



LEOPOLD CENTER
FOR SUSTAINABLE AGRICULTURE

Development of a niche agriculture small business money map and process to disseminate information

Abstract: A key constraint for small businesses is the dearth of operating capital. The situation is especially critical for niche market agricultural enterprises. This project identified barriers in access to capital for niche marketers.

Question & Answer

Q: What information did this project offer niche agricultural producers about future capital access?

A: Niche producers should be aware that multiple potential sources of capital are available to fund operations;

- identifying these potential sources of capital may take time and effort;
- obtaining capital requires targeting the appropriate provider of capital and carefully preparing the appropriate documents;
- technical assistance to help in the preparation of documents is available, but may require tenacity of effort to locate services.

Background

The limited access to consistent and reliable sources of capital is a common problem affecting all small firms. The lack of capital is especially critical for firms operating in specialized agricultural niche markets. The problem may be related to the lack of awareness about what sources of capital are available and appropriate, and a lack of understanding by providers of capital about how to evaluate requests for funding from small niche market agriculture firms. Access to financial resources is a key element of developing vibrant and sustainable local/

regional food systems. Yet, few studies have mapped the potential capital sources for small niche agricultural producers.

The overall purpose of the project was to improve access to capital by owners of small niche agriculture businesses in Iowa. The project collected information that can be helpful for providers of capital to better understand the needs of niche agricultural producers, for niche agricultural producers to better understand issues related to capital acquisition, and for better general understanding of the funding relationship between providers of capital and niche agricultural producers.

Approach and methods

Two surveys were conducted as part of the project. The first went to potential providers of capital to niche agricultural producers in Iowa. Initially a focus group was convened to discuss obstacles to capital acquisition, skill deficiencies among small agricultural producers, the philosophy behind decisions among providers of capital, and perceived needs of niche agricultural producers. Insights from the focus group were used to develop the first draft of the questionnaire for testing and revision. The final questionnaire was sent to 138 organizations, including Farm Credit Services, RC&Ds, rural development funds, CDFIs, USDA offices, rural electric cooperatives, councils of government, revolving loan fund organizations, and others. Response rate for the questionnaires was 40 percent.

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\$18,800 for year one

The second survey was sent to niche market agricultural producers, including owners of food and fiber enterprises. The questionnaire was tested and sent to 693 niche agricultural producers. The response rate for this survey was 25 percent.

Results and discussion

The survey results from the providers of capital suggest that funding rejections are primarily due to lack of collateral, a weak or nonexistent business plan, or the applicant did not meet the criteria needed to receive funding. Two ways to improve the flow of capital to producers would be to provide more technical assistance and to have more capital available to the agency for dispersing to applicants. Little technical assistance is provided to applicants. The flow of capital is restricted because information dissemination appears to be limited. Few, if any, applicants have a comprehensive understanding of capital availability (e.g., who does what in the process). Advertising of capital availability, done primarily through economic development agencies, word of mouth, and banks, likely does not reach many producers.

Producers who responded to the survey provided information on their situations regarding capital acquisition. They are most aware of capital available from the U.S. Depart-

ment of Agriculture, friends and family, community banks, and savings.

Producers are not familiar with other potential sources of capital. Capital is obtained primarily from the USDA, friends/family, community banks, and savings, and few other sources of capital, such as the Small Business Administration, local economic development agencies, rural electric cooperatives, revolving loan funds, and Grow Iowa Fund. Community banks are the most common source of technical assistance while few other agencies are called upon for technical assistance.

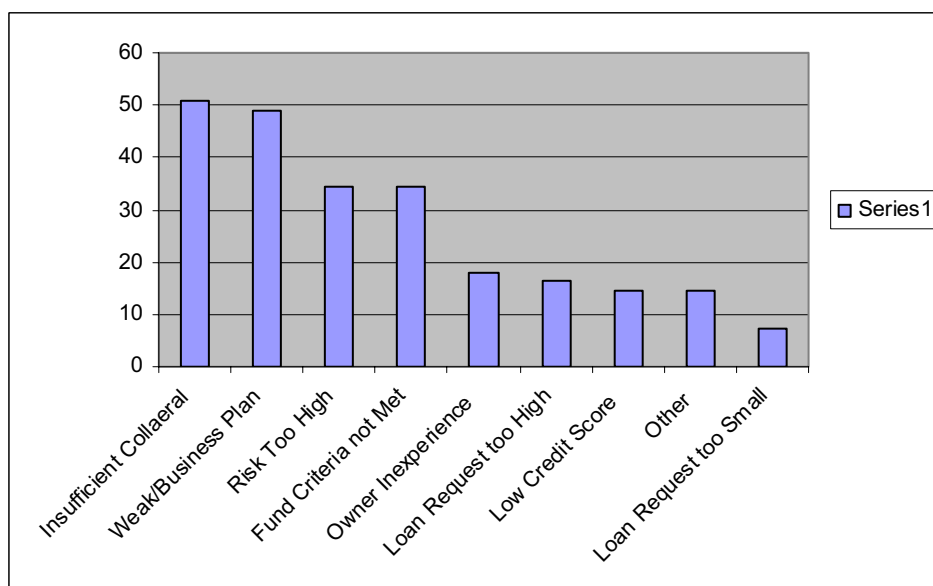
Some “mapping” of criteria to qualify for funding from the various agencies was attempted. The information obtained should be interpreted with caution because of the nature of the survey, sample size, and quality of respondent responses (e.g., respondents must meet funding criteria). It is worth noting that each funding organization may have unique criteria, even within a single category (such as a revolving loan fund). A comprehensive money map could be part of a follow-up study.

Conclusions

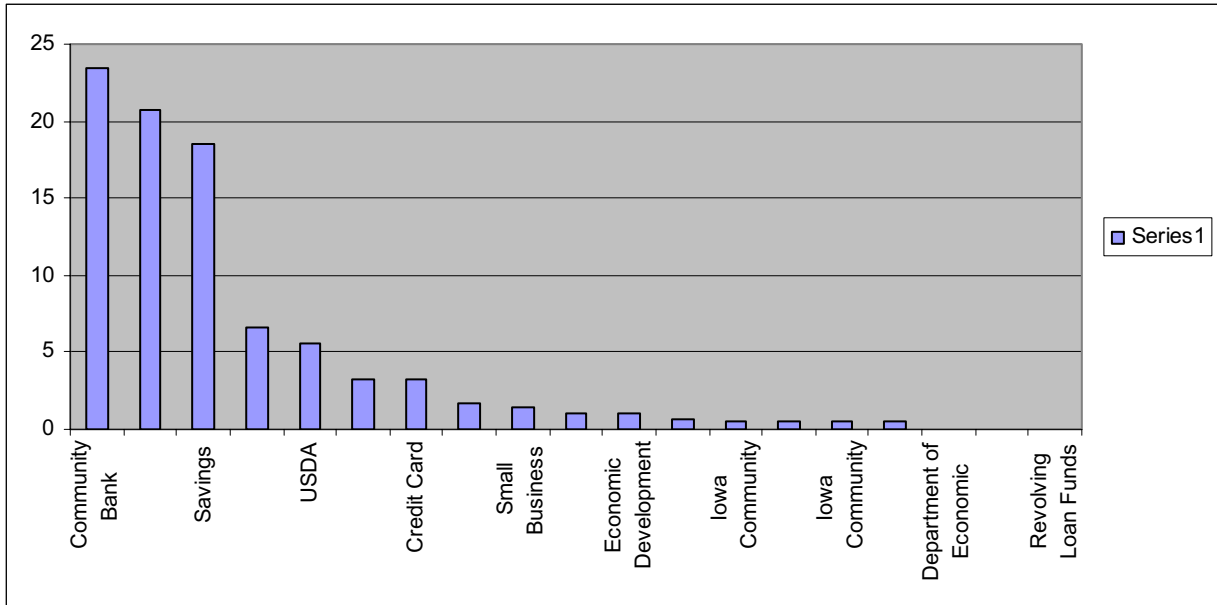
The overall findings of the study offer several lessons.

- Information dissemination to producers about capital acquisition appears to be ineffective,

Percent of Agency Indicating Reasons Why Funding Request Was Rejected



Percentage of Respondent Acquiring Funds from Alternative Sources



- Little coordination occurs between agencies responsible for providing capital,
- The gap in providing technical assistance is significant, and
- Capital acquisition is most often determined by the producer's familiarity with a certain individual or agency.

Impact of results

The project provided empirical evidence of a disjointed relationship between potential funders and niche producers. Better flow of information could improve the flow of capital. Improved and more widely available technical assistance could help overcome access to capital. The

results have been shared with the Iowa Microloan Foundation. Hopefully, the project is a beginning to finding ways to provide better financing to niche agricultural producers.

Education and outreach

The proposal included limited outreach activities. A presentation was given at the March 2008 Marketing and Food Systems Initiative workshop. Further collaboration with the Leopold Center to disseminate the information is welcome.

Leveraged funds

No additional funds were leveraged by this grant.

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