

“Access to equity is a challenge that confronts any CED group ambitious enough to want to make a permanent difference in its community. How can that first powerful bit of money to jumpstart a project be accumulated.”

~ Stewart E. Perry

Regenerating Regional Food Systems

The Financing Dilemma

Everyone out there going on the 100 mile diet is onto something very important. Eating food produced closer to home has been identified as a major way to address climate change, chronic health issues, community economic development, and food sovereignty. It’s a big impact strategy, and has great appeal to a growing number of social enterprises, community organizations, and ethical mainstream businesses.

A big impact strategy, but not an easy one to implement. All short-distance¹ food systems in Canada have been gutted by NAFTA provisions that allow subsidized American and Mexican producers to undercut Canadian farmers who have shorter growing seasons and pay more for farm labour. Food systems have been centralized under the control of a very small number of transnational corporations. By selling inputs to farmers, and then buying the farmers’ products, these transnationals have established themselves as “price setters” and the farmers as “price takers.” The result for family farmers, not just in Canada but all over the world, has been a loss of land and livelihoods.

Not all consumers (or farmers) are aware how this global situation affects what’s on their dinner plates. Canadian farming as we currently know it has not been economically viable for over 30 years. It’s that simple. Without our own system of agricultural subsidies (called the “Business Risk Program”) even family farmers with substantial acreages would be long gone.

Sure, small family farmers are cashing in on the growing interest in farmers’ markets and Community Shared Agriculture (CSA). But few can count on that income to support their household, even if sales were year round. They’re not. It’s a rare farmer that can afford to preserve crops for that purpose.

¹We choose to say “short distance” rather than “local” food systems because the Canadian Food Inspection Agency has defined “local” to be food from within a 50 km radius. This legal definition poses a problem. To use the word “local” in the labelling of any food product originating outside that radius could lay the groundwork for a challenge to the product’s distribution.

BY SANDRA MARK AND FRANK MORELAND

The capital requirements for heating, cooking, cooling, dehydrating, flash freezing, storage, and distribution of primary ingredients are high, especially given today’s highly-stringent food safety regulations. The many farmers now investing in their own on-farm commercial kitchens run up against the same barrier: the astronomical cost and the mind-numbing regulatory framework you face for infrastructure that can handle commercially viable volumes.

Moreover, the food processing infrastructure once so common in Canadian communities has been “hollowed out.” Big, centralized companies have bought out small, local companies. Their operations have been closed and the equipment dispersed to prevent competitors from using the facilities.

Whenever any group decides it’s time to regenerate the short-distance food system, they quickly confront the supply side of the problem ... To re-localise food, entire food infrastructures must be created at a scale big enough to meet the needs of regional populations – let’s say, 100,000.

So we are indeed witnessing a growing appreciation of Canadian and bio-regional food and demand for it. But whenever any group – farmers, co-operators, nonprofits, community organizations – decide it’s time to regenerate the short-distance food system, they quickly confront the supply side of the problem. That means not just facilities for processing and preserving meat, fruit, and vegetables, but warehousing, commercial coolers and freezers, and means of distribution.

In short, to re-localize food, entire food infrastructures must be created at a scale big enough to meet the needs of regional populations – let’s say, 100,000, as E. F. Schumacher recommended.

Don’t misunderstand us. The demand side is crucial. In fact, an enormous level of sales will have to be attained in order to



(photo) High temperature thermal processing in the retort cookers at E-Fish-Ent Fish company Ltd in Sooke, B.C. produces a sterile food product with a shelf life of five years. In operation since 1990, this family-run business has its own line of all-natural fish products, and processes food for other small-scale producers on a fee-for-service basis. The capital investment for such infrastructure is substantial. Access to it offers small producers across the region a highly remunerative way to add value to their fruit, vegetables, and meats. (inset photo) The controller for the pouching machine, custom-built for E-Fish-Ent for the production of quality Home Meal Replacement entrees. Photos by Frank Moreland, permission of E-Fish-Ent (www.e-fish-ent.ca).

hold down costs per unit, pay wages, service debt and operating costs, and offer a return on capital invested. That will require a business strategy that can move bio-regional produce into a higher value segment of the marketplace.

But what we would like to talk about here is the importance of building the physical infrastructure of bio-regional food supply. This is not a task to entrust to government or the international corporate sector. It is a task for ethical family business and to some extent social enterprise. Specifically, in our view, it is a task for the combined efforts of family farmers and triple bottom-line private sector food businesses, and may sometimes include partnerships with community food security groups.

Three Problems

We have become accustomed to a very diverse diet. To make that diet available in commercial quantities from bio-regional producers is a daunting challenge.

First off, the farmers have to be convinced that they can make money adding value to their crops through processing and preserving. Only then will they commit to growing the crops that will pass through the infrastructure. (On the other hand, it's hard to justify investment in infrastructure before farmers have made that commitment. It's the classic "chicken and egg" dilemma.)

It's not made any easier by the fact that social economy organizations frequently confuse "food security" with "food poverty." They expect local farmers to turn over a lot of food at low prices for distribution to low-income families. This disregard for the financial needs of farmers has estranged many farmers and farm organizations from the social economy.

The second problem is to complete a business plan. This is not as difficult as it once was. Several funding agencies now perceive the value of social enterprise and co-operatives and provide programs to fund this work. The real problem is getting reliable business numbers. For those you need people experienced in the food industry who recognize that, before it can provide social benefits, a social enterprise must make a profit while being exposed to real market forces.

Once a business plan is in place, we come to the third and biggest problem of all: finding financing.

Initiatives in food infrastructure require far more start-up capital than most social enterprises now attempt to mobilize. Costs for facilities can run up into the millions. The issue is even more challenging when the social enterprise is intended to make a profit. (If you don't aim to make a profit some day, don't expect to win any commitment from farmers.)

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But what's really revealing is the amount of equity that funders/financiers expect the social enterprise to pony up first. All the rhetoric about support for social enterprise dissolves, even among "friendly funders." What was once a funder of social programs now becomes a financier of viable business. He or she has to see the tangible assets the borrower will provide in order to "share the risk."

Farmers have already invested copious amounts of sweat equity in the food system. Their investment subsidizes every bite of food we buy from them. They already carry substantial debt and face substantial risk to grow their crops. Should they also be expected to lay out their own money (or borrow money) to finance the infrastructure essential to Canadian food security?



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Why is this infrastructure just the farmers' and food processors' problem? Where is the "community" when we need it?

VIHFC

The experience of the Vancouver Island Heritage Foodservice Co-operative (VIHFC) is illustrative of what social entrepreneurs are up against if they really want to build a short-distance food system.

Since 2005, we have been working with farmers, food processors, and community organizations to create a solution to the food insecurity now faced by every one of Vancouver Island's 800,000 inhabitants. It began with a coalition of community food security groups that wanted to know why the Island's food production had plunged in recent decades. They also wanted to figure out a strategy to "bring back the food." Our research report, "Contending with the Local Food Access Puzzle," indicated a strategy was needed to expand not the demand for local food, but its supply. In addition, that strategy had to make it possible for farmers to make money. "Without farmers," we concluded, "there is no food security."

VIHFC was incorporated in November 2007 as a multi-stakeholder co-operative. The idea was that community organizations and farmers should band together to address the learning and the business development tasks. The community organizations brought to the table an ability to access government and foundation funds for planning and learning. The farmers brought their desire to once again supply food to islanders on an economic basis.

A couple of farmers stepped forward with facilities and equipment for primary food processing and product development directed at the "HRI" (Hotels, Restaurants, and Institutions) food service market. This market offered the possibility for face-to-face relationships with purchasers and lower marketing and packaging costs. It also offered high-end customers, who are aware of the value of food grown closer to home. (Supplying retail grocery stores with regionally grown food is a complicated and expensive business.)

With input from HRI purchasers in committees, events, and meetings, the farmers and the community organizations completed a business plan. It would require a capital investment. And that's when the fun really started!

- We could become members of the Canadian Worker Co-op Federation. That would gain VIHFC access to the Federation's Tenacity Fund and a \$50,000 "near equity" patient loan. But each member would first have to invest \$1,000 cash.
- The new debt programs at the Business Development Bank are attractive, but the members have to have an equity stake to activate these programs.

- A new priority of Vancity Credit Union is investment in sustainable agriculture ... but their funds require the co-op to have equity in place.
- Canada's new Agricultural Loans Act will provide a loan loss guarantee to a bank or credit union for 80% of a loan for farmers who have been in the business for over six years, and 90% for beginning farmers. But guess where the other 10-20% of the collateral needs must come from? As with any business start-up, financiers expect the people who will eventually benefit from the business to invest or provide collateral.

The situation is not altogether bleak. As a co-op in B.C., we are allowed to issue shares to members and close family, friends, and business associates. If we raise \$25,000 in equity that way, we may (through the Ministry of Small Business) be able to provide investors with up to a 35% tax credit on their investments. The Canadian Worker Co-op Federation also has a program that allows anyone who invests in our co-op to register their investment in an RRSP program.

That's our financial strategy. To get it going, we need to get that chicken to lay an egg (or get an egg to hatch) with the \$25,000 in equity.

It would appear that social enterprises themselves, and our friends in the general public, need to enter the capitalization arena. If we wish to scale up community economies, we need to be ready with our own dollars to start the flow of capital.

Resolving the Financial Dilemma

As long-time providers of technical assistance in community economic development, we know that major dilemmas represent points of system breakdown. To surpass them, a new strategy has to be put in place.

The same applies to the dilemma of financing the regeneration of regional food systems. Traditional bankers want to see that the people who will benefit from the enterprise are willing to be the "first in." Bankers can then finance what is left. *How do we get the community of eaters to be those "first-in investors," to build the short-distance food system they will benefit from?*

To that end, we have been co-ordinating a process to encourage "friendly funders and financiers" in B.C. to work together to help bridge the financing gap. The food industry has been a risky investment for some years. So it's understandable that financiers view with great caution the option to re-enter the sector. In B.C., the Endswell Foundation has already provided several new food businesses with equity and business support. Our hope is that more funders/financers will be inspired by their example. A concerted and co-ordinated effort on the part of agricultural as well as community financial sources is required to develop a program for mobilizing and investing in food businesses supportive of farmers and communities.

But beyond these institutions, it would appear that social enterprises themselves and our friends in the general public need to enter the capitalization arena. *If we wish to scale*

Résumé : Régénérer les systèmes alimentaires régionaux

L'alimentation locale est une stratégie qui intéresse les OSBL, les organismes de bienfaisance, les coopératives et d'autres organisations de l'économie sociale. Elle répond aux défis du pic pétrolier et des changements climatiques. Elle crée des entreprises contrôlées localement. Elle met littéralement de la nourriture sur la table de personnes.

Mais les stratégies d'alimentation locale sont difficiles à réaliser. Plusieurs traitent de l'accroissement de la demande pour les aliments locaux ou de l'obtention de nourriture à faible coût pour les familles à faible revenu. Erreur! Pour faire fonctionner l'alimentation locale, un énorme investissement doit être fait pour revitaliser l'offre d'aliments – au niveau des installations, de l'équipement et des contrats de transformation, de mise en conserve et de distribution de hauts volumes d'aliments produits localement tout au long de l'année. Cette infrastructure régionale d'aliments doit aussi être viable commercialement. Elle doit impliquer complètement les agriculteurs d'une région en leur assurant une augmentation importante de revenus d'affaires. Sans eux, il n'y aura aucune sécurité alimentaire communautaire.

Les entreprises sociales pourraient être très importantes pour ce développement, joignant comme elles le font les intérêts communautaires avec l'initiative entrepreneuriale. Mais le financement de projet représente une grande difficulté, comme l'a découvert la Vancouver Island Heritage Food Co-operative (VIHFC). Les membres de la VIHFC, un mélange d'organismes communautaires et d'agriculteurs veut fournir des légumes, des fruits et de la viande transformés et mis en conserve aux hôtels, restaurants, et institutions de l'île. Mais même les « bailleurs de fonds sympathiques » s'attendent à ce que les agriculteurs investissent beaucoup de capitaux dans l'entreprise pour commencer. Si les agriculteurs avaient ces sommes d'argent (et ils ne l'ont pas), devrions-nous nous attendre à ce qu'ils le risquent sur ce qui est essentiellement un actif communautaire?

Les institutions financières au sein des secteurs communautaires et agricoles doivent mener des actions coordonnées et concertées afin de palier à ce manque de capitaux. Mais le secteur communautaire dans son ensemble doit aussi le faire, via de larges levées de fonds. L'infrastructure alimentaire régionale, comme d'autres éléments au cœur de l'économie, devraient être financés par toute la communauté. ■

up community economies we need to be ready with our own dollars to start the flow of capital.

We ourselves need to become comfortable and capable with business risk, risk mitigation, and how to design an equity drive. We need to learn how to find the individuals who are concerned about the short-distance food system and to present them with opportunities to invest critical amounts in its regeneration. We need to strengthen our own understanding of the function, structure, and management of equity. In the food security movement, this fundamental knowledge and experience is weak.

The community economic development movement has been very successful in developing debt-based funds and strategies. Now it has to get just as good in the provision of equity. We also need to learn how to create partnerships between mainstream ethical businesses in the food industry and community food security groups.

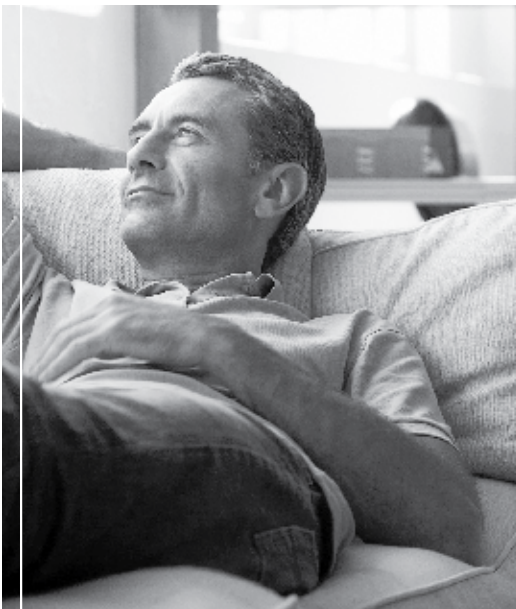
The community economic development movement...needs to learn how to create partnerships between mainstream ethical businesses in the food industry and community food security groups.

Social enterprise has to get beyond its fixation on the demand for Canadian and short distance food, and grapple with the supply side of the problem. The supply side means learning how to work with capital, with equity, and above all, with farmers and their need to make a decent living. Remember: without farmers, there is no food security.



SANDRA MARK and FRANK MORELAND are owners and managers of Edible Strategies Enterprises, Ltd., and co-editors of the "Growing Hope" Special Edition of Making Waves (Summer 2006). Frank and Sandra would like to hear from other community groups and co-ops who are struggling to find ways to finance food system infrastructure. Contact them at 250-335-3001 or ediblestrategies@shaw.ca.

For a copy of their report, "Contending with the Local Food Access Puzzle" (funded through the Community Based Research Program of the BC Medical Services Foundation), go to... http://www.ediblestrategies.com/fsd/FinalReport_BCMSF.pdf. For more information on mobilizing finance behind local food, check out the Access to Finance for Food System Regeneration Project, www.nanaimofoodshare.ca and click on the 'Island Good Food Initiative' button.



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