Harvest Impact

Social Finance for a Circular Economy

CAPITAL DEMAND SURVEY
FINDINGS REPORT

April 2023

10C Shared Space (10C) — 10C's mission is to foster the conditions for collaboration on social, environmental, cultural and economic wellness that strengthens community resilience and sustainability. As a thriving community hub with co-creation spaces, 10C inspires its members to break new ground through collaborations fuelled by human relationships, entrepreneurship and shared discovery.

Harvest Impact — In 2019, 10C launched creating Harvest Impact, which has been building technical expertise as a social finance intermediary piloting community-based developmental lending tools and practices. In 2023, Harvest Impact seeks to scale its operations to support innovation and entrepreneurship in food, farm and environment sectors that support the transition to a circular economy.

Collaboration is key. This report is co-authored by:

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ASSESSING DEMAND FOR SOCIAL FINANCE

Harvest Impact is a place-based social lending program delivered by 10C Shared Space, in Guelph, Canada. We are committed to supporting tangible advancement towards a circular economy in the food, farm and environment sectors.

Harvest Impact works in collaboration with the Circular Opportunity Innovation Launchpad (COIL), a Guelph-based innovation and activation network. It promotes circular economy principles and practices in small- and medium-sized enterprises, including non-profits, charities and non-share co-operatives, in addition to for-profit businesses.

With a goal to build a social finance fund to invest in circular economy businesses, including those facing barriers to accessing financing, 10C surveyed businesses already within our program network about their capital needs.

Harvest Impact and 10C are committed to integrating equity, diversity and inclusion (EDI) into our work and practice. This report helps establish a baseline on EDI activities and allows us to measure the effectiveness of our program as it evolves.

In January 2023, Harvest Impact contacted entrepreneurs of diverse backgrounds, with one shared trait: all are pursuing small and medium sized enterprises that incorporate circular economy principles.

Based on Harvest Impact's intake protocols for developmental loans, we consider each respondent to our 2023 Capital Demand Survey a going concern and/or an enterprise worthy of serious consideration for social finance.

We learned

- Among 49 respondents there exists immediate demand for $2.4 million and further demand over the next five years for $18 million in small business financing.
- More than half of respondents believe they cannot get financing from a mainstream bank or credit union.
- Those without financing options indicate an immediate demand for $500,000 and a further demand over the next five years for $5.7 million in small business financing.

Although there's lots of investment going into agri-food, a lot of us are not making food or smartphone apps. Our technology is pretty old-fashioned and available financing models don't seem to favour buying capital items for businesses like ours. So we just didn't qualify for a loan anywhere ... until Harvest Impact came along. It's been absolutely amazing!"

Jennifer Osborn, Harvest Impact client,
All Sorts Acres

When we look at differences between enterprises with other options for financing versus those with limited options one key theme emerges. Those companies that enjoy other options account for more of the projected capital demand detected by our survey at a ratio of nearly 4:1 in the immediate term and nearly 2.5:1 over the coming five years. This finding reinforces our core belief that social finance must be concerned with meeting the needs of entrepreneurs facing barriers to accessing capital.

The Harvest Impact team acknowledges the limitations of our sample size in accurately gauging demand for social finance capital. We consider the exercise useful for planning to meet the needs of the businesses within our expanding ecosystem and in our design of the Harvest Impact fund, including upcoming investor engagement. We hope that our approach and findings will also be of interest to our peer organizations working to advance equity, diversity and inclusion (EDI) within the social innovation and social finance sector. We invite feedback and suggestions on how to strengthen future capital demand surveys.

Julia Grady

Executive Director,
10C Shared Space

INTRODUCTION

The small and medium sized enterprises supported by Harvest Impact are often led by equity-deserving entrepreneurs who don't always qualify for financing through mainstream financial institutions such as banks or credit unions. Inspired by these entrepreneurs, our team believes a sustainable future — in which everyone can thrive — is made possible by centering the voices, ideas and needs of equity-deserving individuals and groups in the delivery of social financing and support.

Harvest Impact — Theory of Change

Problem:

Equity-deserving entrepreneurs face barriers accessing capital.

Communities across southern Ontario face growing levels of precarious work, income inequality and food insecurity.

Wasted food and a lack of access to nutritious food characterize our local food system.

Opportunity:

New food, farm and environment sector businesses — with the potential to create stable jobs, feed families, decrease agricultural waste, improve carbon footprints and regenerate land — get financing and support required to launch and/or scale their businesses.

Intervention:

By providing financing and appropriate wraparound supports, Harvest Impact expects:

- Companies to grow and thrive
- An increase in decent work
- Improved access to nutritious local food
- A dramatic decrease in food waste
- Adoption of circular economy principles

Social finance lending deployed to date

As of March 31, 2023, Harvest Impact has provided risk-backed financing (loans) to **30 enterprises totalling $256,000**. Seventy per cent of these businesses are led by women or gender-diverse entrepreneurs.

The following report is shared as an inaugural annual capital needs assessment designed to gauge demand for loans and support services among the Harvest Impact Enterprise Ecosystem (all individuals and/or enterprises that have made an inquiry to harvestimpact.ca and have given consent to be contacted by Harvest Impact).

"The information and resources (like mentoring) available through Harvest Impact are invaluable to business owners who want to work better. Also, the networking and the people that you meet! I feel like as soon as you meet somebody new and they can offer you a fresh perspective, it inspires you to do better, to become a better business. So having that network, the connections and the constant inspiration is really important."

Beckie Prime, Harvest Impact client,
founder, Beck's Broth

By conducting an annual capital demand survey we seek to establish a rolling five-year view to support planning for capital investment (loan capital) and program funding (grant funding and wraparound services).

This report also serves as an annual progress report to our stakeholders— Harvest Impact applicants, funders, peer organizations and investors and collaborators (current and prospective) — summarizing demand for capital and services.

Methodology

An online survey consisting of 16 short questions prompting a mix of quantitative and qualitative responses was prepared by Harvest Impact and implemented using SurveyMonkey. A total of 170 prospective respondents were identified as having given their consent to be contacted, through the process of opening a program application at the Harvest Impact intake portal sometime during 2021 and 2022. Each prospective respondent received a personal invitation to complete the survey from a Harvest Impact team member.

The survey was open for three weeks in January 2023. A total of 51 (of a possible 170) individuals completed the survey. Of 51 respondents, 49 were deemed as meeting Harvest Impact's current loan applicant criteria representing 29 per cent of potential respondents.

One desired outcome of this survey was to assess capital demand by looking at demographic and access to capital information. Response data was standardized to assist in disaggregation of key respondent categories. Key data points included capital demand over the coming five years combined with the enterprise's capital raising expectations. Disaggregation groups include both demographic information received by survey respondents and one categorization based on survey respondents' ability to access mainstream funding sources.

For the purpose of this report, respondents who believed they were able (or were currently) accessing financing from banks or credit unions were classified as Mainstream Financing Available, and those who could not were classified as Mainstream Financing Not Available. Based on the number of survey respondents (n=49), we used the number of respondents within each demographic group and mainstream financing availability to infer the relative proportion for capital needs and raising expectation. If these categories had no impact on capital needs/raising expectations, the relative proportions should be equal (e.g. 25 respondents were classified as Mainstream Funding Not Available, if this had no impact on capital needs they should contain 51 per cent (25/49) of the capital needs reported in the survey). Throughout the report, these analyses allow us to compare relative capital demand across groups intended to benefit from Harvest Impact's social lending practices.

SURVEY FINDINGS

Our Customers

Harvest Impact follows three core eligibility criteria when considering potential customers for social financing and support. Adherence to circular principles[1] is considered an absolute priority, while applications from equity-deserving[2] individuals and organizations are received with high priority. An applicant's position on the Investment Readiness Program (IRP) Continuum[3] is considered in terms of how our portfolio balances investees' stage of investment readiness.

Circularity

All 49 respondents identified key aspects of circularity embedded in their business plans. The top six circularity principles pursued by at least 5 per cent of respondents are: nutritious products and services, regenerative farming, food waste recapture, waste reduction, short supply chains and food equity.

Identity

A majority of respondents (88 per cent) indicated they and/or the leadership of their enterprise identifies as belonging to an equity-deserving population, including woman/womxn, Black,

1 https://en.wikipedia.org/wiki/Circular_economy

2 Equity-deserving groups means women, racialized persons, Indigenous peoples (First Nations, Métis and/or Inuit), 2SLGBTQ+ persons and persons with disabilities.

3 See P4 https://communityfoundations.ca/irp-2-glossary-en

Indigenous, Person of Colour, newcomer to Canada, person living with a mental health condition, person living with a physical health condition, 2SLGBTQIA+, youth and lived experience of poverty. A total of 67 per cent of respondents identify as women/womxn. One respondent indicated their identity as "Neurodiverse", another "Hispanic" and another "an old white guy." See Appendix for a breakdown of survey respondents' intersectional identities.

Circular Economy Engagement by Identity

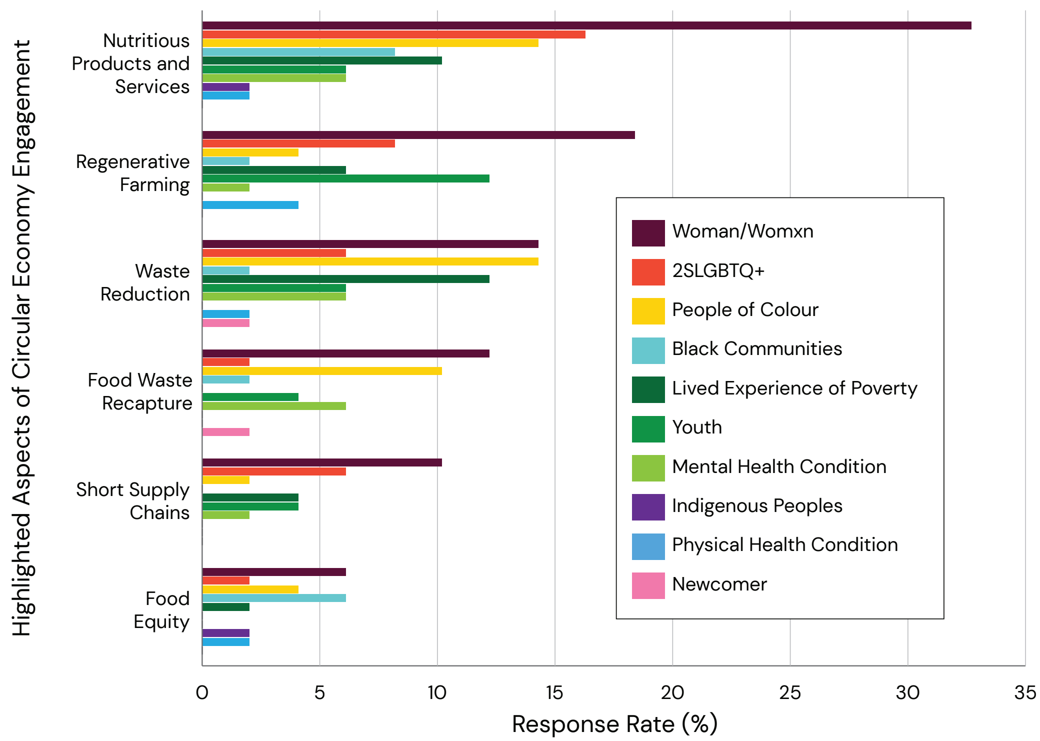

Figure 1 Aspects through which the respondents' companies engaged in the circular economy, further broken down by respondent identity, by percentage of respondents. Circular aspects which represented less than 5% of all respondents are not included in the graph.

Location on Investment Readiness Program (IRP) Continuum

As Community Foundations of Canada (CFC) is a top-level intermediary helping to shape and deliver Canada's social finance and social innovation strategies, we consider the CFC's IRP Readiness Continuum a guiding tool around which to organize and focus Harvest Impact's developmental lending. The continuum locates applicants at one of four stages of readiness for investment which in turn provides a baseline to assess the progress of Harvest Impact's investees. Our survey asked respondents to indicate where their business sits on the continuum:

- Stage 1 (Getting Started) — a business idea/concept that has to be developed into holistic model
- Stage 2 (Under Way) — business idea is under development with need for greater understanding of business aspects/considerations
- Stage 3 (Establishing) — initial business model with financial projections and outline of business considerations
- Stage 4 (Ready) — complete business model and communicable financial plan including risks and mitigation strategies

IRP Readiness Continuum of Respondents

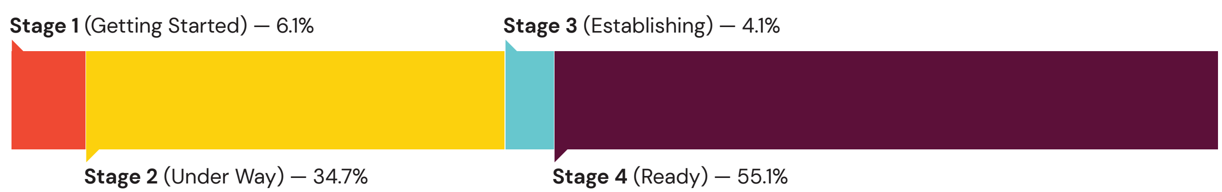

Figure 2 Respondents' place on the IRP Continuum.

Capital Demand

We asked survey respondents to indicate the amount of capital their businesses would require in 2023 and over the coming five years.

		2023 Needs	2024 Needs	2025 Needs	2026 Needs	2027 Needs	Total Needs
All Respondents	49 Responses (100%)	$2,380,000	$3,815,000	$4,375,000	4,200,000	$3,265,000	$18,035,000
Mainstream Financing Available	24 Responses (49%)	$1,885,000	$2,515,000	$2,725000	$3,160,000	$2,075,000	$12,360,000
Mainstream Financing Unavailable	25 Responses (51%)	$495,000	$1,300,000	$1,650,000	$1,040,000	$1,190,000	$5,675,000
Mainstream Financing Available / Unavailable	Expectation if Needs Equal: 96% (24/25)	380.81% (3.8:1)	193.46% (1.9:1)	165.15% (1.6:1)	303.85% (3.0:1)	174.37% (1.7:1)	217.80% (2.2:1)

Figure 3 Capital Needs as expressed by the survey respondents over the next five fiscal years. Data is broken down into a subgroup of respondents who do not have access to mainstream financing (banks or credit unions) and the relative ask of those with access to conventional funding compared to those who don't (presented in relative per cent and ratio).

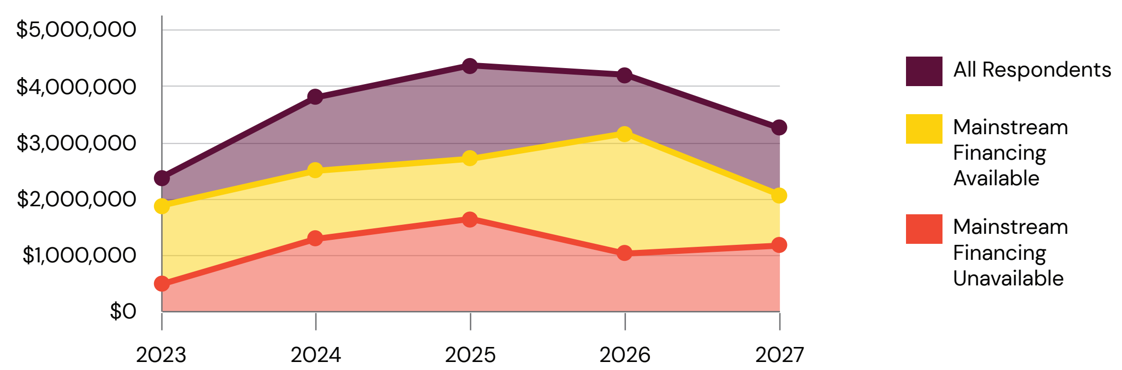

Figure 4 Capital Needs as expressed by the survey respondents over the next five fiscal years. In addition, data was disaggregated into two subgroups based on respondents' access to mainstream financing (banks or credit unions) to show the relative request between the two groups.

This critical grant funding will be used to purchase plastic and wire frames to create polytunnels on our farm. These will help us grow crops earlier, create summer shade, and extend our growing season for protection from early frost. All ways for us to increase our food production and support better food access locally."

Agape Farms, Harvest Impact client

Types of Capital

The survey asked respondents about the kind of capital they sought. Of 49 respondents, more than half (28) seek debt financing in the form of a loan or mortgage, while just 14 would consider selling shares in their company (equity financing) as a means of raising capital. Not surprisingly, nearly all respondents (48) would like to apply for non-repayable grant funding if available.

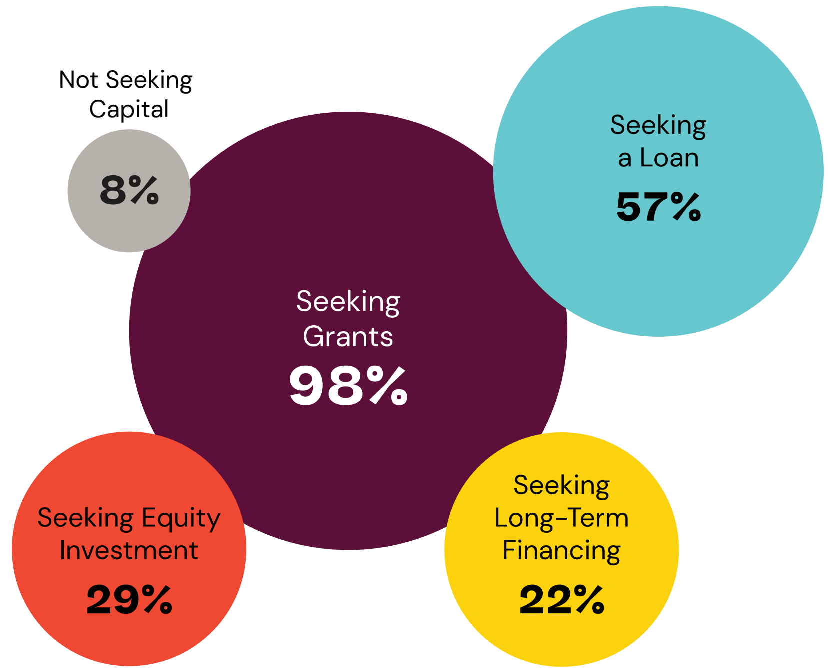

Figure 5 Types of financing that respondents would be interested in to support their business. Percentages based on a total of 49 eligible survey respondents.

Access to Capital

We wanted to know if our respondents had already secured financing from another source. Of 46 respondents, just 14 indicated they had secured financing through a bank or credit union. A large number of respondents indicated they had secured financing by bootstrapping, i.e. through operating revenue, personal lines of credit (20) and through friends and family (14). More than half of respondents (25) indicated they had been successful securing capital through grant programs. Others had made financing arrangements through alternative lenders (7). Just one respondent had secured financing through another community-based lender.

We also wanted to know about other options respondents felt they had to gain access to capital. Of 42 respondents, 20 (48 per cent) felt they would be approved for a loan at a bank or credit union while 11 felt they had an option of working with an alternative lender. Four respondents were exploring options with other community-based lenders similar to Harvest Impact. A majority 28 (67 per cent) felt their most likely option going forward was bootstrapping — tapping their own operating revenue, personal credit lines, friends and family. Another 18 were looking at potential grants as a source of capital for their business.

Average Capital Expectation Without Mainstream Funding Access

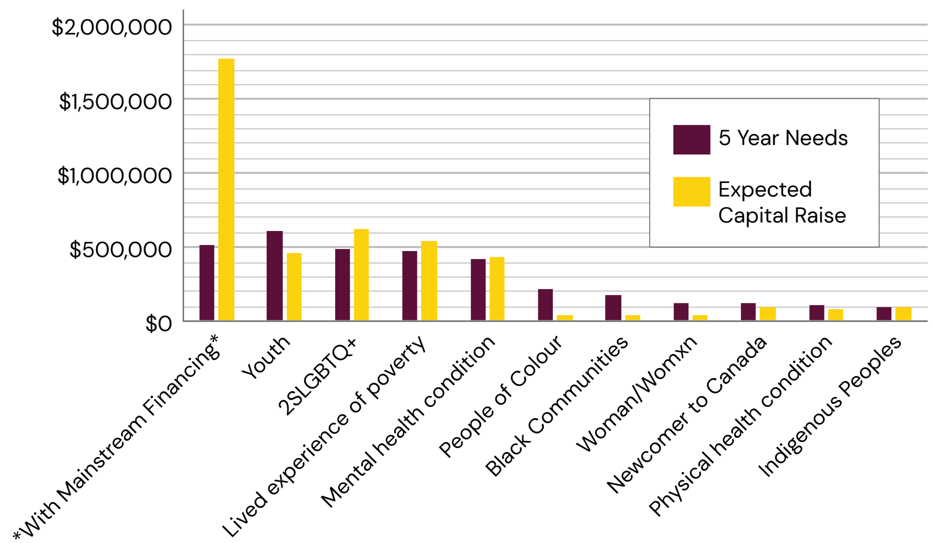

Figure 6 A comparison of the average capital need and capital raising expectations of companies that do not have access to mainstream financing (bank or credit union), compared to the first entry showing the average capital need and raising expectations of the average company that has mainstream access. Needs and raising expectations come from 49 survey respondents (24 with conventional funding, 25 without) to determine these averages.

We've created jobs for neurodiverse people in Dufferin County and that's pretty hard to come by. So at this point in time, it's two (jobs) and we hope to see that grow to four by the end of the year and forward from there. So that's been incredibly important because The Granola Project is contributing to the social capital of our community. Because it's popular here, people like it, it's a "good vibe" kind of project. But we've got neurodiverse faces all over the place. And so the advocacy work that's come through this, I think is the most important thing we have brought forward."

Kimberly Van Ryn, Harvest Impact client, founder, Branching Out Support Services and Commonfare Kitchen

A strategic goal of future deployments of this survey will be to provide a rolling five-year snapshot of the demand for capital within the Harvest Impact ecosystem, which we expect to become an essential planning tool for raising and deploying social impact capital.

Enterprise Support

Developmental lending delivered by Harvest Impact includes a variety of wraparound business supports to individuals and organizations that frequently face high barriers to accessing mainstream financing. Harvest Impact customers often require business, technical and in some cases social supports to gain access to capital and to stay on track with loan repayment.

As a social finance lender, Harvest Impact's modus operandi is two-fold: provide capital and support the borrower in successfully paying down business debt.

We believe it's the wraparound support provided by developmental lenders like Harvest Impact that keeps loan customers on track with servicing their debt while moving forward with their business goals. While we consider this an essential ingredient to successful social and economic outcomes arising from developmental lending, we recognize it is also a significant driver of cost. We do not believe that developmental lending can achieve sustainability on loan interest alone. In order to maintain the delivery of high quality wraparound supports, developmental lending programs must find grant dollars to support these activities, otherwise interest rates will push developmental loans out of the reach of the intended audience.

Because Harvest Impact is an embedded part of 10C it enjoys program synergies and leveraging possibilities that would not be available if Harvest Impact was a standalone initiative. The value of this relationship cannot be understated.

Demand for Business Support

We asked respondents about the kind of support they would find valuable as they plan to build and grow their business. A large majority of 38 (78 per cent) said they are seeking mentorship and strategic guidance. Twenty-five respondents are seeking technical support specific to their business. Another 27 would like help from legal counsel while 30 seek help with accounting.

Our program is intended to eliminate the barriers applicants often encounter when attempting to access small business financing and support. Based on the findings of this survey, we are tailoring our training, tools and resources to meet the specific needs of applicants. This will ensure that our process is easy to follow, alleviates stress and is equitable and inclusive for all communities.”

Jess Barrie,
Harvest Impact Enterprise Support Team

Another 33 are looking to make network connections. Twenty-six seek social and/or community-based supports and 32 wish for help with marketing and communications. Twenty-one are looking for access to physical space and infrastructure and 24 (49 per cent) would like assistance tracking and reporting their impact. The demand for wraparound supports will be a focus as Harvest Impact's Enterprise Support Office continues to build out technical expertise.

Interest in Non-Monetary Forms of Support

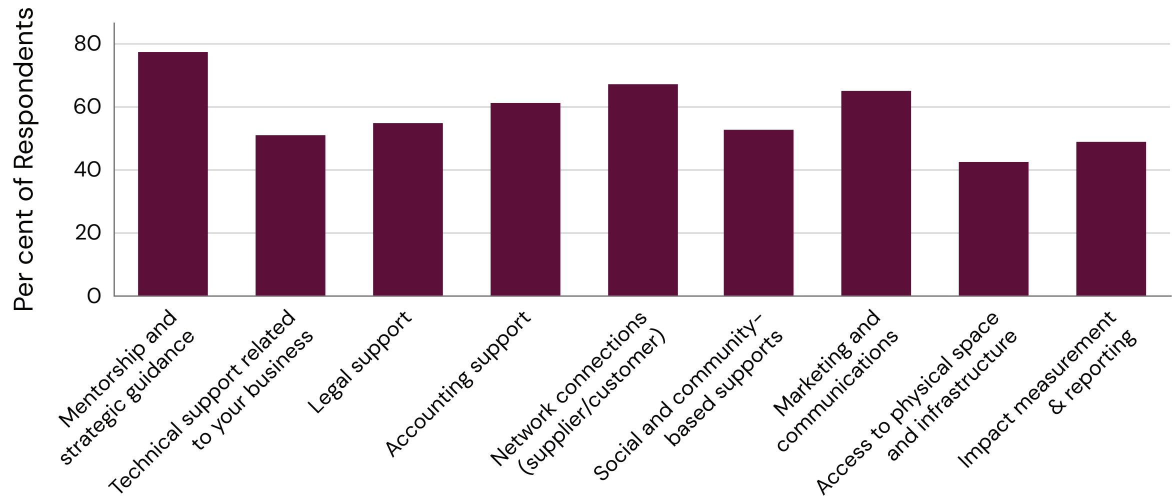

Figure 7 Respondent interest in forms of support other than financing. No participant identified interest in financial support outside of what had been previously reported in the survey. A minority of participants identified other forms for support not reflected in this graph, primarily focused around labour and employment.

Livelihoods

The 2023 Capital Demand Survey asked respondents about their ability to create and maintain employment for themselves and for others. Nearly 60 per cent indicated they personally draw either a full-time or part-time salary from their business. The balance of respondents currently do not draw a salary from their business. Four respondents indicated they hoped to draw a salary from their business in the very near future.

We also asked about creating and maintaining employment for others. Currently a majority of respondents (92 per cent) have less than five employees. Most have just one employee, which in most cases is the founder, with 8 per cent of respondents indicating they have between 5-10 full-time employees.

Looking ahead over the next five years, the projected trend for respondents is to create and maintain greater employment levels, with 66.67 per cent predicting they will have up to five full-time employees, 23 per cent predict they will have up to 10 full-time employees, 3 per cent up to 15 full-time employees, and 8 per cent up to 20 full-time employees. Similar projections were made for half-time and part-time employees over the same period.

CONCLUSION

Harvest Impact and 10C are committed to integrating equity, diversity and inclusion (EDI) into the establishment of a robust circular economy in the food, farm and environment sectors. We are grateful for the opportunity to learn from our peer organizations across Canada's social innovation and social finance sector. In particular, we wish to acknowledge New Power Labs and Social Innovation Academy's 2021 Report: *In The Dark* where we found great guidance and encouragement in the following statement:

"The practice of collecting disaggregated socio-demographic data — and hence assessing progress — is often challenging for organizations…"

Cheralyn Chok, Émilie Nollet, Narinder Dhami (2021).
https://www.newpowerlabs.org/in-the-dark-report

The 2023 Harvest Impact Capital Demand Survey sought to answer three key questions: How much capital is needed by the entrepreneurs within the Harvest Impact Enterprise Ecosystem currently and over the next five years? Is Harvest connecting with its intended market? And, what can be learned from this inaugural capital demand survey to improve annual surveys in the future?

What level of demand for capital exists within our ecosystem?

We found that among the 49 respondents to the survey, there is **immediate demand for $2.4 million** and further demand over the next five years for **$18 million in small business financing**. Our experience over the last 24 months has shown us that having loan capital and good loan management systems are essential to our purpose. And we've gained a huge appreciation for the robust community of viable entrepreneurs that share our commitment to building a circular economy. They provide us with a deal flow pipeline on which to build Harvest Impact.

Are we reaching our intended market?

Analysis of the 2023 Capital Demand Survey shows that Harvest Impact is doing a decent job reaching circular enterprises, many of which are led by equity-deserving community members including: women/womxn, Black, Indigenous, Persons of Colour, newcomers to Canada, persons living with a mental health condition, persons living with a physical health condition, 2SLGBTQIA+, youth, and lived experience of poverty.

Distribution of Financing by Identity Groups

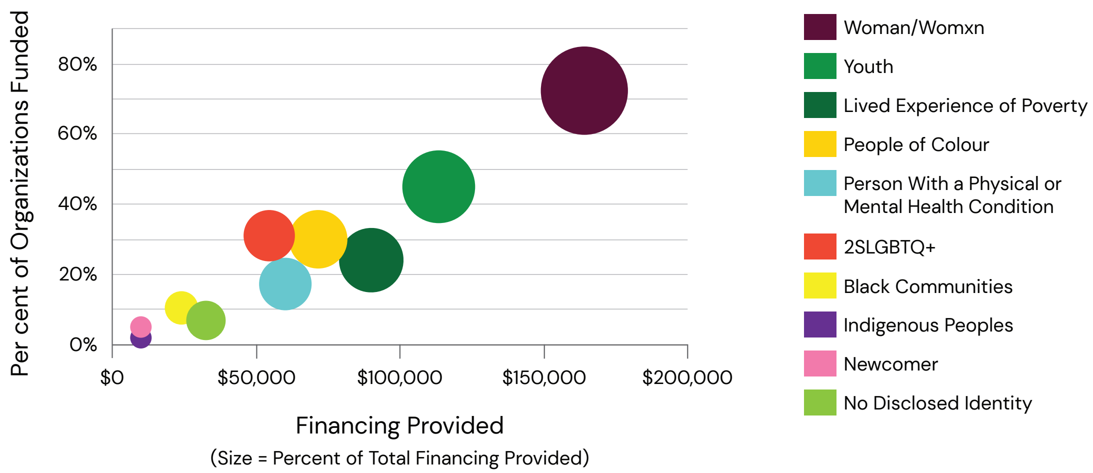

Figure 8 Distribution of financing provided by Harvest Impact across (equity-deserving groups or declared identities) by March 31, 2023.

The findings of this survey have highlighted the depth and breadth of support needed by applicants. With this information, the Enterprise Support Office is able to draw on a multitude of resources available to Harvest Impact via 10C as well as prioritize areas of content development to best meet the needs WQWof applicants.”

Heather Watt-Kapitain,
Harvest Impact Enterprise Support Lead

In terms of balanced representation across the four categories of the IRP Continuum, our survey population showed low representation from entrepreneurs at the earliest stages of business (Stage 1) and by those just ready to expand their businesses (Stage 3).

What can we learn to improve annual surveys in the future?

The survey seemed to be the right length. Sixteen questions on average took just five minutes to complete. A measure of participant bias or self-selection bias is something we’d like to examine more closely and take steps to minimize in future surveys. One obvious step will be to move demographic questions towards the end of the survey. Emphasis placed on reaching equity-deserving community members may have discouraged survey completion by circular business owners who did not see themselves reflected in the equity-deserving group.

The discovery that respondents without other options for financing accounted for a disproportionately smaller amount of capital demand is a finding we’d like to explore in future surveys. We are particularly interested in how this trend could inform the promotion of Harvest Impact and the wraparound supports we provide.

We’d like to explore the section on livelihoods more deeply to better understand the linkage between developmental loans and decent work, including the creation of both part- and full-time employment.

Harvest Impact is itself a new social enterprise startup. Over the last 24 months we have developed and promoted our program and have gained experience as we approach our first 30 loans. We’ve built a team and implemented lending policies and procedures. In future surveys it is essential we make an assessment of our customers’ experience of working with Harvest Impact, completing its forms and complying with its protocols. Our goal is to provide community lending that stands out as friendly, useful and supportive. We cannot let our processes eclipse our equity focus.

Harvest Impact plans to conduct the annual Capital Demand Survey more widely across southern Ontario and within the Harvest/COIL ecosystem, including further targeted outreach to additional NFP and charitable and social purpose organizations (SPOs).

APPENDIX

1. 2023 Capital Demand Survey (https://harvestimpact.ca/capitaldemandsurvey)

   The Capital Demand Survey will be re-opened for a 2nd phase of data collection later in 2023.

2. Identity by Per Cent of Respondents

	Woman/ Womxn	Black	Indigenous Peoples	People of Colour	Newcomer	Mental Health Condition	Physical Health Condition	2SLGBTQ+	Youth	Lived Experience of Poverty
Woman/Womxn	67.3	8.2	4.1	22.4	6.1	12.2	6.1	14.3	8.2	10.2
Black	8.2	8.2	0.0	6.1	0.0	0.0	0.0	2.0	2.0	2.0
Indigenous Peoples	4.1	0.0	6.1	2.0	2.0	0.0	2.0	2.0	0.0	2.0
People of Colour	22.4	6.1	2.0	30.6	4.1	2.0	0.0	2.0	6.1	6.1
Newcomer	6.1	0.0	2.0	4.1	6.1	0.0	0.0	0.0	0.0	0.0
Mental Health Condition	12.2	0.0	0.0	2.0	0.0	20.4	6.1	8.2	4.1	8.2
Physical Health Condition	6.1	0.0	2.0	0.0	0.0	6.1	10.2	4.1	0.0	8.2
2SLGBTQ+	14.3	2.0	2.0	2.0	0.0	8.2	4.1	22.4	4.1	10.2
Youth	8.2	2.0	0.0	6.1	0.0	4.1	0.0	4.1	12.2	4.1
Lived Experience of Poverty	10.2	2.0	2.0	6.1	0.0	8.2	8.2	10.2	4.1	22.4

Intersections of identity amongst Capital Demand survey respondents.