enabling local and sustainable food initiatives

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Investing in local food supply chains:
A funding proposal to pilot value-chain development

Introduction

Farmers and food processors in the UK are currently struggling within a global marketplace, especially micro businesses and SMEs. The food and drink sector has been subject to increasing centralisation and consolidation of markets and the value chains which serve them. Value chains comprise the full range of activities required to bring a product from conception to end use and beyond, including product design, production, marketing, distribution and support to buyers and consumers.

The food and drink value chain today is dominated by the buying power and contractual success of the retail multiples, larger food service companies and delivered wholesale businesses. This leaves little room for the specialist and smaller business.

Many involved in supporting the development of local food systems believe that a dedicated investment strategy is needed to develop shorter and more dedicated value chains. This sector is typified by enterprises which are on the edge of the financial radar, including start-ups, rural-based businesses, growing micro- and, social enterprises and otherwise hard-to-fund businesses. For many, commercial funding is hard to obtain or the terms and security required are unattractive. Similarly, public sector funding is competitive, and will become more uncertain with forthcoming changes in European funding and the loss of funds such as the Rural Enterprise Scheme. Yet the sector is one within which there is much innovation, energy and large growth potential, held back by several factors including financial constraints.

Shorter value chain solutions have been set up in several parts of the UK, building on the demand for local, fresh and trusted produce. These have included support for infrastructure projects such as distribution hubs, and assistance to innovative enterprises and collaborative groups. In most cases these enterprises have required public sector funding. Others have used a mix of funding including private equity and loans.

Our proposal is to pilot a value chain investment programme for micro and small enterprises within the local food and drink sector in a defined region or sub region.

The objective is to develop a programme of support interventions with a local food value chain from production to end consumer. The interventions would address specific constraints and help reduce value chain risks and thereby create a more conducive environment for investment. The pilot would act as an example of how an integrated programme of value chain support can safeguard existing rural businesses and encourage growth, create multiple local economic benefits and meet other sustainable development objectives, and act as a catalyst for the introduction of mainstream finance into local food value chain development.

The specific aims will involve working closely with all stakeholders within an identified local food value chain to define where investment and other forms of support are needed, identify constraints, design investment vehicles, offer support to funders and

enterprises, and integrate the investment programme with other food and drink initiatives.

Whilst the costs of *this pilot* would initially be borne by the funding bodies and key public sector partners, the aim is that the facilitation cost of future investment programmes of this nature would be met at least in part by those enterprises which are its beneficiaries.

The case studies below outline the concept and indicate the kind of value chain developments which will benefit from dedicated investment programmes:

Case study 1: Oily fish for SE schools

*During the winter of 2005/06, **f3** acted as enablers to create a supply chain between small boat fishermen on the South coast, and school meal services in three counties. The starting point was twofold: the fishermen were looking for a more profitable outlet for mackerel and herring (Marine Stewardship Council approved); whilst new requirements for school meals stipulate that oily fish must be on the menu at least once every three weeks. **f3** identified a fish market and handler, commissioned the development and trialing with schoolchildren of three fishcake products, and brokered the contractual arrangements for a nominated supply to three county school meal services via the main food supplier. Investment was needed in product development and facilitation expertise, and will also be needed to assist the fish market in primary processing and freezing facilities.*

When operational, the new market for this fish may tip the balance of business viability for the fishermen, whilst also creating a 'low food miles' solution to a nutritional requirement to ensure better health for children.

Case study 2: Local food distribution services in Somerset

*A few years ago, traders at farmers' markets in Somerset decided to respond to growing demand for their produce by creating a direct delivery service. **f3** prepared a business plan for Somerset Local Food Direct, a collaborative enterprise which now delivers a box of customer-selected produce to over 300 households. More recently, a collaborative enterprise called Source has developed a distribution service for producers in the west of the county to service trade customers such as shops and hotels. **f3** are now working on a market research study and business plan to extend both services into the Blackdown Hills area. Both schemes received financial support through the Rural Enterprise Scheme, and Source has also taken out a loan through the Wessex Reinvestment Trust, a CDFI, having been refused a loan from a mainstream bank. The new expansion will require investment in a new distribution hub, delivery vehicles, marketing and revenue support for up to three years.*

The services help micro producers in the county to expand their businesses and stay financially viable by ensuring better margins and good business terms. Local people benefit from fresh, high quality food at competitive prices delivered to the door, in areas where access to fresh food can be difficult.

Proposed activities

1. Identify key project partners	▪ to include RDA, commercial bank or specialist lending institution such as a CDFI ▪ also likely to include service providers and support agencies such as Business Link and Food Links organisations
2. Invite enterprise stakeholders and define issues	▪ promote the initiative and invite participation by 'hard to fund' food & drink sector enterprises, through organisations working in the sector ▪ plan and facilitate sub-regional workshops for enterprises to identify funding and support needs and issues ▪ plan integrated working with other organisations and sector initiatives
3. Design and promote investment and support systems	▪ work with funding bodies to define appropriate strategy and a range of grant, debt and equity packages ▪ promote funding packages to target enterprises and draw up long list
4. Review recipient enterprises and get 'investment ready'	▪ carry out a quick review of the viability of applicants' business proposition, to identify those who may be suitable for funding ▪ assist individual enterprises to develop their business plans and become 'investment ready' ▪ assist the enterprises in preparing funding applications
5. On-going support	▪ maintain a non-executive board role to help the enterprises during their critical development phase ▪ pro-actively develop supply chain connections ▪ organise complementary services to producers and supply chain businesses such as help with setting up appropriate legal structures, developing marketing strategies and setting up administrative and accounting systems
6. Review and evaluation	▪ evaluate business benefits to enterprises involved in the project ▪ evaluate local economic multiplier effect, social and environmental impacts ▪ review project success and propose re-modelling for future value chain investment ▪ disseminate findings to other government regions and funding institutions

Timescale and project costs

The project is envisaged as a two year programme. The first three to six months would involve the set-up stages as defined in parts 1-4 above, followed by a 12-15 month investment phase as stage as in part 5, and then a three month review period.

Project costs will depend on many factors, not least the extent of the project in terms of business involvement and scale of funding. However, we envisage an enablement cost in the order of £75,000.

Project delivery

Delivery would be co-ordinated and spearheaded by **f3** and ***Prorustica***. Local partners will be identified and are likely to include Business Link and Food Links organisations.

f3 is an independent not-for-profit organisation which provides consultancy, research and training services to the food and drink sector. f3 have been established for seven years and have experience of over 130 projects supporting local and sustainable food initiatives, working with government, regeneration agencies, businesses and community groups. Most f3 consultants have direct enterprise experience.

f3 prepares feasibility studies, business plans and marketing strategies for numerous enterprises in both start-up and growth stages. These include projects as diverse as collaborative distribution systems, new supply chain connections, and individual business development plans.

Prorustica is a consultancy providing expertise in rural development and in the specialist area of enterprise development and finance. The company has particular experience in the design and implementation of programmes supporting the private sector particularly in rural enterprise development. It is active in the full range of business development programmes, from small-scale enterprise expansion and SME finance through to large programme development.

Prorustica personnel have particular expertise in the design and expansion of rural SME and agribusiness programmes, the analysis and development of farmer to market supply chains, and the design of financial products and risk management strategies required to support rural development programmes. Recent work has focused on setting up European food value chain programmes and the development of relevant financial products along particular food chains. The consultancy has also recently prepared strategic financing plans for a CDFI focusing on rural SME access to finance.