

## Where Can I Get Money?

### Funding Your Agricultural Business: Step 2

*Funding Your Agricultural Business is a series of three factsheets designed to help you understand the type of funding you need, where the funding is available and the steps needed to secure the money for your new agriculture or rural-based business.*

Now that you have completed the worksheet in *Step 1: How Much Money Do I Need?* (Agdex 832-3), you will have made a detailed list of the kind of resources you will need to fund your new venture. The next step is to determine where the money could come from.

Perhaps you have found you only need a small cash infusion, and you have that amount on hand. Maybe your plans require more money than you have readily available, so some sort of financing is needed.

Today, many options are available for funding an agriculture or rural-based enterprise. This factsheet will help you do the following:

1. determine the type of funding that is most appropriate for you and your business idea
2. understand the key differences between sources of money and where money can be secured

### Determine the type of funding you need

Many small businesses assume a loan is the right approach. In fact, there are many different ways to fund a business.

To determine the best fit for your idea, begin by answering these three questions:

- When do you need the money?
- How much lead time do you have to get the money in place?
- What kind of risk and terms are you comfortable with?

*There are a number of different ways to fund a business*

### When do you need the money?

Some business ideas require a large investment up front: land needs to be purchased or infrastructure built. Other business ideas may only need a little cash in the beginning, with more investment as the business grows. Another type of business may have low capital and

operating costs, but may require quick access to cash when new opportunities arise. Each of these business scenarios would be best served by a different type of funding solution.

Begin by asking yourself when your business will need the money and for how long. For example, do you need a relatively small amount you can pay back in three to five years? A short-term loan with an easy application process and no penalty for early repayment may be your best option.

Do you need to make a substantial capital investment (such as for land) or buy a piece of equipment the business will use for the next 10 years? Long-term loans typically have a maturity term of 3 to 20 years but will also likely require you to pledge collateral (assets you own) and may come with restrictive repayment terms. Long-term loans may also be difficult for start-up companies to secure as lenders may want to see established financial records before taking a chance on the business.

### **How much lead time do you have to get the money in place?**

Sometimes, getting money in place can take several months. If you are launching a business and have adequate resources to start with, but see the potential for growth down the road, you may have time to arrange more formal funding.

If, however, you have an immediate need for money, for a piece of equipment or vehicle that your business cannot do without, you may need to secure interim money. A line of credit or a loan from a family member may be needed until a more formal arrangement for money is completed.

### **What kind of risk and terms are you comfortable with?**

Different kinds of funding have different requirements. Some funding requires you to adhere to stricter repayment terms, while other funding requires you to share a part of your business. Perhaps you are comfortable with a higher interest rate to get the money faster because you know you will pay it back in the near future. Perhaps your priority is to secure the lowest possible interest rate, and you will take the time to talk with several funders.

Some business owners will feel fine about involving family members in funding the business, while others will avoid sharing the risk with family on principle. Having an investor may be a great boost to your confidence, but how much of your profit do you want to share as the business grows?

It is important to look at your risk tolerance, your comfort level with interest and repayment terms, plus your feelings about personal indebtedness. These are all factors that will help you decide on the type of funding that is right for your business.

## **Key differences between funding sources**

Knowing how each type of funding is structured will help in your decision-making process. To determine the kind of funding that is the best fit for your new

venture, review these five types of funding available to agricultural entrepreneurs.

### **Loans**

*Definition:* Loans are sometimes also called debt financing and involve borrowing money from an outside source with the promise to pay back the money within a specified time frame and with an agreed-upon rate of interest.

*Advantages:* You maintain ownership of your company, the interest charges are deductible from taxable income and interest rates are usually lower than for other forms of funding.

*Drawbacks:* The application process can require you to disclose personal information about your business. The application process can take some time. If your business fails, you still owe the money, and you may need to pledge other assets you own as collateral.

*Sources:* Loan sources can be family, friends, government (loans and guarantees), chartered banks, credit unions and business organizations.

### **Grants**

*Definition:* Grants constitute money that does not need to be paid back and is given to an individual or business from governments or private corporations.

*Advantages:* As long as the grant application, reporting and performance conditions are met, there is no requirement to repay the money. Grants can be offered by government or corporations that really understand your business. Grants can sometimes finance research and development projects, an area where traditional lenders may not invest.

*Drawbacks:* The application process can require significant research and preparation, and applicants may incur costs to satisfy reporting and compliance requirements. Sometimes, the grants have very stringent or narrow requirements that must be met. Once you have applied, there can be a long wait time until the money arrives. Competition for grants can be fierce. Some grants may only cover a percentage of a project's total cost or require the applicant to contribute a certain percentage of funding themselves.

*Sources:* Grant sources can be governments, agencies, commissions and industry organizations. A good starting point for agriculture-specific grants is Alberta Agriculture and Forestry's *Growing Forward 2* program: look at the website [www.growingforward.alberta.ca](http://www.growingforward.alberta.ca)

### **Social/community finance**

*Definition:* Social/community finance means raising money through multiple contributors, often with a social

or community benefit. Crowdfunding, Opportunity Development Co-ops (ODC) and Social Impact Funds (SIF) are all examples of social/community finance. Donation or reward-based crowdfunding offers different levels of rewards (product, service or experience) for different levels of contribution. In securitized crowdfunding, some form of “security” (loans, shares, promissory notes, units, interest, etc.) is issued in exchange for investing in the business, and these transactions must comply with securities regulations. ODCs are for-profit co-operatives that raise local money to act as a capital pool to invest in local businesses. SIFs are investments that create measurable social or environmental benefits in addition to financial return.

*Crowdfunding – Advantages:* Paying back contributors can be done through rewards (products or services) rather than money. There can be increased awareness for the business when many contributors come on board. Reward/donation-based contributors have different evaluation criteria than traditional lenders. Anyone can participate, even those with a small amount of money to offer. Potentially more ideas get funded, which is good news for niche ideas or unique businesses.

*Crowdfunding – Drawbacks:* Designing and promoting a successful crowdfunding campaign still takes effort, and, in some cases, if the funding goal is not met, any money raised is returned to contributors, and the business gets nothing for time invested in the process. Potential contributors must have a level of trust that they can redeem the promised rewards or payback from a business they may not know. Providing feedback and updates on a funded project to a multitude of contributors may be more difficult than getting funding through one source. Securitized crowdfunding must comply with all securities regulations, which can add significant time and expense.

*Opportunity Development Co-ops (ODC) – Advantages:* ODC members share the risk and the reward. The co-operative raises local money by selling memberships or shares in the ODC to create an investment capital pool. The ODC then looks for local businesses to invest in through debt or equity financing. Members add community credibility and/or word-of-mouth promotion for the local business. Investments may be RRSP eligible.

*Opportunity Development Co-ops (ODC) – Drawbacks:* Even though ODC’s act as a capital pool, whereby the financing agreement is between the ODC and the recipient business (and not between the recipient business and every member of the co-op), the knowledge that local friends, neighbours and relatives have contributed to the ODC’s capital pool may add additional pressure. ODC’s also take considerable time and effort to set up and require leadership from several knowledgeable, committed and community-minded people.

*Social Impact Funds (SIF) – Advantages:* Funding is usually patient capital, so investors are not looking for quick profit. Funding is usually offered for both large and small projects and companies.

*Social Impact Funds (SIF) – Drawbacks:* The SIF must fit a specific social or environmental mandate to be funded and may have to give away equity in exchange for funding. Often, only companies with a proven product are funded, and start-ups may not be eligible. Complex reporting may be required to show a significant social or environmental impact.

*Sources:* Major crowdfunding and community investment sources in Canada are Alberta BoostR (ATB Financial), Indiegogo and Kickstarter. An opportunity development co-op source is Alberta Community & Co-operative Association (ACCA). A social impact fund in Alberta is Social Enterprise Fund (SEF).

### **Tax credit**

*Definition:* Tax refunds and credits can help offset the cost of business expenditures, whereas wage subsidies can cover a portion of a hired person’s salary.

*Advantages:* You can deduct a portion of your expenses to lower your taxable income; a wage subsidy may help reduce employee wage costs.

*Drawbacks:* You have to wait until you file your taxes to benefit from the credit or refund (which can be up to 17 months after you have paid the expense). You may have to pay an accountant to ensure your business meets the requirements of the tax credit. Programs can change or be withdrawn without notice.

*Sources:* Alberta Scientific Research and Experimental Development Tax Credit, Canada Summer Jobs Subsidy, Apprenticeship Job Creation Tax Credit (these programs can have a defined lifespan or can change at any time. Be sure to check with these programs to see what is currently available and what the criteria are).

### **Venture/angel capital**

*Definition:* Also known as equity financing, venture/angel capital constitutes capital provided by individuals, institutions or companies to purchase an equity stake in the business. This financing is ideal for start-up companies without a long history or those with a high-risk business idea where it would be challenging to secure funding through conventional channels.

*Advantages:* You have immediate access to cash without having to make interest or principal payments. The investors usually come with expertise they will share with you, and the investors want to see you succeed as much as you do.

*Drawbacks:* Finding the right venture capital investors can take time and scrutiny because they will be more involved in your business than a typical lender. As a return for funding, you give up some control of your business, sometimes up to 50 per cent. Accepting venture capital before you are ready for growth can have you scaling up too fast and can derail you from your original business goals. Once you are successful, many venture capital investors will want an exit strategy that allows them to recoup their investment.

*Sources:* In Alberta: AVAC, Venture Capital Association of Alberta (VCAA), VA Angels, Avrio Capital.

### **Where can I learn more about agricultural funding or financing in Alberta?**

Agriculture and Forestry offers a number of resources on how to fund business growth. Visit the website [www.agriculture.alberta.ca](http://www.agriculture.alberta.ca) and key in “Starting and Growing a Business: Accessing Capital” in the search bar.

### **Next Steps**

Now that you have determined how much money you need (factsheet *Funding Your Agricultural Business – Step 1: How Much Money Do I Need?*, Agdex 832-3) and identified where you can get money (*Funding Your Agriculture Business – Step 2: Where can I get the Money?*, Agdex 832-4), it is time to move onto the last step: *Funding your Agricultural Business – Step 3: How Do I Get the Money?*, Agdex 832-5.

The Step 3 factsheet will cover the key factors that will affect your ability to access money for your business.

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