Community investment in CSA

What is community investment?

Community investment can be an important source of capital for community supported agriculture (CSA) ventures. It involves members and supporters of a CSA venture investing money through the purchase of bonds or shares. Bonds are a form of loan agreement, providing finance for a specified period, after which the enterprise repays the loan plus the agreed interest on the loan. Share capital is different. It is a permanent or semi-permanent investment, in return for which the investor becomes a member and part-owner of the CSA, and may receive interest or dividends on their share capital, if the CSA is profitable.

Community investment is not new. The consumer co-operative movement of the nineteenth century was financed by ordinary people investing share capital. In the last ten years there has been a resurgence of interest in this practice, with over 40 new cases of community investment in enterprises serving a community purpose. Nearly all of these cases have used a legal form called the Industrial and Provident Society (IPS). This legal form has been favoured because of some of the unique attributes of its share capital, which include:

- One-member-one-vote (rather than one-share-one-vote practised in companies), which means that the enterprise is democratically controlled
- Limitations on the amount of interest that can be paid on share capital
- An upper limit on the amount that individuals can invest: currently this limit stands at £20,000
- The share capital can be withdrawn by members, subject to terms and conditions, at or below the price they paid for it, which does away with the problem of finding a buyer when a shareholder wants their money back
- Withdrawable share capital in IPSs is exempt from many of the requirements of the Financial Services and Markets Act, which governs the public offer of investment in securities such as shares. This makes it much cheaper and simpler to make a public offer of IPS withdrawable share capital, than it would be for a company (including a community interest company) to make a similar public offer of share capital.

Becoming an investor, member and part-owner of a CSA venture is a powerful way for people to engage in its future. Member-investors have a vested interest in its success, and are more likely to become committed customers, volunteers, supporters and promoters of the venture.

Where does community investment fit into CSA?

Community Supported Agriculture (CSA) is all about communities sharing the risks and rewards of agriculture. It is based on building strong, mutual relationships between farmers, growers and their local communities. Interest in CSA has been steadily increasing in the UK for over a decade. There are a wide variety of examples of CSA, ranging from the community ownership of farmland, through to groups who agree to the advance purchase of a share of the produce. Some groups allow members to volunteer their time in return for their share, whilst other groups ask members to pay a regular subscription.

Up to now the business model underpinning CSA has largely focused on securing and improving the revenue flows for farmers and growers, by establishing a committed customer and volunteer base, prepared to share the risks of the venture. Some CSA initiatives are farmer-led, others are community-led, with some interesting hybrids that started out as farmer-led initiatives but have subsequently become community-controlled.

But securing the revenue only goes halfway towards securing the future of CSA initiatives. Capital investment in CSA initiatives is equally important but often overlooked. This, in part, may be due to the different ways in which the term “share” is used. Many CSA schemes invite people to buy a share of the produce on a regular basis. This is not the same as share capital, which gives ownership and control rights to the shareholder members, in return for their investment.

Capital needs of CSA

All enterprises need capital investment if they are to thrive and prosper. Compared with some areas of enterprise, farming and growing is particularly capital-intensive. The capital requirements range from the purchase and ownership of land and buildings, through to investment in farming and growing activities that might take several years to generate a return. Farm businesses are being encouraged to diversify their activities, but this almost always depends on capital investment that many small farmers are unable to raise.

Many CSA initiatives address the short-term financing needs of farming and growing by guaranteeing an income over the coming season or year. By subscribing a regular amount, members can ease the cashflow and provide some security of income for the year ahead.

But for farming and growing to be really successful, long-term planning is essential, and this means securing long-term capital finance. Community investment gives CSA the scope to consider a wide range of long-term investments such as:

- Ownership of land and buildings
- Conversion of land to meet organic certification standards

- Wind farms, heat pumps, solar power and other sources of renewable energy
- Combined heat and power schemes, where the heat is used for growing or food processing
- Composting and local waste anaerobic digestion schemes
- Community-based domestic bio-fuel heating schemes
- Woodland management, coppicing, pollarding and charcoal production
- Water-harvesting, irrigation and water management
- Hedgerows and fencing
- Growing facilities such as polytunnels and glasshouses
- Food storage facilities
- Orchards and other long-term fruit and nut crops
- Organic livestock production facilities
- Farm-based food processing, such as dairy, butchery or food preservation
- Local food distribution systems, transport, and shop or market outlets.

Land tenure

Long-term investment in farming and growing ultimately depends on land tenure. Purchasing the freehold ownership of land through community investment may, in theory, be an ideal starting point for a CSA initiative, but in practice this is rarely the first step, because the entry costs are simply too high.

Fordhall Community Land Initiative is an interesting exception: it raised over £750,000 in IPS share capital to purchase the freehold of a tenanted organic farm where family succession was threatened by the sale of the land to private developers. The fate of this farm, and the family's proposal to take the farm into community ownership, caught the attention of the national media. Over 8,000 people across the country and abroad became member-investors, enabling the land to be purchased, and leased to the family.

Tablehurst and Plaw Hatch Farm is another example of community investment in CSA, but instead of owning the land, the money, raised through IPS share capital, was used to purchase the farm business. Over 1,100 people have become members, investing more than £112,000 in the enterprise. In this case the land is owned by a charitable trust, which was bequeathed the land by Emerson College, a teacher-training centre in biodynamic farming, on the condition that it was used for community purposes.

Both these examples are products of special circumstances. In neither case does the CSA own both the land and the farm business; which would be the ideal combination for long-term investment by the community.

Instead, the pathway followed by many CSA schemes, starts with an informal arrangement with a farmer, grower or landowner, and may graduate to

becoming an incorporated body that owns the distribution activities of the CSA, and, in the longer term, enters into a tenancy agreement with the landowner.

In 2001 Stroud Community Agriculture (SCA) started out as an unincorporated community-led organisation, and rented a one-acre walled garden. In 2002 it was incorporated as an IPS co-operative and moved to a 23 acre site owned by Hawkwood College. It rented a second, 25 acre site in 2006. SCA has a one year rolling tenancy on the land owned by Hawkwood College; both parties must give one year's notice to terminate the agreement. It has a three year lease on the second site, also with one year's notice of termination. SCA is negotiating with both landlords for ten year leases, which would allow it to plan and invest for the long-term.

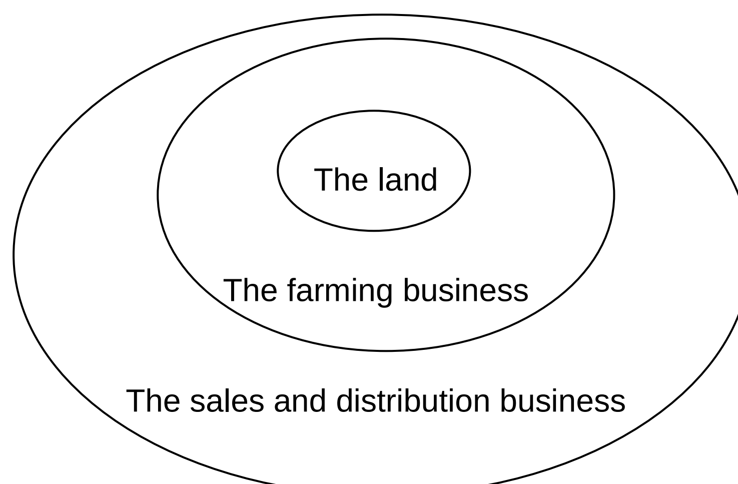
The Agricultural Tenancies Act 1995 introduced a new form of agreement called the Farm Business Tenancy, which protects the tenant's interests through the following statutory provisions:

- Rent reviews every three years, which can go to arbitration
- Fixtures and fittings (with certain exceptions) that are provided by the tenant remain the tenant's property
- If the tenancy is terminated, the tenant is compensated for any improvements they have carried out with the prior consent of the landlord. If consent is unreasonably refused by a landowner an arbitrator can impose it.

Because of these statutory conditions, and the need to cover every possible eventuality, the negotiation of a farm business tenancy agreement tends to be complex and lengthy. Finding a landowner who is sympathetic towards CSA can greatly assist in subsequent negotiations over farm business tenancies.

Relationships between stakeholders

There are three key business elements to every farming venture: the land, the farming or growing activities on that land, and the sales and distribution of the produce.



These three elements could be separate business entities: a landowner with a tenant farmer who sells through a CSA distribution venture. Often the farmer or grower will also be the landowner, and sell part of their produce through a CSA. Under these arrangements the CSA is a sales and distribution business, with no ownership or control over the farming business or the land.

A few CSAs are different to this, with the CSA owning the land which is rented to a tenant farmer. This is the case for Fordhall Farm, where the community invested in the land, which is rented to the Hollins family, who are the farmers and distributors.

In theory, a CSA could combine all three business elements in a single corporate entity that owned and controlled the land, the farming business and the distribution. In practice however, few CSAs have gone beyond owning the farming and distribution elements. Partly this is due to the cost of purchasing land on top of the cost of developing a farming and distribution business. But another problem might be developing sufficiently strong relationships between farmers, growers and communities.

There is a strong tradition of independence amongst farmers and growers. They accept full responsibility for the risks of their trade, and in return expect the freedom to decide how to run their businesses and the benefits of their success. But as the capital costs of farming continue to rise, more farmers may have to forgo their independence to secure the investment they need. An increasing number of farmers and growers are becoming employees of large corporations, with little or no influence. Is it better to turn to institutional investors, who are primarily interested in profits, or to community investors, who may also be their customers and biggest supporters of progressive farming practices?

The question of who should own and control the land, the farming, and the distribution mechanisms, lies at the heart of the debate about the future of CSA. Community investment could be the key to answering this question.

Choosing the right legal form:
IPS co-operatives and community benefit societies

The IPS legal form is an excellent vehicle for community investment, although it has some disadvantages too. These include: higher registration and annual fees than most forms of company; the costs associated with maintaining large memberships; and the difficulties of finding lawyers and accountants familiar with IPS requirements. Before choosing a legal form for a new CSA venture, it is strongly advised that professional legal advice is obtained. There are alternative legal forms to IPSs that can issue share capital, including community interest companies, although they do not have the same exemptions from regulation as IPSs.

Even if community investment is not high on the immediate agenda, it is recommended that longer-term ambitions are taken into account. It is possible to convert most forms of company into an IPS, except for community interest companies.

There are two types of IPS: a co-operative and a community benefit society. They differ from each other in two important ways. A co-operative can pay members a dividend, whereas community benefit societies cannot. A community benefit society can opt for a statutory asset lock, which is not available to a co-operative. Dividends and asset locks have a significant impact on the financial affairs of an IPS, so it is important for any organisation considering registration as an IPS to understand how these features work.

In a co-operative, dividends are based on the level of members' transactions with the enterprise. For a CSA, where the members are also customers, the dividend will be based on members' purchases. If the CSA is profitable, some of the profit can be returned to members in the form of the dividend payment. This encourages prudent financial planning. Members will usually prefer to pay a bit more, and get their money back in the form of a dividend, than pay less and run the risk of the CSA making a loss and getting into financial difficulties.

An asset lock is a legal device, also found in charities and community interest companies, that prevents the assets of the organisation being distributed to members. This means that members do not privately benefit from the growth in value of the venture, and that there is no private incentive to sell the venture or its assets. This in turn may encourage public bodies and grant givers to fund an asset-locked organisation. It also underlines the social nature of the investment to members and may encourage them to accept lower financial returns. IPS community benefit societies can choose whether or not to have a statutory asset lock, and although there is no statutory provision for an asset lock in an IPS co-operative, this type of organisation can write a voluntary asset lock into its rules.

Other issues

Sharing the risk

CSA is about engaging people in sharing the risks and rewards of agriculture. Most CSA initiatives use their revenue model to share risks and rewards: members buy a share of the produce, paying a regular weekly or monthly subscription. The amount of produce a member receives depends on how successful the farmer or grower has been. This reduces the risks for producers in return for sharing the rewards of success.

Community investment takes the relationship between producers and consumers one step further, by sharing the risks and rewards of capital investment. Members can invest their savings, and receive a return on their investment if the CSA venture is profitable. As members and part-owners they

can determine the policies, practices and activities of the CSA, including its long-term investment strategies.

However, there is a limit to the amount of risk it is reasonable to expect people to take on. CSAs should think carefully before they ask their members to bear the risks of capital investment, in addition to the other risks they have already accepted.

Defining community: size matters

Many CSA initiatives are strongly committed to the idea of providing local food. But what is meant by local varies from group to group. For some groups it might be just their immediate neighbourhood, village or town. There are other CSAs that aim to serve a whole county or even a region. This will have a major impact on the size of the CSA, its business activities, and the scope to raise capital investment from its members. Many local CSA initiatives rely on developing close personal relationships between members to encourage their participation. Some CSAs have set targets for their optimal size. For instance, Stroud Community Agriculture aims to serve 230 local families.

There are other ways of defining community. Fordhall Community Land is a good example of a CSA community of interest, with members throughout the country, all of whom have a shared interest in the community ownership of organic farming. Communities of interest tend to be much larger than local geographic communities. Fordhall has over 8,000 members. This scale of membership makes it easier to raise large amounts of capital, with each member only investing a relatively small amount.

For any CSA planning to raise investment capital from their members, it is important to ensure that the scale of their ambitions is consistent with the size, or potential size, of their community. There will also be an upper limit to what individual members are willing or able to invest. These two factors, taken together, can be used to estimate how much investment capital can be raised for a given project or initiative.

Shares or bonds?

This paper has focused on raising investment capital in the form of shares rather than bonds. From a business point of view, share capital has a number of advantages over bonds. Unlike shares, bonds have to be redeemed at an agreed date in the future and usually carry a fixed interest rate. Bonds do not give membership or voting rights to the investor, and are consequently less effective at engaging investors in the affairs of the organisation. But bonds do have some advantages. Potential investors might find bond offers more certain and secure; they know when they will get their money back and how much interest they will receive. And there are no limits to how much an individual can invest in bonds, in contrast to the £20,000 limit for individual shareholdings in IPSs.