

Strengthening Farms and Communities Since 1993

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Investing in Your Community

Could I invest in local food?

Most of us don't think of ourselves as investors. But if you have money in the bank or in retirement savings, it's invested somewhere. Could some of that money help grow local foods businesses in your own community? At the moment, most of us don't have a lot of options for local business investment, and Pioneer Valley local foods businesses don't have all of the financing tools they need for growth. But local efforts are changing that. Some of these options might put the dollars saved by Pioneer Valley residents to work building the food system of our future.

How can I invest in the Pioneer Valley food system?

The **Pioneer Valley Grows Loan Fund** provides loans to local farm and food businesses. The \$750,000 fund is currently closed to new investments, but the partnership of local lenders and agricultural groups that created it is now working to replace it with a larger **PVGrows Food Fund**. This new \$2.5M investment fund is designed to provide flexible loans up to \$250,000 to local-food businesses in the seed to growth stages. When the fund is launched in 2014, you will be able to invest amounts as small as \$1,000 into the local food economy. An option to invest a portion of your investment or retirement portfolio in the fund will be provided. Project advisor Michael Shuman of Cutting Edge Capital documented the development of this new fund in **Creating a Community Investment Fund: A Local Food Approach**.

PVGrows also work closely with the **Slow Money Pioneer Valley Chapter**, which connects local foods businesses with individual investors. If you prefer to invest directly— either via a personal loan or through purchasing an equity share in the business— the Slow Money Chapter can help match you to business owners seeking capital.

Two existing Pioneer-Valley based loan funds already accept investments from non-accredited investors (see definition below). **Equity Trust**, in Amherst, works nationally to protect farmland and

retain long-term, affordable access for farmers. **Common Capital**, in Holyoke, recently launched the Community First Fund, that provides loans to western Massachusetts businesses, including but not exclusive to food and farm businesses.

Individual businesses sometimes offer investment options directly to the public. Greenfield-based Real Pickles made a transition to worker ownership designed to ensure their long-term commitment to stay small, locally-owned, and mission-driven. They funded the co-op's purchase of the business through a highly successful community investment campaign that raised a half-million dollars. See **CISA's case study of the Real Pickles investment campaign**.

What kind of financing is needed?

Anyone starting or expanding a business needs to get financing from somewhere, whether it's personal resources, family members, credit cards, community-based lenders like Community Development Corporations (CDCs), local banks, or investors. Financing allows a business to cover start-up and operational costs until revenues begin flowing in. To be eligible for financing, a business needs to prove to lenders or investors that it is likely to succeed, and often must provide capital sources with either collateral (to protect against borrower default) or equity (a partial ownership stake in the business). Riskier business models need to find sources of capital that are willing to accept a higher level of risk.



Photo credit: Patty Kestin

Existing financing options for local foods businesses in the Pioneer Valley include government agencies, banks, and community-based lenders. Most offer debt financing, in which the borrower secures the loan by providing collateral, something the lender can foreclose on if the loan is not repaid.

Debt financing may not work for a business if the owners don't have assets that can be used as collateral, if they already have too much debt, or if the business appears too risky to conventional or community lenders. Additional tools in use in some places include equity financing, in which the investor receives an ownership stake in the business, and royalty financing, which gives the investor a return tied to monthly sales or profit. The New Hampshire Community Loan Fund's Vested for Growth Program provides good **explanations** and **examples** of financing structures on their website. Around the country, loan funds and investors are exploring and testing these and other ways to provide flexible capital to local foods businesses. **Learn more about the various types of financing.**

Am I allowed to invest in these businesses?

Until recently, federal regulation has limited the ability of "non-accredited investors"—generally people with a net worth under a million dollars—to make these types of investments. Enacted during the Great Depression and intended to protect people who couldn't afford to lose their money, the regulations have made it difficult for many individuals to invest in small businesses in their own communities, and have limited the sources of capital available to local foods businesses. Recent changes in the law provide more flexibility, allowing non-accredited investors to invest in local business if they are provided with detailed information.

These changes could provide significant new funds to local foods businesses in our region. Just as important, they allow us to use our money to create the food system that we want, one that will sustain us with both healthy food and a healthy economy.



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