

# **WHY FARMWORKS MATTERS, IN NOVA SCOTIA AND BEYOND**

## **Evaluation**

**Prepared for the Board of Directors,  
FarmWorks Investment Cooperative**

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## FarmWorks

FarmWorks Investment Co-operative Limited was established in 2011 by community leaders concerned about Nova Scotian agriculture and food: economic issues, security of supply in a changing world, cost, health, social and cultural issues and the environment. FarmWorks' mission is to promote, and provide, strategic and responsible community investment in food production and distribution in order to increase access to a sustainable local food supply for all Nova Scotians.

Over 50 Community Economic Development Investment Funds (CEDIFs) have been established in Nova Scotia as mechanisms for leveraging local capital for local investment in Nova Scotian businesses. Investments in CEDIFs enable shareholders to receive Provincial tax credits. FarmWorks Directors established a CEDIF which raised \$224,500 in 2012, \$225,300 in 2013 and \$271,000 in 2014 from investors across Nova Scotia.

Between May 2012 and December 2013 loans in the amount of \$450,000 were issued to 21 food-related businesses. The Nova Scotia Securities Act states that CEDIF capital placements will take the form of equity or subordinate debt. FarmWorks volunteer Directors and Advisors issues loans following rigorous due diligence protocols designed to protect Shareholder investments while supporting and mentoring applicants.

FarmWorks provides loans to enterprises scaling up or launching agricultural and food-related businesses in NS. Businesses seeking funding send a preliminary application to FarmWorks. If the business fits FarmWorks principles and objectives, the applicant is asked to submit a business plan including current financial information and projections. Board Members and Advisors evaluate the plan, meet with the applicants and visit the site, and complete the Comprehensive Review. The Board makes a decision and a loan agreement is signed with successful applicants. Loans are provided to qualifying enterprises to help them to increase sustainable production and profitability through value-adding, marketing and related activities. Borrowers repay loans within 2 to 5 year terms at an interest rate that reflects both the unsecured nature of the loan and the patience of investors willing to accept moderate returns on investment. As repayments to FarmWorks are made, money is loaned to other qualifying enterprises. Guidelines for measuring and reporting outcomes are in place for enterprises receiving loans, and for all activities of the Board.

### **Economic and Social Rational**

Small to medium sized food related businesses have an increasingly important role in transforming Canada's food system and the economies within which they operate. Their contributions are multifaceted, but Canadian data that systematically indicates those contributions is limited.

**Economic benefits** of small and locally-focused food businesses are more carefully tracked in the United States where several institutions are conducting extensive research on the role of small, local food businesses in local economies. These benefits include:

- Job creation – e.g., in Iowa it costs almost \$69,000 of public investment to create one full-

time-equivalent retail job, and only \$18,000 to create a job in local food<sup>1</sup>

- Economic “multiplier” factors – small, local businesses tend to spend locally when purchasing inputs and services, resulting in significant economic contributions beyond just the revenue they generate - one recent study found that local food hubs in the United States have a “a gross output multiplier of 1.82, indicating that for every additional dollar of final demand for food hub products, an additional \$0.82 is generated in related industrial sectors.”<sup>2</sup> Scale also makes a difference as the multiplier factor for *small* farms in the United States can be as high as 2.6 – compared to large farm multiplier factor of 1.4<sup>3</sup>.
- There are also other, indirect (and induced) benefits, which are much more difficult to measure, but include such revenue as garnering foundation government grants, and money generated in rental and utilities sectors because of investments in local food.<sup>4,5</sup>

**Social benefits** of locally-focused food businesses include increased “social capital” or social fabric, which allows for peer-to-peer knowledge sharing, and a strengthened social safety net that can sometimes support local businesses when they fall on hard times.<sup>6 7</sup> Local, sustainable food can also serve community development in helping build the sense of community, promoting a place (e.g., tourism branding) and creating an avenue for “reclaiming sustainable rural spaces”.<sup>8</sup> While evidence is still limited in terms of health, we are finding that local food systems have the potential to improve both human and environmental health through shortening the supply chain and the manner in which they change social relations and how we understand accountability.<sup>9</sup> Finally, small, locally-focused food businesses are associated with improved food security<sup>10</sup> and can potentially contribute to community *resilience* as opposed to *dependence* on far-flung suppliers.

It is in this context that we set out to assess the contributions that FarmWorks made in less than two years. We knew that FarmWorks was a unique investment fund, and was considered a model for similar initiatives at the time being developed in other provinces, including British Columbia,

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1 Bregendahl C, and A Enderton. (2013). *2012 Economic Impacts of Iowa's Regional Food Systems Working Group*. Ames, Iowa: Leopold Center. Retrieved from <https://www.leopold.iastate.edu/>

2 Schmit, TM, BBR Jablonski, and D Kay. (2013). *Assessing the Economic Impacts of Regional Food Hubs: the Case of Regional Access*. New York: Cornell University, pp. 3.

3 Meter, K. (2008). *Local Food as Economic Development*. Minneapolis: Crossroads Resource Center. Retrieved from <http://www.crcworks.org/lfcged.pdf>

4 Schmit, TM, BBR Jablonski, and D Kay. (2013).

5 Hughes, DW. 2003. *Policy Uses of Economic Multiplier and Impact Analysis*. Choices, American Agricultural Economics Association <http://ageconsearch.umn.edu/bitstream/93725/2/2003-2-06.pdf>

6 Knezevic, I, A Blay-Palmer, K Landman, & E Nelson. (2013). *Models and best practices in Ontario communities of food*. Retrieved from <http://nourishingontario.ca/reports/>

7 Nelson, E, I Knezevic, & K Landman. (2013). The uneven geography of local food projects in Southwestern Ontario. *Local Environment: The International Journal of Justice and Sustainability*, 18(5), 567-577.

8 Marsden, T, & E Smith. (2005). Ecological entrepreneurship: sustainable development in local communities through quality food production and local branding. *Geoforum* 36, 440–451. See also Renting, H., T Marsden, & J Banks. (2003). Understanding alternative food networks: exploring the role of short food supply chains in rural development. *Environment and Planning A*, 35(3), 393-411.

9 Martinez S, M Hand, M Da Pra, et al. (2010). *Local Food Systems: Concepts, Impacts, and Issues*. ERR 97, U.S. Department of Agriculture, Economic Research Service.

10 Martinez S, M Hand, M Da Pra, et al. (2010).

Ontario, and Prince Edward Island. We also knew anecdotally that borrowing from FarmWorks could be beneficial to small businesses in the province. However, we needed to more systematically document the outcomes of FarmWorks loans, so in the spring of 2014 we surveyed businesses that had borrowed from FarmWorks.

## THE SURVEY

We conducted phone surveys with partners who borrowed from FarmWorks between May 2012 and December 2013. We spoke 18 people and we asked them five questions:

1. Why did you borrow from FarmWorks?
2. What portion of your capital came from FarmWorks?
3. How did the loan benefit your business?
4. Which of those benefits would now have been possible without FarmWorks?
5. Anything else (criticisms, suggestions, etc.)?

## OUR FINDINGS

### *1.0 Main Reasons for Borrowing from FarmWorks*

The partners found out about Farm Works through their own personal connections and through FarmWorks promotional presentations and booths. Some clients were even approached by FarmWorks representatives about the potential to take out loans.

The most commonly cited reason why businesses proceeded to borrow from FarmWorks is because the loans are much more accessible than anywhere else in Nova Scotia. There are three primary reasons why the loans are more accessible for small businesses: FarmWorks does not require collateral, credit checks or immediate repayment<sup>11</sup>. This is especially accommodating for newer business owners who may not yet have extensive credit history nor collateral. The “buy local” values behind FarmWorks aligned with many of the businesses, and thus attracted many to become affiliated with and to support FarmWorks. FarmWorks representatives were also accommodating, working around the businesses instead of them having to work around bank hours.

### *2.0 Percentage of Capital That Came From FarmWorks Loan*

The percentage of total business capital that the FarmWorks loan comprised ranged from 1.5% to 50 %. The lower percentages represented cases where there was already an established business and the FarmWorks loan was for a specific project, such as land improvement or infrastructure upgrades – there, the loan accounted for 15% to 100% of project capital.

The higher percentages of total business capital represented cases where businesses were newer and using the loan to “jump start” their production. There, roughly 25% of their total capital came from their FarmWorks loan, representing a much more significant contribution to their business.

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<sup>11</sup> Farm Works allows a three month grace period between the receipt of a business loan and repayment.

### *3.0 How FarmWorks Loans Benefitted the Businesses*

The most commonly mentioned benefits were related to production and profitability, and included improvements in efficiency, revenue stream, scale, customer base, product quality, diversification, and input cost-savings. New business connections were also noted as significant, as were promotion and support/mentorship. Businesses also noted they were able to create jobs as a result of obtaining their business loan. Our survey revealed that 20 full time jobs and six part time jobs were created as direct result of the FarmWorks loans<sup>12</sup> over and above the jobs held by the business owners themselves. The owners and their partners account for another 21 full time and 14 part time positions supported by FarmWorks investments – though, of course, those positions cannot be attributed solely to FarmWorks support.

Additionally, business owners were able to build their capital base and credit. Some businesses cited expansion as benefit, while others noted that their business or project were launched because of the loan, or that the loan made it possible to leverage other funding.

Our survey participants noted that their capital projects or even the businesses themselves would not exist without FarmWorks and that there may be no other lender where a loan can be processed as quickly. No other lending agency humanizes the process and provides support in such a helpful and encouraging manner.

### *4.0 Additional Comments, Criticisms and Suggestions*

The majority of additional comments indicated that FarmWorks procedures are helpful, representatives are accommodating and that the process has been a positive experience. Many indicated that they would like to see FarmWorks expand in the future, and able to make larger loans to more businesses. There were suggestions about future directions for the organizations. Make FarmWorks a strong brand, perhaps involve community college students in specific projects, have paid staff and incentives for staff to bring in investments, and increase promotion for FarmWorks Flavours and Gentle Dragons events. The importance of FarmWorks expansion and better promotion was mentioned in the context of existing “roads blocks” to small businesses, as FarmWorks is a real solution to these blocks and thus to the expansion of a healthy local food system in Nova Scotia.

Other comments indicate that there is a significant need for more assistance than FarmWorks is mandated or able to provide. FarmWorks is a strictly volunteer organization that requires tremendous effort by Directors and Advisors to help mentor and promote clients. Suggestions that FarmWorks provide more mentoring, problem solve around government regulations and business development, influence government regulation around small business’ access to loans and capital by working more closely with the appropriate government agencies and other lenders clearly show that there are missing support mechanisms beyond the capability of FarmWorks. FarmWorks is a unique new entity, a sectoral CEDIF investing in a portfolio of food-related businesses, and it cannot take the place of other organizations and Government Departments. FarmWorks is working to build collaborative relationships as it seeks to provide as

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<sup>12</sup> Another 20 jobs resulted from consequent expansions, that were not a direct product of the FarmWorks loans but were were indirectly attributed to them by our participants.

much support as possible for the clients and in order to ensure the security of Shareholders' investments.

## **IMPLICATIONS**

This initial survey indicates that FarmWorks has already had a significant effect on Nova Scotia's agri-food sector, both in economic terms and through strengthening many food and farming businesses. Having now raised \$721,000 in investments in less than three years, FarmWorks has shown that there is interest among many of Nova Scotia's 940,000 people to keep investments closer to home. The [Slow Money](#) initiative in the United States has been a national campaign (in a population of 317 million) and over five years they have raised \$35 million. Per capita, per year, FarmWorks seems to be outperforming the Slow Money initiative. The \$721,000 raised by Farm Works from Nova Scotia shareholders has resulted in significant job creation and revenue increase reported by all of the borrowing partners we surveyed.

We also see that the comprehensive benefits of FarmWorks (e.g., networking, business advice, moral support) are producing satisfied partners both as borrowers (as evidences in our findings) and as investors – a number of investors have already invested more than once. With other provinces looking to replicate the FarmWorks model, the organization can be confident that so far their work has been making a real difference.

Based on our findings, our recommendations to FarmWorks are as follows:

- Continue with the highly personalized approach to loaning money as this seems to produce relationships that both support small businesses and ensure a solid, reliable investment fund
- Continue to promote FarmWorks-supported businesses and foster a culture of local sustainable food in Nova Scotia
- Continue to cautiously expand the program to accommodate more small businesses but not at the risk of losing the highly praised current practices
- Continue to share lessons with other jurisdictions to further foster a culture of local sustainable food beyond Nova Scotia
- Continue to build on this evaluation and collect more in-depth data on the various outcomes of the program.

In conclusion, we commend FarmWorks for their current successes and are pleased to deliver this highly encouraging report. We wish to thank the survey participants for their time and insights, and also Linda Best and Ann Anderson for their guidance and support.

Submitted May, 2014 in Halifax, NS  
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