cdfa
Council of Development Finance Agencies

April 2019

www.cdfa.net

CDFA Food Finance White Paper Series:

Food Systems & Access to Capital

Authored by:

Toby Rittner, DFCP
President & CEO

Allison Rowland
Coordinator, Research & Technical Assistance

Ariel Miller
Associate, Research & Technical Assistance

Funded with support from the W.K. Kellogg Foundation

Food Systems & Access to Capital

The food system comprises a highly diverse range of activities that are central to building healthy, sustainable, resilient, economically thriving communities. Historically, the broader 'system' has not been well-defined in the context of development finance and this has limited its access to financing tools. This white paper is part of a series examining the potential creation of a food systems asset class which supports the market growth of local and regional food systems which meet the economic, social, environmental, and cultural needs of communities throughout the country. There is groundbreaking potential for development finance agencies at the state and local level to support food businesses and projects.

This paper focuses specifically on financing that provides access to capital, outlining this category of tools and demonstrating how they can be utilized for various types of food-related endeavors. This paper will notably focus on small businesses, micro-enterprises and entrepreneurs. For simplicity, these enterprises will generically be termed "small businesses" throughout this paper.

What is Development Finance?

Development finance is used by local communities to encourage, support, and catalyze the physical development, redevelopment, or expansion of a business or industry. This is done through both public and private investment in projects which benefit the long-term health of a community.

Development Finance Agencies (DFAs) act as a conduit for channeling these investments to public purpose. DFAs provide support for economic development through various direct and indirect financing programs, and they are central players in connecting projects and businesses with access to capital. They can be formed at the state, county, township, borough, or municipal level, and a wide variety of organizations classify as DFAs, including port authorities, industrial development authorities, economic development authorities, development corporations and more.

Although DFAs are the main players in providing access to capital, other entities that might be involved include Community Development Financial Institutions (CDFIs) and Community Development Corporations (CDCs). CDFIs are private lending agencies while CDCs are not-for-profit organizations that offer a range of programs and services at the local level; both CDFIs and CDCs focus on economic development and creating opportunity for disadvantaged communities.

Why Finance the Food System?

The food system is central to the health and resilience of communities, and investment in food-related projects and businesses aligns with the public purpose of development finance. Food also makes up a significant portion of any local economy, making it a major economic engine and a sector worth looking to for economic development.

A significant proportion of businesses in the food system classify as small businesses, defined as having fewer than 500 employees, and there are a number of reasons why helping small businesses identify sources of financing is beneficial to local communities and economies. First, small businesses have traditionally created the largest percentage of new jobs in any sector on an annual basis. Second, the demand on small businesses by major customers and suppliers requires that small businesses have adequate capital so they can scale up to meet these demands. And third, small businesses tend to benefit the local economy in a much more direct way than larger businesses. These primary reasons, among others, make small business investment and capital access expansion an important public purpose for development finance agencies. In the food system as well, there is great demand among a variety of small business types (i.e. micro-enterprises, entrepreneurs, co-ops, etc.) for different access to capital opportunities.

Defining a Food System Asset Class

In order to establish reliable, affordable, and traditional streams of financing for a wide variety of food-related work, there must be a shift in perspective that understands individual people and projects in the context of the broader food system. CDFA has identified six distinct areas of activity that exist within a comprehensive food system and which could be recipients of investment.

Although there is often overlap between these areas of activity, this white paper series is oriented around the defined categories below:

- **Social Enterprise (addressing scarcity)** – An organization or initiative that works to support social objectives, such as increasing access to healthy affordable food, sustainable food, or other socially beneficial food objectives.
- **Agriculture (rural & urban)** – The cultivation and harvesting of primary consumable food products (plants, animals and their byproducts), as well as the acquisition and management of agricultural land, research & development, production, support, and operations, regardless of physical location or scale.
- **Entrepreneurs** – Individuals who create and operate businesses in the food system, such as culinary, technology, distribution, agriculture or processing businesses, in order to meet market needs and gain profits from the business.
- **Industry** – The broad range of actors who contribute, or facilitate, the process of food production and distribution to consumers. This may include food retailers, food service, processors, packagers, distributors, producers of related inputs, and more.
- **Institutional Buyers** – Public or private institutions, such as schools, universities, hospitals, or prisons, that purchase wholesale, prepare and serve large amounts of food to meet internal demand within the food system.
- **Infrastructure** – The physical facilities, as well as the organizational, technological, and relationship networks that allow for the production, processing, storage, distribution, transportation, transfer, and retail of food.

This new definition of the food system takes a more comprehensive look at the greater economic ecosystem around food, food enterprises and food infrastructure to reinforce the concept of an investible asset class.

*Research assistance provided by The Ohio State University, Knowlton School, City & Regional Planning 5890 course of Spring 2017.

Access to Capital

Development finance tools in the 'Access to Capital' category represent resources which help businesses gain access to capital on a broad scale. Examples of such tools include Revolving Loan Funds (RLFs), loan guarantees, microlending, and impact investing, as well as many others. One of the largest challenges faced by businesses, especially small businesses, has always been access to working capital to operate, grow, invest and create jobs. Working capital allows small businesses to pay their bills while investing in future growth. Many food businesses are small, making working capital critical for their businesses and projects.

Access to capital is important for getting started in a new line of work, whether that entails opening a new business or successfully launching a new product or service within an existing organization. Access to capital is also critical for investments into value-added, enterprise growth opportunities or to support efficiencies that will improve production and productivity of a business.

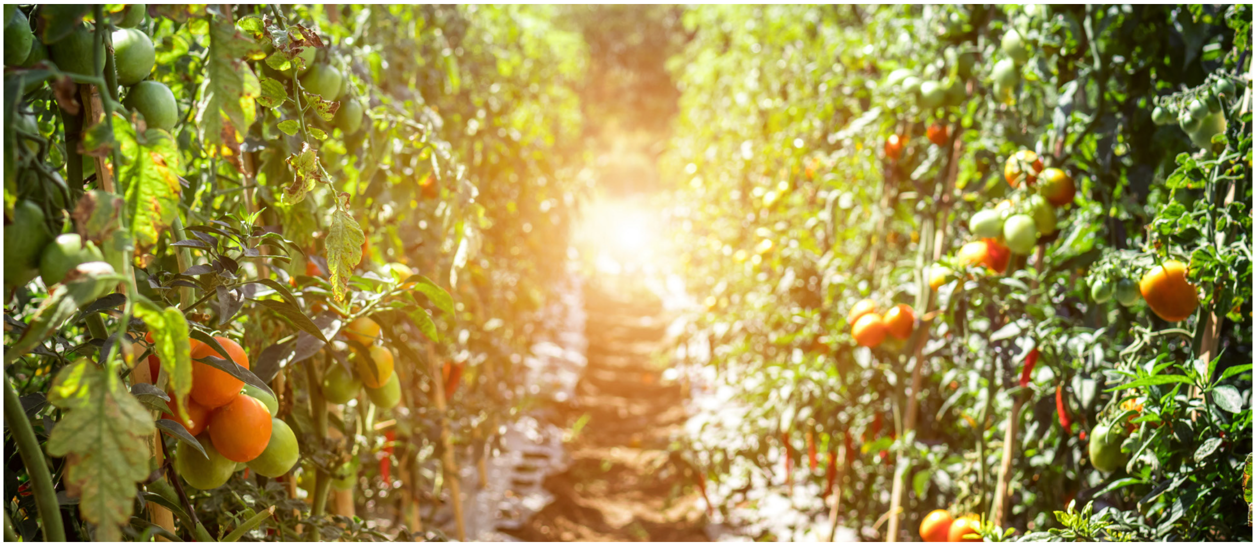
Types of Tools

The list of tools described below are those most commonly used by small businesses and projects to access capital, but the list is not exhaustive. There are many more programs which exist in this area of development finance and there are endless ways in which such tools can be used creatively to support the food system.

Revolving Loan Funds (RLFs)

Revolving Loan Funds (RLFs) are a flexible source of capital that can be used to help grow small and mid-sized businesses. RLFs are a very popular development finance tool with thousands operating throughout the U.S. and typically several hundred within each state. They are typically used for operating capital, acquisition of land and buildings, new construction and renovations, and purchasing machinery and equipment. An RLF is a funding pool that replenishes itself; as existing loan holders make payments, and the payments are recycled to fund new loans. This structure requires that RLF programs balance the provision of attractive interest rates with the need to earn a reasonable rate of return since the fund must be replenished in order to make future loans. RLF loans are often issued at competitive rates but also tend to offer flexibility with collateral and terms that make them accessible to an extremely wide range of businesses. The majority of RLFs support myriad small business types, though some creative loan funds target specific areas such as food systems, minority or women-owned businesses, and environmental challenges.

Empire State Development Small Business Revolving Loan Fund – The Small Business Revolving Loan Fund (SBRLF) is a $50 million fund designed to create economic activity by providing greater access to capital for main street everyday small businesses. The program is targeted to small businesses that have had difficulty accessing regular credit markets. The 2010-11 State budget provided $25 million in state funds and leveraged over $25 million in private matching funds. Program funds used to finance an applicant loan cannot be more than 50% of the principal amount and no greater than $125,000. There are categories of loans: Micro-Loans with a principal amount less than or equal to $25,000 and Regular Loans with a principal amount greater than $25,000.



Loan Guarantees

Loan guarantees shift the risk of a loan from the private lender to a third party – usually a governmental entity – that must be willing and able to repay the borrower's obligations to the lending institution in the event of a default or loss. Loan guarantees are not always a one to one guarantee; instead, they are often a small percentage to cover the possibility of a default or loss. Having this guarantee reduces the risk for private lenders, which encourages them to make loans and other sources of capital for small business more available. Loan guarantees are considered a win-win for government and lending institutions when projects are successful because both parties earn returns on their investment. Communities and projects that employ guarantee programs typically partner with established lending institutions that have a history of supporting economic development. These programs allow local and state governments to promote redevelopment in their communities, encourage public-private partnerships, and invest in businesses. There are many types of guarantee programs, each with their own rules, regulations, and characteristics.

Small Business Administration 7(a) Loan Program – The Small Business Administration (SBA) offers a variety of loan programs, one of which provides the guarantee of repayment to private lenders loaning to small businesses in the event of default. If the borrower defaults on their loan, the SBA will reimburse the lender for 75% to 85% of the loan (depending on loan size), but the borrower will still be obligated to repay the full amount of the loan. Requirements are set by the SBA for how loans covered by this program must be structured, though these remain fairly broad in order to accommodate a wide range of business types. Funds may be used for machinery and equipment, expansion and renovation, purchasing an existing business, working capital, refinancing, start-up for new businesses, and more. The maximum amount for 7(a) loans is $5 million, though rates and fees vary based on negotiation between the business and the private lender.

Linked Deposit Programs (LDPs)

Linked Deposit Programs (LDPs) provide businesses with access to affordable capital through loans that are offered at reduced interest rates, using "linked" state or local deposits to buy down the interest. This means that the depositor, usually a state or local government, receives a lower interest rate return on the loan in order to make capital more accessible.

These programs can be tailored to assist with various types of financing and there are dozens of variations that have different rates, deposit amounts, terms, and eligibility requirements, making them adaptable to a wide range of businesses. LDPs are usually operated by state governments, though some larger cities have also created their structures to support such programs.

Ag-LINK N.O.W. (Northwestern Ohio Watersheds) LDP – This linked deposit program provides reduced rate financing for Ohio farms to help offset the high cost of designing and building livestock manure containment structures and/or purchasing manure handling equipment. The Ag-LINK N.O.W. program offers up to 3% reduced interest rate on loans up to $500,000 used to design and build manure containment structures and/ or purchase manure handling equipment. This program is specifically designed to assist small and medium livestock operations (as defined by ODA, Chapter 903), that have land or facilities in watersheds in the Western Lake Erie Basin.

Micro-Enterprise Lending (Microlending)

Microlending provides access to capital for the smallest businesses, which are commonly referred to as "micro-enterprises" and defined as small businesses with less than five employees, capital needs of less than $35,000, and an average loan size of $7,000. Lenders often perceive these companies as having a high level of risk due to their small size and entrepreneurial nature, making microlending an important tool in supporting the growth of microenterprises. Most microlending programs also include mandatory technical assistance for businesses, usually in partnership with the local Small Business Development Center, that assist with management, marketing, or financial issues.

Kentucky Micro-Enterprise Loan (KMEL) Program – The Kentucky Cabinet for Economic Development provides micro-loans at interest rates of 7.5% to 8.5%, along with technical assistance to entrepreneurs interested in starting or expanding a business. Special emphasis is given to entrepreneurs in one or more of the following target groups: women-owned businesses, veteran-owned businesses, ethnic-minority owned businesses, microenterprises (companies with five or fewer employees), businesses owned by individuals classified with disabilities, and businesses located in a U.S. Small Business Administration HUBZone qualified economically distressed area.

Early Stage Capital Tools

Angel investment, seed capital, and venture capital are tools primarily used in the early stages of a new project or business when there is potential for both high risk and high reward.

Angel investors are wealthy individuals with a high income or net worth that allows them to provide substantial private financing for emerging businesses that might be too small for other types of financing, but too big to rely on friends or family. This type of investment tool represents a growing portion of early-stage financing in the U.S. There are organized groups of angel investors at state and local levels, offering support to each other with the work and expertise needed to review business plans, source deals, monitor investments, determine future strategies, etc. The Angel Capital Association is working at the national level to expand and elevate this economic development tool. This association, along with economic development professionals, can be a resource for locating individual investors or angel groups.

Seed capital is an initial capital investment into a new business or project, typically for companies that are in their first year and therefore too young to secure funding from traditional sources. Investors often seek an equity or ownership position in the company or set a high rate of return (15-30%).

Venture capital funds young or growing companies that are usually more established than the types that seed capital supports. Venture capitalists also take an active role in managing the company they are investing in and might provide assistance with product development.

Certified Capital Companies (CAPCO) Program – The Certified Capital Companies Program (CAPCO) makes venture capital funds available through the Colorado Office of Economic Development & International Trade to new or expanding small businesses throughout Colorado. The program encourages new business development and expansions of businesses by making a $75 million statewide pool available for investment throughout Colorado, and a $25 million rural pool available for investment in designated rural counties in Colorado.

Emerging Tools

Projects in the food system might be able to take advantage of newer types of access to capital tools, such as impact investing and crowdfunding. These differ from more traditional forms of development finance, but there is potential to incorporate them in broader financing strategies.

The Global Impact Investor Network (GINN) defines impact investing as investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investment comes from the non-grant making side of a foundation’s endowment, and these investments are managed by an investment committee and financial advisors.

The growing impact investment market provides capital to address the world’s most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education. Crowdfunding secures capital for a project or venture by raising monetary contributions from a large number of people. This process is almost exclusively done online, which gives small businesses, entrepreneurs, and organizations access to capital at a very broad level. Multiple forms of crowdfunding exist, including programs that are based on rewards, donations, equity, or debt.

In Summary

There are tens of thousands of programs across the country that provide access to capital for small businesses and hundreds of thousands of loans – all of which perform extremely well in the market despite reservations about high risks associated with this type of financing. For example, one pool of several hundred revolving loan funds from around the country has a combined default rate of approximately 6%. Based on the projects that were reviewed for this paper, the financing provided to food-related businesses perform well in comparison to other small businesses nationwide.

Case Studies

Within this category of development finance tools, there are programs directed specifically at providing access to capital for food businesses and projects as well as many more that do not focus singularly on food but can be used to support a wide range of food enterprises. The examples below highlight both types of programs, which are provided nationally, regionally, statewide, and locally.

St. Louis Economic Development Partnership RLF

Investment Area: Local

The St. Louis Economic Development Partnership's Small Business Loan Program (SBLP) serves to encourage economic activity and job creation in the St. Louis region with specialty low-interest and subordinated loans for businesses in the City of St. Louis and St. Louis County. This revolving loan fund was established using grant funds from federal agencies such as the Department of Housing and Urban Development (HUD), the Economic Development Administration (EDA) and the Community Development Administration (CDA).

Below is an example of a business financed by the St. Louis SBLP.

Nathaniel Reid Bakery

Kirkwood, MO

Entrepreneur

The James Beard Foundation semi-finalist, Nathaniel Reid, expanded his bakery with a loan from the Small Business Loan Program, which helped cover the start-up costs of equipment purchase and site improvements at their location in Kirkwood, Missouri.

San Diego Small Business Micro & Regional RLFs

Investment Area: Local

Through the Business Finance Loan Program, San Diego provides financing to small and medium-sized business owners who are seeking to expand but are unable to meet the terms of traditional banks. The program provides loans ranging from $25,000 to $150,000 in the Small Business Micro Revolving Loan Fund (up to 50% of total need) and $150,000 to $500,000 in the San Diego Regional Revolving Loan Fund (up to 33% of total need). Funds can be used as working capital, for the acquisition of fixed machinery and equipment, or to supplement private financing for the acquisition of new or rehabilitated buildings.

Below is an example of a small business financed by the San Diego RLF.

Nomad Donuts

San Diego, CA

Entrepreneur

Nomad Donuts received a $150,000 loan through the Small Business Micro Revolving Loan Fund in 2017 for the purchase of machinery and equipment, on a 5-year term with an 8% interest rate. The company was expanding their physical operation to meet increased demand and to start producing Montreal-style bagels alongside their donuts. They received additional loans from Accion San Diego and CDC Small Business Finance as well, and the financing from San Diego's loan fund helped close the gap in what they needed to grow their business.

Bank of North Dakota Ag PACE Program

Investment Area: Statewide

The Ag PACE loan program offers interest buydown on loans to farmers and ranchers who are investing in nontraditional agriculture-related activities to supplement their farm income, which reduces the interest rate on the original loan. Proceeds from the loan may fund value-added or non-traditional activities to supplement incomes earned from farming or ranching. Examples include, but are not limited to: purchase of irrigation equipment on new irrigated acreage, shares in the startup or expansion of plants processing North Dakota-grown products, capital improvements for retention of livestock, equity shares in a condominium grain storage entity, or capital improvements for dairy operations. Per individual borrower, the total buydown amount cannot exceed $20,000 per project or biennium. Up to $60,000 may be available to an individual over their lifetime if the funds are used for separate projects or during different time periods.

TAFA Agricultural Loan Guarantee Program

Investment Area: Statewide

The Texas Agricultural Finance Authority (TAFA) Agricultural Loan Guarantee Program (ALG) provides financial assistance to establish or enhance farming or ranching operations or to establish an agricultural-related business. This program provides financial assistance in the form of loan guarantees based on a tiered structure, not to exceed $500,000 or 80% of the loan amount, whichever is less. Funds allocated to TAFA for the use of the ALG program are used to support the lenders capital and add protection against the reasonable risk associated with the loan by honoring a percentage of debt. TAFA is not involved with the negotiation of interest rates, maturity, or collateral. ALG may be used for any agriculturally related purpose, including working capital for operating a farm or ranch; lease of facilities; purchase of machinery and equipment; and/or purchase of real estate.

Ohio GrowNOW Program

Investment Area: Statewide

This linked deposit program provides early-stage capital for small for-profit businesses headquartered in Ohio with offices and operating facilities exclusively in Ohio and fewer than 150 employees the majority of whom reside in Ohio. Eligible businesses must also be able to save or create one full-time position or two part-time jobs in Ohio for every $50,000 that is borrowed, up to $400,000. GrowNOW broadly serves as a catalyst for Ohio's economic development by supporting the small businesses that drive it. The GrowNOW interest rate reduction is based on the loan's interest rate, as determined for each borrower by the respective bank. If the interest rate is above 5%, the reduction will be 3% and if the interest rate is 5% or below, the reduction will be 2.1%.

Below is an example of a small business financed by Ohio GrowNOW.

Huffman's Market

Upper Arlington, OH

Infrastructure

Huffman's Market needed approximately $300,000 for remodeling the store, which included expansion of the deli and wine sections, new fixtures, updated decor, and more space for organic produce. The GrowNOW Program — called the Ohio Small Business Linked Deposit Program at the time — helped finance the Market's renovations, reducing their borrowing amount and helping them to create jobs.

Missouri Ag & Small Business Development Authority Loans

Investment Area: Statewide

The Missouri Agricultural and Small Business Development Authority's Single-Purpose Animal Facilities Loan Guarantee program offers a 50% first-loss guarantee on collateralized loans up to $250,000 that lenders make to independent livestock producers to finance the acquisition, construction, improvement, rehabilitation, or operation of land, buildings, facilities, equipment, machinery, and animal waste facilities used to produce poultry, hogs, beef or dairy cattle or other animals in a single purpose animal facility. Borrowers must provide adequate collateral and at least 10% of the project cost up-front. Interest rates are negotiable and loan guarantees in this program can be made for a maximum amount of $250,000 with an initial guarantee of up to 10 years.

They also provide loans for up to $20,000 through the Agriculture Development Fund to finance alternative agricultural enterprise needs related to production, processing, and marketing. Alternative agriculture projects are defined as "doing something different from what traditional rural operations are currently doing" and includes, but is not limited to: horticultural fruit and vegetable production, aquaculture, apiaries, organic production, and value-added processing. The interest rate on these loans is 5.9% with semi-annual payments for up to a 5-year term.

Natural Capital Investment Fund (NCIFund)

NCIFund

Natural Capital Investment Fund

Investment Area: Regional

Natural Capital Investment Fund (NCIFund) lends to small and mid-sized businesses, agricultural enterprises, and nonprofits that generate positive community, economic, and environmental impacts, but have a difficult time accessing traditional financing. NCIFund provides access to capital by taking on more risk for businesses, farms, and nonprofits across all of West Virginia and North Carolina, as well as the Appalachian regions of Kentucky, Maryland, Ohio, South Carolina, Tennessee, Virginia and Georgia. More specifically, NCIFund has several strategic initiatives targeted for businesses in the food system.

The Value Chain Cluster Initiative (VC2) provides technical assistance and coaching services to strengthen local food and farming businesses in West Virginia. The core strategy of the program is to support resilient food and farm businesses that create jobs by growing, buying, moving, and consuming local foods. Since 2012, VC2 has supported over 270 food and farm businesses that have created over 220 new jobs and attracted over $3 million in private investment.

The Cold Storage Program provides financing to small, mid-sized and limited resource farmers to acquire cold storage units in North Carolina. The program, offered in conjunction with NC Growing Together (a program of the Center for Environmental Farming Systems) pairs loans up to $50,000 with a grant to cover 20% of the cost of the unit, up to a maximum of $3,000. The terms of the loan range from two to ten years, with an interested rate of 6% to 8%. The collateral is a first lien on the cold storage unit; additional collateral may be required for units that cost more than $10,000.

The Farmers of Color Initiative provides NCIFund financing, advisory services, and technical assistance to farmers of color and minority-owned agri-businesses. The loan size may range from $10,000 to $750,000 with terms up to five years for working capital, up to 10 years for equipment, and up to 20 years for real estate. One example of support provided through the Farmers of Color Initiative was the On-Farm Grain Storage Program, which operated from 2008 to 2011. Grant funds from the NC Agricultural Development and Farmland Preservation Trust Fund were used to "buy down" the cost of grain bins by 60% so that 20 limited resource farmers could obtain on-farm storage capacity with a $10,000 NCIFund microloan. Of the 20 farmers, 16 were African American.

The RESEED Recovery Fund provides affordable loans to farmers affected by Hurricanes Florence and Michael in North Carolina and South Carolina. Launched in late 2018, RESEED loans can be used for crops, repairs to damaged infrastructure and equipment, replacement of livestock and plants, bridge loans for future insurance payments, and strategies to increase the enterprise's financial self-sufficiency. Loan sizes are $2,500 to $10,000 with a 1% interest rate. NCIFund partners with the Carolina Farm Stewardship Association and RAFI-USA, who are providing guarantees and financial counseling to RESEED applicants, respectively. NCIFund received a grant from Wells Fargo to support the implementation of RESEED by providing loan capital, guarantees and interest rate subsidy so that RESEED loans can be offered at a below-market interest rate.

NCIFund's loans to local food and farming enterprises comprise 43% of its loans historically. These loans are somewhat smaller on average — $139,000 vs. $152,000 for the portfolio as a whole. Loss rates for NCIFund's food-related lending are consistent with the portfolio-wide average of less than 1%, though loss rates for programs targeted to limited resource farmers can be higher (13.6% for the Grain Bin project).

The examples below highlight the variety of enterprises that have been financed by the food and agriculture initiatives of NCIFund.

Goat Lady Dairy

Randolph County, NC

Agriculture

Goat Lady Farms began in 1995 on an old tobacco farm, when Ginny Tate and her family restored its land, built a dairy barn, and began raising goats to create cheeses. In 2017, the initial owners of Goat Lady Farms looked to retire, and two long-term employees turned to NCIFund's flexible financing to purchase the dairy farm. Over its 20 year history, Goat Lady has expanded to national distribution, while still selling fine cheeses to local restaurants and farmers markets.

Cúrate

Asheville, NC

Entrepreneur

In 2011, Cúrate opened in Downtown Asheville specializing in Spanish tapas made with fresh, local produce. Over the next five years, the restaurant grew more than 25% per year, leading Cúrate to seek more than $2 million in loans to fund the restaurant's expansion, which was provided by NCIFund in partnership with TD Bank. The expansion has allowed Cúrate to more than double its employment and source more local products. Cúrate is both Living Wage Certified and a three-star Certified Green Restaurant.

Fair Food Fund

Investment Area: Regional

Fair Food Fund, the impact investing arm of national nonprofit Fair Food Network, has been successfully investing in early-stage food entrepreneurs in the Northeastern United States since 2013. Fair Food Fund offers diverse financing solutions that are filling a gap in the marketplace and uniquely designed to meet the needs of the growing, community-based enterprises they serve. Since 2013, Fair Food Fund has invested over $3 million in 13 businesses with loans and investment ranging from $6,000 to $500,000, of which 10 of the businesses are still in operation with three profitable businesses in 2018. Fair Food Fund has also invested more than $600,000 in business assistance for more than 70 businesses in the region through its one-on-one and group intensive offerings. Overall, Fair Food Fund has helped businesses work with over 1,000 farms, create over 150 jobs, and purchase $25 million of food from local farms in the Northeast.

Below are examples of various businesses that have been financed by Fair Food Fund.

DAHlicious

Leominster, MA

Industry

DAHlicious is a producer of lassi – an Indian style drinkable yogurt – made with milk from Northeastern grass-based dairies. In June 2015, Fair Food Fund supported DAHlicious' sales, marketing and working capital needs to expand production into a new facility. DAHlicious has returned to Fair Food Fund for financing in 2017 and 2018 for working capital and product development. With a total of $375,000 in financing received from Fair Food Fund, DAHlicious has launched a new state-of-the-art processing facility, revamped their branding, and launched new non-dairy products.

Pemaquid Mussel Farms

Damariscotta, Maine

Agriculture

Pemaquid Mussel Farms is a rope-grown mussel farm on floating rafts off the coast of Maine. Pemaquid distributes their mussels to local restaurants and regional wholesalers. Pemaquid uses innovative and sustainable aquaculture techniques to produces its mussels and currently has a patent pending for a submersible mussel raft with the goal to produce a million pounds of mussels annually. In August 2017, Pemaquid received $275,000 in customized convertible note financing from Fair Food Fund with plans to grow mussels on nine submersible rafts. Fair Food Fund's investment in Pemaquid has allowed them to increase production, jobs, and regional seafood supply. Following its investment, the Fair Food Fund team has continued to support Pemaquid through a consulting project aimed at upgrading accounting and financial management systems and through active participation on Pemaquid's advisory board.

Fresh Food Generation

Boston, MA

Entrepreneur

Fresh Food Generation is a farm-to-table catering service, food truck, and community café in Boston. It serves up healthy and affordable Latin American and Caribbean-inspired food using ingredients from local farms and with a focus on reaching underserved Boston neighborhoods. Fresh Food Generation was the Pitch Competition winner at the 2014 Fair Food Business Boot Camp, Fair Food Network's three-day intensive business training for selected good food entrepreneurs. As its prize, Fresh Food Generation received additional consulting support focused on cost accounting, financial management, and growth planning.

In March 2018, Fair Food Fund invested in Fresh Food Generation with a $125,000 customized Convertible Note in collaboration with the Boston Impact Initiative Fund. The investment is supporting Fresh Food Generation's continued growth by enabling it to hire more employees and expand its catering business, leading to an even greater positive impact on eaters and growers in Boston and beyond. The Fair Food Fund team has continued to support Fresh Food Generation through active participation on its advisory board and with consulting services to support website and marketing collateral redesign.

Small Business Administration (SBA)

SBA U.S. Small Business Administration

Investment Area: National

The SBA offers a range of resources for small businesses, one of which is the 504 Loan Program - a fixed asset financing program for expanding small businesses. It is the first federal financing tool to recognize the importance of small businesses in the job creation process through their physical expansion. The 504 Loan Program provides small businesses with long-term, fixed-rate financing made available through Certified Development Companies (CDCs). 504 Loans are typically structured with SBA providing 40% of the total project costs, a participating lender covering up to 50% of the total project costs, and the borrower contributing 10% of the project costs. The business must have less than 500 employees, and net worth must not exceed $6 million. Funds can be used for land acquisition, site improvements (including grading, street improvements, utilities, parking lots and landscaping), acquisition of an existing building, building renovation, leasehold improvements, new construction, machinery and equipment with a useful life of at least 10 years and certain soft costs, such as engineering fees, architectural fees, appraisal fees, and environmental fees.

Below is an example of a small business financed by the SBA.

Blue Marble Ice Cream

New Yok, NY

Entrepreneur

Blue Marble Ice Cream is a certified organic ice cream brand with a focus on eco-conscious elements (biodegradable cups and spoons and "green" building materials), as well as supporting sustainable, responsible agriculture. In addition to scoop shops in New York City, Blue Marble entered the wholesale market to offset the slow sales of the winter months. To serve the long view of the business plan, Blue Marble needed capital. The New York Business Development Corporation provided a $350,000 loan through the SBA 504 loan program for machinery, equipment, and working capital to expand Blue Marble's wholesale operation and manufacturing. By 2013, Blue Marble was churning more than 2,000 gallons of ice cream a week and brought in nearly $1 million in revenue in 2013.

RSF Social Finance: Food System Transformation Fund

Investment Area: National

RSF's Food System Transformation Fund provides appropriate loan capital to enterprises that are rebuilding resilient regional food systems to secure economic, social, and environmental benefit for farmers and their communities. They do this by supporting enterprises that (1) provide aggregation, distribution, processing, and market access for farming enterprises, and/or (2) help farmers access farmland and training services. The fund was created to provide more flexible capital with criteria that are better aligned to the needs of food-related businesses and projects, while still holding borrowers accountable for loan repayment. The fund pools program-related investment capital from a mix of 20 foundations and sophisticated investors. Since 2011, RSF has administered over $6.1 million across 34 loans, each ranging from $50,000 to $400,000. The fund's default rate is 3.96%.

The examples below highlight the variety of enterprises which have benefited from the RSF Food System Transformation Fund.

FireFly Farms

Accident, Maryland

Entrepreneurs

FireFly Farms is a Maryland-based creamery that sources fresh, raw milk from a local farming community in rural Appalachia to create award-winning, handmade goat cheese, helping to lift the rural economy and instill value in sustainable methods of farming. RSF provided a line of credit for cash flow needs, along with a $50,000 5-year term loan to refinance existing debt.

Viva Farms

Burlington, WA

Social Enterprise

Viva Farms' mission is to empower aspiring and limited-resource farmers by providing bilingual training in holistic organic farming practices, as well as access to land, infrastructure, equipment, marketing and capital. Their program focuses especially on supporting Latino farm workers and beginner farmers who want to start farm businesses. RSF first provided Viva Farms with a $50,000 equipment loan from the Food System Transformation Fund to help them build out their roadside farm stand that was successfully paid off in four years. RSF now has a mortgage loan with Viva Farms out of RSF's larger lending program, Social Enterprise Lending, that helped them buy more farmland to expand their farmer training programming. Since 2010 Viva Farms has incubated more than 28 farm businesses, and over three-quarters of these are still farming.

Eastern Carolina Organics

Durham, NC

Infrastructure

Eastern Carolina Organics is a food hub that acts as a grower- and manager-owned LLC and a certified B Corp. They market and distribute wholesale Carolina organic farm produce to restaurants, retailers, and buying clubs. RSF provided a line of credit to Eastern Carolina Organics in 2014 to provide them with working capital, and this line of credit was structured to provide flexibility during the winter months when the volume of produce grown in the region is low. This eases the strain on the food hub owners and growers in managing the limitations of the seasonal growing cycle.

Conclusions and Next Steps

This is the second paper in a series that intends to define the food system as an asset class worthy of traditional development finance. While the first paper discusses food systems and development finance as a whole, this paper makes the case to treat food-focused small businesses no different than other small businesses, showing that food-related businesses are just as worthy of accessing capital to support their growth and expansion as non-food-related small businesses. Coming research and papers will further demonstrate the ability of the food system to utilize traditional development finance tools to complete various projects in food-related industries and businesses. Future paper topics include bonds, district-based financing, and tax credits. The final paper in this series will discuss the future landscape of the relationship between the food system and development finance.

More information

For more information about CDFA's work in this area, visit:

CDFA Website:
www.cdfa.net

CDFA Food Finance White Paper Series: Food Systems & Development Finance:
www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=KelloggWhitePaper1.html

CDFA Food Systems Finance Resource Center:
www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/foodsystems.html

CDFA Defining the Food System Asset Class:
www.cdfa.net/cdfa/cdfaweb.nsf/pages/cdfakelloggproject.html

CDFA Intro Food Systems Finance WebCourse:
www.cdfa.net/cdfa/cdfaweb.nsf/0/FEDFF21EDCBBCBAF88257C63005164F3

CDFA Revolving Loan Fund Resource Center:
www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/rlf.html

CDFA Intro Revolving Loan Fund Course:
www.cdfa.net/cdfa/cdfaweb.nsf/0/ED31AA1F0D5A0B5688258221006B35CE

CDFA Seed and Venture Capital Resource Center:
www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/seedventure.html

CDFA Seed and Venture Capital Finance WebCourse:
www.cdfa.net/cdfa/cdfaweb.nsf/0/59CE6ABABE5E9E0E8625765B00592EBB

Notice: The CDFA Defining the Food System as an Asset Class project was prepared by the Council of Development Finance Agencies using grant funds under award P0130858 from the W. K. Kellogg Foundation. The statements, findings, conclusions, and recommendations are those of the author(s) and do not necessarily reflect the views of the W. K. Kellogg Foundation.

CDFA is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing thousands of public, private and non-profit development entities.

Members are state, county and municipal development finance agencies and authorities that provide or otherwise support economic development financing programs as well as a variety of non-governmental and private organizations ranging from regional and large investment banks to commercial finance companies to bond counsel, bond insurers, trustees, venture capital companies, rating agencies, and other organizations interested in development finance.

The Council was formed in 1982 with the mission to strengthen the efforts of state and local development finance agencies fostering job creation and economic growth through the use of tax-exempt and other public-private partnership finance programs. Today, CDFA has one of the strongest voices in the development finance industry and regularly communicates with Capitol Hill, state and local government leaders and the Federal Administration. The Council provides a number of avenues for assisting the development finance industry including education, advocacy, research, resources and networking. Learn more and join at www.cdfa.net.

Toby Rittner, President & CEO
Council of Development Finance Agencies
100 E. Broad Street, Suite 1200
Columbus, OH 43215
www.cdfa.net

The W.K. Kellogg Foundation (WKKF), founded in 1930 as an independent, private foundation by breakfast cereal pioneer, Will Keith Kellogg, is among the largest philanthropic foundations in the United States. Guided by the belief that all children should have an equal opportunity to thrive, WKKF works with communities to create conditions for vulnerable children so they can realize their full potential in school, work and life.

The Kellogg Foundation is based in Battle Creek, Michigan, and works throughout the United States and internationally, as well as with sovereign tribes. Special emphasis is paid to priority places where there are high concentrations of poverty and where children face significant barriers to success. WKKF priority places in the U.S. are in Michigan, Mississippi, New Mexico and New Orleans; and internationally, are in Mexico and Haiti. For more information, visit www.wkkf.org.