

LOAN FUND INITIATIVE

A project to scale up the Local Food systems in Poland to achieve greater social, economic and environmental impact by increasing the numbers involved, products offered and volume of sales

Developed by

Polish Innovation Foundation & Polish Environmental Partnership Foundation

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We are looking for a financial partner or financial partners, who can contribute to the development of the project through provision of expert advice and financing - to add to and build on what has already been invested.

GOAL:

The goal is to establish an operational **LOAN FUND** as a cooperative of financial investors (individual and institutional) and local food producers to provide access to financial services adapted to the needs, circumstances and opportunities of those participating in local food systems – short-chain collaborations involving producers and consumers that connect small farms, agricultural smallholders and small-scale food producers to urban consumers.

The ambition is to scale up access to fresh, tasty, chemical free, locally-produced food of traceable origin (i.e. as directly as possible from the producer), while combating social exclusion (in rural areas) and contributing to environmental sustainability by improving biodiversity conservation and reducing food miles. The purpose of the Loan Fund is to scale up local food system distribution systems by providing financial services to participating food producers, who are not yet operating in the market or do not have an established track record of proven repayment that would make them eligible for bank loans and other types of financing needed for growing their business in ways that take full advantage of opportunities offered by local food systems - both individually and in cooperation with others.

THE OPPORTUNITY

The Polish Environmental Partnership Foundation (Fundacja Partnerstwo dla Środowiska) and the Polish Innovation Foundation are both part of an institutional ecosystem, involving private, public and non-profit organisations, working on starting up, strengthening and replicating Short-Chain Food (SFC)¹ systems across Poland. Both organisations are part of the so-called Local Products from

¹ Short-chain food systems seek to shorten the 'distance' between producers, who have limited access to market, with consumers, who want to access tasty, chemical free food that can be traced to the producer (known origin). Such systems seek to minimise the number of intermediaries between the producer and the consumer. See:

Malopolska SFC, which has been developed since 2011 (www.local-food.pl). The system connects producers and consumers, cutting out intermediaries. The Foundations have verified and engaged approx. 1000 small farmers and small producers across the country.

The size of the market is approx. 1 mln entities (small farms and small food producers). In developing and campaigning for local food systems, it has become apparent that the individuals and entities involved are largely excluded from the financial system. They are not partners for banks as they do not have a documented financial/credit history. On the other hand, they generate financial income and hold assets that generate a financial standing. The only source of investment financing available in this segment are savings, private loans and high-interest usury loans.

Connecting the development potential of food systems, especially SFC systems (income stream) with customized financing instruments is a business development opportunity.

The opportunity to invest is related to the introduction of new legislation centred on a new form of trading – Agricultural Retail Trade - which allows farmers to process and sell products from their farms directly to consumers (this was not possible earlier due to sanitary and tax barriers). The Polish Government has adopted enabling of local food systems as a policy priority in agriculture and rural development programming.

CASE STUDIES

- 1) Equipping a cheese-making producer in Malopolska, already on the market. Due to rapidly growing demand for his products, created by the Buyers' Clubs network, he needs to upgrade and equip his production. The market for ripening cheeses is especially attractive as this is where the demand is greatest. Profitability is approx. 50%. Investment at the level of 100.000 EUR (instalments possible, co-financing from EU grant funding). Possible to access financing at approx 10% interest rate p.a.
- 2) Installing new technology for a new product line by a producer of natural juices. Established small enterprise wants to a new product line in syrups and concentrates in response to demand signalled from buyers' clubs. Investment approx.. 100.000 EUR. Possible to access financing at approx 10% interest rate p.a.
- 3) Upgrading a meat processing enterprise. Securing essential certificates, permits, approvals, implementing food safety procedures. Meat processing must meet sanitary condition. High demand for final products. Own high-quality raw materials. Estimated investment at level of 50.000 EUR. Return on investment is 2 years. Possible to access financing at approx 10% interest rate p.a.

FUND ACTIVITIES

We are looking for a financial partner or financial partners, who can contribute to the development of the project through provision of expert advice and financing to add to what we have contributed and continue to contribute. Our forecasts suggest an annual IRR at the level of 20-25%.

The project goal is establish and develop a LOAN FUND centred on SFC and related food sector financing, which would also draw on recent development in the fintech market in Poland. Our focus is especially on distributing directly to consumers quality food that is locally- produced (of known-origin) using natural and organic methods.

Activities are focused on developing a suite of financial services to be provided via the Loan Fund which can adapt to and meet the financial needs of local food systems across Poland as these grow in terms of number of producers (& consumers) involved, the range of products sold (transactions) and the volume of sales. Activities are to involve a project team convened by the Polish Innovation Foundation, which will bring together and make available to the project - experience, expertise, knowledge, skills and competencies, covering financial, micro-lending, IT, agri-food, logistics, farming and partnering .

The table below presents the range of financial instruments, which the LOAN FUND is seeking to develop, where possible with collaborating partners.

	Name/ type of instrument	Financial Cooperative TELLUS	Financial institution	Polish Environmental Partnership Foundation
1	Crowdfunding for SFCs (for investments up to 10.000 PLN)	Research to work out a preferred formula for a crowdfunding platform; establishing a crowdfunding platform; implementing and developing the platform and developing it to target diaspora Poles, especially in the UK.	Advising during start-up stage of the platform; cooperation in developing protocols for the platform as an innovative product, assuring cash-flow for the platform during testing phase.	Testing/piloting platform for selected projects in the LPM system (and also in other SFC systems in Poland)
2	Network of impact investors for SFCs (for investments frm 50.000 to 500.000 PLN)	Research to work out a preferred formula for an impact investor platform; establishing an impact investor platform; managing & developing the platform; active recruitment of impact investors, including diaspora investors, especially in the UK.	Advising during start-up, cooperation in developing protocol for the platform as an innovative product.	Based on the LPM system (and other SFC systems in Poland) develop a portfolio of pilot investments, which respond to the needs, limitations and opportunity of impact investors (from Poland and internationally).
3	Creating lending products – short-term loans for financing SFC transactions (single transactions up to 10.000 PLN)	Researching potential product beneficiaries; cooperation in creating final product.	Preparing product; piloting product.	Using LPM system to organise pilot an also in other SFC systems in Poland
4	Creating a platform for commercial investors (private equity funds, business angels, venture capital, professional private investors) interested in identifying investments in SFCs	Research to work out a preferred formula for the commercial investment platform; creating the platform; managing and developing the platform; active recruitment of investors; building a	Advice at start-up phase of the platform; collaboration in creating protocols for an innovative product	Using the LPM system and other SFCs to develop a portfolio of pilot investments, adapted to the needs, limitations and potential of commercial investors

	(investments ranging from 100.000 to 1.000.000 PLN).	network of commercial investors (including diaspora Poles living outside Poland, especially in the UK)		(from Poland and internationally).
5	Creating a model for mutual financing – making use of financial cooperative, associations, producer groups	Creating an offer for members; implementing a pilot; creating a producer group within the SFC.	Advice at start-up stage related to working out model solutions; collaboration in creating protocols as an innovative product	Piloting/testing the instrument in the LPM system and other SFC systems
6	Creating a model guarantee product to enable other financing sources; contracting etc by members of the SFC ecosystem.	Researching potential beneficiaries of this product; collaboration in creating a final product	Preparing the product, implementing a pilot.	Piloting/testing the instrument in the LPM system and other SFC systems in Poland
7	Credit note for investment project supporting elements of the SFC	Researching potential beneficiaries of the product; collaboration in creating a final product.	Preparing the product, implementing a pilot.	Piloting/testing the instrument in the LPM system and other SFC systems in Poland
8	Insurance products based on mutual assurance – related to assets and transactions.	Researching potential product beneficiaries; collaboration in creating a final product.	Preparing the product, implementing a pilot.	Piloting/testing the instrument in the LPM system and other SFC systems in Poland
9	Leasing fixed assets used in production and delivery processes in the SFC.	Researching potential product beneficiaries; collaboration in creating a final product.	Preparing the product, implementing a pilot.	Piloting/testing the instrument in the LPM system and other SFC systems in Poland
10	Sharing assets in production processes in the SFC – creating kitchen incubators	Creating a functioning model for use in SFC systems, which can be replicated in different locations and with different groups of producers. Fully equipped incubator used by SFC members on a shared basis	Financial advice during preparation of final product	Piloting/testing instrument on incubators functioning within the LPM system and other SFC systems.
11	Group buying – platform for joint purchasing of both producers and consumers participating in an SFC	Research to work out a preferred model for a group buying platform for an SFC; creating the platform; managing and developing the platform; recruiting participants for the platform.	Advice at start-up stage related to working out model solutions; collaboration in creating protocols as an innovative product	Piloting/testing the instrument in the LPM system and in other SFC system, especially in the Buyers' Club network in the LPM system.
12	Financial analysis on-line – creating solutions for developing, verifying professional financial models required by financial institutions from members and suppliers in SFCs	Advice in developing a model solution	Preparing an implementing a model, working out protocols, implementing a pilot	Piloting/testing the instrument in the LPM system and in other SFC system, especially among producers participating in the network of Buyers' Clubs in the LPM system

				and in Buyers' Clubs in other SFC systems
13	Economic education – registering business activity, financial literacy training– in cooperation with an Economics University/Business School	Preparing and implementing educational programmes, preparing training materials.	Advice/contribution to programmes	Piloting/testing financial literacy educational programmes in the LPM system and in other SFC systems (educational programmes directed to producers, consumers, organisers of Buyers' Clubs and other organizational units participating in the SFC.
14	Tax education – registering business activity, accounting and tax obligations, tax and insurance reporting. Cooperation with tax office	Preparation and implementation of education programme; preparation of educational materials	Provision of expert advice	Piloting/testing financial literacy educational programmes in the LPM system and in other SFC systems (educational programmes directed to producers, consumers, organisers of Buyers' Clubs and other organizational units participating in the SFC.
15	Economic education – financial instruments, and financial innovations, creating customised financial products – in cooperation with Economics University/Business School	Preparation and implementation of education programme; preparation of training materials	Provision of expert advice	Piloting/testing financial literacy educational programmes in the LPM system and in other SFC systems (educational programmes directed to producers, consumers, organisers of Buyers' Clubs and other organizational units participating in the SFC.

BACKGROUND

Since 2011, the Polish Environmental Partnership Foundation has been piloting an innovative short food chain system, called Local Products from Malopolska (LPM), with an ambition to connect small farms in Malopolska (South Poland) to urban markets, especially in Krakow, where there is a growing demand for high quality, locally produced fresh food – of traceable origin (principle of traceability), directly from the producer (principle of proximity). There are now many such initiatives under way across Poland – so there is potential for replication and scale-up.

Our two over-arching objectives:

(1) To develop the local rural economy in an ecologically-beneficial way, resulting in new jobs, new businesses, stronger community bonds, increased productivity from the land, preservation of the area's natural resources;

(2) To develop the urban consumer market for good quality, local food (of traceable origin) in a way that combines the best of traditional, relationship-based purchasing directly from known and trusted producers (proximity), with the modern conveniences of online purchasing and a choice of pick-up/ collection options to suit urban purchasers' lifestyles.

Many local food systems, including the Local Products from Malopolska system, are being developed as social enterprises, which take on the form of an "institutional LPM ecosystem" that combines both for-profit and non-profit elements.

The for-profit side seeks to focus on creating sustainable new income, businesses and jobs, for the farmers, ancillary service providers and other manufacturers and retailers e. g. in transport, warehousing, retail collection points; cost-saving or productivity-improving equipment such as renewable energy or water supply; eco-tourism businesses. These are to benefit from private investment on a commercial basis.

The non-profit side seeks to focus on (1) supporting public purpose infrastructure to underpin the development of the PLM system This includes physical infrastructure in its start-up phase, until it is able to achieve the scale of usage needed to become financially sustainable; and also includes 'service infrastructure', e. g. training and skill development to build relevant capabilities within the local community; (2) Ensuring the initiative is fully inclusive and benefits the whole of the Malopolska population; (3) Conserving and protecting the natural environment, including natural and cultural landscapes and biodiversity.

Need – why now

To date, 100+ farmers/food producers have successfully been introduced to the programme, becoming certified members and regularly supplying customers at an outdoor Krakow market, through Buyers' Clubs, a Bistro, with other distribution channels/sales points being developed with an IT-enabled system for sales and logistics management.

The Polish Environmental Partnership Foundation has also campaigned successfully for a more enabling legal & tax environment for direct sales from small farmers and for small-scale food processing. A suite of new tax and sanitary rules have been – and continue to be – introduced so as to enable farmers to process and sell food produced on their farm.

The opportunity of the 2020 farming season lies in using the LOAN FUND to scale up the volume of locally-food products traded (legally), which is now a policy and political priority of the Polish Government. Further legislative and policy initiatives are planned to create an even more favourable and enabling regulatory environment for smallholders and small farms with respect to hygiene rules and tax incentives. A new form of trading – Agricultural Retail Trade – has been introducing allowing farmers to process and sell their own products, while retaining their 'farmer status'. This solution provides a way for smallholder farmers to legalise their informal production and sales activities and to generate additional income from food sales directly to consumers.

At present only approx 10% of Poland's 2.1 million farms (136,000 in Malopolska) sell their food products directly to consumers in the formal economy (most transactions are in the informal economy). In contrast, in Italy there are approx the same number of farms, but almost 90% are engaged in direct sales of their own food products. Our project is timely because consumers are seeking access to local food of known origin as an alternative to imported organic food and industrially-

produced food of untraceable origin. The need and opportunity is to increase participation of food producers and consumers in local food systems across Poland – using the Malopolska situation as a pilot and demonstration, especially by bringing small producers operating outside of formal markets into the market economy, thereby combating social and economic exclusion.