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## Sound Bites

The newsletter with a vision of regional food sustainability

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# ACCESS TO FINANCE FOR SMALL SCALE FOOD PROCESSORS REPORT OF THE CONSULTATION MEETING—VANCOUVER, B.C. JUNE 11, 2003

The Small Scale Food Processor Association (SSFPA) organized and facilitated the Access to Finance meeting held at the VanCity Head Office in Vancouver on June 11. The purpose of the meeting was for participants to gain insight on how to overcome access to finance problems for small-scale producers/processors. Twenty-nine representatives from financial and Agrifood organizations, as well as small-scale producers/processors themselves, attended the meeting.

### ISSUES FACED BY SMALL SCALE FOOD PRODUCERS/PROCESSORS

Frank Moreland, SSFPA Project Coordinator, reviewed the results of the work done over the past two years through the SSFPA. He made particular note of the issues that were seen as barriers by small-scale food producers/processors in their effort to launch and grow their businesses. For a summary of these issues, please refer to Figure One (page 2).

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## The Perspective of the Small-Scale Food Producer/ Processor

Small-scale food producers/processors want to create viable businesses for themselves and their communities, but they encounter common barriers around access to finance.

These barriers include:

- ❶ Lack of traditional forms of collateral acceptable to financiers.
- ❷ Having to put up all of their asset(s).
- ❸ Dealing with seasonal cycles and time-frames between production and payment.
- ❹ Taking high interest loans or financing themselves using credit cards.
- ❺ For First Nations producers/processors living on reserves, collateral is an issue because the Band owns the land.
- ❻ No recognition of the financial support

required for both start-up and growth.

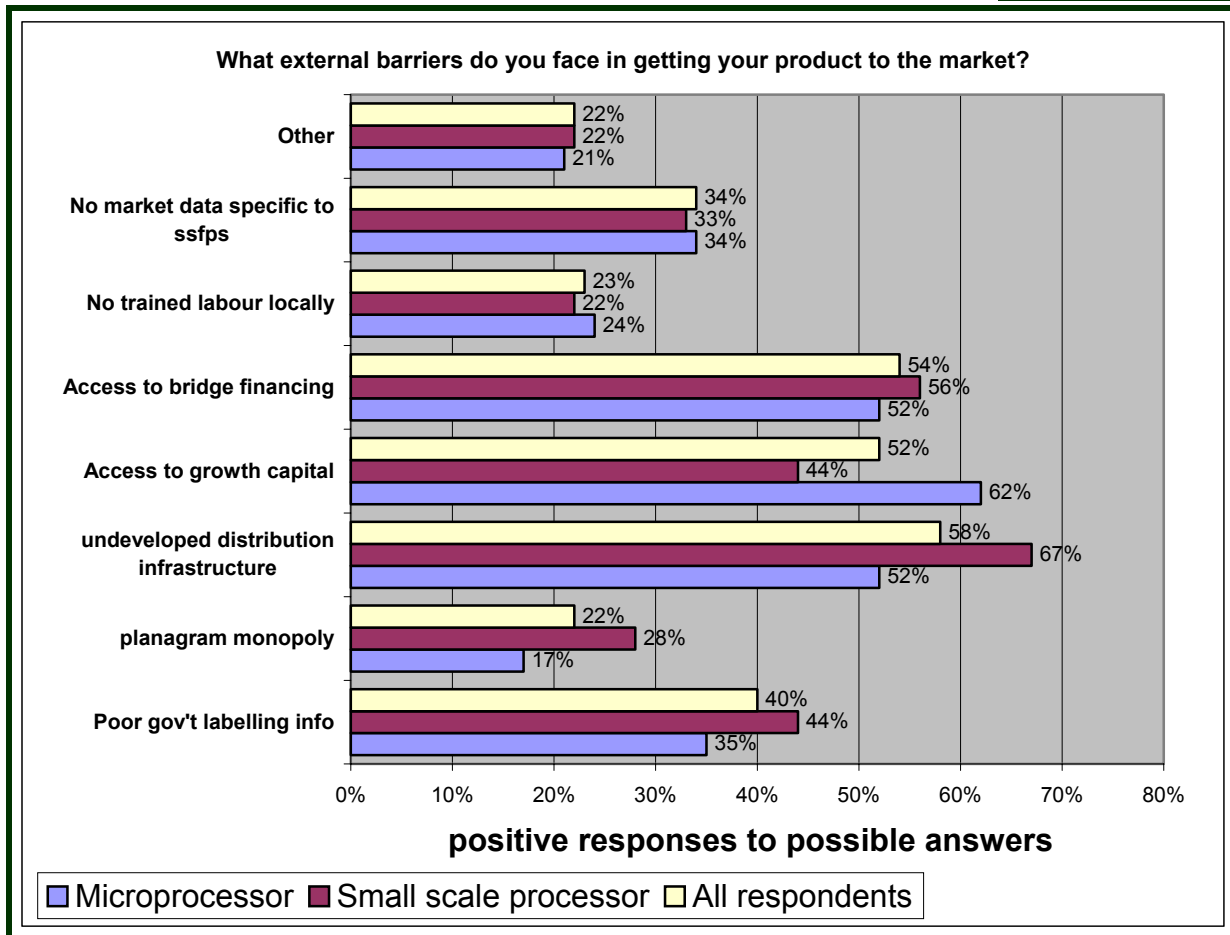
- ❶ Unfamiliarity of financial services with small-scale producers/processors and their needs, and the potential of their businesses.
- ❷ Inaccessibility of small loans (\$2000-\$15,000) which can be the make-it or break-it point for their businesses.
- ❸ Lack of knowledge about how the financing industry works and how to best be prepared when approaching a financial institution for a loan.
- ❹ No available government assistance.
- ❺ Not fitting into anyone's framework for help except for those Community Futures Development Corporations that have identified food production as an economic asset.

One of the consequences of not having access to needed financing is that it can be impossible for small-scale producers/processors to successfully start or expand their business at a profitable level.

Several participants noted that they have created products which are in demand, but they need to be able to get them to markets. There is a strong potential for small-scale producers/processors to sell to specialty niche markets. They would have a competitive advantage over the imported products now filling these lucrative markets.

For other small-scale producers/processors, acquiring technical assistance and/or complying with regulations is impossible unless they have access to finance that can assist them to grow their business.

FIGURE ONE



Excerpt from SSFPA Market Scoping Project. Available on-line: <http://www.ssfpa.net/DocsForms/DocsForms.htm>.

## The Perspective of the Investment Community

Generally, people within financial services are not familiar with small-scale food producers/processors and the financing issues they face. The financial sector, however, does categorize small-scale food producers/processors as part of the small-business sector. Financial institutions want a certain kind and amount of collateral because there is a high failure rate in the small-business sector.



Other issues raised include:

- \$ Loan applicants having weak business plans (e.g., do not demonstrate potential for adding value, or lack strong market research on demand for product).
- \$ Challenges for financial agencies of dealing with a wide variety of needs and capacities within the small-scale Agrifood industry without adequate information to support their decision-making.
- \$ Investment community is not in the business of supporting lifestyles—they are in the business of making money (looking for an internal rate of return of at least %15).
- \$ Lack of knowledge within the small-scale Agrifood industry about financial service institutions and their products.
- \$ Small-scale producers/processors may not have a solid understanding of how the food industry works, and how to effectively market their product(s). Hence it is difficult for the lender to assess potential for success.

## Filling the Gaps: Opportunities for SSFPA

The diversity of people and perspectives at the table offered numerous ideas for SSFPA to consider in order to address access to finance issues facing the small-scale processor. It was noted that 'problems with access to finance' can mask other problems related to business readiness. Overall, it was recognized that building the infra-structure for small-scale producers/processors is a key to creating sustainable regional food economies.

Without that infrastructure, people wishing to add value to their produce or to create a product to take to market on a small scale will face these difficulties on their own.

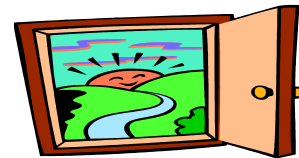
The SSFPA opportunities are:

- Create a peer review or advisory group for small-scale producers/processors to assist with business planning, loan applications, technical assistance, marketing, distribution and/or mentorship. Help people develop business skills.
- Provide information to small-scale producers/processors on how the food industry works, and how to navigate through the complexities of the industry. Take education and

support for the small-scale producer/processor on the road or connect with Community Futures organizations to create a supportive program.

- Develop a template for use by small-scale Agrifood producers/processors that lays out the entire business process of creating a small agri-business from conceptualization to production to financing to marketing.
- Encourage processors to aim for the high-end market to mitigate problems arising from high production costs, low production volume, and global markets that put downward pressure on commodity prices.
- Promote products as part of a 'made in BC' campaign to engage consumers.
- Continue to work towards developing market data to support small-scale processors' business planning.
- Organize a community financing alternative to banks. For example, this is already being done in one locale. CEDCO Victoria has recently partnered with Coast Capital Savings and VanCity Credit Unions to provide access to finance for processors seeking small loans.

- Decrease risk by sharing it. For example, VanCity Credit Union has a Peer Group Lending Program.
- Educate both small-scale food producers/processors and financiers on the viability of small-scale food producing/processing businesses. Promote community support for such businesses by educating the public on the benefits of local agriculture and local food.
- Work with emerging Food Councils to promote awareness and support by consumers for local food producers.
- Research the feasibility of using a co-operative model to establish commercial kitchens for communities, marketing and distribution networks, lending circles or credit consortia, and processing/manufacturing equipment leasing.



## Where Do We Go From Here? Next Steps for SSFPA

- Facilitate a working committee to plan next steps on access to capital and supportive business technical services for small-scale producers/processors.
- Prepare report for small-scale producers/processors regarding existing programs and services.



- Build tools and infrastructure to support the small-scale Agrifood industry to grow.
- Approach Community Futures Development Corporations and other organizations to work with SSFPA to develop a program(s) for small-scale agriculture and processing that could be offered through Community Futures Development Corporations.

### Acknowledgements

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## Access to Finance Consultation Meeting: Participants

Wayne McAlpine	Western Economic Diversification
Carol Masden	Community Economic Development Technical Assistance Program
Simon Cumming	Community Futures Development Association
George Lerchs	Community Futures Development Association
Rick Goulet	Community Futures Development Association
Derek Gent	VanCity Capital Corporation
Vicki Scully	VanCity Credit Union
Andrea Harris	VanCity Capital Corporation
Detlef Beck	Coast Capital Savings Credit Union
Peter Schwirtz	First Nations Agricultural Lending Association
Donovan Woollard	Ecotrust Canada
Brent Warner	Ministry of Agriculture, Food & Fisheries
Wayne Roberts	Toronto Food Policy Council
Mary Forstbauer	BC Association of Farmers' Markets
Lyn Hainstock	Artisan Markets
Jodi Koberinski	"Eco Oils" business owner, Certified Organic Associations of British Columbia, SSFPA Member
Herb Barbolet	Farm Folk/City Folk, Consultant
Margaret Daskis	Fresh Ideas, Consultant
David Van Seters	Small Potatoes Urban Delivery
Andrea Douglas	Small Potatoes Urban Delivery
Christine Oliver	Siska Nation
Dale Sokoloski	SSFPA Board Member, Sci Tech North
Godfrey Ferguson	SSFPA Co-Chair
John Plough	SSFPA Finance Committee, Valley Farms (Artichoke Producer)
Frank Moreland	SSFPA Project Coordinator
Sandra Mark	SSFPA Consultant
Mary Murphy	SSFPA Membership Development
Clare Yazganoglu	SSFPA Project Assistant
Maria Stefanyk	SSFPA Project Assistant

### **Regrets:**

Andy Kovacs	Southern Alberta Food Processing Initiative Consortium
Michelle Colussi	Centre for Community Enterprise
Ray Gerow	Aboriginal Business Development Centre
Todd Tessier	Ministry of Science, Competition & Enterprise
Dirk Haack	Credit Union Central
John Ristakis	BC Co-operative Association
Cam McDiarmid	Farm Credit Corporation