

Local Economic Alternatives

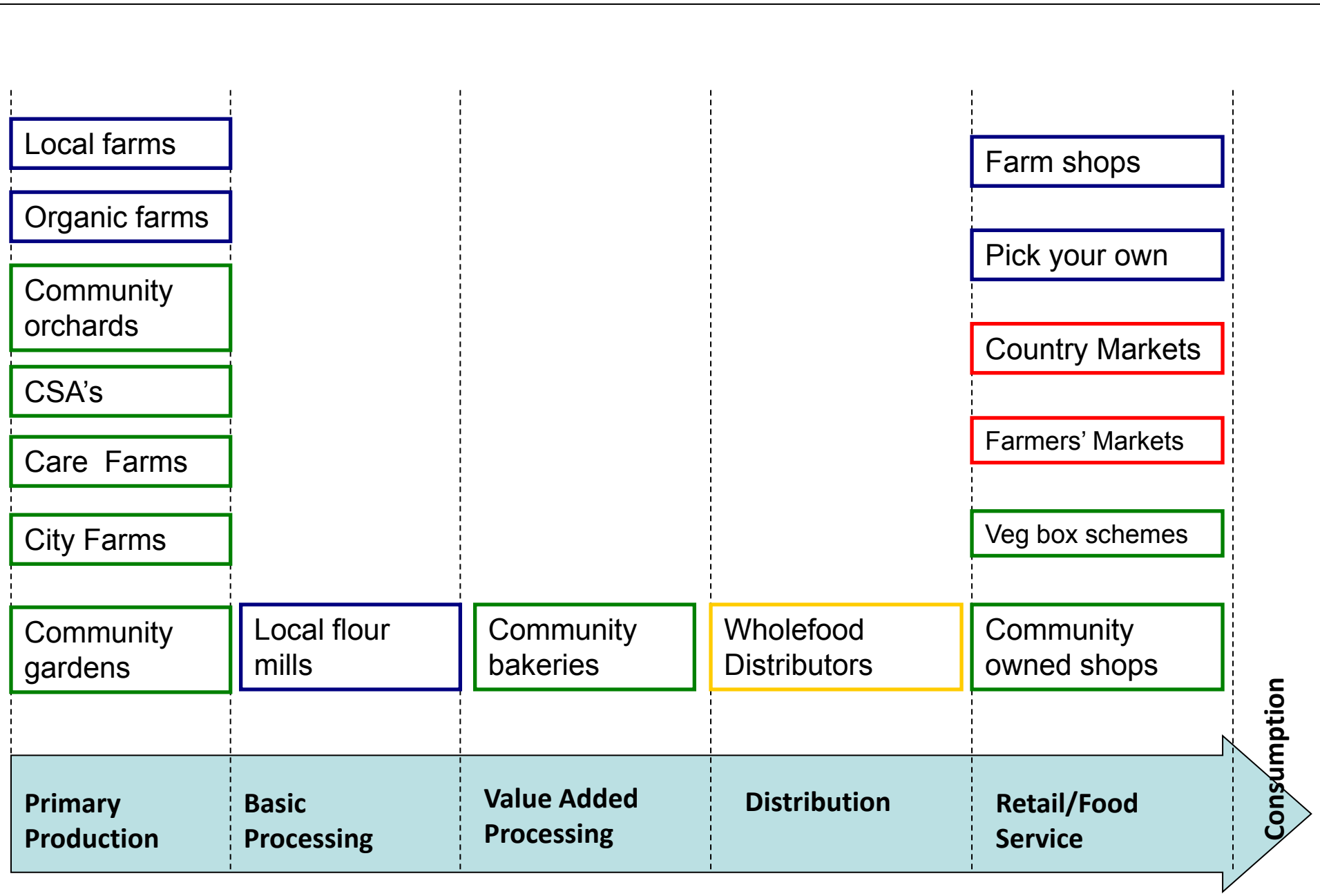
Session 2

The development of successful
eco-social enterprises

Tim Crabtree

Schumacher: Small is Beautiful

In *Small is Beautiful*, Schumacher explained that the “modern private enterprise system ingeniously employs the human urges of greed and envy as its motive power”, but then asks: “Can such a system conceivably deal with the problems we are now having to face? The answer is self-evident: greed and envy demand continuous and limitless economic growth of a material kind, without proper regard for conservation, and this type of growth cannot possibly fit into a finite environment. **We must therefore study the essential nature of the private enterprise system and the possibilities of evolving an alternative system** which might fit the new situation.”



Local farms

Organic farms

Community orchards

CSA's

Care Farms

City Farms

Community gardens

Local flour mills

Community bakeries

Wholefood Distributors

Farm shops

Pick your own

Country Markets

Farmers' Markets

Veg box schemes

Community owned shops

Primary Production

Basic Processing

Value Added Processing

Distribution

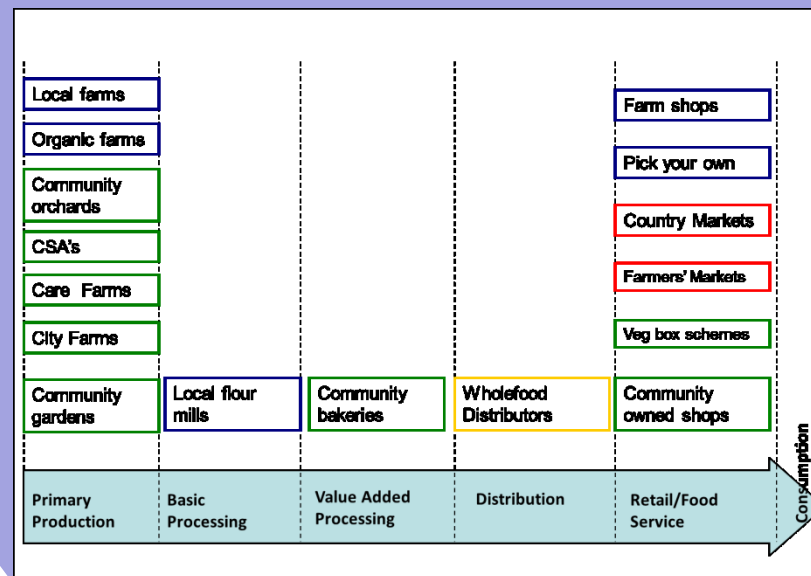
Retail/Food Service

Consumption

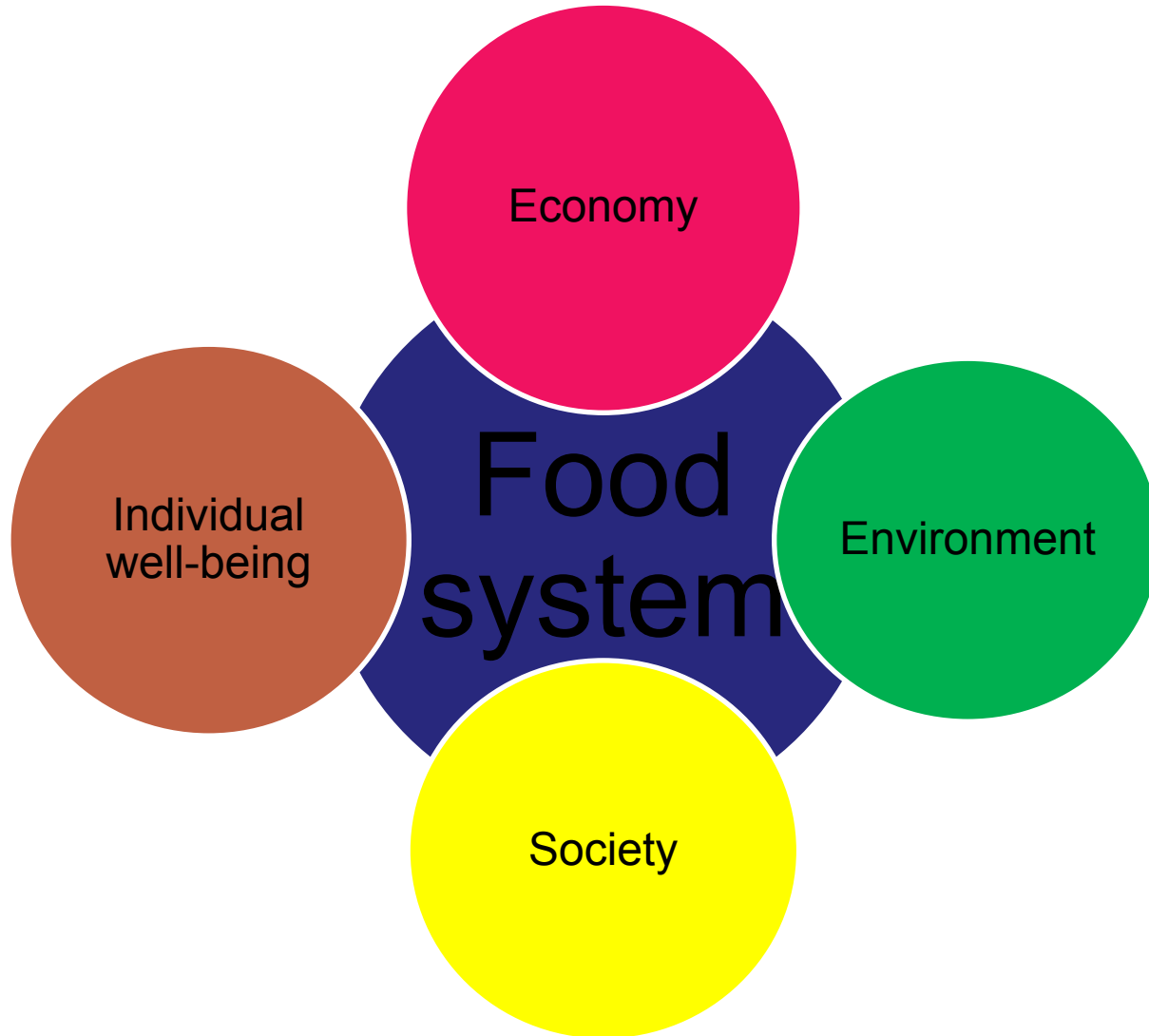
The Community Farm

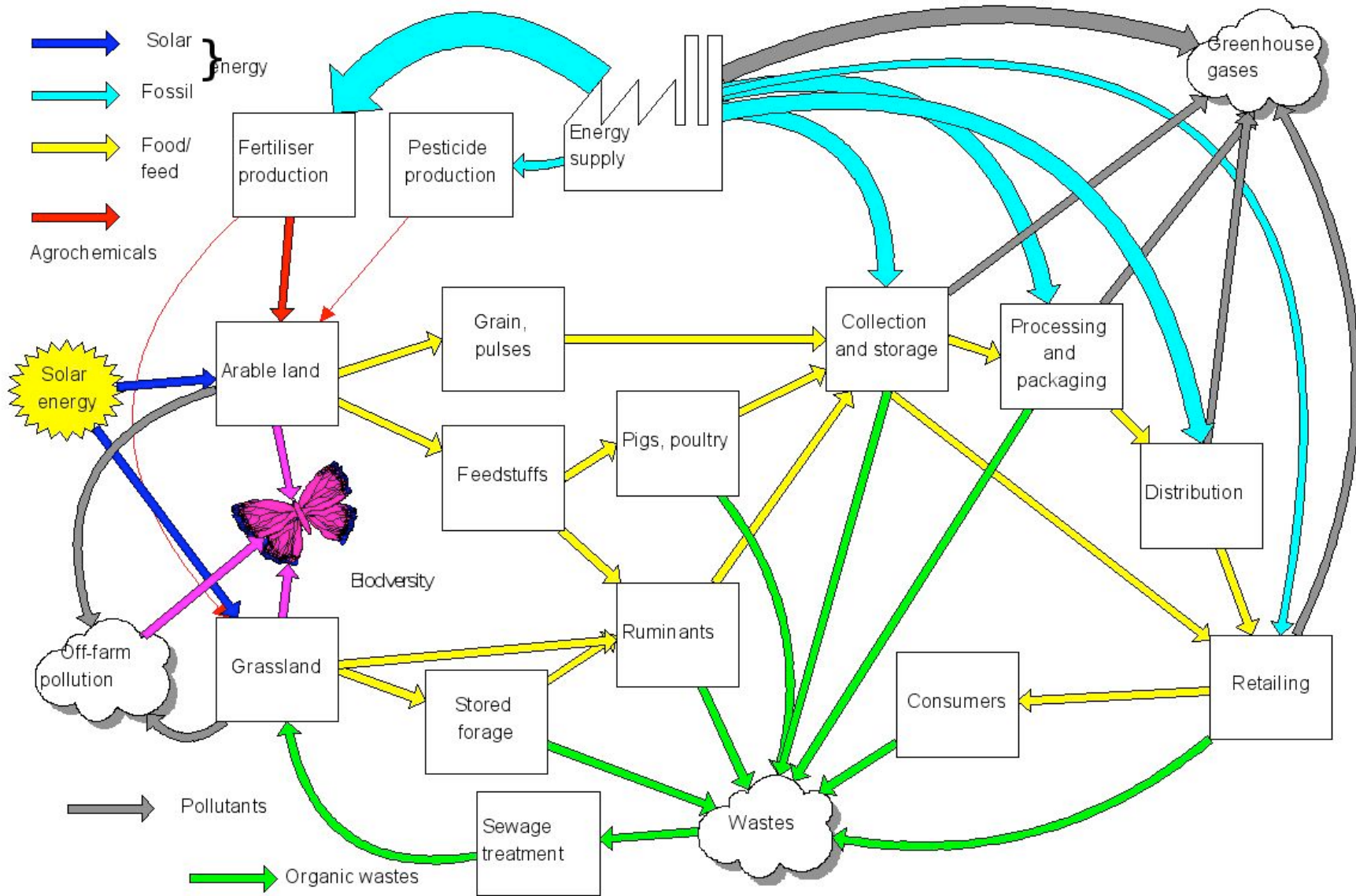
Food systems are “complex”

Local Food System

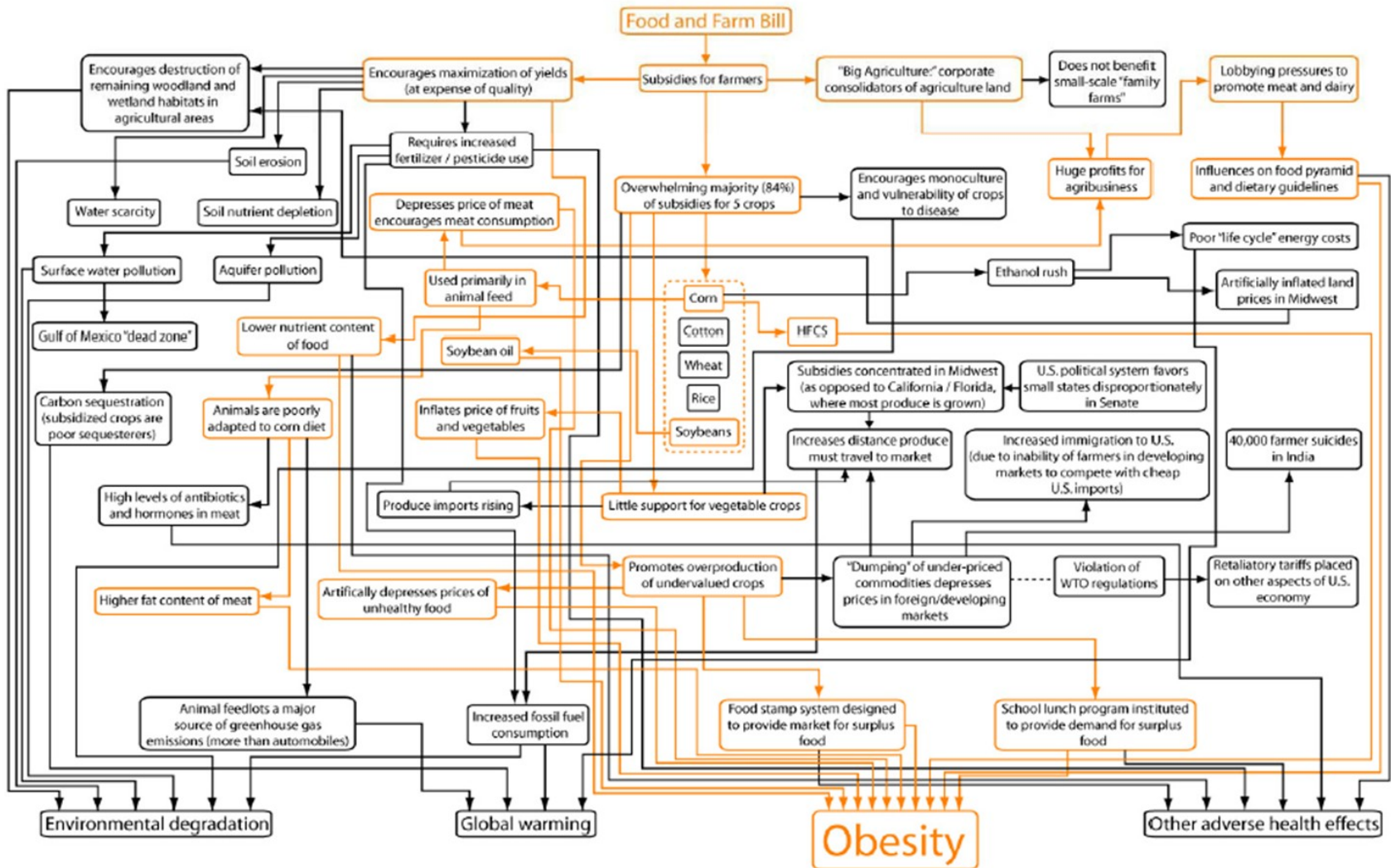


Food systems are “complex”

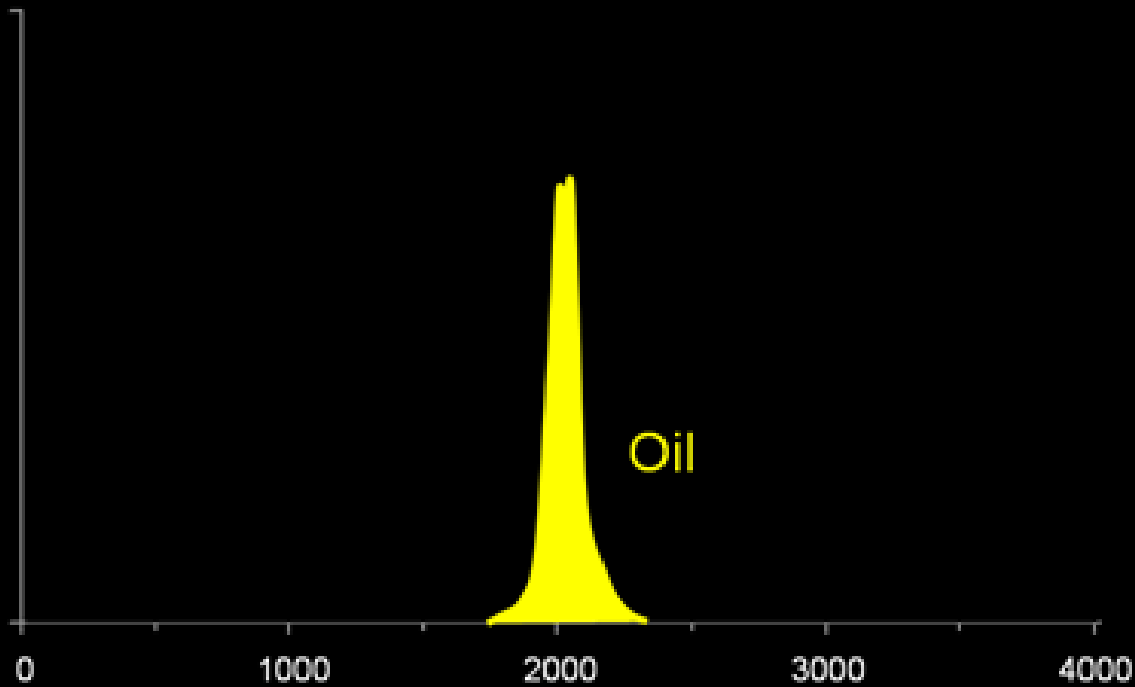




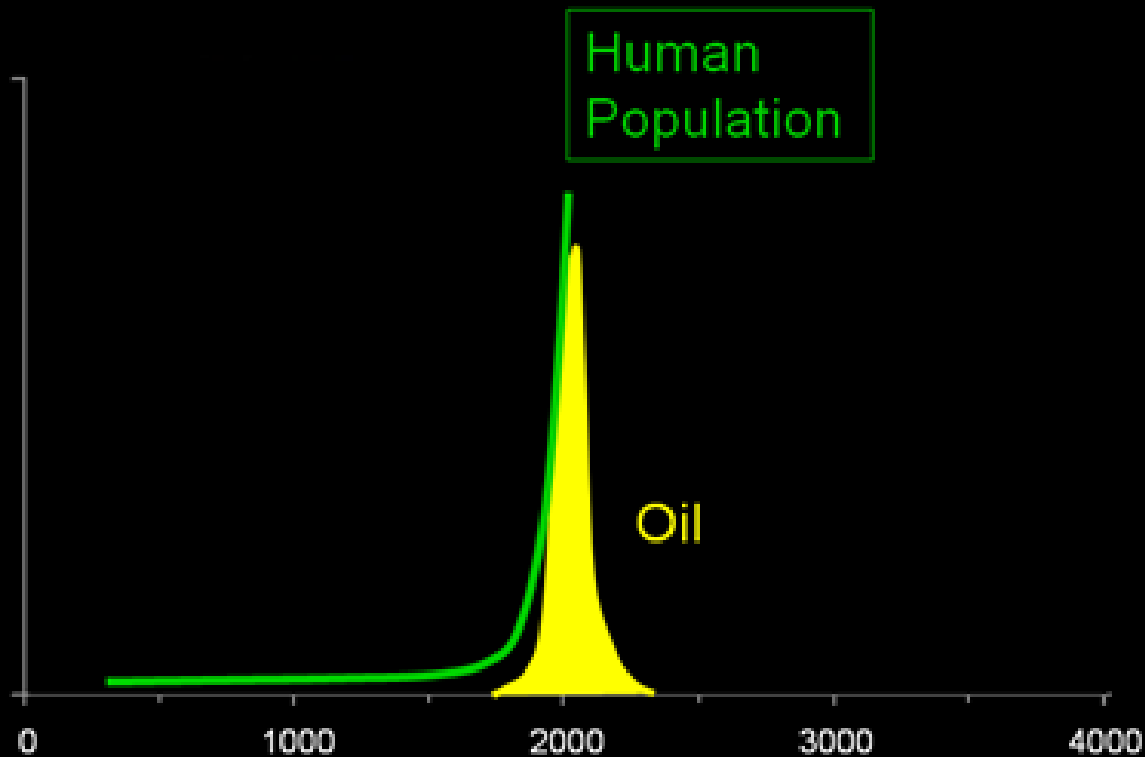
Food systems can have unintended outcomes



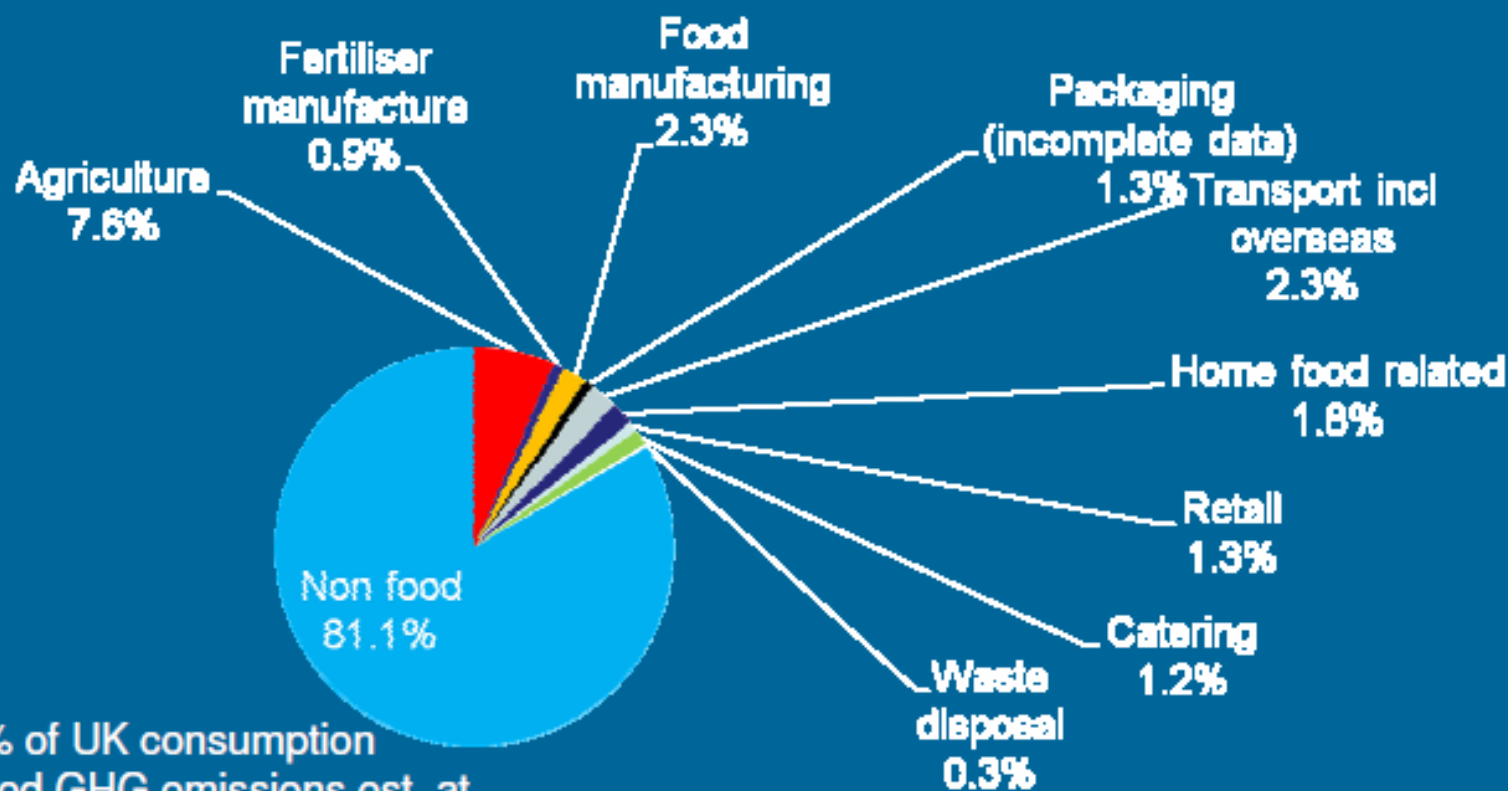
A Brief History of Oil & People



A Brief History of Oil & People



Food GHG impacts – by life cycle stage - UK

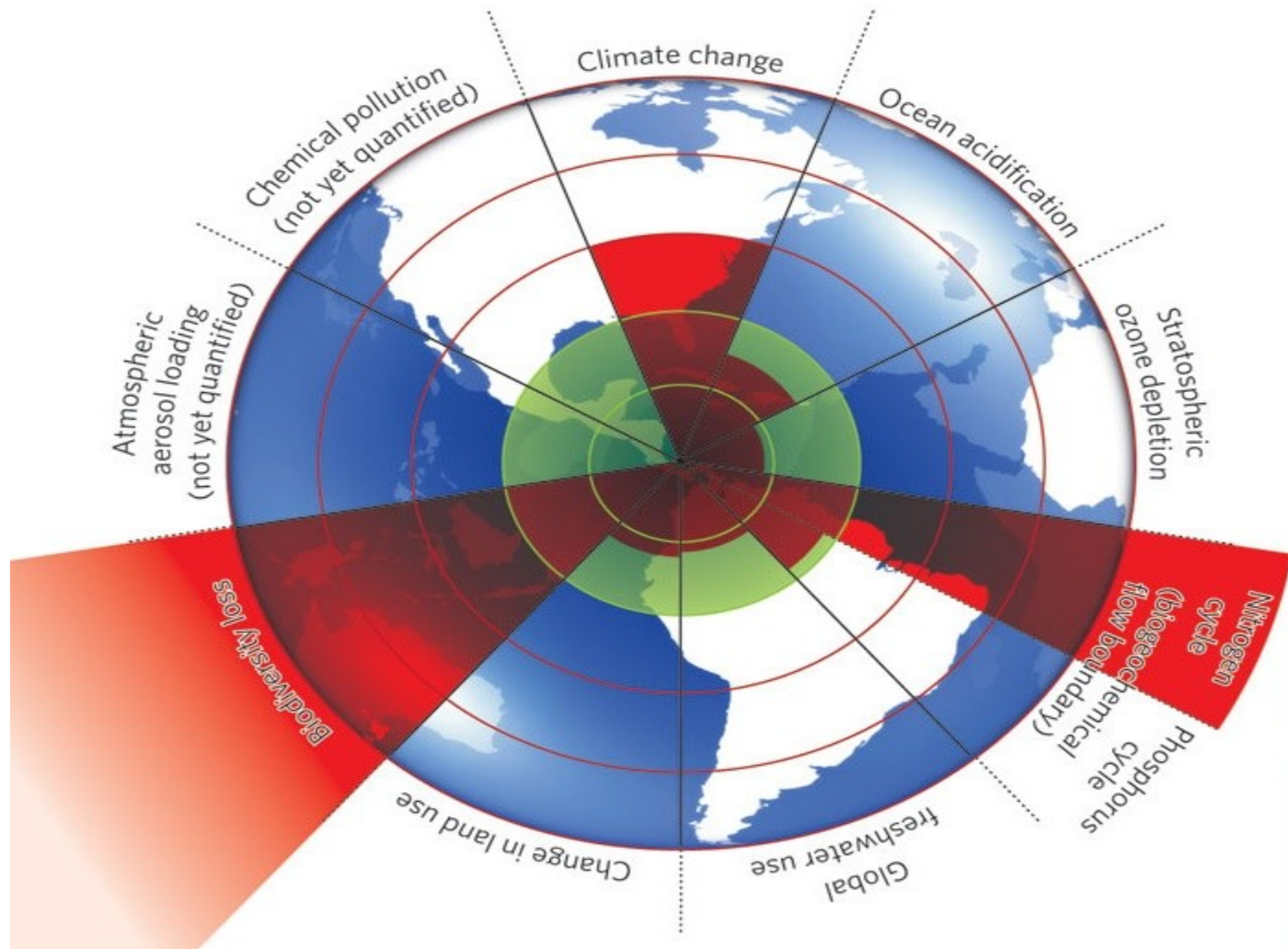


As % of UK consumption related GHG emissions est. at 234 MTCe – source Druckman et al 2008

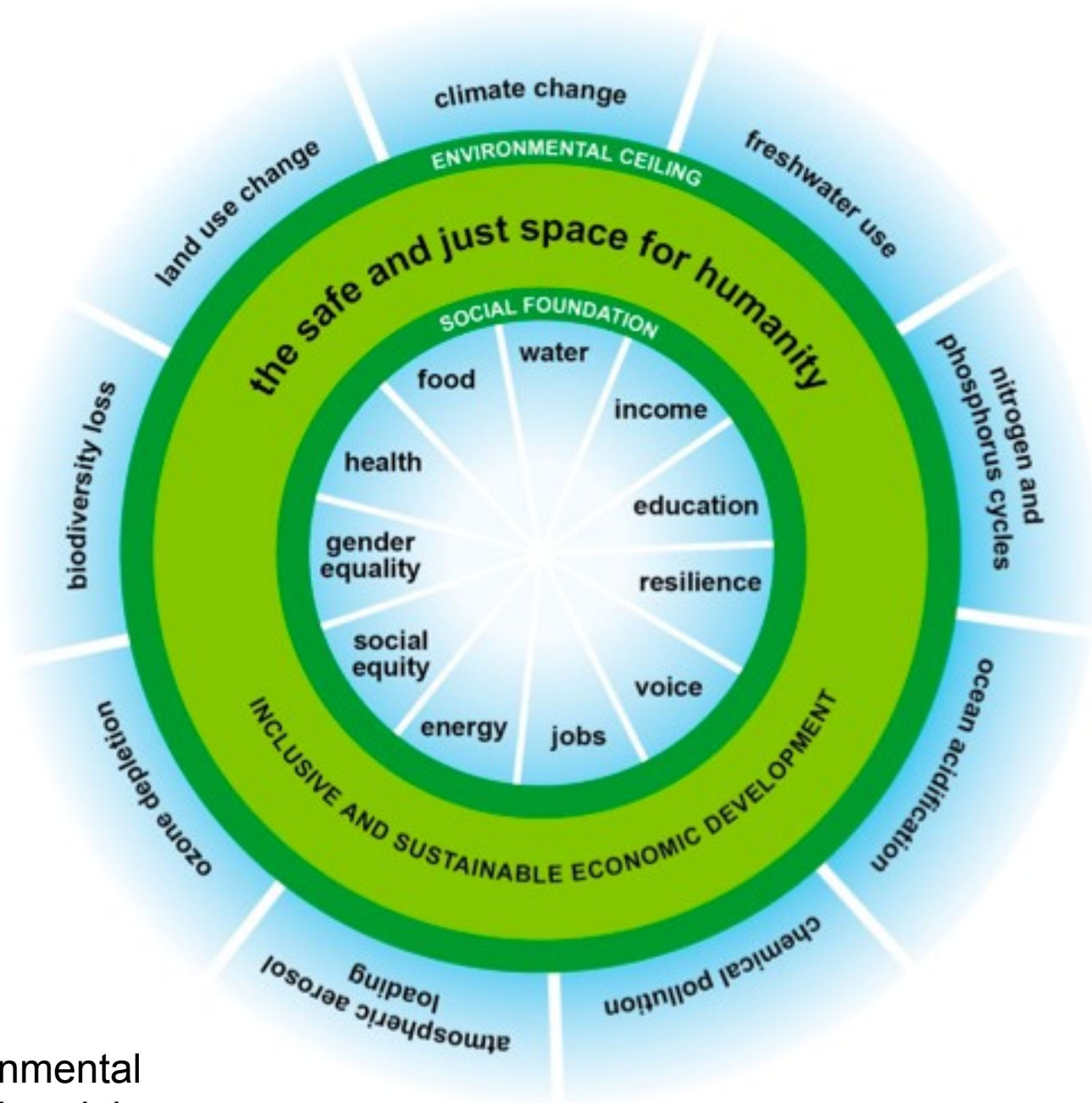
Former forest, Matto Grosso Brazil



Planetary Boundaries



Green zones = our planetary 'playing field' or 'Gaia gift'



Oxfam – environmental boundaries **and** social boundaries

Focus of session

- Can we design alternative economic systems that operate within environmental and social boundaries?
- What design principles can we use to create eco-social enterprises that contribute to a sustainable, high well-being and socially just economy?

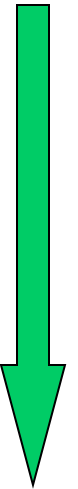
Learning responses to the challenge of sustainability

No response - no change

Accommodation - green 'gloss'

Reformation - serious reform

Transformation - whole system redesign



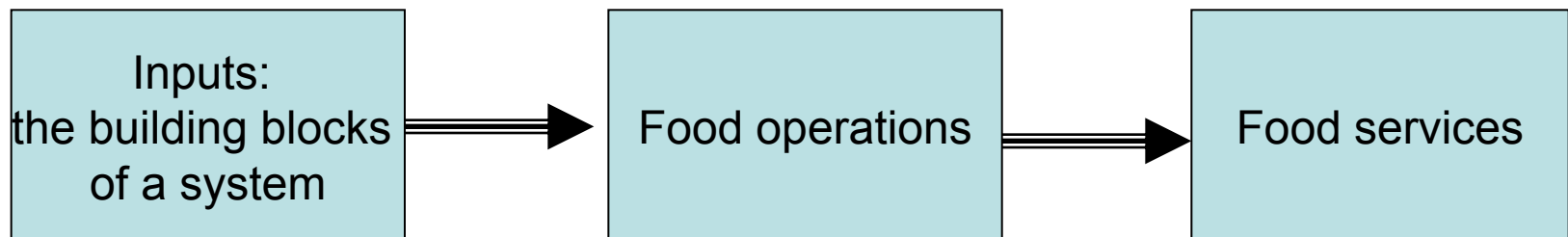
Local food systems

A system is a set of things working together:

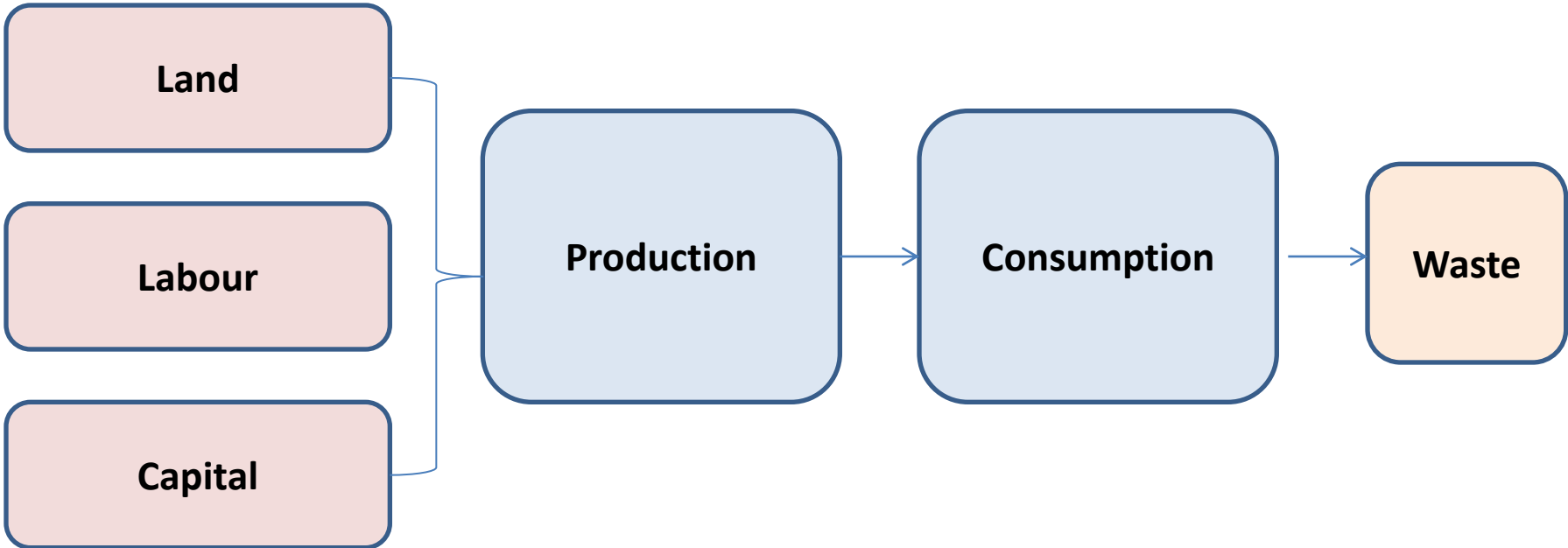
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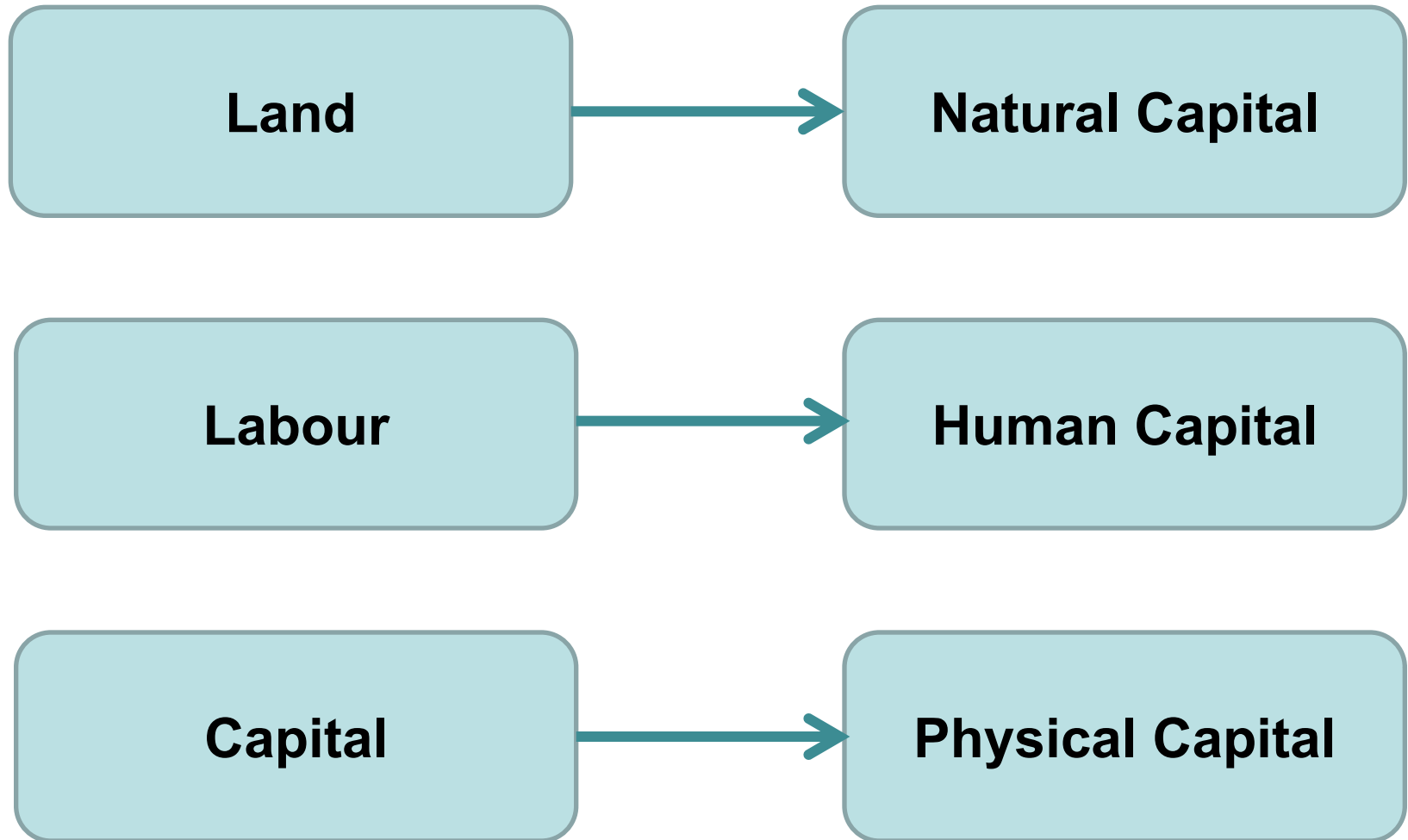
All food systems transform inputs into goods & services



Orthodox economics



Re-thinking inputs



Local communities

Outputs:

goods & services

Primary production

Processing

Distribution

Retail

Eco-Social Enterprise

Operations

Human Capital

Physical Capital

Natural Capital

Inputs

Natural capital

“Natural capital (also referred to as environmental or ecological capital) is any stock or flow of energy and matter that yields valuable goods and services. It falls into several categories: **resources**, some of which are renewable (timber, grain, fish and water), while others are not (fossil fuels); **sinks** which absorb, neutralize or recycle waste; and **services**, such as climate regulation. Natural capital is the basis not only of production but of life itself.”

Forum for the Future

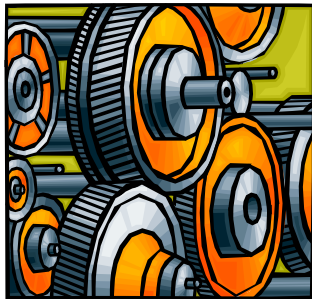
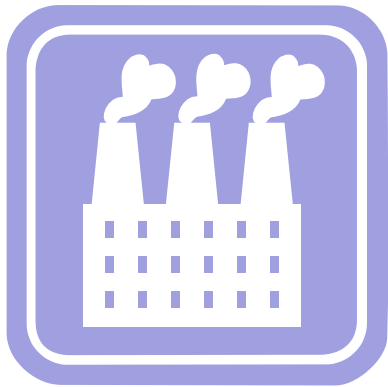


Physical capital

“Physical (or Manufactured) capital comprises material goods – tools, machines, buildings and other forms of infrastructure – which contribute to the production process but do not become embodied in its output.”

Forum for the Future

Physical capital



Human capital

“Human capital consists of health, knowledge, skills and motivation (all of which are required for productive work), as well as an individual’s emotional and spiritual capacities. Enhancing human capital (for example, through investment in education and training) is central to a flourishing economy .”

Forum for the Future

Human capital

- Staff
- Volunteers
- Board members
- Open source knowledge

Question

Can you think about Local Food Links' school meals operation and describe the natural, physical and human capital which it used as inputs?

Local school children

Outputs:
School meals

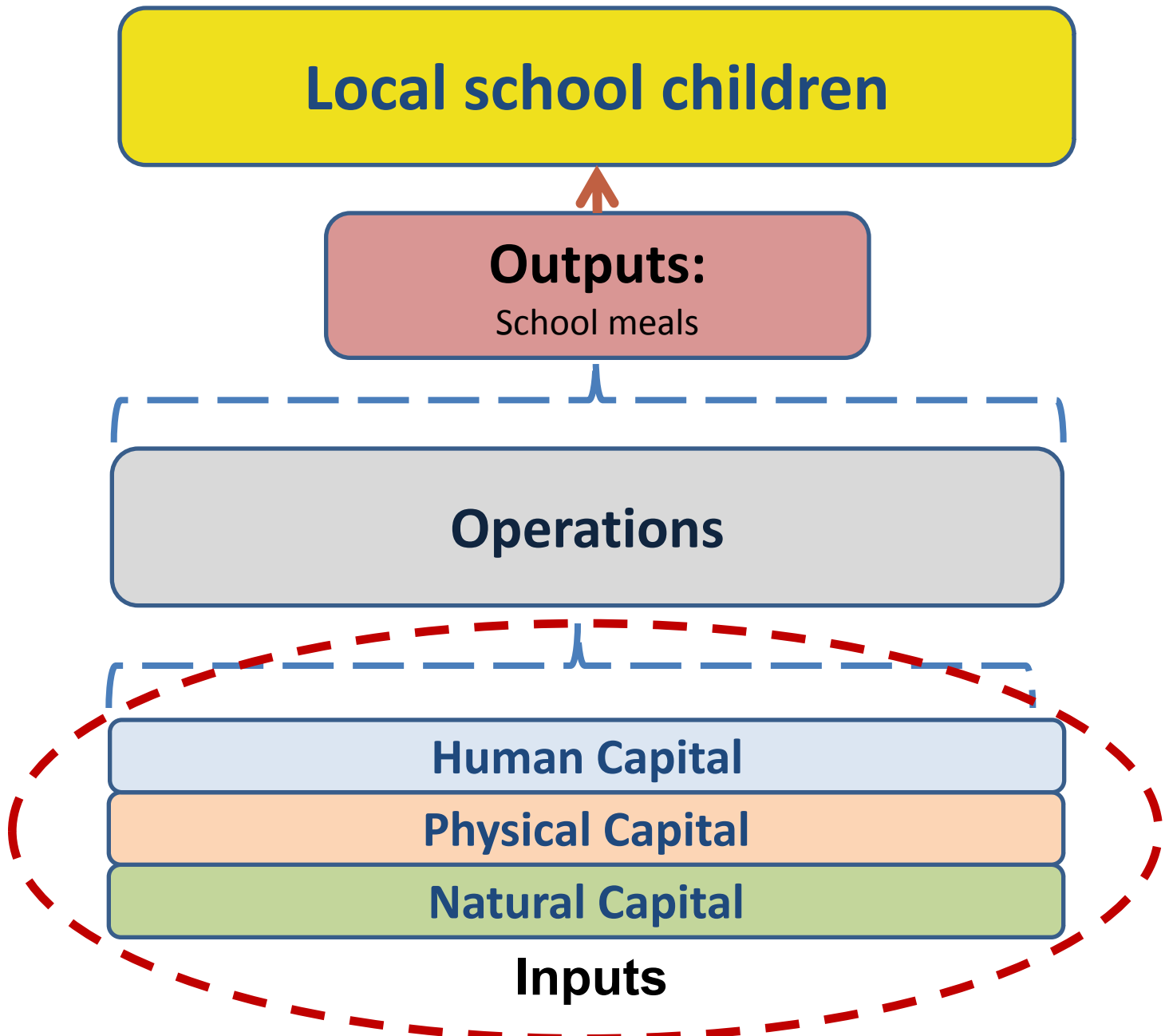
Operations

Human Capital

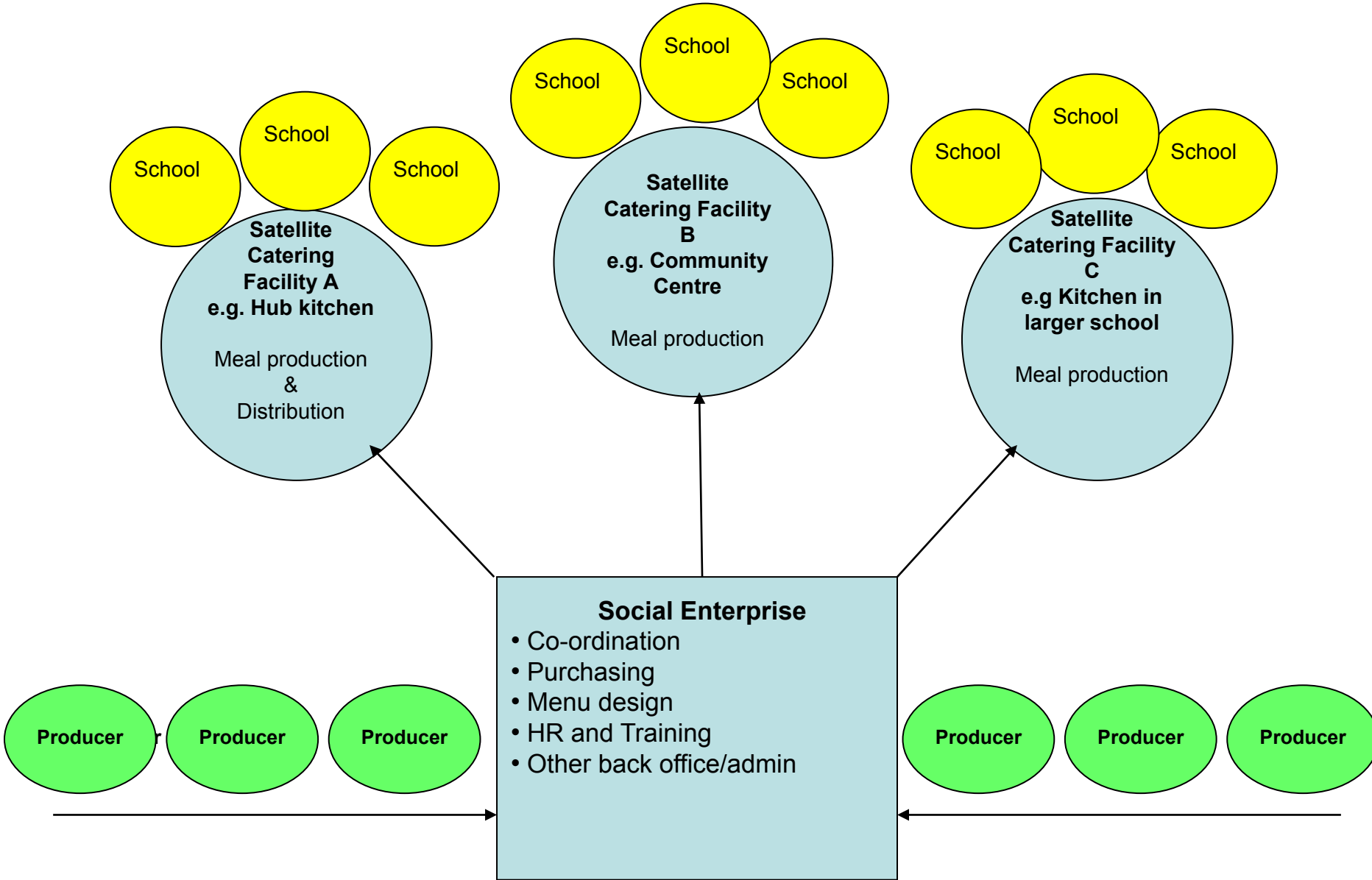
Physical Capital

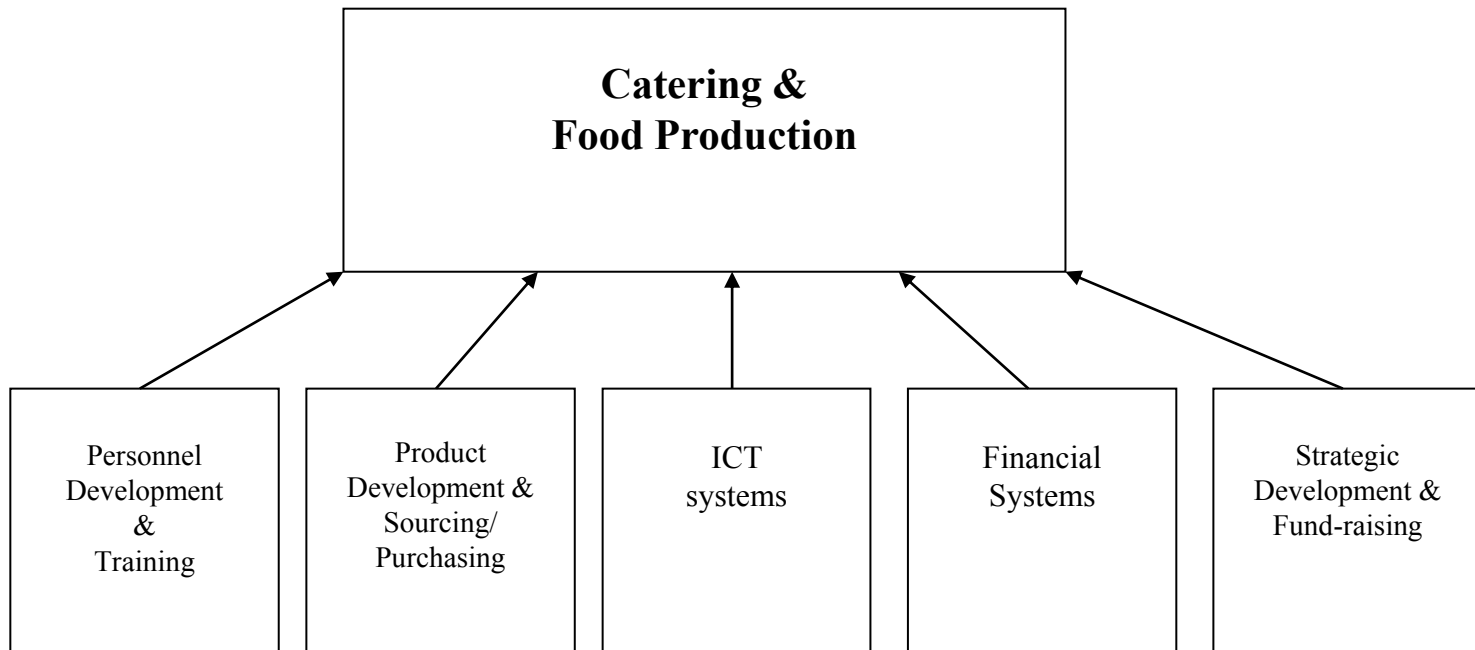
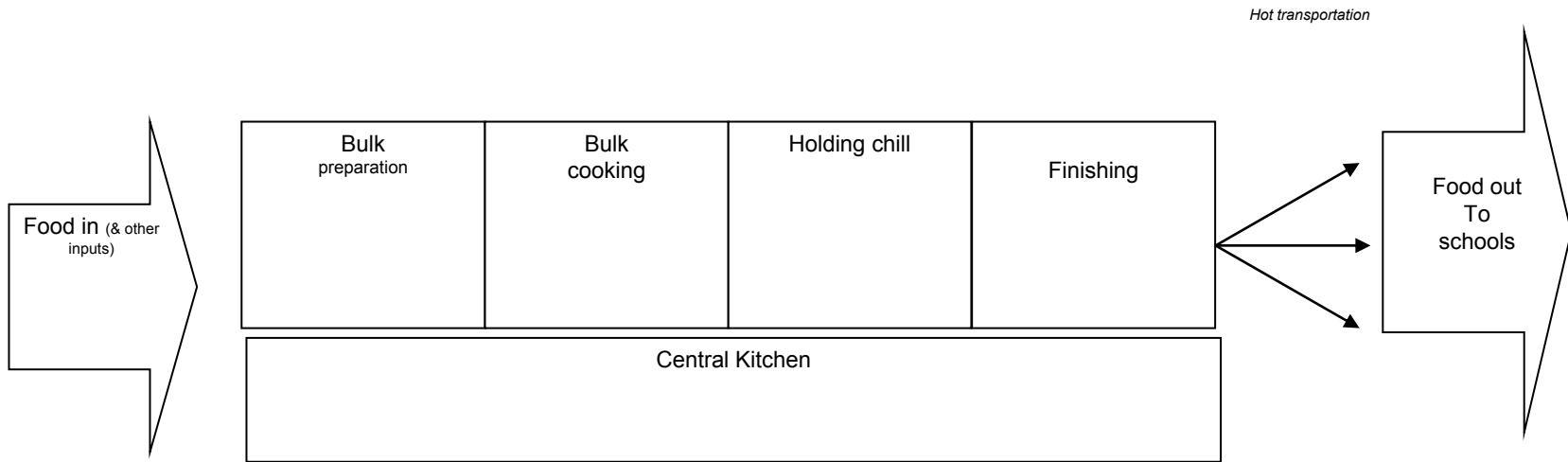
Natural Capital

Inputs



Operations





Food in



Initial storage



- 1 x Cold room
- 2 x Refrigerator

Initial preparation



- Potato rumbler
- Veg prep machine
- Food mixer

Cooking



- Steam kettle
- 2 x Brat pan
- 6 x Combi oven

Cleaning



- Pass through dishwasher

Final storage



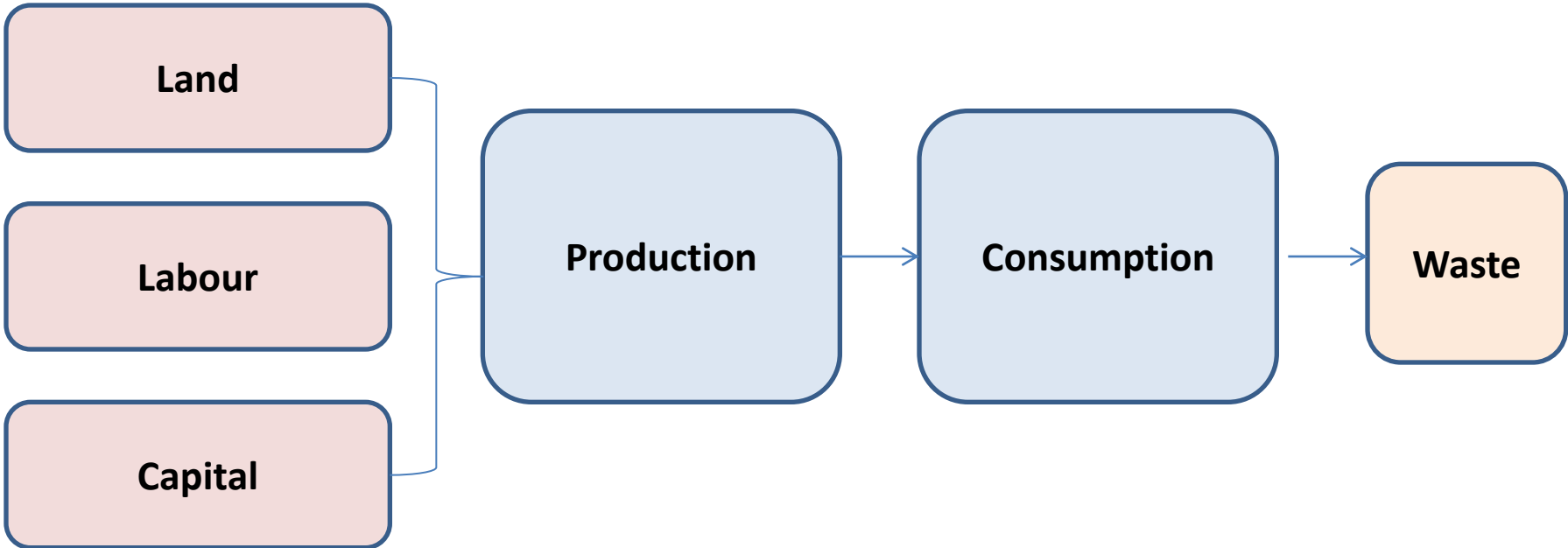
- 3 x Blast chiller
- 2 x Cold room

Distribution

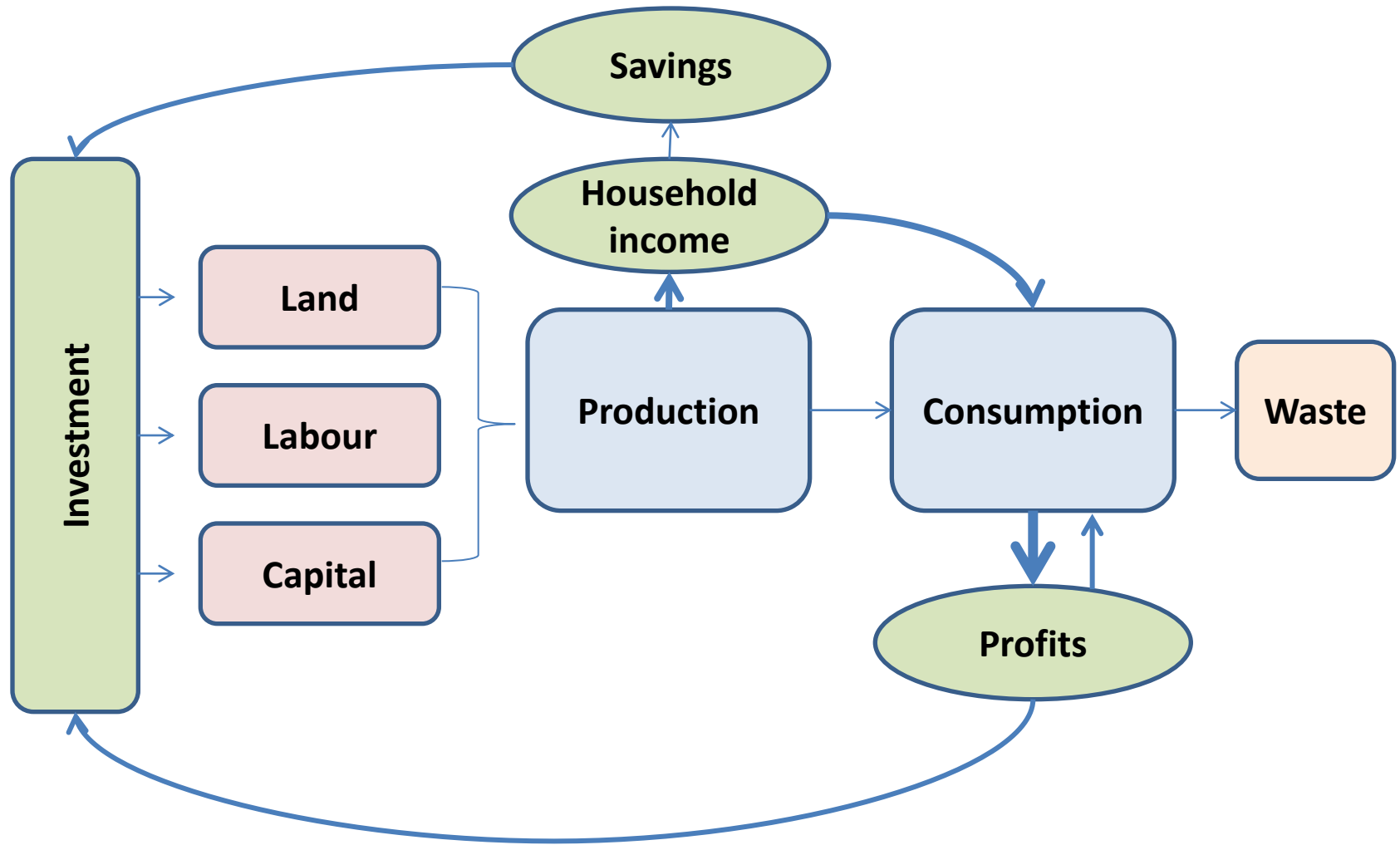


- Refrigerated van

Orthodox economics

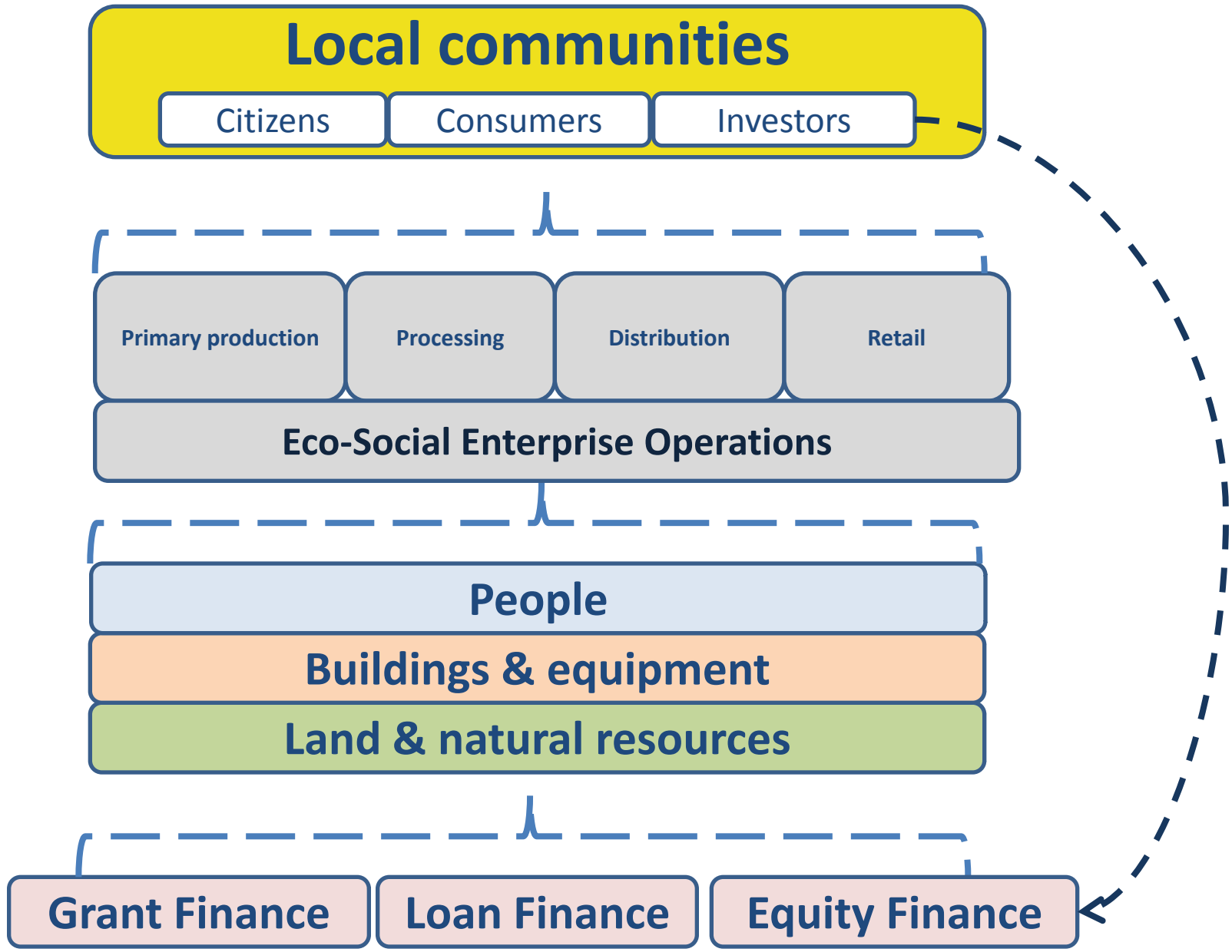


Orthodox economics – adding money



The Real Food Store - video

Question – how did The Real Food Store raise finance?



Financial capital

*“Financial capital plays an important role in our economy by reflecting the productive power of other types of capital, and enabling them to be owned and traded. However, unlike the other types, it has no *intrinsic* value; whether in shares, bonds or bank notes, its value is purely representative of natural, human..... or manufactured capital”*

Forum for the Future

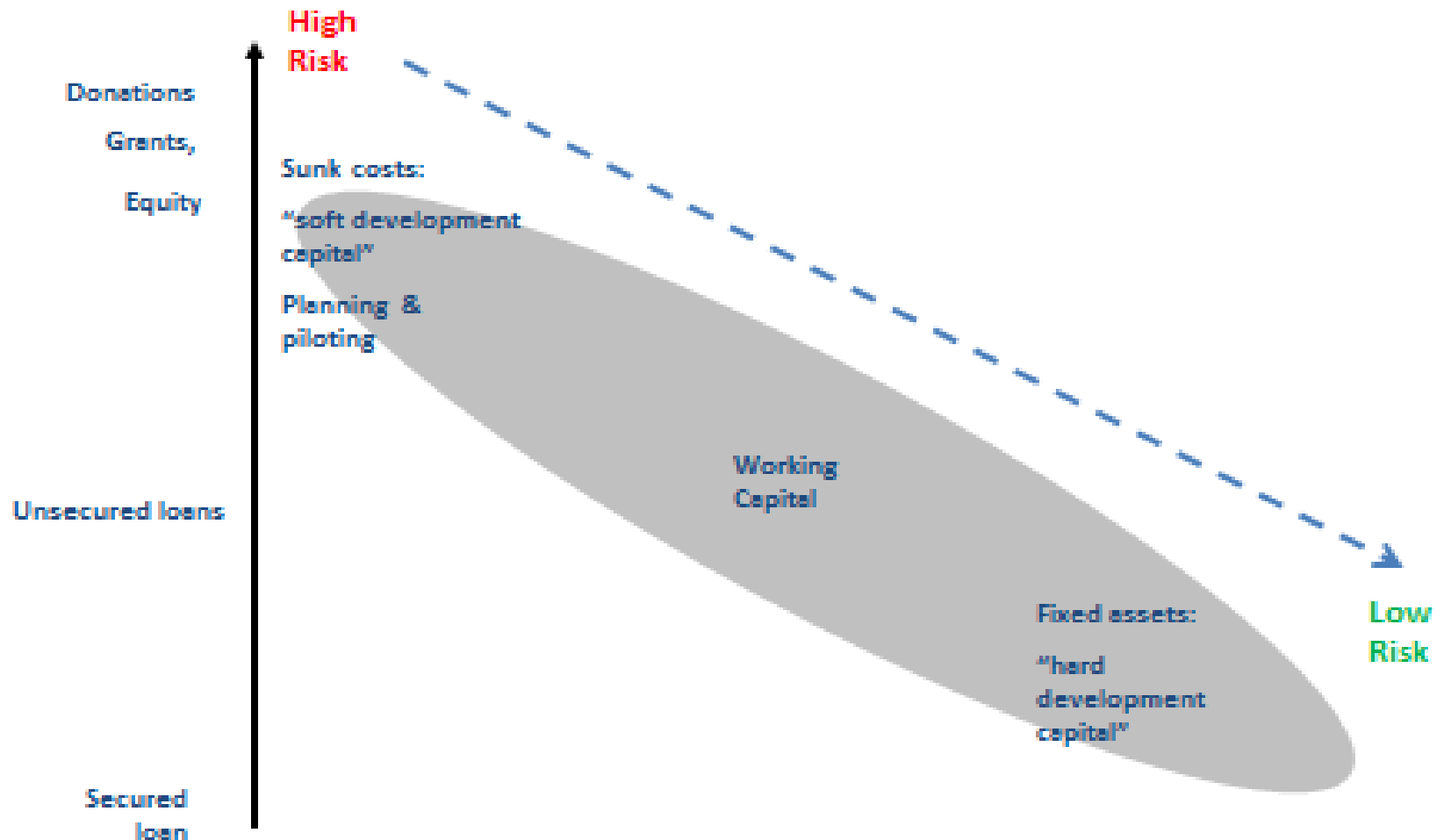
Question

- What is the difference between:
 - **Loans** (debt finance)
 - **Equity** (share capital)
 - **Grants**

3 types of finance

- **Grants** – these do not require a financial return. However, they do require the recipient organisation to demonstrate the social or environmental return that is being created.
- **Loans** (or debt finance) require interest payments and the repayment of the amount borrowed (i.e. it is investment with the expectation of repayment of the principle sum as well as regular interest payments).
- **Equity** is investment in exchange for a stake in the organisation, in the form of shares. This stake usually entitles shareholders to a share of the profits of the organisation, or interest payments once a certain level of earnings has been achieved.

Key principle 1: Different types of finance might be appropriate at different stages of development

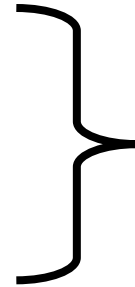


Key principle 2: rights to control

- **Grants** do not confer any rights, beyond the contractual obligations that a grant may entail.
- **Loans** carry with them an obligation to repay, but no other rights
- **Equity** can carry voting rights, income rights and/or a claim on the assets of the organisation.
- **Equity** has therefore proved to be problematic for organisations in the social economy (including charities, social enterprises and co-operatives)

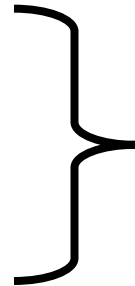
Key principle 2: rights to control

Rights to vote at general meeting



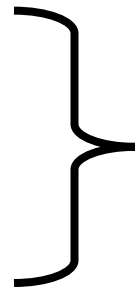
Democratic rights

Rights to net surplus



Income rights

Rights to the net value of the assets



Property rights

Key principle 3: equity can be important in the early stages of development

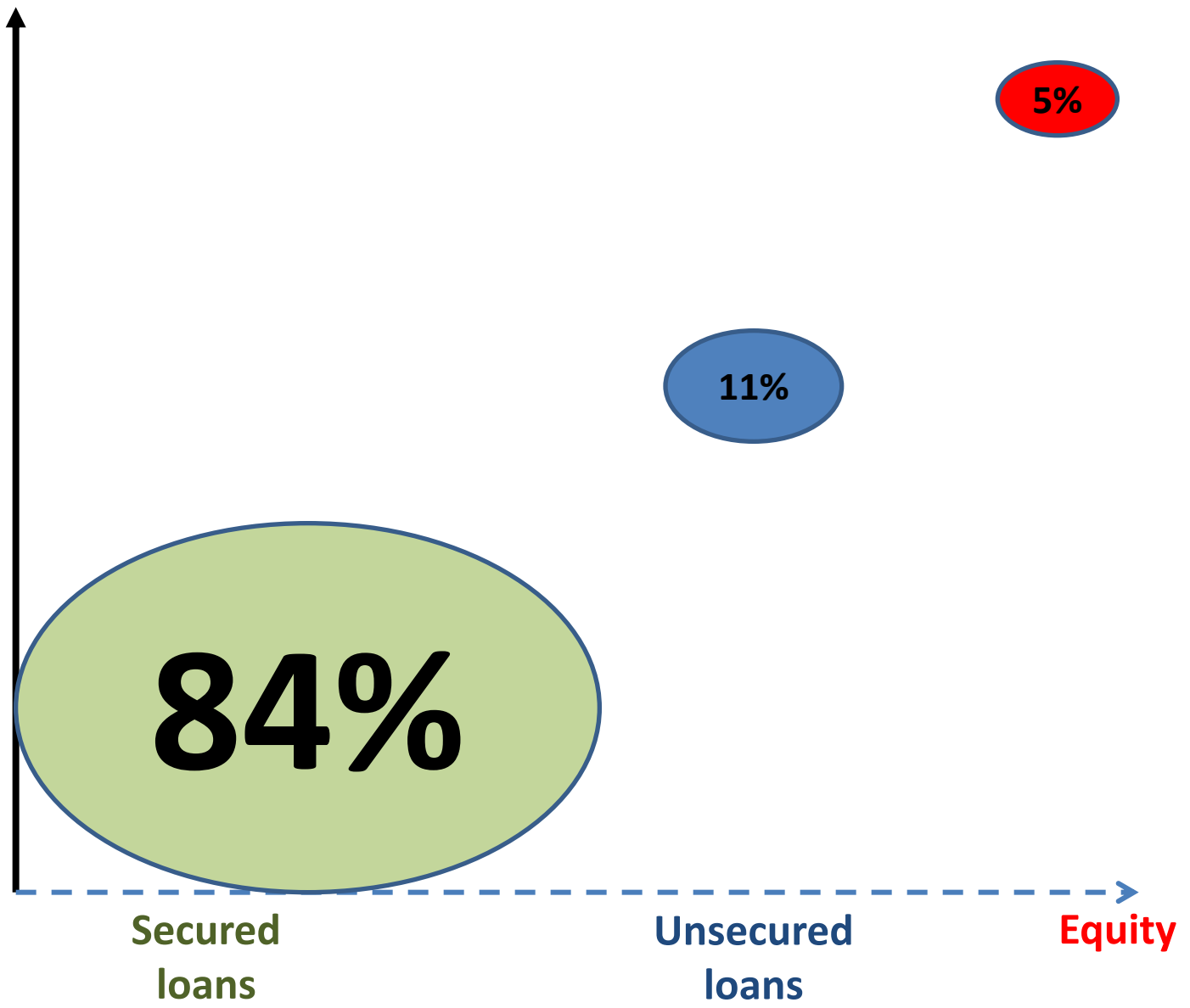
- Loans are marked on the organisation's balance sheet as a liability and they usually require security e.g. a building or demonstrable income streams.
- Loans may not be attractive in a situation where the organisation is trying to develop new projects or income streams because it will take time for these to generate financial returns.
- Unlike a loan, investors providing equity finance are effectively sharing the risk with the organisation and are likely to defer any expectation of a financial return for some time. Equity is treated as an asset on the organisation's balance sheet.

The social investment market in the UK

- Total volume of social investment activity in 2010 was £165 million.
- Just 4 institutions provided 70% of this social investment and their preference is for low-risk, long-term, secured investments (84% of the total social investment market in 2010).
- Equity and quasi-equity investment accounted for just 5% of the total (£10 million)

High
Risk

Low
Risk



Secured
loans

Unsecured
loans

Equity

Wessex Reinvestment Trust group

Established in 2001, the group has 4 separate structures:

- Wessex Reinvestment Trust, a registered charity.
- WRT Core Company Limited, which provides home improvement lending.
- Wessex Community Assets, which supports community asset development.
- Wessex Reinvestment Society, has provided business loans.

Examples of Wessex Reinvestment Trust group activities 2010 - 2012

Housing

Wessex Core
Company:
Home
Improvement
Lending

Housing

Somerset, Devon
& Dorset
Community Land
Trust Project

Food

E.g.

The Real Food
Store, Exeter

The Community
Farm, Bristol

North Dorset Food
Incubator &
Training Network

Renewable Energy

E.g.

Bridport Energy
Services Ltd:
Zero carbon food
production

Partnership with
SW Protected
Landscapes
Forum:
Social Forestry

Workspace & Community Assets

E.g.

Lyme Regis
Development Trust

Red Brick Building
Centre,
Glastonbury

Enterprise St.
Michael's, Bridport

Wessex Community Assets:
Social enterprise advice & Community Shares support

Wessex Community Assets

Small not for profit organisation which supports the development of community and co-operative enterprises.

Undertook research and piloting activity which led to the recent upsurge in Community Shares activity





ARTIST'S IMPRESSION: 11 and 13 Park Street Exeter

You are invited to invest in a community enterprise bringing local food back into the heart of Exeter. Real Food is an exciting breakthrough for our community, a not for profit organisation providing a local food store, bakery and café located in the city centre.

The

REAL FOOD

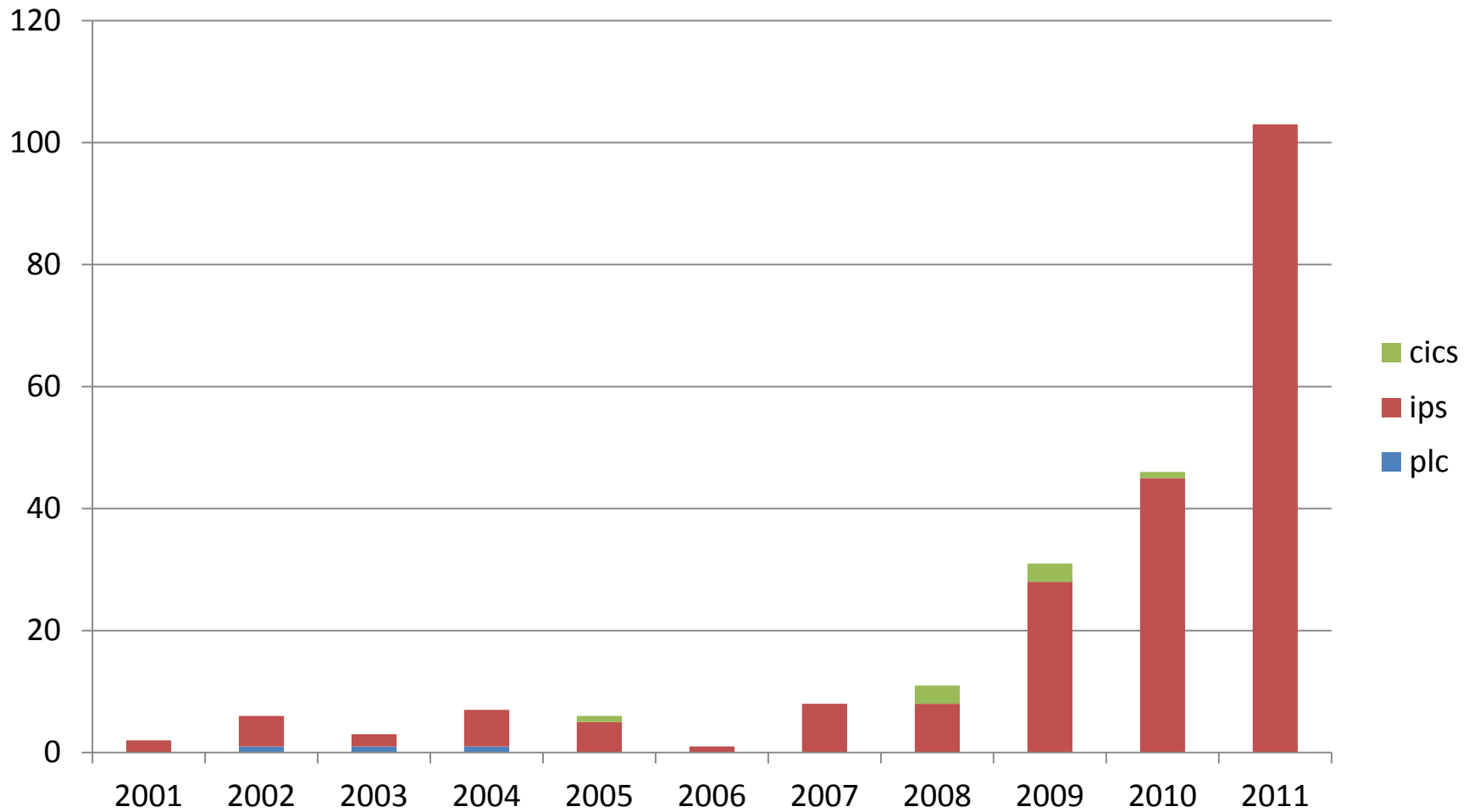
Store

Community Share Offer

Launch Date: 10 June 2010 **Closure Date:** 23 July 2010

REAL FOOD is the trading name of Exeter Local Food Ltd, a Community Benefit Society incorporated under the Industrial and Provident Societies Act 1965. Registered with the Financial Services Authority. Registered No. : 300603F

Community shares registrations by legal format



Community shares 2009-11

- 176 new societies registered, of which
 - 107 community benefit societies
 - 69 co-operative societies
- 71 community share offers
- 59 share offers completed
- £9.5m raised from 10,506 members
- Average raised £161,000 (median £58,000)
- Average membership 178 (median 150)
- Average investment per member £883

Community share societies

Trade sector	Post 2009 societies	Pre 2009 societies	Members	Share capital
Renewable energy	59	13	9,642	£17,450,000
Community shops	37	9	4,472	£1,103,000
Community regeneration	15	9	3,668	£2,086,000
Food & farming	23	4	10,430	£1,199,000
Consumer co-operatives	-	20	8,553,000	£191,275,000
Pubs and brewing	11	2	1,265	£1,343,000
Community finance	3	9	1,837	£2,114,000
Community land trusts	10	2	558	£35,000
Fair trade	2	1	9,222	£26,151,000
Other	16	9	38,367	£7,260,000
Totals	176 (46)	78 (75)	8,638,000	£255m

Mondragon, Spain

84,000 employed in
256 co-operatives

Supported by Mondragon Co-operative Corporation

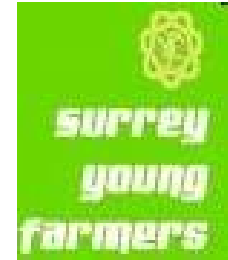
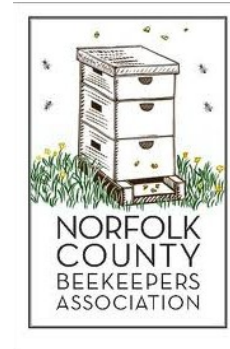


Social capital

“Social capital takes the form of structures, institutions, networks and relationships which enable individuals to maintain and develop their human capital in partnership with others, and to be more productive when working together than in isolation. It includes families, communities, trade unions, voluntary organisations, legal/political systems and educational and health bodies.”

Forum for the Future

Social capital – linking with existing networks



Members improve competitive advantage

Members roles	How these roles improve competitive advantage
Investor	Lower cost of capital; greater acceptance of risk
Customer	Greater loyalty; accept higher prices & dividend
Service user	Demonstrates support to funders; better feedback
Activist	More engagement; better feedback; better targeting
Volunteer	Lower labour costs; access to specialist skills
Suppliers	Greater loyalty; lower input prices
Workers	Greater loyalty; lower input prices; better feedback
Directors	Access to specialist skills; lower input prices

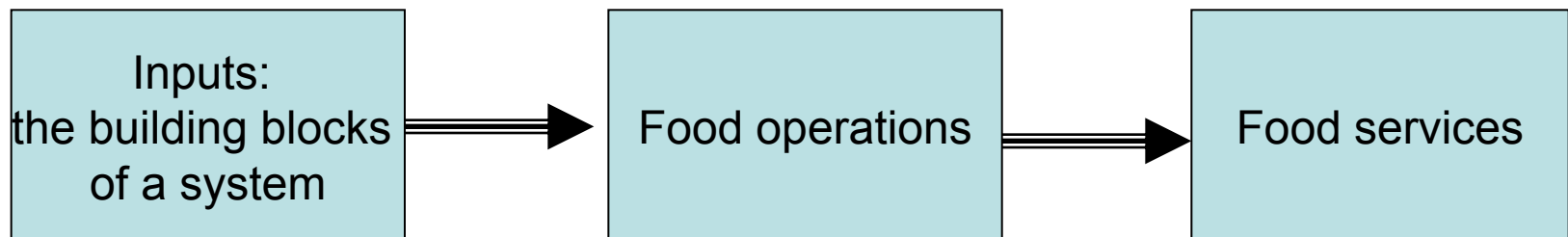
Local food systems

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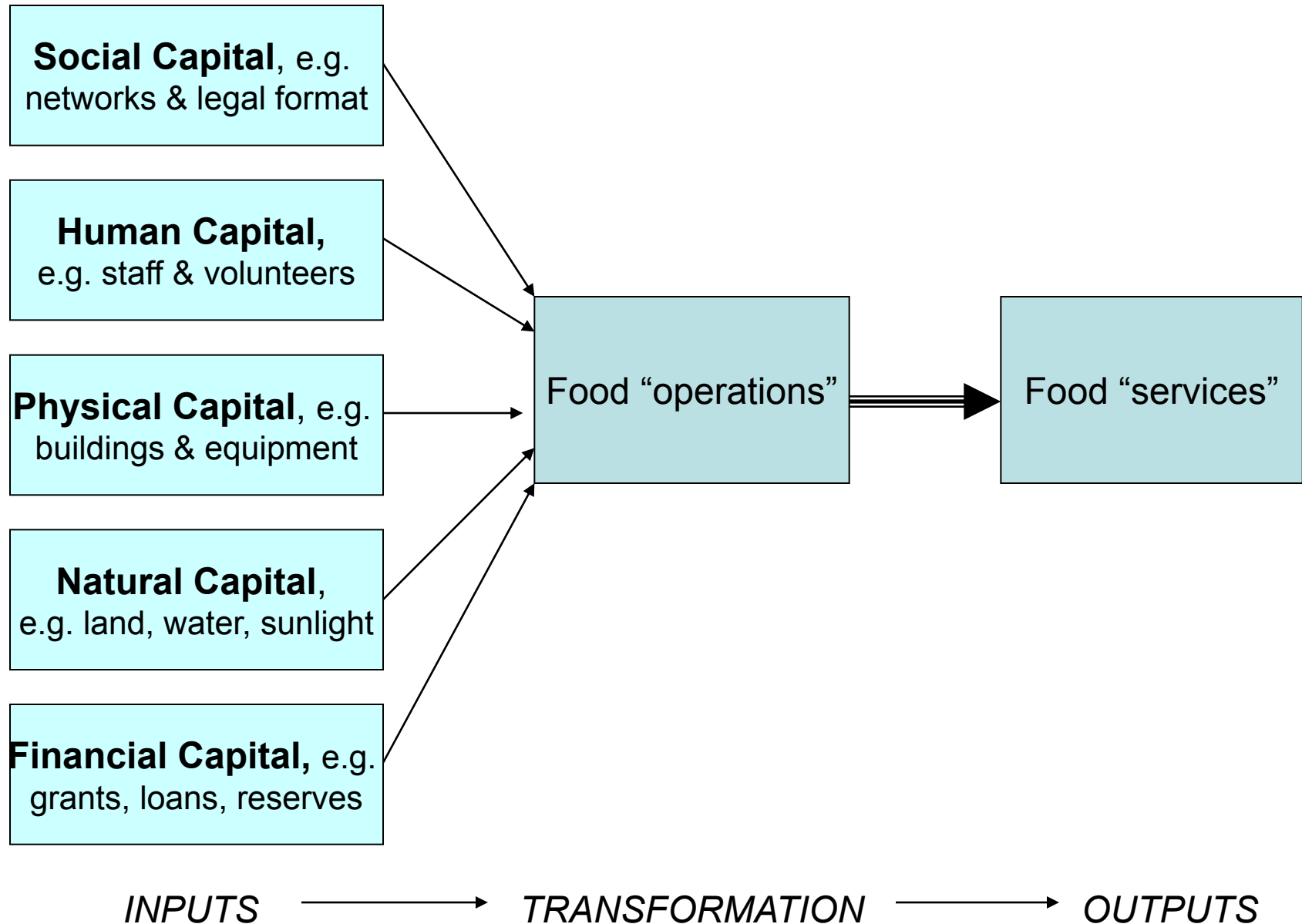
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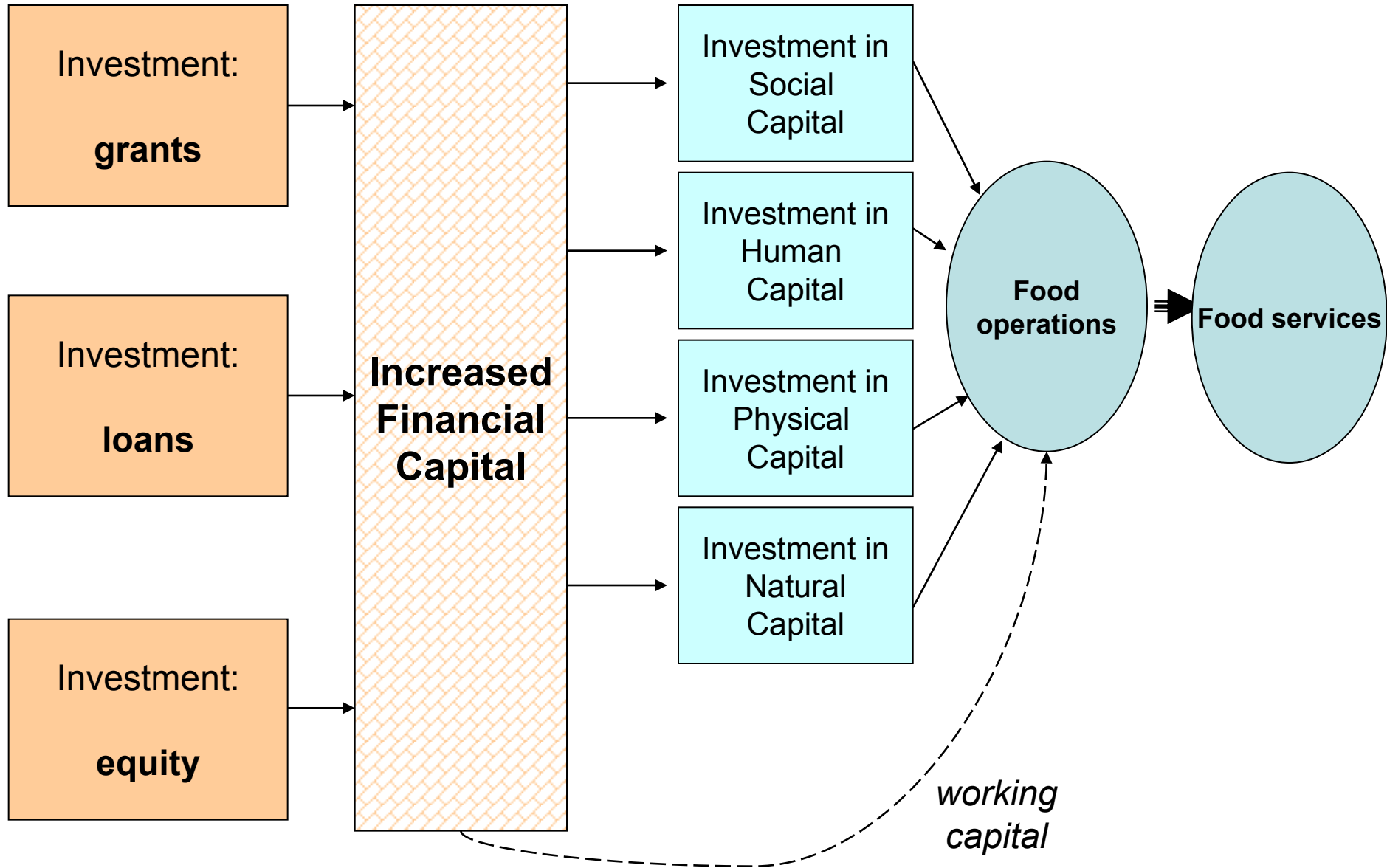
All food systems transform inputs into goods & services



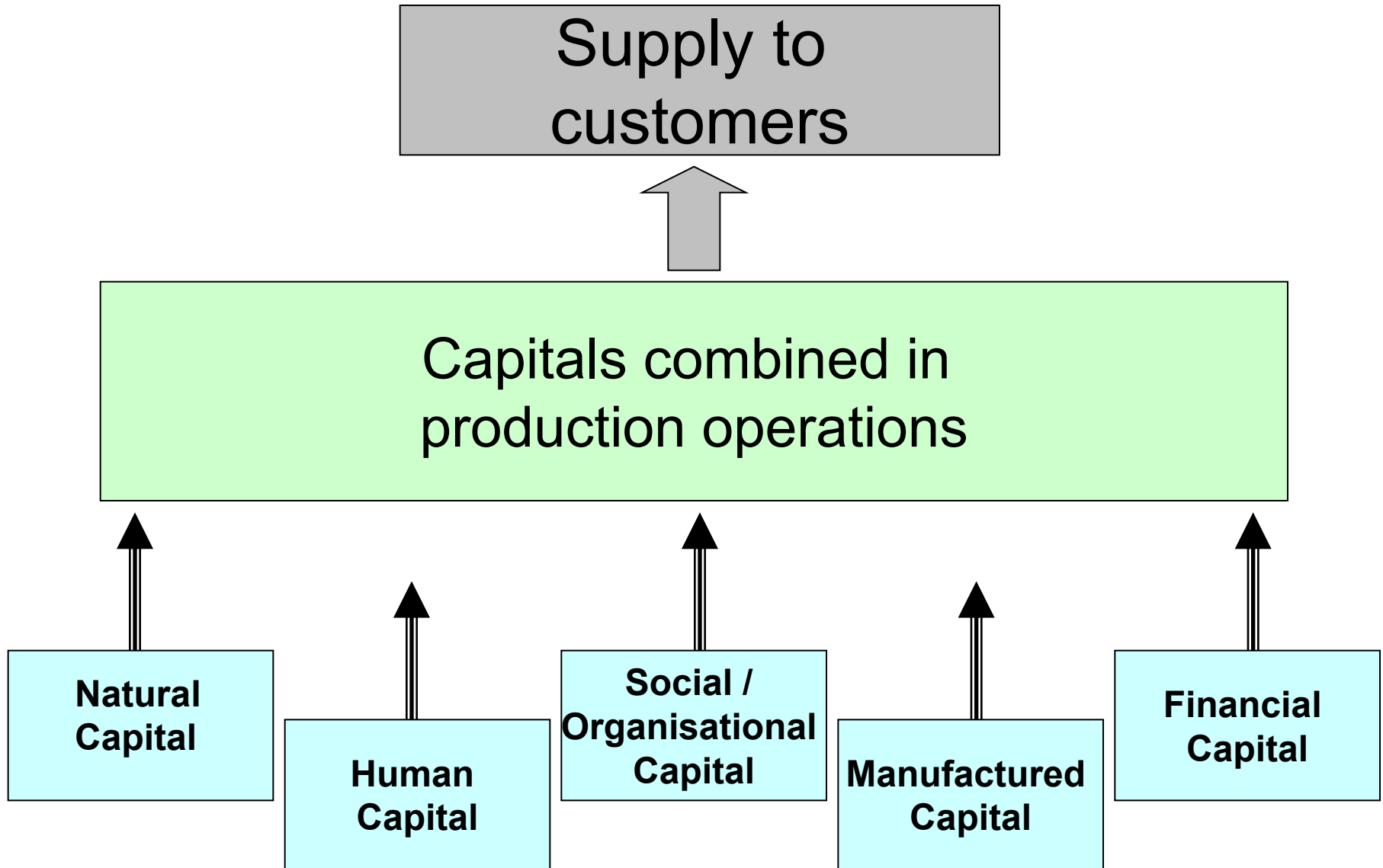
Understanding inputs: the key building blocks



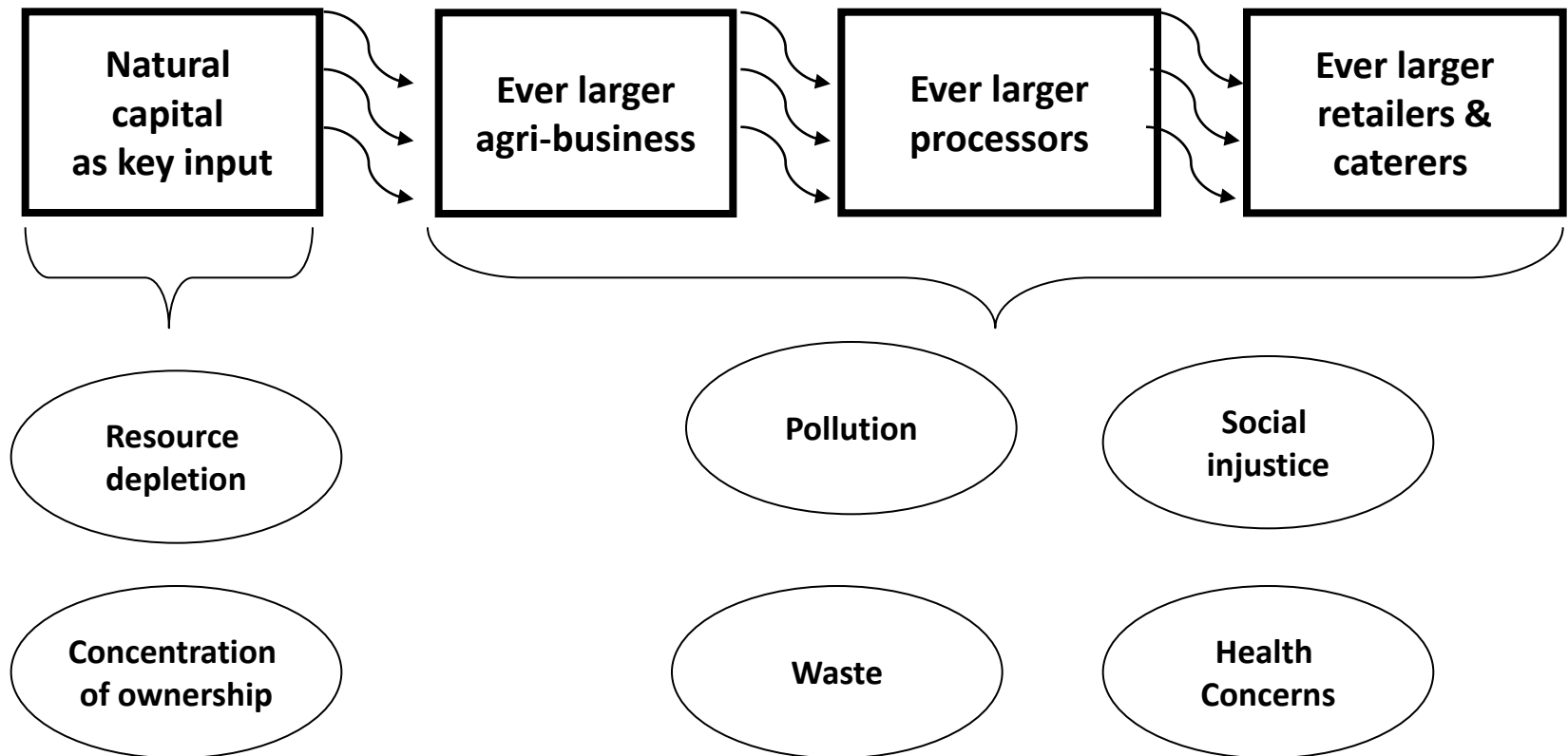
Investing in capital stocks



The 5 capitals model

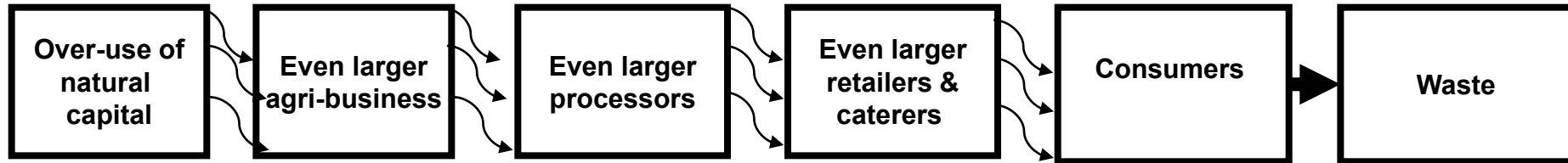


The dominant food system

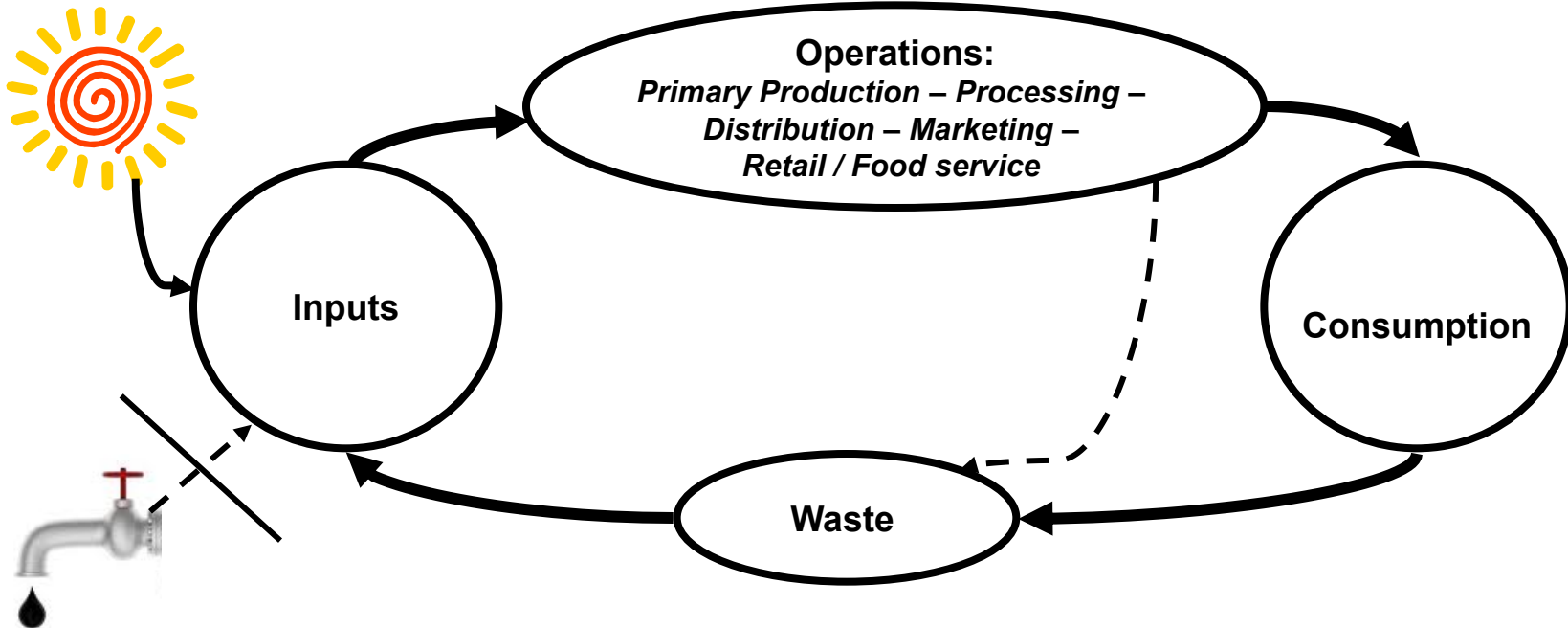


Two types of food system

“Linear” food systems



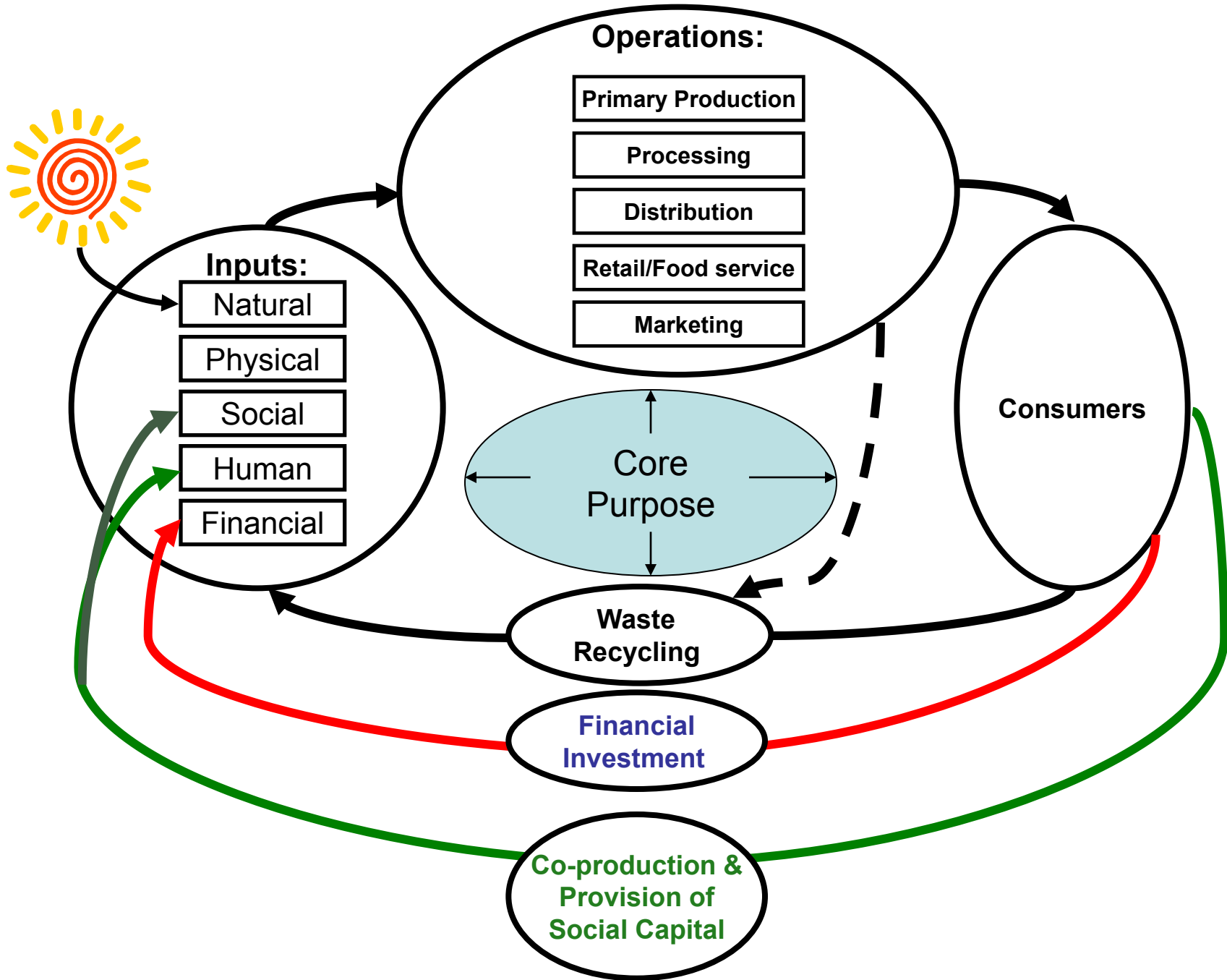
“Circular” food systems



The Circular Economy

Task

- Draw a diagram of Local Food Links' school meals operation, showing key inputs, operations and customers
- Indicate where resource consumption could be reduced
- Indicate where recycling could take place



Final task

- Decide on a local food enterprise which you could work on in session 3