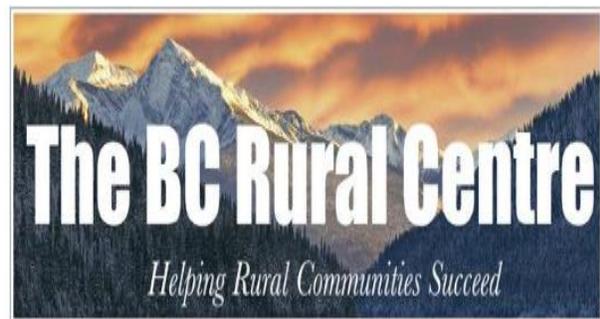


THE ECONOMIC CONTRIBUTIONS OF FARMWORKS' CLIENTS: AN OVERVIEW ASSESSMENT

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1. EXECUTIVE SUMMARY

FarmWorks Investment Co-operative Limited is a Community Economic Development Investment Fund (CEDIF) program that was incorporated in 2011. At the beginning of 2017, FarmWorks had more than \$1,575,000 invested in 63 businesses which represent various levels of the local food supply chain, including farms, local food retailers and restaurants. This report summarizes survey results which gauge the social and economic impacts of these businesses as well as FarmWorks role in job creation and total gross annual revenue.

By quantifying the economic and social impacts of FarmWorks clients, we are better able to understand and communicate the role that the FarmWorks CEDIF program has played in job creation, economic development as well as the overall social and economic viability of rural and urban communities. Helping small food-related businesses thrive ensures that the very fabric of the rural economy is sustainable into the future – small farms support equipment supply retailers, feed stores and seed suppliers. Farms also ensure the availability of healthy, locally produced food in restaurants and food retailers in Nova Scotia's urban areas.

By communicating the resounding success of the FarmWorks CEDIF program, this report is intended to raise awareness of the crucial importance of supporting rural communities through addressing the economic and operational barriers faced by many farm businesses.

2. INTRODUCTION

2.1 Operational Overview of FarmWorks Nova Scotia

The FarmWorks CEDIF program allows Nova Scotians to purchase shares in a diversified portfolio of businesses that yield meaningful financial and social returns on investments. These investments provide loans to businesses which represent various levels of the provincial food supply chain, from farms and value-added food producers to food processors, food retailers and restaurants. By supporting multiple levels of the food supply chain, FarmWorks helps to increase the viability and sustainability of agriculture and the security of a healthy food supply for all.

FarmWorks is operated by a 14 member volunteer Board of Directors. Loan applications are submitted to the Board for review. The Board votes for or against loans based on a detailed assessment and scoring system that examines the business plans' financial viability, the capacity for innovation and demonstrated demand for the product. The FarmWorks Board members spend many hours reviewing loan applications and on completing due diligence tasks before loans are granted. Board members also follow the progress of FarmWorks' business loan clients carefully.

Shares in FarmWorks are sold to the public through annual Offering. The Documents are available from the FarmWorks website and from Directors, including at information sessions that take place across the Province during the 90 day offering period. Each share is worth \$100, and the minimum purchase per person is one share and the maximum purchase per person per year is 300 shares. There is a considerable range but the average annual investment by shareholders has increased from 22 in the first offer to 39 shares in the most recent offer. FarmWorks investors can purchase additional shares in each annual capital raise offering if they so choose. Between January 2011 and February 28, 2017 there were 561 investments by 357 Nova Scotians ranging from purchases of single shares to many shares in one or more offers, and a number of people have invested in all six offers.

Share purchases are eligible for a 35% Nova Scotia non-refundable Equity Tax Credit that may be carried forwards 7 years and backward 3 years, and CEDIF shares are eligible RRSP investments. Investments in CEDIF funds are locked in for five years. After the initial five year investment period, investors who keep their CEDIF investments are eligible for further Equity Tax Credits of 20% and 10% at the 5 and 10 year investment anniversaries, respectively, provided the CEDIF meets certain NS Department of Finance conditions.

FarmWorks was established in 2011 and completed its first investment capital raise in 2012. Since 2012, FarmWorks has been building a steadily larger portfolio of business loans and has successfully completed annual investment capital raises. FarmWorks supports various types of food-related businesses, from producers to retailers to restaurants. Roughly 49% of our clients are food retailers and restaurants, while the remaining 51% are food producers and farms.

YEAR	INVESTMENT CAPITAL RAISED	# OF INVESTORS	# OF BUSINESS LOANS PROVIDED	TOTAL VALUE OF LOANS PROVIDED THAT YEAR
2012	\$224,200	102	7	\$155,000
2013	\$225,300	78	15	\$295,000
2014	\$271,500	78	14	\$290,000
2015	\$312,400	86	26	\$445,000
2016	\$372,400	112	23	\$365,000
TOTALS	\$1,405,800	456	63	\$1,575,000

FarmWorks continues to provide business loans at a flat interest rate of six percent (6%) and receives approximately \$23,000 a month in loan principle and interest payments. In 2017 the FarmWorks Board of Directors will decide whether to issue their first dividend to investors.

2.2 Report Background and Overview

In 2013, FarmWorks clients were surveyed regarding their contributions to the Nova Scotian economy and to various communities throughout the province. Results from the survey quantified the number of jobs and estimated total economic impact of these businesses in terms of provincial GDP. The 2013 survey helped to communicate the already significant impact of FarmWorks in supporting local businesses after only 1.5 years of operation.

In 2015, FarmWorks founding Board member and treasurer, Linda Best travelled to British Columbia to be a keynote speaker at SIBAC's *Keeping it Rural 2015* Conference. SIBAC – the Southern Interior Beetle Action Coalition - has been actively researching successful community investment models and has partnered with FarmWorks to complete this updated survey of FarmWorks clients and to prepare this report. SIBAC was particularly interested in quantifying the economic and employment impacts of FarmWorks supported businesses.

3. METHODOLOGY

3.1 Data Collection

Of the 63 total FarmWorks business loan clients, three have paid out their loans, five have changed their businesses and continue to pay their loans, and two loans (2.4% of the total) have been written off.

As a result, 48 current FarmWorks clients were invited to participate in the survey and study. These clients were first contacted by email with information about the purpose and relevance of the survey. Clients were then contacted personally by phone to further explain the survey project and to determine how they would like to complete the survey. Clients were given the choice to complete the survey over the telephone or to complete it themselves online through Google Forms. Clients were reassured that all information would be kept secure and remain confidential, with no identifying information associated with the survey responses. All clients chose to complete the survey online citing time constraints and the desire for increased confidentiality. Clients were surveyed regarding their quality of life, financial stability, income and expenditures, job creation, challenges and obstacles and overall social and economic

impacts. Recognizing that many clients might be hesitant to provide specific exact revenue, expenditure and payroll figures – the survey questions provided ranges (e.g. \$100,000 to \$150,000) for responses.

3.2 Data Analysis

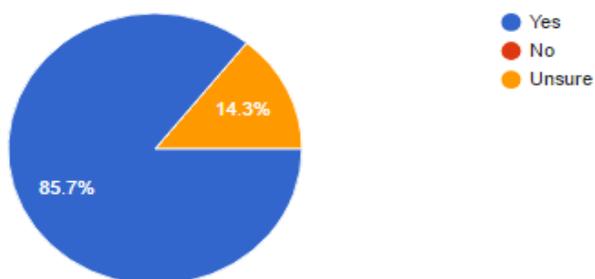
In the end 35 of the 48 FarmWorks clients originally approached agreed to participate in the survey – a response rate of 70%. For the quantitative analysis of multiple choice responses to income and expenditure questions, the Google Forms software groups and displays the data visually in pie charts for interpretation. This software automatically groups all responses together without identifying information. For qualitative analysis of long answer questions, themes were identified in the written responses and reported on accordingly with no identifying information. The quantitative and qualitative analysis of the survey data help us to understand the cumulative social and economic impacts of the businesses FarmWorks has been able to support over the past five years.

4. RESULTS

4.1 Importance of FarmWorks Financing & Support

Survey results show that the majority of these businesses credited their success to the support of FarmWorks. 44% of clients reported that without FarmWorks, their business would not exist because FarmWorks either helped them leverage other funding and loans or because they were not eligible to receive loans from other federal or provincial loaning agencies. 25% of FarmWorks clients reported that before requesting assistance from FarmWorks, their business was either struggling or not able to invest in growth. One client explained that their business “...was stuck in the rut of needing to expand production in order to grow to a sustainable level, but not having the funds to make the initial investment toward that growth.”

Figure 1: *Has capital from FarmWorks Improved your business outcomes?*



A further 85.3% of clients indicated that capital from FarmWorks has increased their overall business outcomes. One client noted that lower interest rates helped business outcomes, noting that FarmWorks capital “[allowed] us to pay down some existing high interest debt so that we are bringing down back-debt faster.”

86% of clients surveyed indicated that FarmWorks provided more assistance than just loans. This additional assistance came in the form of business advice, mentorship, networking opportunities at FarmWorks events, encouragement and business promotion through

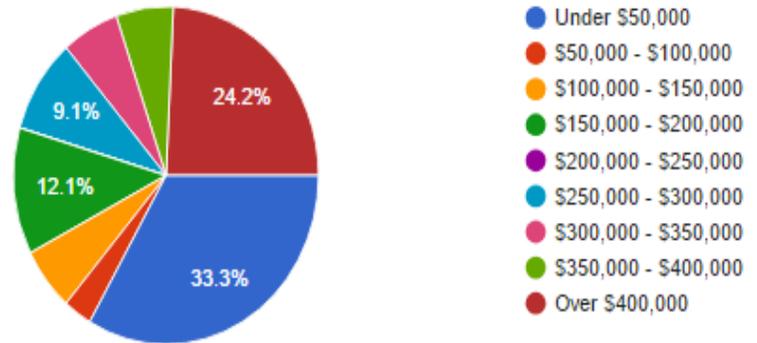
social media and positive word-of-mouth. One client noted that “FarmWorks has gone above and beyond the call of duty by provide support in numerous ways including expertise, emotional support and a positive attitude”. This indicates that the CEDIF program assists businesses in a more holistic way, providing business mentorship and connections to help ensure a greater return on loan investments through client success.

4.2 FarmWorks Clients Business Revenues

Survey results indicate a diversity of business sizes, with 33.3% of businesses earning under \$50,000 and 24.2% of businesses earning over \$400,000.

Using a conservative calculation based on the survey responses (see Note 1) the 34 responding businesses would have total 2016 gross revenues in excess of \$6,750,000. When considering all 48 current FarmWorks clients it seems highly likely that the total gross 2016 revenues likely exceeded \$9,000,000.

Figure 2: What was the total Gross Revenue from your Business in 2016?



4.3 FarmWorks Clients Business Expenses

Given the significant diversity in the size of FarmWorks clients businesses it is not surprising that there is a considerable range in the estimated annual business expenditures. Again using a very conservative calculation (see Note 2) the 30 responding businesses pay in excess of \$5,825,000 in business expenses in 2016.

Figure 3: What would you estimate was the total Gross Expenditures of your Business in 2016?

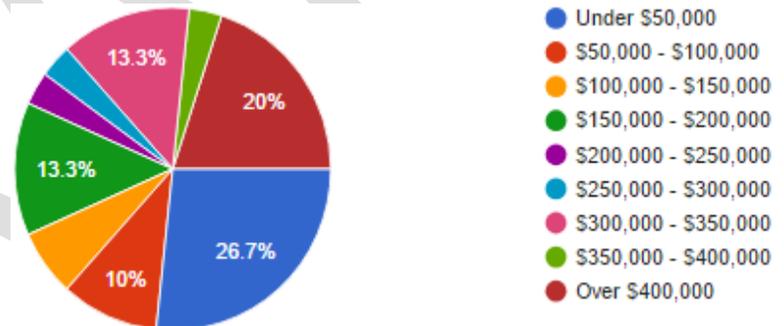
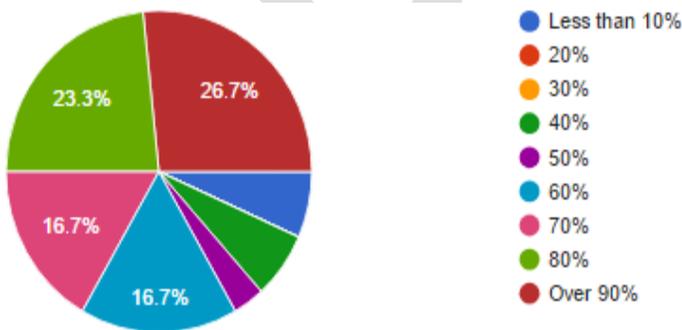


Figure 4: Approximately what % of the money you spend for supplies, services and wages is local?



Survey results show that the majority of FarmWorks clients are able to source their goods and services from within the province, which means that a large percent of this gross annual business expenditure is being invested back into Nova Scotia through wages and through purchasing supplies and services from other Nova Scotia businesses. Indeed, more than 50% of clients reported that they're able to source over 80% of their essential business goods and services from within Nova Scotia. With the total gross annual business expenditures of FarmWorks clients being well over an estimated \$6,000,000 this is a significant contribution not only to Nova Scotia's economy, but more specifically to the food and farm

sector. FarmWorks clients play an important role in food business, culinary and on-farm job creation but also in supporting the infrastructure and network of businesses who service food producers and retailers.

4.4 Job Creation

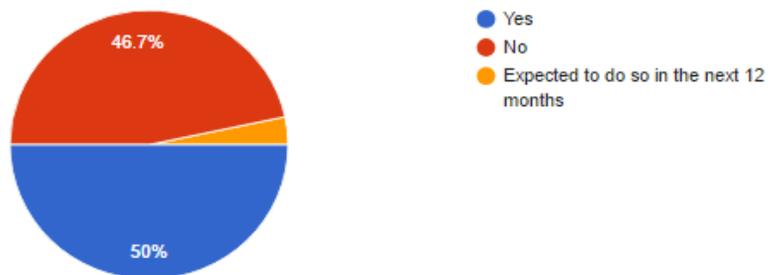
FarmWorks clients have also made significant contributions to the job market in Nova Scotia. A total of 273 employees were reported by clients during this survey, with 123 full-time and 150 part-time. This represents a significant contribution to the food and farm related job market in Nova Scotia.

Clients surveyed indicated that 167 of the 273 jobs reported were a direct or indirect result of the capital they borrowed from FarmWorks. This means that 61% of the jobs created by FarmWorks clients are credited to the CEDIF program.

Clients also predicted 58 additional jobs being created in the next 12 months.

Figure 5: Has your FarmWorks loan allowed you or another member of your family to work in your business?

50% of clients indicated that their FarmWorks loan had allowed another member of their family to work in the business. This suggests that the CEDIF program also plays an important role in supporting small, family owned businesses.



Survey responses were slightly lower (29 responses) when asked to estimate the ranges of total payroll and Owners Draws over the past 12 months. Again, when using the same conservative projection calculations (see Note 3) it is projected that FarmWorks businesses pay in excess of \$2,050,000 annually in total payroll and owner remuneration.

4.5 Social and Health Impacts

Small businesses play an important role not just for job creation in local economies but also in the social fabric of rural and urban communities. Family owned businesses provide a sense of ownership and pride in communities otherwise dominated by non-place specific corporations. When surveyed about their perceived contributions to their own local communities, FarmWorks clients cited a multitude of services and benefits over and above job creation and income. Especially in rural communities with smaller populations, having central locations where community members can gather informally is very important in preventing social isolation and improving quality of life. One client explains that “[t]he business has... become an integral part of the community; a local meeting place where people meet friends and neighbours and interact. [Our business] has strengthened the community”. Because food is something traditionally associated with family, friends and socializing, small food related businesses have an especially important role to play in the revitalization of rural communities. In urban areas, FarmWorks clients are also providing new and innovative spaces to gather around food. Numerous businesses supported by FarmWorks have been recipients of Halifax-based culinary awards and have become trendy “hot spots” for people to gather around local food and drink.

Providing healthy food was the other major theme that arose when clients were surveyed as to their perceived contributions to their communities. Over and above providing farm-markets, farms, retail stores and restaurants for people to work and socialize in, FarmWorks clients were proud to supply their customers with fresh, locally grown food. As public awareness grows, there has been a marked trend towards investing in preventative health measures, such as improved diets and overall healthy lifestyle choices. FarmWorks clients are contributing to both public awareness and to the availability of healthy food. One client explained that their businesses is "...providing a healthy place to eat, providing a safe and friendly space for anyone to come enjoy, promoting and raising awareness about food sustainability issues locally and globally, and redefining what it means to eat healthy".

5. DISCUSSION

FarmWorks has seen an enormous return on its investment into local food related businesses, with an estimated over \$9,000,000 in annual gross business revenues being generated from the 60+ FarmWorks clients who received only \$1,575,000 in cumulative loans. These 60+ businesses have also made enormous contributions back into rural and urban economies through job creation and sourcing local goods, services and ingredients. In terms of community building and overall health and quality of life in rural and urban communities, FarmWorks clients have provided community gathering spaces and opportunities for healthier diets. As noted above, 44% of these businesses reported that they would not exist without FarmWorks' investment. Clients also reported that 61% of the total jobs created through their businesses are directly or indirectly a result of their FarmWorks capital. The FarmWorks CEDIF program took a risk on food and farming entrepreneurs that the government and traditional loaning agencies were not willing to take, and the returns on its \$1,575,000 investment have been enormous in terms of revenue, job creation, health promotion and community building.

From a provincial government perspective, FarmWorks must also be seen as a very successful public policy instrument. Through the CEDIF program Nova Scotia is allowing individuals the opportunity to invest in businesses in their own province – investment that would likely otherwise leak out of Nova Scotia. It is also clear from the survey results that the FarmWorks CEDIF is creating many new businesses in Nova Scotia that simply would not exist without the CEDIF funding option. Finally it is also clear that the government taxation revenue created by CEDIF supported businesses' revenues, expenditures and payroll will far exceed the province's foregone revenue from the CEDIF investor tax credit.

Even if all the FarmWorks CEDIF investors left their investments in for a full 15 year period the total provincial foregone tax credits would be under \$1 Million ($\$1,405,800 \times 65\% = \$913,770$). In exchange, the province is getting over 167 new person-year jobs and the taxation revenue and spin-off effects of over \$101 Million in business revenues and \$87 Million in business expenditures from these businesses over the same 15 year period.

Farming and running food related businesses that support health and local economy should not be treated as a hobby that entrepreneurs pursue out of a personal passion. Rather, food and farming businesses should be treated as essential services and should be properly supported by our government and its regulations. The success enjoyed by many businesses supported by FarmWorks speaks to the potential for increased entrepreneurship in Nova Scotia and beyond if proper supports were in place. As one client explains, "[s]uccess breeds success and everyone wants to be on a winning team, including the

government. Continue giving the support needed to encourage those with ideas, whether financially or just that pat on the back when it is deserved”. This speaks to a sentiment shared by many small business owners who currently do not feel supported by current policy frameworks, but who are working towards creating positive change.

The continued promotion of investment by individuals and government into food and farm businesses is essential moving forward. Given the success of the FarmWorks CEDIF program, many clients noted that government and banks could play a more active role in raising public awareness around alternative investment opportunities. As one client notes, “Government should promote investment by Nova Scotians in programs like FarmWorks and the NS Investment Tax Credit.”

NOTES:

NOTE 1: Since the survey only asked businesses to estimate their total Gross Business Revenue for 2016 in a variety of range options, it is necessary to use a calculation to estimate the total Gross Revenue created by the responding businesses. A very conservative method to estimate this was to use a flat \$25,000/yr for those survey respondents selecting under \$50,000 in Gross Revenue and then the bottom figure of the remaining category options; so for example:

Gross Revenue Range option from Survey	# of Client Responses	Revenue Figure Used for Estimate	Estimate
Under \$50,000	10	\$25,000	\$250,000
\$50,000 to \$100,000	1	\$50,000	\$50,000
\$100,000 to \$150,000	2	\$100,000	\$200,000
\$150,000 to \$200,000	4	\$150,000	\$600,000
\$200,000 to \$250,000	0	\$200,000	0
\$250,000 to \$300,000	3	\$250,000	\$750,000
\$300,000 to \$350,000	2	\$300,000	\$600,000
\$350,000 to \$400,000	2	\$350,000	\$700,000
Over \$400,000	9	\$400,000	\$3,600,000
TOTALS	33		\$6,750,000

NOTE 2: Since the survey only asked businesses to estimate their total Gross Business Expenditures in 2016 in a variety of range options, it is necessary to use a calculation to estimate the total Gross Revenue created by the responding businesses. A very conservative method to estimate this was to use a flat \$25,000/year for those survey respondents selecting under \$50,000 in Gross Revenue and then the bottom figure of the remaining category options; so for example:

Gross Revenue Range option from Survey	# of Client Responses	Revenue Figure Used for Estimate	Estimate
Under \$50,000	7	\$25,000	\$175,000
\$50,000 to \$100,000	3	\$50,000	\$150,000

\$100,000 to \$150,000	2	\$100,000	\$200,000
\$150,000 to \$200,000	4	\$150,000	\$600,000
\$200,000 to \$250,000	1	\$200,000	\$200,000
\$250,000 to \$300,000	1	\$250,000	\$250,000
\$300,000 to \$350,000	5	\$300,000	\$1,500,000
\$350,000 to \$400,000	1	\$350,000	\$350,000
Over \$400,000	6	\$400,000	\$2,400,000
TOTALS			\$5,825,000

NOTE 3: Since the survey only asked businesses to estimate their total Payroll and Owners Draws in the past 12 months; it is necessary to use a calculation to estimate the total Payroll and Owners Draws created by the responding businesses. A very conservative method to estimate this was to use a flat \$25,000/year for those survey respondents selecting the Under \$50,000 category and then the bottom figure of the remaining category options; so for example:

Gross Revenue Range option from Survey	# of Client Responses	Revenue Figure Used for Estimate	Estimate
Under \$50,000	18	\$25,000	\$450,000
\$50,000 to \$100,000	3	\$50,000	\$150,000
\$100,000 to \$150,000	5	\$100,000	\$500,000
\$150,000 to \$200,000	0	\$150,000	0
\$200,000 to \$250,000	1	\$200,000	\$200,000
\$250,000 to \$300,000	0	\$250,000	0
\$300,000 to \$350,000	0	\$300,000	0
\$350,000 to \$400,000	1	\$350,000	\$350,000
Over \$400,000	1	\$400,000	\$400,000
TOTALS			\$2,050,000