IDEA

Summer 2003

NEWS & VIEWS

Initiative for the Development of Entrepreneurs in Agriculture

Financing Your Value -Added Venture

By David L. Wirth, Illinois Farm Development Authority

Has your venture grown to the point where financing is required? Have you operated your value-added business at a small scale and achieved some success? If so, loan guarantee programs through the Illinois Farm Development Authority (IFDA) can help.

IFDA works with your lender to guarantee loans that can be used for purchases of machinery, equipment, real estate, and buildings. Loan guarantees can increase your access to capital and help to improve your loan terms. Your lender's risk is reduced because of the loan guarantee.

Your prospective lender will look at three main items:

1. Your financial performance with your venture
2. Your personal financial statement and personal financial management
3. Your business plan.

Most lenders will focus on numbers one and two because they demonstrate what you are doing, and what you have done. Lenders might not dwell on your business plan because it is largely a projection of your future activity. Every business plan that I have read shows that the business will work on paper!

You still need the business plan, as it provides an important road map for you, and demonstrates to your lender that you do in fact have a plan.

Many successful businesses start at a small scale, and make their mistakes when they have fewer dollars at risk. Then, the businesses grow in logical steps, reaching for the next level after potential at the current level has been maximized. Also, it is important to manage your business and personal finances judiciously. Cash is king, and conservatism rules.

After you have had small successes and you are ready to go to next step, the Illinois Farm Development Authority might be able to help with a loan guarantee. Loan guarantees are often used to assist unique businesses that have specialized collateral. Loan guarantees are not a substitute for sound financial management or profitability. For more information and applications visit us at *www.state.il.us/ifda*, call toll free (800) 406-4332 or from outside of Illinois (217) 782-5792.

Fred and Cindy Sams (above) are in the process of starting a small estate winery that includes 12 acres of vineyards and a bed and breakfast (right). The property is called Indian Creek Vineyard.

www.indiancreekvineyard.com

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UNIVERSITY OF ILLINOIS EXTENSION
College of Agricultural, Consumer and Environmental Sciences

An Overview of the IDOA C/2000 Sustainable Agriculture Grant Program

The Governor and the Illinois Legislature created the Conservation 2000 program in June of 1995. Conservation 2000 was conceived as a 6-year, $100 million investment by the State of Illinois. In 1999, the State Legislature authorized the extension of conservation 2000 through 2009. Sustainable Agriculture is an important component of Conservation 2000. In FY 2003, the eighth year of Conservation 2000, Sustainable Agriculture funding in the amount of $750,000 was appropriated.

The On-Farm Research and Demonstrations category is primarily for producers and farm-based, non-profit organizations. University researchers can no longer apply for funds under this category. Projects will research and/or demonstrate component practices on real working farms that investigate or characterize a sustainable agriculture system. Projects that propose innovative experimentation showing the most promise for furthering the development of a sustainable agricultural system will be accepted for funding.

Any unit of government, organization, educational institution, non-profit group, or individual is eligible to receive funding through the Sustainable Agriculture Grant Program provided they can demonstrate: (1) an understanding of sustainable agriculture practices/systems, and (2) the ability/skills to carry out the project in a timely/professional manner. Cooperative projects with two or more organizations are encouraged. Competitive grants may be awarded to individuals for up to $10,000 and units of government, non-profit groups, institutions, or organizations may apply for up to $50,000 per project in any one year. Additional program information is available on the website @ *www.agr.state.il.us/c2000.*

SARE Grants for Research and Education

By Deborah Cavanaugh-Grant

The Sustainable Agriculture Network (SAN) is the national outreach arm of the Sustainable Agriculture Research and Education (SARE) program administered by USDA-CSREES. SARE activities in our region are coordinated through North Central Region (NCR) office in Lincoln, Nebraska. The NCR SARE program has awarded more than $10 million worth of competitive grants to farmers and ranchers, researchers, educators, public and private institutions, nonprofit groups, and others exploring sustainable agriculture in 12 states. There are three main grant programs that provide funds: (1) Research and Education Grants; (2) Producer Grants and (3) Professional Development Program Grants. If you are interested in developing a research proposal to address diversification and marketing strategies, contact the office at 402-472-7081. Information about these three grants programs is available on-line at http://www.sare.org/ncrsare.

Grant Program Aids Ocean Farm

By Kim Tack

Ocean Farm (owned by Louis and Isabel Reusche, located in Golden in Adams County, IL.), is a 155-acre mixed riparian, bottomland, upland, woodland, grassland, cropland, and park incorporating a holistic approach to conservation of natural resources through various organic farming methods and natural resource preservation efforts. The farm was certified organic in 2002

Ocean Farm's mission is to work with nature and God's creation of perfect soil in a way that helps others see and appreciate that healthy food can be produced economically while improving soil health and structure, and preserving it for future generations.

The Farm was purchased in 1989 as a family business venture. In 1999, Louis Reuschel's granddaughter named the 2.5-acre pond "the Ocean" and the Farm has since been called Ocean Farm to reflect the vision of a child and the dreams of her grandfather.

The Reuschel's were able to secure a SARES grant in the amount of $3,800 in 1999 to develop their business and marketing market. Presently in 2003, Louis and Isabel have made grant applications for two additional projects.
The first is a SARES grant for $6,000 to assist them in the construction of a greenhouse. The second is a C2000 grant for $3,000 to be used in assisting them in the construction of native trail.

Louis and Isabel have worked to find grant opportunities, and with the assistance of Martha Sheppard of Two Rivers RC & D, they have been successful.

Understanding Financing for Alternative Enterprises

By John Pike

Agri-tourism, Value-added, and Alternative agriculture are current "buzz" words in farm diversification discussions. Opportunities to capitalize on involvement in a variety of business activities deviating from traditional commodities production hold a great deal of promise for current and prospective farm operators. Investments in various innovative ideas are improving profits on numerous farms around the state. While there are many factors to address prior to a business startup, a common issue confronting prospective entrepreneurs is the need to obtain financing. Understanding a few basics from a lender's perspective can help make the process go a little smoother. The following issues comprise common points of discussion for most loan requirements.

While it is important for an entrepreneur to convey excitement about his/her ideas in terms of facts and figures to justify their enthusiasm in a project to a prospective lender, it is also important the prospective borrower have a basic understanding of the standards that must be met in order to qualify for financing. This type of information can be obtained easily from prospective lenders, and taking time to gain understanding of expectations can add a great deal of efficiency to the planning process. A few basic items lenders look for in prospective borrowers and their projects include credit history, the business plan, and down payment capacity.

Good credit history is a valuable asset when searching for financial assistance to support a new business venture. Many times, credit history serves as a detailed introduction to your overall character. Even the most promising prospect can be seriously impeded by a history of late payments or unfulfilled financial obligations in your past. If you have a blemished credit history, be straightforward with the lender because that cannot be hidden. Financing can be obtained with less than perfect credit, although that is an additional hurdle that will have to be crossed. Another piece of helpful information to demonstrate to a lender is a well-organized business plan. Your plan should provide a thorough explanation of the venture, presented in a professional manner and easily understood.

Lenders should be able to use the plan to gauge the ability of the borrower. While there are a number of sources available to assist with business plan development, it is imperative the entrepreneur be intimately involved in the process.

The borrower's ability to assume a portion of the risk for the project will also be an important issue. Cash would be the most common collateral. Other sources might include leveraging an equitable asset owned by the borrower, such as a house or other real estate. When lenders are satisfied with credit history and the business plan, they usually feel comfortable assuming 80% of the risk, provided there is sufficient repayment capacity. Repayment capacity will ideally come from income generated as a result of the new business, however supplemental income from off-farm employment can help satisfy the debt during startup. This may not be an option if the business is to be the sole source of employment, so lenders may encourage you to start small and test the business world waters before leaving stable full-time employment to pursue the development of an alternative farm enterprise.

Farm Service Agency Farm Loan Programs

By Gina Backes

Stabilizing farm income, helping farmers conserve land and water resources, providing credit to new or disadvantaged farmers and ranchers, and helping farm operations recover from the effects of disaster are the missions of the U.S. Department of Agriculture's Farm Service Agency (FSA).

FSA offers direct and guaranteed farm ownership and operating loans to farmers who are temporarily unable to obtain private, commercial credit.

Often, FSA borrowers are beginning farmers who cannot qualify for conventional loans because they have insufficient financial resources. The Agency also helps established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations.

Under the guaranteed loan program, FSA guarantees loans made by conventional agricultural lenders for up to 95 percent of the principal loan amount. Farmers interested in guaranteed loans must apply to a conventional lender, which then arranges for the FSA guarantee.

Applicants unable to qualify for a guaranteed loan may be eligible for a direct loan from FSA. Direct loans are made and serviced by FSA officials, who also provide borrowers with supervision and credit counseling. To qualify for a direct farm ownership or operating loan, the applicant must be able to show sufficient repayment ability and pledge enough collateral to fully secure the loan.

For more information, visit FSA on the internet at *http://www.fsa.usda.gov*

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Questions and Answers

Where do I go for the assistance in financing and business plan development?

One point of emphasis that must be addressed is the business plan development prior to pursuing the financing, as stated in the opening article. There are several options for assistance on business plan development. There are some very good software programs that can walk you through the components. You will also find business plan templates and services online. The main issue with using software and online templates is that it does not answer some specific questions pertaining to your enterprise. IDEA does offer one-on-one consultation for both the business plan development and financing. Once you have developed the business plan, you will have a clearer picture of what type of financing is needed. IDEA can then point you to appropriate organizations to assist you in financing your enterprise.

COOL LINKS

Farm.doc/Finance *(http://web.aces.uiuc.edu/farm.doc/finance/)* is an interactive information system to evaluate and improve the financial performance of farming operations. Included are: financial data for Illinois farm operations, interactive business decision tools, research results, downloadable financial analysis applications, and tips for using the data and tools to measure and manage farm risks.

Farm Financial Analysis *(http://web.aces.uiuc.edu/finance/)* is an interactive information and financial analysis system that will assist users in evaluating the financial performance of farming operations. The interactive system will provide users with information to compare specific operations to farms with similar characteristics.

IDEA Resource Directory *(http://web.extension.uiuc.edu/idea)* is an online resource directory where you will find:

- Information about new crops, livestock, organic, and marketing channel alternatives.
- Places to go for business start-up questions, regulatory information, and sources of funding. This site emphasizes Illinois resources, but includes other similar sites across the Midwest.

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