolve into formal associations or cooperative-oriented businesses if the businesses are economically feasible, appropriately developed and professionally led and managed. Even though those in need gain by combining their resources, these resources are often insufficient at the early stages of business development. Their private human capital and financial capital resources alone, even when combined through group action, are not sufficient for them to evaluate and implement a promising business venture.

Interested producers often need education in business development and operations including economic, business, legal and technical information about forming new businesses. Business development usually requires the preparation of a feasibility study and a business plan. Low resource producers and their organizations, in particular, often need development assistance.

The KCDC was established through a USDA Rural Cooperative Development Grant. The KCDC has created a closer working relationship between two critical elements in a business development program—technical assistance and education assistance. Also strengthened was the partnership between Kansas State University, Kansas Department of Commerce and Housing's (KDOCH) Agriculture Products Division and the Kansas USDA/RD cooperative development program.

Grant Purpose

The overall goal of the KCDC is to improve earnings and economic conditions for agricultural producers and other rural businesses and residents. Encouraging and assisting cooperative business development through value-added marketing and processing of agricultural products is one way to accomplish this goal.

One of the critical elements essential for creating new business ventures is professional services provided by legal, accounting and business consulting experts. Getting a new business venture started and organized is often difficult because of a lack of funds. The IAG can provide for expenses incurred in obtaining legal, accounting, consulting and other business development expenses in new start-up businesses. Most start-up ventures desperately need professional services in the very early stages, prior to and as a prerequisite to getting a major capital subscription from producer members and other stakeholders. An IAG is intended to help these ventures start on a solid foundation.

The IAG could help fund a feasibility study and initial business plan for a new agriculture group business venture. If an IAG shows a venture is viable, the applicant may be able to use the results to obtain other financial assistance, such as that available through public and private sources including the KDOC Agricultural Products Division, USDA Rural Development programs such as the Value Added Development Grant and the Business and Industry Loan, commercial banks and private investors. This additional financial assistance from loans and grants may be used to further develop a business plan.

Eligibility

Eligible applicants must be a group or an association of agricultural producers with an idea for a business venture project. The IAG is available to applicants who can demonstrate that their business idea has the potential to profitably add value through processing or marketing of existing commodities or alternative crops and livestock. The IAG is designed to add value to agricultural commodities and to foster long-term economic growth. It cannot be used only to enhance or enlarge existing crop and livestock enterprises. Applicants must consider the potential environmental impacts at the earliest planning stages and develop projects that minimize adverse impacts on environmental resources of rural areas.

The applicant and its members do not have to operate solely in Kansas or be a Kansas business, if the economics show that more value can be added by locating some operations closer to input suppliers or end-users in other states. But the project and its proposed benefits must have the potential to increase income to Kansas agricultural producers.

IAG funds may be used for legal, accounting and consulting fees, market analysis, financial analysis and business planning as well as travel and communication expenses of the applicant. However, travel and communication expenses may not exceed 20 percent of the total grant. IAG funds may also be used for other expenses the KCDC deems appropriate. IAG funds may not be used for salaries, equipment, buildings, real estate or purchase of inputs or other resources used in the ongoing operation of the business.

Funding Levels

In the past, IAGs were typically limited to funding up to \$5000 for each project. Now the IAG has additional funding levels for groups that show they have a distinct need and successfully follow the IAG guidelines. These guidelines include submitting quarterly reports and working with the KCDC to follow suggested best management practices while forming the business venture.

The initial funds distributed will be limited to \$5000. Additional funds could potentially be approved based on further needs as the applicant works with the KCDC in business education and technical assistance.

Evaluation of Applications

IAG applications are evaluated in the order in which they are received. Appropriate projects will be funded on a first-come, first-serve basis, for as long as funds allocated to the program are available.

Applications will be judged on the following criteria:

- Value-added product or process potential
- Development to date
- Leadership skills of applicants
- Business experience
- Commitment to follow a professional business development process
- Benefit to the Kansas economy
- Matching funds capability
- Key personnel for the project
- Budget information

Responsibilities of Applicants

Approval to fund a project under the IAG program requires that KCDC and the applicant enter into a written agreement that defines the terms and conditions of funding. The KCDC will provide or arrange for education in business development and operations including economic, business, legal and technical information about forming new businesses before initial funds are disbursed.

IAG funds will be disbursed in payments reflecting the funding level of approved project applications and in as timely a manner as possible after the applicant's project is approved. **In the event of a violation of the agreement by the applicant, KCDC funding is subject to repayment.**

The approval of an IAG is contingent upon the applicant providing matching funds for the project from private sources. **The applicant is required to document a one dollar match for every two dollars requested in the IAG program.**

Recipients of the IAG will be required to submit to the KCDC the following reports:

- 1. Quarterly progress reports describing activities accomplished and expenses incurred, which should show proof of payment and copies of invoices (where appropriate).**
- 2. A final financial report of expenses incurred within the scope of the project.**
- 3. A final written report describing the work performed and the results obtained.**
- 4. A final narrative presentation to the Kansas Cooperative Development Consortium.**

Application Procedure

Applicants are encouraged to discuss their project ideas with the cooperative development specialist of the KCDC, who can assist in determining eligibility for an IAG and in the application process. Approval of an application involves the following steps:

1. Submit a signed application with all four application requirements completed (page 7) to KSU's Kansas Cooperative Development Center for preliminary review.
2. A review team comprised of members from KSU, KDOCH and USDA/RD will review the application, provide comments and recommend if an IAG should be awarded. KSU will then act on the recommendation.
3. Projects approved to receive an IAG will enter into a written agreement with KSU. (Sample agreement on page 10.) This agreement stipulates that applicants agree to follow "Best Management Practices" (see pages 5 and 6) in their business development project.
4. The KCDC and applicant will work together to achieve the project's goals.

Best Management Practices for Business Development

The KCDC believes many new business ventures require education and assistance while starting and forming these new ventures. The following stages and steps of business development are included in the "Best Management Practices" (BMP) the KCDC will encourage IAG recipients to follow. The KCDC and the IAG recipient will jointly determine the amount of education on BMP needed by each group that receives an IAG.

BEST MANAGEMENT PRACTICES CHECKLIST

Basic Stage Steps	<i>Accomplished / On-going</i>	<i>In- process</i>	<i>Work on next quarter</i>	<i>Not applicable</i>
1. Select a promising business opportunity idea				
Discuss idea among a small group of potential members				
Formalize specific project ideas				
Find agricultural producers to champion the idea				
Focus on building a business, not on creating jobs				
2. Select steering committee				
Steering committee must be involved, committed and feel ownership of project				
Establish action plans and timelines				
Hold regularly scheduled meetings with prepared agendas				
Keep meeting minutes to record decisions and progress				
Expect a time consuming path to success				
Focus first on why it will work, then why it won't work				
3. Select consultants and advisors				
Understand the industry				
Some information has to be discovered instead of absorbed				
Get legal advice before you need it (prevention vs. treatment)				
4. Conduct a preliminary market evaluation				
Build business in response to market needs				
SWOT analysis (strengths, weaknesses, opportunities, threats)				
Consider partnering with other value-added groups and/or industry players				
5. Assess producer and investor interest				
Conduct a potential members producer survey				

Basic Stage Steps, Continued

6. Select interim board of directors				
Committee members should be honest, steady and trusted by potential members				
Need someone to challenge idea instead of everyone thinking the same				
Select representatives outside of agricultural producers				
Concentrate on the finished project				
Answer, "Why will this project be successful?"				
7. Organize with simple Articles of Incorporation and Bylaws				
Elect official board of directors				
Obtain Directors and Officers insurance				
8. Acquire funding for analysis stage				
Look for available grants				
Members show commitment by contributing financial obligations				

Analysis Stage Steps

9. Conduct a feasibility study (Should we do it?)				
Feasibility study should include: Market evaluation				
Economic evaluation				
Operating evaluation				
Financial evaluation				
Management evaluation				
10. Prepare a business plan (How do we do it?)				
Business plan should included: Organizational plan				
Marketing plan				
Operational plan				
Financial plan				
11. Organize the financial plan				
Don't underestimate capital needs (working capital, startup losses, contingency)				
Don't short projected equity requirements				

Implementation Stage Steps

12. Recruit members and investors				
Prepare prospectus				
13. Hire management team				
14. Acquire facilities, hire employees				
15. Implement business plan and begin operations				

Application Requirements

Review and complete the following four requirements and send the completed application to:

David Coltrain
Kansas Cooperative Development Center
Department of Agricultural Economics
Kansas State University
303 Waters Hall
Manhattan, KS 66506

Phone: 785-532-1523
Fax: 785-532-6925
E-mail: coltrain@agecon.ksu.edu

1. **Initial Assistance Grant Application Cover Sheet** (see attached form, page 8)
2. **Project Description** – attach a written narrative describing the proposed project and addressing the following areas:
 - Proposed product or process and targeted market
 - Summary of progress to date
 - Projected results and marketing plans
 - **Specific objectives and timeline for the project to accomplish in the next 12 months (monthly timeline) and the following four years (annual timeline).**
3. **Project Needs** – attach a written outline describing the project needs, resources needed, and projected timelines for meeting those needs. Assistance in accomplishing the following objectives should be addressed:
 - Business establishment
 - Attorney fees (filing articles of incorporation and by-laws)
 - Accountant fees
 - Other
 - Market and business analysis consultant fees
 - Market study
 - Feasibility study
 - Business plan
 - Other
 - Technical development
 - Regulations, licenses, patents
 - Other
 - Other project needs
 - Grants and loans matching requirements
 - Travel expenses
 - Communication expenses
 - Other
4. **Project Budget** – complete the attached Project Budget Information form (page 9) outlining the costs of the identified needs

**KANSAS COOPERATIVE DEVELOPMENT CENTER
INITIAL ASSISTANCE GRANT
*Application Cover Sheet***

APPLICANT NAME & ADDRESS	Project City
	Project County
	Fax
Contact Person/Title	E-mail address
Daytime telephone number(s)	Other telephone number(s)
Brief Project Description (This section must be suitable for release to the public.)	
Signature of Authorized Official	
Name and Title (type or print)	
Date	

**KANSAS COOPERATIVE DEVELOPMENT CENTER
INITIAL ASSISTANCE GRANT
Project Budget Information**

APPLICANT NAME:

PROJECT NEEDS	FUNCTION OR ACTIVITY	ESTIMATED EXPENSES		
		IAG	MATCHING	TOTAL
Business Establishment	Attorney fees			Total for Business Establishment
	Accountant fees			
	Other (list)			
	Other (list)			
Market and Business Analysis	Consultant fees			Total for Market and Business Analysis
	Market study			
	Feasibility study			
	Business plan			
	Other (list)			
Technical Development	Regulations			Total for Technical Development
	Licenses, patents			
	Other (list)			
Other Project Needs	Travel expenses.			Total for Other Project Needs
	Final Presentation			
	Communication expenses			
	Other (list)			
	Other (list)			
	Other (list)			
Total Project Amount				

**SAMPLE
AGREEMENT**

**Kansas Cooperative Development Center
Initial Assistance Grant Award Agreement**

This is an agreement between the "Business Venture" and the Kansas Cooperative Development Center (KCDC), a unit within the Arthur Capper Cooperative Center, Department of Agricultural Economics, Kansas State University. The KCDC agrees to provide an Initial Assistance Grant to the Business Venture to create a new business as specified in the Business Venture's application dated _____ and recommended by the Kansas Cooperative Development Consortium Executive Committee on _____.

Business Venture Agrees to:

- Use the IAG funds within one year of their approval. (Permission for an extension may be requested.) Funds not utilized after two years from IAG approval will be forfeited.
- Use the professional business development practices consistent with "Best Management Practices" (BMP) and to request and receive this education as needed from KCDC personnel and its partners.
- Provide Quarterly Reports
The Business Venture will provide the KCDC with written quarterly reports that include: (1) activities accomplished, (2) BMP checklist and (3) expenses incurred. The Business Venture will provide proof of payment and copies of invoices for all IAG expenditures.

The Quarterly Reports will be due within 30 days from the end of each quarter that ends the last day of March, June, September and December. The KCDC will send a "reminder" letter and an expense report with a BMP checklist at the end of each quarter to the Business Venture.

- Provide a final financial report of expenses incurred within the scope of the project.
- **Provide a final written report describing the work performed and the results obtained.**
- Present a final oral presentation to the Kansas Cooperative Development Consortium within 90 days of utilizing their IAG.

KCDC Agrees to:

- Provide a sum of \$ _____ to the Business Venture for use in business establishment, marketing and business analysis, technical development and other approved project activities.
- Provide or arrange for education in business development and operations including economic, business, legal and technical information about forming new businesses as outlined in "Best Management Practices" as mutually determined as appropriate by the Business Venture and KCDC.

Tax # _____ Agreed to this _____ day of _____, 2003

**For the
Business Venture**

(Name) _____

(Title) _____

**For the
Kansas Cooperative Development Center**

(Name) _____

(Title) _____