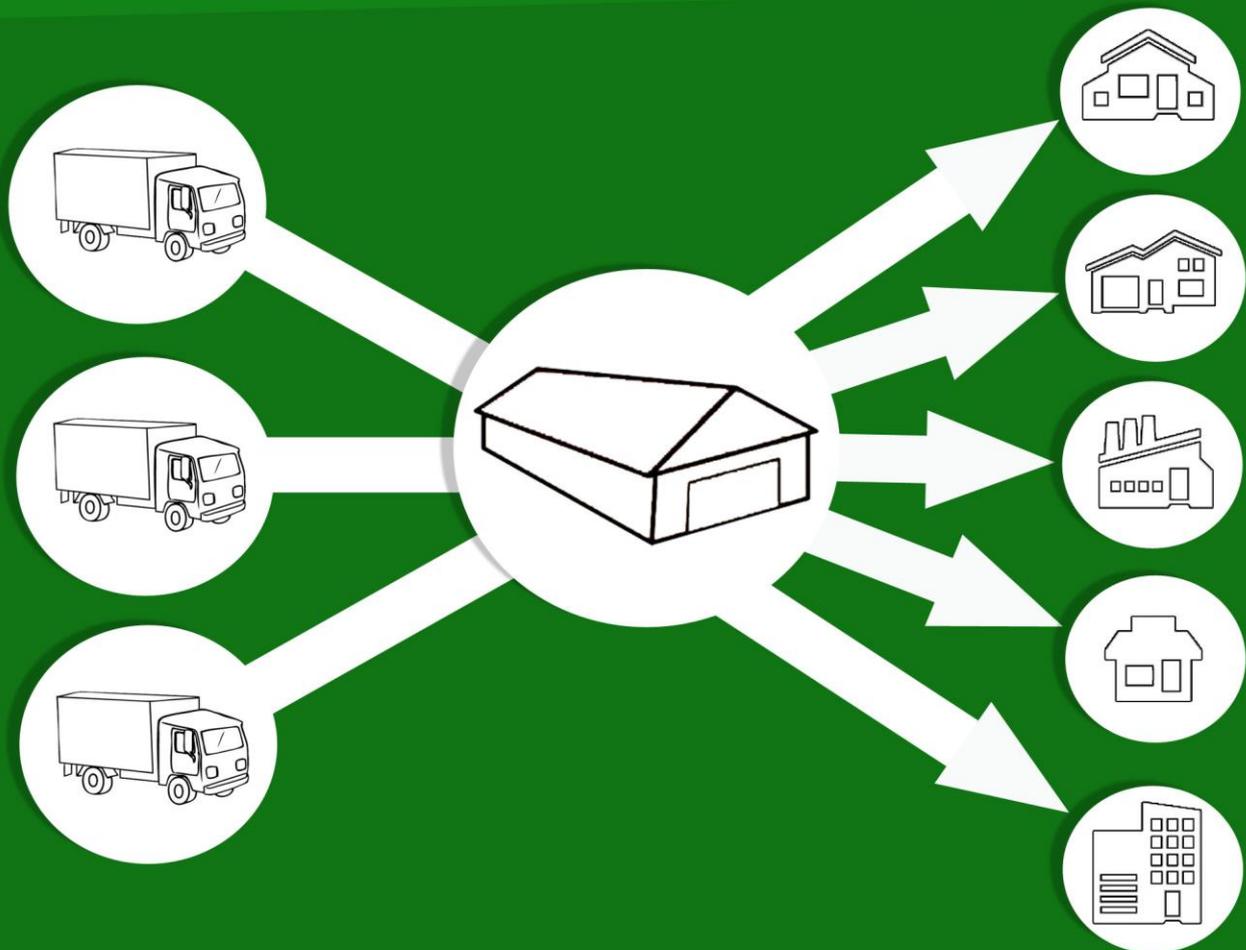


The role of regional food hubs in supporting small farmers in the USA



- the findings of the Romanian-American Foundation consortium visit -

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Introduction

All throughout the world, but especially in Western countries, such as the United States of America, improving market access for small farmers and strengthening their position in the food-chain has become one of the priorities of the agricultural public policies. In the US, the “farm-to-table” movement took off in the 90s’ in response to the need to curb the fast process of small farms extinction due to the rapid development of agro-industrial giants and to reintroduce quality food – fresh, seasonal and local – to the American life style.

As the name suggests, various models have been developed in order to streamline the process in which food produced in small-scale farms reaches the consumer, in various degrees of processing. These include the “vegetable basket” (Community Supported Agriculture), mobile markets etc. Nevertheless, the basis of the American regional food systems is the **food hub**.

The food hub is defined as an entity which manages aggregation, storage, processing, distribution and trading of local and regional food products, but also provides technical assistance to its customers - the small farmers - on other vital aspects of their business - marketing, farm management, start-up and business incubation. The number of operations that the food hubs perform may vary according to size, geographical coverage, typology, but there are two paramount functions all food-hubs have: **they act as a local food aggregator and as a selling point**.

This report presents the main characteristics of these aggregators in the United States, as derived from the food-hubs the author visited in Pennsylvania and New York during the „*Romanian-American Foundation Study Tour*”.

The learning experience of this study visit is very relevant for Romania, which could import and adapt these tools to create sustainable agri-food chains and market organization instruments in order to improve market access for small farmers, who are currently not benefiting from an integrated support to sell their products.

State support for the development of this sector is crucial because of the magnitude of the projects and the costs related to such investments (plus the long amortization period) – which limits the involvement of the private sector due to the difficulties in attracting the due co-financing sources, necessary for obtaining European funds (through PNDR – National Rural Development program), but also because of the necessary know-how on various agro-food sectors.

In Romania, certain food hub-like components already exist at a lower scale, but in a non-integrated manner: there are the clusters¹ which bring together value-chain actors (farmers, associations, academic and research institutions, public institutions) in order to develop partnerships, promote projects, disseminate innovations etc and, in the same time, there are (very few) physical facilities² (warehouses and aggregating centers), built during the pre-accession period or during the first seven years of Romania’s EU membership.

¹ Ex: Agrofoodind in Cluj, Agrofood in Sfântul Gheorghe

² Ex. Centrul Agro-Transilvania

The next logical step would be to integrate these two dimensions – **human collaboration** and **physical assets** into a system that would ensure aggregating the production from the field or from the farmer’s household, sorting and labeling it in order to comply with the requirements of the commercial actors down the chain, a minimum processing and then distributing it to the next link in the chain at prices which would enable the farmer not only to survive on the market, but also to thrive.

We stand for the initiation of food hubs projects (agricultural clusters) in relevant agricultural areas.

On food hubs. Statistics and models

Food hubs are listed in American literature alongside incubators, mobile markets, urban agriculture, food banks, etc as innovative instruments aimed at developing regional agri-food systems. They provide a solution for the lack of physical infrastructure problem (transport vehicles, processing units), which severely limits the activity of small and medium, non-industrial farms.

They are defined not so much by their business structure or legal personality, but by the functions they perform.

Broadly, the food hubs are warehouses aggregating the agricultural produce of local farmers, equipped with storage (cooling, freezing), packaging, simple processing facilities, in which the employees are actively coordinating the logistics supply chain, both upstream and downstream.

These activities involve:

- a) **On the supply side:** They help farmers in planning their production, they provide agricultural technical consultancy, marketing consultancy (labeling, packaging), consultancy on acquiring bio certificates, consumer protection, so that they can adapt to market requirements and obtain a fair price for their work.

In terms of legal personality:

- *40% of the food hubs are private companies,*
- *32% are NGOs and*
- *21% cooperatives.*

Food hubs have on average 19 employees and are working with 80 producers.

Fair food=fair price

Food hubs have this essential social component, generally offering the farmers with whom they engage in trading relations higher prices than those offered on the free market – **around 70-80% of the sales income returns to the farmers, while the rest of 20-30% supports the activity of the food hub.**

Especially in the food hubs constituted on the cooperative model, the farmers are consulted, and the prices are established by taking into consideration their production costs.

The viability of the food hub as a market outlet instrument is proved by figures: following a survey carried in 2011 by the USDA, among the farmers working with the food hubs, since the collaboration started, 51% of them diversified their range of products, 45% extended their production season and 31% hired additional employees.

- b) **On the demand side:** Food hubs undertake contracting activities with distributors, processors, wholesalers, but also directly with end consumers.

Food hubs can be classified according to the market they serve. They can be grouped in three large categories:

➤ **"Farm-to-business/institution" - 42%**

This food hub model collects the production from the farmers and sells it on the wholesale market (big retailers, food companies, public institutions, restaurants, etc). Thus, they provide access to new markets, which small farmers would not be able to access individually. Most of the U.S. food hubs can be classified in this category.

➤ **"Farm-to-consumer" – 36%**

In this case, the food hub is in charge of the aggregation, packaging and the distribution of the products directly to consumers. This model includes entities like ASAT (or „Community Supported Agriculture in the Anglo Saxon world), online platforms, home delivery companies or mobile markets.

➤ **The hybrid model - 22%**

This model sells both to intermediaries and to consumers.

Sources of funding

US food hubs are widely supported by the federal government, both by the USDA (20 financing schemes, grouped under the „Know your farmer, know your food”³ agri-food support program), but also by Federal Agencies. 50% of the US food hubs received funding from the federal government in the start-up phase and another 30% still receive financing.

The support tools mix includes grants⁴ received from both federal level and state level, tax exemptions, loans for purchasing equipments, subsidized interest loans, etc. See a list of the most important related funding schemes in the Appendix.

Also, food hubs receive funding from philanthropic foundations and various private donors (ex: Kellogg Foundation, Ford Foundation), and low interest loans from non-banking financial institutions with a social purpose (Community Development Financial Institutions), which also provide technical assistance.

Models of food hubs from the states of New York and Pennsylvania, visited during the RAF Study Tour

We further present some of the visited food hubs, which fall into the category „farm to business/institution” model.

a) Farm-to-table Co-Packers⁵

Set in a former IBM canteen, the F2TCP food hub was established on a private company model. The food hub buys various products (especially fruits and vegetables) from small and medium size farmers from the

³ www.usda.gov/knowyourfarmer

⁴ Community Development Block Grant al U.S. Department of Housing and Urban Development

⁵ <http://farm2tablecopackers.com/>

state of New York and grants them added value by freezing, preserving and processing them according to the recipes of the farmers.

F2TCP is, in the same time, an agri food incubator since it provides associated farmers consulting services on recipes and phytosanitary regulations, trainings on creation of client network (contacts), and offers storage facilities and equipment loans. The food hub is entirely owned by a partnership of companies and received a 230 000 USD loan from the state of NY.



b) Philadelphia Wholesale Produce Market

It is the second largest wholesale market by size from the United States of America (65 000 m²). The construction, privately owned, was financed by a mix of public funds, both federal and local. The hall is divided into 26 boxes, rented to wholesale sellers, and 13 of them are part of the Boarding Council. It contains refrigeration containers, baking chambers and provides re-labeling and brokerage sales services.



c) Common Market (social business)

Common Market⁶ is a social non-profit business that aggregates production (vegetables, meat, eggs) of more than 100 small farmers within a 120 km from Philadelphia. The purpose of the food hub is to support local agriculture and provide facilitate access to quality food at affordable prices (wholesale) to low income population from the suburbs of Philadelphia by means of the public institutions and the traders serving the disadvantaged population from the area.



This food hub is part of the „farm-to-institution” typology as it distributes fresh food to a network of 240 clients: public institutions – school, colleges, universities, hospitals-which represents about 35% of the clients base, restaurants (25%), food cooperatives, but also CSO- type businesses – „the vegetable basket” (15%). Basically, the Common Market trucks regularly aggregate production directly from the farm’s gate at a price commonly agreed on by food hub representative and the farmer (spot price). The relationship is not validated by written contracts, but by verbal agreements, and it works thanks to the trust-based relationship that has been developed over time between the hub and the farmers through direct contact and, also, due to the flexibility during negotiations. **Common Market pays the farmers, on average, 76% percent of the sale price. In contrast, only 20% goes back to the farmer through conventional distribution chains (the „ethical food hub” concept).**

⁶ <http://commonmarketphila.org/>

The hub has been financed by the Kellogg Foundation with 1.1 million USD for investments in the physical infrastructure (warehouse and cooling container)⁷ and, it also received a credit line from a socially driven non-banking financial institution in order to support the cash flow.

Common Market has 12 employees and obtained an income of 1.6 million dollars in 2012.

d) Reading Terminal Market

Reading Terminal Market is a market located in a former train depot in the center of Philadelphia which rents stalls to local producers (an important sector of the market is the Amish community, well represented in Reading Terminal Market), but also to traders (intermediaries).



Transposing the experience in Romania. Recommendations

We recommend the creation of a nationwide pilot program establishing food hubs (possibly through public-private partnerships). Of all types of food hubs, the most relevant for Romania would be „farm to business/institution”.

In Romania it is direly necessary to build production aggregators aimed at supporting small farmers, which could offer a number of basic services for organizing agri food chains: storage, sorting and packaging (labeling), sale and transportation to the next link. Ideally, it should also include technical sales assistance – creating supply and marketing chains – and assistance on creating regional brands.

Measures of the current PNDR (National Program for Rural Development) on which food hubs may be built

- a) Sub-measure **4.2. Support for investments in the fields of processing and sale of agricultural products**

”The share of grant support will be 50% of the total eligible costs, not exceeding:

- 1.000.000 Euro for production activities;
- 1.500.000 Euro for the investments that lead to a local short supply chain (production, processing, trading)
-

- b) **LEADER Axis**

● ● ●
**The National
Network for Rural
Development could be a
good vehicle for the
dissemination of the
food hub concept at local
level and coagulating
some investment funds
(private and public)**
● ● ●

⁷ Sea Box, <http://www.seabox.com/> - price 10 000 USD

Also, funds can be attracted through the Regional Operational Programs.

In the US, the local authorities have developed plans to support the development of regional agri food systems. They can provide two essential elements to food hubs: building sites and/or buildings. To this end, the „mapping” of existing facilities in each region would be useful, as it could provide the physical basis for the future food hubs.

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Annex – A selection of USDA programs sustaining the development of regional food-hubs

The **Rural Business Enterprise Grant (RBEG)** supports the development of physical infrastructure and facilities, including food processing, marketing, and distribution business ventures for locally-grown agricultural products. It is administered by the Rural Business Cooperative Service, and can support everything from planning, plant upgrades, equipment purchases, and technical assistance. Grants range from \$10,000 up to \$500,000, although smaller projects are given higher priority. Rural public entities, Indian tribes, and rural non-profit organizations are eligible to apply. “Rural” in this case is defined as any area other than a city or town that has a population of greater than 50,000 and the urbanized area contiguous and adjacent to such a city or town according to the latest decennial census. Information and grants are disbursed on the state level. For more information go to:

<http://www.rurdev.usda.gov/rbs/busp/rbeg.htm>

RBEG Example: Coast Grown in San Luis Obispo received an \$88,000 RBEG grant in 2007 to form the Coast

Grown Cooperative of 18 independent farms and ranches along California’s Central Coast and to build the first Mobile Harvest Unit in California. The grant helped pay for a producer survey, cooperative feasibility report, mobile unit feasibility report, business plan, seat a board of directors, articles of incorporation, by-laws, develop quality standards, ranch facility requirements, hazard analysis plan, standard sanitation operation plan, all mobile unit permits and guidelines in place, MHU modifications, website, logo and brochures, new member application packet, and to hire a CEO.

2. The Rural Business Opportunity Grant (RBOG) supports training and technical assistance for business development (to include support for food processing, marketing and distribution business development of locally-grown agricultural products). It emphasizes strategic technical assistance, training, and planning activities that promote “best practices” in sustainable economic development for rural communities with exceptional needs. For more information go to:

<http://www.rurdev.usda.gov/rbs/coops/rbog.htm>

RBOG Example: The Ecotrust FoodHub in Portland, Oregon received \$250,000 to build up food-hub.org, an online directory and marketplace to help wholesale food buyers and sellers find each other, connect and do business. RBOG funding is being used to increase recruitment of producers and buyers in rural communities throughout the Pacific Northwest, and provide the training and assistance necessary to ensure FoodHub supports their business, procurement, and marketing goals.

3. The Value-Added Producer Grant (VAPG) supports the production of value-added agricultural products from commodities. Up to \$100,000 can be awarded for planning, and up to \$300,000 for working capital. Eligible entities are independent producers, farmer and rancher cooperatives, agricultural producer groups, and majority-controlled producer-based ventures. For more information go to: <http://www.rurdev.usda.gov/rbs/coops/vadg.htm>

4. Community Food Projects Competitive Grant Program (CFP) is designed to increase food security in low-income communities by developing linkages between two or more sectors of the food system, supporting the development of entrepreneurial projects, and encouraging long-term planning for communities. Grants of \$10,000 to \$300,000 (lasting 1-3 years) are competitively awarded to eligible nonprofit entities that need a one-time infusion of federal assistance to establish and carry out multipurpose community food projects. Approximately 18 percent of submitted proposals have received awards. For more information go to: <http://www.csrees.usda.gov/hungerfoodsecurity.cfm>

5. The Business and Industry Guaranteed Loan Program (B&I) helps provide loans for businesses and cooperative ventures where a loan will keep a business from closing, prevent the loss of employment, or provided expanded job opportunities. Private lenders are provided loan guarantees by USDA to ensure better terms. Any legal entity (including individuals) is eligible to apply, but restricted to rural cities with populations less than 50,000, with priority given to populations of less than 25,000. Loans may be used to prevent businesses from closing, or to provide expanded job opportunities; convert, enlarge, repair, modernize or otherwise develop a rural business; purchase and develop land, easements, buildings, or facilities. Purchase equipment, machinery, supplies, or inventory. Applications must be filed with Rural Development State Offices. For more information go to:

http://www.rurdev.usda.gov/rbs/busp/b&i_gar.htm

www.crpe.ro