

“Towards a Feasible Cooperative”

a study for
the Local Foods Coalition of Dryden

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completed by: **Dungannon Consulting Services**

Box 11, Greenridge, MB

R0A 0B0

1.204.427.3132

blair@dungannon.ca

1.0 BACKGROUND INFORMATION

The Kenora District Soil & Crop Improvement Association, acting on behalf of the Local Food Coalition in Dryden, Ontario issued a call for proposals to undertake feasibility work on establishing a cooperative that will support and enhance agricultural production in and around the Dryden area. After discussion with the project steering committee, Dungannon Consulting Services agreed to undertake the project under a revised terms of reference.

1.1 Consultant

Dungannon Consulting Services is a community economic development consultancy operated by Blair Hamilton of Greenridge, Manitoba. In addition to familiarity with the field of community economic development, Dungannon Consulting Service brings expertise in the area of cooperative development. Dungannon Consulting was retained for an earlier study sponsored by the KDSCIA in 2005 (described in section 1.3 below).

It was the opportunity to build on the earlier work, and integrate some of those findings with more recent developments, that established the fit between consultant and client on this project.

1.2 Methodology

In order to stay within project resources, the project methodology was designed to avoid extensive collection of raw data, and to focus more on research of related models and a strategic analysis seeking a practical way forward. This meant doing a quick "snapshot" of the local agricultural community through 15 telephone interviews with local producers. This was supplemented by updates of summary demographic information from the 2006 Census and Agricultural Census, to detect if there were significant changes within the region.

Other data collection included internet research on relevant models, some key informant interviews, a trip to Dryden to present on issues in cooperative development at an agricultural workshop, and limited reference to some earlier studies.

1.3 Prior Work

During the 2005 work in the area, the local agricultural sector was somewhat paradoxical. On the one hand, it was highly fragmented, with a diverse mix of market gardeners, various livestock producers, and other operations all with firm opinions on how to manage their own production. At the same time, there was significant interest in working together to produce common advantage through cooperation.

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

The 2005 study did an exploration of no less than 6 separate strategies to enhance agricultural production. These included an assessment of the local farmers' market, evaluation of a conversion of a former tree nursery site into agricultural infrastructure, forestry/silviculture opportunities, coordinated purchasing of inputs, feed production, and analysis of local meat processing capability. After deliberation by the client group, the meat processing capacity was chosen for a second stage of work, including the development of a business plan.

Without reviewing the prior work in detail, there were some definite "lessons learned" from that process. With the benefit of hindsight, these lessons included:

- ★ the initial study tried to include all the ideas from all the players, and the breadth of study took away from the depth of analysis. Greater focus was required.
- ★ the local agricultural sector was both small and fragmented, meaning that it was hard to identify any subgroup that had the critical mass to really drive any substantial endeavour.
- ★ although the meat producers were the largest subgrouping of producers, there was insufficient interest in doing value added processing to pursue the venture that was business planned
- ★ strategies that required individual producers to either modify their production techniques or to go offsite were viewed unfavorably

The take away from the earlier process was that when it comes to Dryden, "small is beautiful". In other words, a small well-executed plan was more likely to yield results than the search for a "magic bullet" or panacea that would be all things to all producers.

2.0 DRYDEN AREA PROFILE

This section of the report is divided into a demographic summary, an update on agricultural census data, a summary of interviews with local producers, and a short discussion of some key shifts within the local agricultural sector.

2.1 Demographic Summary

During the 2005 feasibility study by Dungannon Consulting Services, a short profile of the Dryden area was compiled from census data provided by Statistics Canada. At that time, the most current data was the 2001 census. This section highlights some of the changes between the 2001 census and 2006 census, and includes some non-census estimates compiled and made available on the website of the Dryden Development Corporation.

The available data illustrates changes in both the City of Dryden proper, as well as the Kenora District Census Division. While the Kenora Division data includes a greater area than Dryden and immediate surroundings, much of the agricultural activity would not be captured by simply examining the City of Dryden. Some labour market statistics reference the Dryden Labour Shed, an area larger than the City of Dryden, but smaller than the larger Census District. Consequently, all are mentioned.

The Kenora District Census Division goes from the Ontario-Manitoba border on the west to an imaginary line drawn between English River and Lake St. Joseph on the east. The southern boundary is a line running from Nestor Falls to English River, while the northern boundary is formed by Hudson Bay and James Bay.

For all intents and purposes, agricultural activity is confined to a band 50 kilometers north or south of Highway 17, between English River and Kenora. Most of that activity is clustered between Ignace and Vermillion Bay.

In 2001, the population of Dryden was 8198 and was essentially unchanged in the 2006 census (8195). Current 2010 estimates place the population at 8705, representing a 6.2% increase four years. This is projected to see very small growth over the next 10 years, in the range of 1-2%. Population estimate for the Dryden Labour Shed in 2010 is 16,796 and this is projected to remain constant over the next 10 years. The Kenora District had a 2006 population of 64,419 which represents a 4.2% increase from the prior census.

The labour force participation rate for Dryden was 67.5% in 2001, and dropped to 64.7% in 2006 and is projected as 65.6% in 2010. The Kenora District had a participation rate of 65.8% in 2001, which dropped to 64.1% in 2006. The estimate for labour force participation for the Dryden Labour Shed in 2010 is 66.0%. All of these figures are slightly lower than the rate for Ontario as a whole, likely a result of a slightly older population in this region.

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

Unemployment in 2001 was 6.8% for Dryden and 11.1% for the Kenora District. In 2006, these had decreased to 5.9% and 8.8% respectively. The 2010 estimates were 5.5% for Dryden and 6.1% for the Dryden Labour Shed.

In the 2001 census, Manufacturing and Construction accounted for 27.3% of employment in Dryden, and 16.3% in the Kenora District. By the 2006 census, these numbers had dropped to 17.5% and 13.1% respectively. In 2010, it is estimated to remain at 17% for Dryden.

During the same period, Agriculture and Resource-based employment saw very slight increases. In the 2001 census Dryden recorded 5.9% and the Kenora District was at 8.8%. In the 2006 census, these figures had climbed to 6.3% and 8.9% respectively. The 2010 estimates (non-census data) suggest that this figure may have dipped, but because some of the categories are reported slightly differently, this may be due to changes in the forestry industry more than agriculture.

The 2001 average earnings for persons employed full-time and year-round were \$48,051 for Dryden and \$43,060 for the Kenora District. By the 2006 census, the figure for Dryden rose by 4.3% to \$50,109 while the figure for the Kenora District fell by 3.9% to \$41,376. According to the non-census data estimates, the 2010 average earnings for full-time, year-round employment in Dryden were \$41,693 which would represent a 16.8% decrease.

The above statistics paint a picture of a static population that is slightly older than the provincial average. The area has maintained employment levels, even decreasing unemployment over the past 10 years. However, a significant amount of that employment has shifted out of the traditional blue-collar industries of manufacturing and construction, and towards various service industries. Employment in agriculture appears to have been essentially stable. This shift in employment pattern, along with a significant reduction in average employment earnings, would seem to be directly linked to major changes within the pulp and paper industry, and the reduced role it is playing in the local economy.

2.2 Agricultural Census Update

During the 2004 feasibility study, Dungannon Consulting Services produced a discussion paper on statistics garnered from the 2001 Agricultural Census. Some of the discussion paper content was then summarized in the feasibility study report itself. This current section is a brief "snapshot" of data from the 2006 Agricultural Census to gain a general sense whether the nature of agriculture has shifted in the intervening period. These statistics use the Kenora District Census Division, which is a broader area than Dryden proper.

According to the 2006 census, there are 92 farms in the Kenora District with 36,153 acres of farmland. This is 11 farms less than in 2001, and represents a loss of approximately 2,000 acres. The average farm size is 392 acres, up slightly from the

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

2001 figure of 384. In 2001, 78% of farmland was owned, by 2006 this had dropped to 66%. This likely represents some farmers retiring, but renting their land to younger operators.

In 2001 25% of farms in the district were smaller than 70 acres and 50% were smaller than 240 acres. By 2006, the number of very small farms had declined (22%) while the number of farms less than 240 acres stayed almost the same at 52%.

In comparing types of farms, the 2001 and 2006 data was defined slightly differently. Of the 92 farms in 2006, 15 were cattle-based, 2 in grain & oilseed, and 19 were "other animal". The "other" broke down into 10 horse operations, 5 combined livestock and 4 unspecified. There was one vegetable farm, and 38 "other crops", of which 33 were hay farms. Accounting for the slightly different categories, it appears that the district has lost 2 dairy farms and about 6 beef cattle operations between 2001 and 2006. Grain production appears about the same (that is to say, a very small part of the picture), and the remaining changes are likely attributable to a handful of operators changing categories (i.e. from "hog" to "combined livestock").

The above categories tend to characterize the overall farm operation as one type or another, and does not always reflect a precise read on which crops are being grown. In 2006, even though only 2 farms were identified as "grain & oilseed", there were 10 farms that produced oats, 6 produced wheat, 4 barley and 1 soybeans. Similarly, while there is only 1 "vegetable farm", 6 farms (with a total of 9 acres) were producing vegetable crops.

In 2006, farm receipts for the 92 farms were \$5.478 million or an average of \$59,543 per farm. In 2001, total receipts were \$5.9 million, but the average per farm was only \$57,343, so there was a 3.8% increase in average receipts over the 5 years. (less than the rate of inflation).

In 2006, farm operating expenses for 92 farms was \$4.652 million or an average of \$50,576 per farm. In 2001 these average operating expenses per farm were \$54,664, so it appears operating costs went down from 2001 to 2006. While this may be the result of fluctuations in input costs, it might also be attributed to the increasing average farm size and resulting economies of scale.

Lastly, the 2006 Agricultural Census reports that the average age for farmers in the Kenora District is 53.6 years and that 42% of the 130 operators had no off-farm employment. Conversely, 31% of those operators had off-farm employment of 40 hours per week or more. It should be noted that there can be more than one operator per farm, and the above statistic does not measure off-farm employment for the entire household. However, these numbers are consistent with the anecdotal finding from the 2004 study that save for a few exceptions, almost all of the Dryden area farming is done on a part-time basis supplemented by outside employment.

In summary, the comparison of Agricultural Census data confirms that the nature of agriculture in the regions remains substantially unchanged. It appears that there has been a small contraction in the sector (likely as the result of the BSE crisis forcing some operators out of the sector), but that those remaining have gotten slightly larger in size and enjoyed some reduced operating costs.

2.3 Producer Interviews

The consultants were provided with a list of 24 local producers or key informants for telephone interviews. Twenty of these were successfully contacted, a number of which were not directly involved in productions and were only interviewed as background (abattoir operator, veterinarian, recently retired farmer, etc.) This left 15 producer interviews. Of these, 6 operated market gardens and 12 had livestock of some kind (including bees, beef, hogs, poultry, sheep & goats). Three of the producers had both livestock and market gardens.

The market gardeners represented 6 producers running approximately 12 acres in total, with 3 of the operations incorporating on-farm greenhouses. Five of the six producers participated in both the farmers' market and the food box program. The only non-participating producer had transitioned to a u-pick operations as a time management strategy. Four of the six market garden producers report an upward trend in their activity, where they are expanding production to meet demand.

The 12 livestock producers all were involved in some form of direct marketing and farmgate sales, but only 5 sold at the farmers' market and 3 participated in the food box program. The higher cost of meat as a commodity would prevent most of the better quality cuts from being included in a \$20 food box, so there is a structural disincentive to food box participation.

Livestock producers with smaller beef herds or hogs tend to sell most of the product locally. Beef producers with herds greater than 10 animals still tend to ship most of their animals out of the community for sale, but still retain some for local processing and direct sale. Most of the livestock producers sell their local product by the quarter or side rather than the smaller volumes typical of a farmers' market. Several reported that they were able to sell all they needed to through direct sales to clients, and did not require an additional outlet such as the farmers' market. They report there is quite a demand for local beef, which points to the likelihood that the reason many beef cattle are being shipped out of community is that the producers lack the time or ability to do more finishing of the beef.

The overall picture of local agricultural activity appears to be that it is very similar to 2005, but that individual operators remain active in shifting their emphasis to respond to a number of factors. These can include changing markets, new opportunities, evolving interests, different availability, and for some, changes that reflect different physical abilities as they approach retirement.

2.4 Shifts in Local Agricultural Sector

The census data and producer interviews both suggest that the size and the scope of agricultural activity in the Dryden area remain substantially the same as in 2005. As mentioned in section 1.3, this includes a diverse mix of producer types with firm ideas on how to run their own operation, and who collectively did not advance on most of the initiatives examined in the prior feasibility work (with the exception of improving the Farmers' Market).

The decision not to proceed with some of these options does not indicate an inability to work together, nor does it mean that the ideas lacked feasibility necessarily. What it indicates is that the right mixture of individuals and opportunity did not come together to move many of these ideas forward.

What has happened in the intervening time however, is that several important changes have shifted the strategic positioning for the local agricultural producers. These changes include:

- some producers have re-aligned their production, either to take advantage of opportunity or to satisfy their own interests;
- market garden production has expanded, including 3 on-farm greenhouses, largely in response to a rejuvenated farmers' market
- the local abattoir has re-entered the market for slaughtering cattle and providing cut-and-wrap services for local producers.
- a food box service was launched, on the strength of the KDSCIA intern and a local public health worker.

These developments are important, because they reflect the reality that new ventures require entrepreneurial leadership in order to get off the ground. This leadership includes being a "champion" for the venture, and a certain amount of risk.

It seems clear that producers are much more likely to show this entrepreneurial leadership within their own operation, and that providing that leadership to a broader project is both more difficult and harder to justify in terms of one's own time management. In other words, Dryden area producers are prepared to be entrepreneurial in addressing opportunities in the local food sector, but seem most comfortable doing so within their individual operations.

At the same time, producers are comfortable participating in a broader community project like the Locavore Food Box. However, the impetus for this project did not come

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

directly from producers. The entrepreneurial leadership for the Locavore Food Box came from different sources, which represent both a younger generation, and a "small p" political perspective on local food. The emergence of the local food movement in Canada is significantly different than the historically typical "buy local" orientation of small town economic development. This is a new dynamic within the Dryden agricultural sector, and one that has the potential to benefit both producers and the community at large.

3.0 MODELS TO PROMOTE FOOD SECURITY

The notion of food security is a product of the politics of food, a movement that embraces elements of the environmental movement, community economic development, voluntary simplicity, and holistic health. All of these related value systems view food as one of the primary presences within individual and family life, and attempts to live according to one or more of these principles invariably requires one to reconsider their approach to food.

In the "food movement", food becomes more than a commodity, it is a source of nutrition and the focal point of complex social relationships. It is an avenue to better health, a measurement of social justice, and an organizing point for building community. Growing, purchasing, and preparing food are all seen as essentially political acts, or at least as acts with political implications.

Food security advocates have developed tools and frameworks for helping us to analyze our food situation through techniques like "food mapping" and promote a range of strategies to educate and promote how we interact with food. These strategies vary considerably depending on whether they are focused on access to food, reducing greenhouse gas emission, improving public health, building local economies or some combination of these objectives.

There are a number of basic strategies or structures that are common within the food security sphere. These include cooperatives, community shared/supported agriculture (CSA), food box programs, and farmers' markets. A short description of each strategy is contained within this section of the report.

3.1 Cooperatives

The cooperative business structure has existed within the Canadian agricultural sector since approximately 1860, and contains a rich and storied tradition of farms coming together to build organizations that serve their common interest. Cooperatives have been formed to purchase agricultural inputs, to market commodities and to conduct value-added processing on behalf of farmers, all on the basis of the "one member, one vote" form of economic democracy.

Over time, the cooperative option has waxed and waned in popularity, and the model has evolved to respond to changing needs. Most provincial legislation now allows cooperatives to offer investment shares to facilitate third party investment that can support cooperative ventures without overwhelming member control. Specifically within the agricultural sector, a more recent innovation has been the "new generation" cooperative which ties membership, investment and delivery rights together in a model that is designed to facilitate value-added processing of agricultural commodities, and allows producers to realize benefits further down the value chain.

While the cooperative was once an innovative alternative to established agri-business, their success over the years has made agricultural cooperatives part of the "establishment" within the sector. Their focus has been primarily economic, building wealth for their members while being good corporate citizens.

With the emergence of community economic development since the 1990's, there has been a renewed interest in the cooperative model, and its potential to once again be an innovative alternative to standard choices. This renewed interest has coincided with the emergence of the food security movement referenced earlier, and Canada has seen cooperatives emerge as the structure of choice for various initiatives related to food security.

One of the more recent innovations to the cooperative model, the "multi-stakeholder cooperative", is particularly appropriate for such an application. In conventional cooperatives, the members who control the cooperative traditionally all belong to the same group - they are all farmers, or they all shop at the same co-op store, or they all live in the same housing cooperative, etc. The multi-stakeholder cooperative allows for different types of members (with different interests) belonging to the same cooperative.

Canadian multi-stakeholder cooperatives first appeared in Quebec (where they are called "solidarity" co-ops), but the model is also used in the United Kingdom and Italy. The model is often used in cooperatives that provide training to social disadvantaged persons, or which provide social services to the wider community. (see Appendix A for a description of the applicable Ontario legislation).

These multi-stakeholder cooperatives have proved to be particularly suitable for food security related initiatives. The multi-stakeholder model allows for both producers and consumers to belong to the same cooperative on an equal basis. It also allows for the possibility of a third type of member such as employees or agencies/departments with an interest in public health or community affairs. Moreover, the multi-stakeholder cooperative can be configured to provide dividend earnings (patronage allocation) to its members, or on a not-for-profit basis in order to provide a community benefit.

The multi-stakeholder cooperative is discussed further in section 4 of this report.

3.2 Community Shared/Supported Agriculture (CSA's)

One of the most challenging issues facing advocates of locally produced food are the cost issues affiliated with smaller scale local production, and how food imported from large agri-business in other jurisdictions places a downward pressure on prices. Consequently, labour intensive operations like market gardens operate on narrow margins, and have less ability to absorb losses from poor crop years.

One of the responses to this pressure was the creation of CSA farms. In their original form, a CSA farm would dedicate a number of acres to produce a variety of crops for

their CSA. The farm would then sell shares to subscribers before the growing season, and deliver the produce to the subscribers on a weekly basis, as it was ready.

This approach was intended to assist the farmer by providing up front working capital, and by sharing the risk with the consumer/subscriber. In a good year, the subscriber would have large amounts of fresh produce, and the farmer would have pre-sold his produce. In a poor year subscribers would get less, and over time the returns would even out so that the subscribers got fair value, and the producer's income did not vary so greatly from year to year. These CSA's also built a direct link between producers and consumers, encouraging dialogue about and around food. A number of CSA's also incorporate volunteer labour into their production, providing a discount for subscribers who assist with weeding, watering, picking and other chores.

The challenges in operating a good CSA are several. The farmer must plant a good variety of produce, and stagger production so that different items become available at different times of the season. Quality control is important, and while the CSA subscriber is usually willing to pay a premium for fresh produce, the overall value of each week's delivery has to be roughly comparable to supermarket pricing. Distribution of the CSA produce is also a challenge. Delivery by the farmer adds cost and is time intensive. Having subscribers come pick up their produce is an alternative, but requires subscribers who are willing to forgo convenience, and having multiple subscribers drive out to the country weekly can offset much of the greenhouse gas reduction achieved by local food production.

In reality, most CSA's have modified the original concept to meet their individual needs and those of their customers. CSA's have found that in "lean years" they tend to lose subscribers due to perceived lower value, and in bumper years, subscribers have more produce than they can consume in a week. Unless they have the time and skills to can, preserve, freeze or cook the surplus, they end up giving away the excess to friends and neighbours. For some subscribers, this gives them a sense that they are paying for food they don't end up eating. For many producers, there is a reluctance to take money from subscribers in the event of a very bad year. Even though the whole idea of the CSA is to have the subscriber share some risk, farmers often have a difficult time externalizing that risk to others.

As a result of these factors, there are fewer of the "old school" CSA's around. A 2004 study of alternative food systems in Manitoba found that many CSA operators moved away from the model as economically difficult to sustain (Koroluk & Doucette, 2004). Consequently, there has been movement towards complementary models such as community gardens and food box initiatives.

3.3 Food Box Programs

Food box programs are initiatives where the customers pay either an annual or weekly fee in exchange for a box of food. The organizational details, as well as the overall

purpose, of food box programs can vary widely. Generally speaking, the purpose of the food box program is to provide the customer with food that they would not normally use or have access to.

Some food box programs are a distribution mechanism for niche buying, for customers who wish to specifically purchase organic, fair trade, or local food products. Other food box programs are designed to improve freshness, by providing weekly access to fresh food that is not available through local retail outlets. Still other food programs have social objectives. Their main purpose is either to provide subsidized access to fresh food for low income people/neighbourhoods, or to link the food box to nutritional education. Most food box programs combine several of these purposes, and the relative emphasis on these objectives varies by program and by community.

The mechanics of the food box programs varies according to the purposes, and according to the needs of the customers. Some food box programs do home delivery, while others require the customer to pick up their box. Some programs deliver a box with the content determined by availability and program staff, while others allow for customers to select what goes into their individual box. Some programs subsidize the cost of the food through grants, others offer the food at a reasonable mark-up. Some programs include recipes and educational material as part of the box. Some programs are very strict about sourcing only local food, others use local food as available but will also use non-local food to meet their objectives.

All of these program choices depend on the underlying purpose(s) of the food box program, and all of them are legitimate, so long as they meet the needs of the participants. For instance, a home-delivered food box of certified organic and free trade products at a premium price might be of great interest to upper middle class "foodies", but would be a poor choice if the objective is to help low-income immigrants access fresh food and the knowledge to meet their family nutritional needs using local foods.

Food box programs are a less efficient distribution system than the major food retailers, and consequently these programs have to absorb the higher distribution costs either by charging a premium price, utilizing volunteer labour, or using subsidies in the forms of grants. Most food box programs use a combination of these tactics.

Most food box programs are not organized exclusively by producers, but have a combination of producers, food activists, academics, social agencies, and public health/nutrition educators involved in planning or delivering the program. The public health system appears to be one of the strongest proponents for food box programs across provinces.

3.4 Farmers' Markets

Farmers' markets pre-date the notion of community economic development and food activism, and are seen as the "tried and true" model of supporting local agriculture. An

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

economic impact study on Manitoba farmers' markets (Dungannon Consulting Services, 2008) found that:

- Farmers' markets generally represent a supplementary income opportunity for vendors
- Product quality is critical, but the "experience" of the market is part of the overall value
- Farmers' markets induce additional spending at local businesses near the market (at about 50 cents for every dollar spent at market).
- Farmers' market spending has a multiplier on the effect of local economy of about 3 times the sum of sales and "other sector" purchases. This finding was consistent with an earlier Farmers Market Ontario study.

The Manitoba study also identified that farmers' markets have significant non-economic impacts within their community of location. They help maintain community identity, strengthen social relationships, and improve the quality of life for local residents and vendors.

Most farmers' markets, no matter where in Canada they are located, apply some form of the "make it, bake it, or grow it" rule to prevent product re-selling and the importation of non-local food and products. While it is easier to apply this rule strictly in areas of the country with longer growing season, or where the market is strictly seasonal in operation, some jurisdictions face challenges in sourcing enough fresh and local product to keep consumers coming to a year-round market.

Farmers' Market Ontario recognizes how this impacts various markets, and reflects this in their organization by providing three classes of membership. The "Farmers' Market" class is where a majority of vendors are primary producers, and the market is community driven. The "Public Market" designation is for markets that are municipally owned and include local primary producers, but also accommodate re-selling of some products. Lastly, there is a Neighbourhood Farmers'/Community Partnership classification which sets a preference for local produce and products, but allows speciality foods and products that are suited to the neighbourhood and improve the market viability. At the same time, there is a new Verification Program launched by Farmers Market Ontario to ensure that those vendors who claim to be selling locally produced goods are actually doing so.

Farmers' Market Ontario lists the following markets in Northwestern Ontario:

Thunder Bay Country Market
Cloverbelt Country Farmers' Market (Dryden)
Clover Valley Farmers' Market (Fort Frances)
Kenora Farmers' Market

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

Thunder Bay Farmers' Market
Northwest Farmers' Market (Sioux Lookout)

There are also reported to be farmers' markets in Red Lake and Atikokan that are not affiliated with Farmers' Market Ontario. Of the six FMO markets in the region, two are vendor owned, two are operated by municipalities, one is a non-profit organization, and one appears to be owned by a numbered corporation (which may represent a group of vendors with closed membership).

4.0 REGIONAL MODELS

This section of the report provides mini-profiles of three food security projects operating in Ontario, including the Locavore pilot project operated in Dryden last year. These profiles provide an overview of strategies that may be applicable to the Dryden area.

4.1 Dryden Locavore Project

The Locavore project was the food box pilot program operated in 2010 as the result of a partnership between the Health Educator of the Northwestern Health Unit and the intern of the Kenora District Soil & Crop Improvement Association, the program provided a bi-weekly box of local produce to 30 subscribers.

The program was started with \$900 seed money (\$700 from Patricia Area Community Endeavors and \$200 from the Health Unit), and the in-kind staff time of the Health Educator and the KDSCIA intern. Two local producers helped provide oversight and the "producer perspective".

The program operated for 18 weeks, priced at \$200 for the season (equal to \$22 per box). There was no mark-up or administrative charges, so all of the sales revenue was used to purchase from producers.

Of the 30 participants, 22 returned evaluation forms. This feedback suggests that participants were generally pleased with product freshness (46% said "all of the time" and 54% said "most of the time"). They were also pleased with the overall value, with 62% reporting that the box was good value for the money.

Participants enjoyed the variety of the box, with bread, meat and salad dressing being as popular as the favorite vegetables like potatoes, carrots, peas and beans. They also appreciated the newsletter, with the box contents and recipes being the most useful items.

The program was popular with more than just the participants, as it received additional requests to join and a waiting list was required. There is sufficient demand to more than double the program in size next year. The main obstacle to such expansion is producer anxiety over whether they will be able to supply enough product. Some producers were slow to come on board, but as the project established itself, more producers indicated willingness to provide product.

Staff roles were efficiently delineated. The Health Educator prepared the newsletter, provided product information and recipes, and promoted the program within the community. The KDSCIA intern spent approximately 2 days per week on administering the program. Her time allocation was approximately as follows:

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

Program promotion	2 hrs
Ordering box content	3 hrs
Distribution	6 hrs
Meetings	3 hrs
Deposits & Administration	2 hrs

The main challenges to actually operating the program were in sourcing the product to maximize customer choice, while giving operators an equal opportunity to participate. As with any sales related venture, collecting on overdue payments was a challenging issue, but there were relatively few instances of this as most subscribers paid in full at the beginning of the season.

The pilot project can certainly be viewed as successful, and the expressed demand suggests it can be expanded subject to adequate supply being available. These issues are discussed further in section 5 of the report.

4.2 Ottawa Valley Food Cooperative

The Ottawa Valley Food Cooperative services approximately 10 rural communities/small towns in the Ottawa Valley, west of Ottawa, in and around Pembroke. The main service is a monthly on-line ordering and distribution service linking local producers with consumers. Food is grown or processed locally in the Ottawa Valley.

The cooperative also publishes a local food-buying guide, sponsors an annual seed sale, and promotes 10 local farmers' markets through their website. The co-op launched in March of 2008.

The 41 producers list their products on the co-op website (total of 974 different products). Consumers have an 8 day window to order for the month, either by using an on-line shopping basket, or faxing an order to a "computer buddy" volunteer who can enter it on-line. The co-op takes 5 days to convey orders to producers, adjust for availability and then produce e-invoices which are e-mailed to customers.

Orders are then assembled from different producers by volunteers and other volunteers make Saturday delivery/distribution runs along 4 or 5 different routes. Each route has 1-3 stops, essentially one per town. Customers pick up their food and pay cash or cheque within a 2-3 hour window. The product prices are set by the producers, and the co-op charges a commission or surcharge of 10% to the seller and 5% to the buyer.

The co-op is not a multi-stakeholder cooperative, it is a non-profit (without share capital) co-op. Consumer memberships cost \$50 for a lifetime membership. Producers have to buy a consumer membership, and then for an additional \$50 can become producer members. Producers must go through jury process to be accepted.

This means all members are equal in the governance process, in a single class of membership. By-laws do not reserve any board seats for either consumers or

producers. The Board chooses to use a consensus decision-making with a time limit, with an automatic fall back to standard voting in the event of a deadlock.

This cooperative model is an innovative way to achieve a critical mass of local producers that can provide a greater degree of customer choice. The on-line ordering and the distribution network allow for greater convenience for both vendors and customers. The model also allows the producer the maximum amount of individual autonomy in how to offer and price their products.

On the downside, the model still does require the consumer-members to organize their schedules around their pick-up times. The other point to note is that the organization is dependent on volunteers to assist with boxing the orders, transporting them to pick-up points, and collecting the money. An on-line payment option would be a good addition to this model.

4.3 Eat Local Sudbury

Eat Local Sudbury is a cooperative food security initiative located in Sudbury, Ontario. They describe themselves as "a group of farmers, food professionals, and eaters" who are promoting local food in Sudbury. They operate a retail store for the purchase of local food. The cooperative store is open from 11 am until 6 pm Wednesday to Friday, and 9 am to 4 pm on Saturday.

The cooperative markets product from 55 local producers in the following categories: Produce (9); Meat (8); Flour/Grain (3); Dairy (8); Honey, Preserves & Speciality Food (21); Prepared Food (3); Health & Beauty (3). All of the product for sale has been sourced within 150 miles of Sudbury.

The cooperative is non-profit in nature, with any surplus being re-invested in the operations of the store. The cooperative has several staff who are overseen by a volunteer board of directors elected by members. The cooperative is a multi-stakeholder cooperative, with "eater-members" and "producer-members" each of which is entitled to vote at the Annual General Meeting. The Board of Directors has 50% or more representation from producer members, with the balance of the directors being eater-members. There is also a public health nutritionist on the board.

Producer memberships cost \$50 per year, and in return, the producer gets voting rights at the AGM, profiled on the website, featured as "Farm of the Week" once per year, and allowed to place their own farmgate/direct marketing material on display at the co-op. Producer members also receive a price premium of 1% on meat or value-added products. Vegetable producers receive a wholesale price of between 80-90% of the retail price of the product. By comparison, non-member vegetable producers receive a wholesale price of 75% of the retail price.

"Eater" or regular memberships are \$15 for an individual, or \$25 for a family. The regular members receive voting rights at the annual meeting and a 4% discount on most

products (excluding fresh produce in the summer). The regular membership can also be converted into a "working membership" where the member receives a floating discount of between 6%-20%, depending on how many hours they volunteered at the cooperative in the previous month. (a working member must volunteer 16 hours per month to qualify for the 20% discount).

As a cooperative with broad membership, Eat Local Sudbury does not stop at simply promoting their retail operation or their producer members. The website serves as a platform to promote other food security projects, including a local CSA, 5 Community Gardens, and an interactive map that promotes local farmers' markets and producers doing farmgate sales. The website also has a link to the Sudbury Good Food Box, which is operated by a separate non-profit organization. (the Sudbury Good Food Box program has a primary goal of making fresh food affordable, with local sourcing a secondary goal).

Eat Local Sudbury launched about 2.5 years ago, on the strength of funding from the Ontario Trillium Foundation, FedNor, Northern Ontario Heritage Fund Corporation, Farm Start, Canada Summer Jobs, and the Summer Experience Program. Their 3 year business plan called for the cooperative to be financially self-sustaining by the end of the third year. The cooperative marks up product by 20-30% and this margin, in conjunction with the volunteer labour and annual membership fees are the ongoing revenue sources on which the co-op hopes to sustain itself.

4.4 Thunder Bay Country Market

The Thunder Bay Country Market is a non-profit organization that operates a farmers' market in the Dove Building in Thunder Bay. The market features 40-70 vendors on a weekly basis and promotes a "make it, bake it, or grow it" philosophy.

Most of the listed vendors appear to fall within this definition of "local", however there is one Watkins distributor listed, and another vendor distributes non-local essential oils alongside locally made aromatherapy products. The market rules require any applying vendor to list products and their origin, and must be approved by the market board of directors in order to be sold. Locally produced food and goods are given preference, although when some food is not seasonal, non-local substitution is permitted provided it is labeled as such.

There are 64 vendors listed on the market website, in the following categories: Produce (16), Prepared Foods (11), Handicrafts (11), Speciality & Preserves (10), Meat/Eggs/Cheese (8), Baking (5), and Health & Beauty (3). Based on this, it appears that approximately 25 of the vendors would be farmers (40%).

Membership in the non-profit organization is open to the public, and enables the member to attend the AGM and elect the Board of Directors. Membership is \$100 for a

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

5 year membership. Vendors are eligible to be members, but the community at large is also eligible.

The Thunder Bay Country Market states that they average 6000 visitors per week, and have an almost \$5 million impact on the local economy. It is not known whether this is an estimate of sales, or whether a multiplier effect has been factored into this figure.

5.0 ANALYSIS & RECOMMENDATIONS

This section of the report discusses the implications of the preceding sections, identifying the strengths and weaknesses of the Dryden situation and linking these to some of the features of other food security models. It goes on to propose a new model for the Dryden area, flag some immediate operational issues and provide a template for future expansion of such a cooperative. Lastly, some sales projections are provided to illustrate some of the thresholds required to support expansion.

5.1 Strengths & Weaknesses

The agricultural community in Dryden has some demonstrable strengths. It is resilient, and many of the producers have shown the entrepreneurial ability to adapt to changing circumstances. There is a healthy number of producers doing direct farm marketing activity already. The area has strengthened its processing capacity. There is also a rejuvenated farmers' market, which is a good size relative to Dryden's population. The community also has a critical mass of producers who are willing to work together on common strategies. Producers, through the KDCSIA, has effectively partnered with the Northwestern Health Unit to run a successful pilot program.

There are also some weaknesses in the situation faced by the agricultural community of Dryden. Firstly, the population of Dryden and the immediate area makes it difficult to achieve the scale that makes many food security projects viable. Secondly, the producers are essentially split into market gardeners and meat producers. The practical issues of storing food, processing food, and the average cost per item, often mean that solutions that fit for one of these groups do not work as well for the other. Lastly, many of the producers have either a healthy skepticism about new initiatives, or have become somewhat ingrained in how they view the issues facing local agriculture.

Examining both the success of the Locavore Food Box pilot project and some of the other models present in the region, we can see some indicators on how to form a strategy:

- ***Seek a Broader Vision:*** the notion of food security is a holistic concept that is good for producers, but also addresses the needs of the broader community.
- ***Next Generation:*** the drive behind food security innovations comes from a younger demographic. The average producer in Northwestern Ontario is 54 years old, the average food security activist is in their 20's or 30's.
- ***Collaboration:*** Cooperatives may often be the structure, but the underlying theme is collaboration. Partnerships with public health educators, eaters, producers, local non-profits are a key feature of these initiatives

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

- **Self-Help:** Co-ops are a long standing form of self-help, and these food security projects emphasize that. While grants might be a necessary part of the equation, fees, mark-ups and volunteer contributions are required to sustain initiatives dedicated to local foods.
- **Self-Interest:** While food security initiatives can be partly altruistic, they can never forget to provide value to everyone involved. A producer has to receive value for supplying product, consumer have to receive value for purchases, and community stakeholders have to receive value through public health or social outcomes.

The Dryden area should seek to create an entity that will build upon both local capacity and prior success, that will be able to grow incrementally, and that will take into account the five indicators above.

5.2 A Locavore Cooperative

It is recommended that in order to build on recent success and area strengths, that a multi-stakeholder Locavore Cooperative be established. The purpose of such a cooperative would be to:

- (a) Operate and aggressively expand the Food Box program as both an outlet for the product of local producers, and as a source of fresh and healthy food for local residents.
- (b) Design complementary strategies that will broaden the number of producers supplying product and increase consumer choice.
- (c) Act as a local platform to conduct advocacy and education on the benefit of buying and eating locally produced food.

To achieve these objectives, it is recommended that the Locavore Cooperative be established on a not-for-profit basis (i.e. - a multi-stakeholder cooperative without share capital). The cooperative should have three classes of membership - producer members, consumer members, and organizational/institutional members. It is further recommended that the board of directors for the cooperative be elected on the following basis:

- (2) Directors elected by producer-members;
- (2) Directors elected by consumer-members;
- (1) Director elected by the organizational/institutional members.

This governance structure allows both both consumers and producers to ensure a strong voice in decision-making at the board level. The director representation from the organizational/institutional members ensures there is a moderating influence when

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

consumer and producer interests are in tension. At the annual general meeting, regular motions would require a simple majority of all members present. Special motions (i.e. - to dissolve, amalgamate or substantially alter the by-laws of the cooperative) can be required to receive a majority vote within each class of membership.

It is further recommended that the membership fees for the Locavore cooperative be structured as follows:

- | | |
|--------------------------------|---|
| Consumer membership \$25 | - includes voting rights and is built into the annual subscription price (say \$225). |
| Producer membership \$50 | - includes voting rights, first option to sell product to the Food Box program, promotion on the website and in the newsletter. |
| Organizational membership \$50 | - includes voting rights and featured on the website and newsletter as supporter. |

The membership fee structure is intended to achieve several objectives. It enlists all the food box recipients as cooperative members and asks them to pay some of the costs associated with food distribution. For producers, it asks for a commitment to the program, and then rewards that commitment with preferred access to the customers. For organizational members it provides a tangible and affordable means to support the broader community objectives of the cooperative. This membership fee structure will also be a source of funds that can contribute to a part-time seasonal coordinator to operate the program.

The creation of a multi-stakeholder cooperative could also be done over time, using the 2011 growing season to communicate the concept and build support among subscribers, with an eye to launching the cooperative in time for 2012.

5.3 Operational Issues

Moving the Food Box program under the auspices of a newly formed Locavore Cooperative will require project stakeholders to address some key operational issues that will assist in making the project more viable.

Firstly, the Locavore Co-op Board of Directors will have to empower the Food Box Coordinator to determine the proper mix of product for each food box, and where to source the product. The Board will need to give clear guidelines, however the coordinator needs to be able to make decisions on quality, product mix, and overall value in order to meet the program objectives. Providing a high quality box at good value is the best way to increase the size of the program.

Secondly, the Locavore Co-op needs to broaden the scope of potential products within the box to include producers from throughout Northwestern Ontario, particularly

producers who have value-added products that store well and ship well. This broader scope provides a "safety net" in the event local producers cannot supply enough product or enough variety. By having this safety net in place, the Locavore Co-op can be much more aggressive in expanding the number of boxes. This sourcing strategy should be within a strict hierarchy: Producer-members of the cooperative are highest priority, non-member producers from the immediate area are second highest priority, and non-member producers from Thunder Bay, Fort Frances, Kenora, etc. are the third level of priority.

Thirdly, the Locavore Co-op needs to establish the nature of the relationship between the Food Box Program and the Cloverbelt Country Farmers' Market. Eat Local Sudbury promotes farmers markets, the Ottawa Valley Co-op uses farmers' markets as distribution points, and the Thunder Bay Country Market is an example of a farmers' market that is directed by both farmers and consumer community members. All of these indicate that there are options by which a food box program and a farmers' market can achieve synergy rather than competing. Resolution of this issue entails thinking through the merits of location (downtown Dryden versus Oxdrift), frequency (weekly or biweekly) and sharing capacity. One possibility would be to have the Locavore Co-op be the body to actually operate the Cloverbelt Country Farmers' Market. There is no one "right" way to define this relationship, it is simply a matter of recognizing that there are opportunities to maximize benefits to both ventures.

In addition to the three key operational issues identified above, the staff seconded to the pilot project have already produced a list of "big questions" about the operation of the Locavore Box program in 2011. These questions will also need to be considered. If the program expands as envisioned, the Locavore Cooperative will likely want to also consider the use of volunteers to assist with packing and distribution.

5.4 Template for Expansion

While the goal for 2011 should be to aggressively expand the number of boxes in the basic food box program, eventually that number will reach a plateau. Moreover, the \$20 box places some constraints on which products can be placed in the box, and effectively excludes better cuts of meat or speciality products. To remedy this, the Locavore Co-op should plan to "diversify" in 2012 by offering custom boxes.

It is suggested that research and planning be undertaken to devise an on-line ordering system similar to the Ottawa Valley Food Cooperative, where producers identify what is available, set their own price, and then pay a service fee to the cooperative for the access to the consumers. Such a mechanism would allow greater participation by meat producers and producers of higher value speciality products. It also allows the consumer greater choice, more control over what comes in their basket, and the option to spend much more of their food budget on local product.

For instance, most local meat is currently sold by the quarter, side or whole animal. Unless a producer is motivated to attend the farmers' market, they have little ability to sell several steaks, a roast and stewing beef in a smaller package. Not only does the consumer have less ability to buy such a package, if they want steaks, ham and lamb chops, they have to contact three separate farms doing direct marketing work. An on-line "custom basket" service allows one stop shopping for local products, and can be done in smaller amounts on a more frequent basis. With the selective offering of speciality products from the broader region, such an on-line service can achieve the product mix that will attract more customers and more sales. Introducing meat and value-added speciality products also increases the possibility of providing these monthly boxes on a year round basis.

The on-line ordering service does not necessarily have to use the distribution technique of the Ottawa Valley Co-op (at least at first). Pick-up of custom boxes could remain in Dryden, and be scheduled to occur on a regular food box day, on a farmers' market day, or on an entirely different day.

The second stage of expansion would be to examine the viability of delivering monthly custom food boxes through a regional network to communities around Dryden, in a similar manner to the Ottawa Valley distribution routes. The communities of Red Lake (4500), Ear Falls (1100), Ignace (1100), Vermillion Bay (1200) and Sioux Lookout (5300) all have the potential to serve as distribution points that could more than double the potential customer base for the higher value custom boxes.

The addition of the custom box service would be a significant advance in terms of economic impact and number of people impacted. If this expansion achieves significant sales, the next logical step in the progression would be to examine the viability of a retail space for local food products. Unfortunately, this appears to be a distant objective given the population constraints of Dryden.

The Thunder Bay Country Market is able to operate a building with 48 interior, year-round vendor stalls, but it is located in a city with a population of roughly 120,000 people. Eat Local Sudbury is striving to operate a retail store in a community of 160,000 people on a 4 days per week basis, supported by volunteers. It is too early to say whether they will be successful or not. Even the Ottawa Valley Food Cooperative, which does not try to maintain retail space, is operating its distribution network in communities with a collective population in excess of 80,000 people.

It would be foolish to categorically rule out the possibility of a Locavore Cooperative eventually operating a retail outlet. This could only occur though after a lengthy period of sustained growth, and high levels of membership retention. Only once a sizable and loyal membership is established (and supported by corresponding sales) could such a venture be realistically evaluated.

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

In the meantime, there is every reason to believe that a thoughtful and strategic approach to providing custom content boxes of local food can form the economic basis for the longer term sustainability of the Locavore Cooperative.

Lastly, the Locavore Cooperative can become the platform for future grant applications related to food security issues. Seed exchanges, community garden projects, community kitchen programs, community food mapping projects are all potential projects that can serve community need and be administered by the cooperative, and help defray overhead costs.

5.5 Budget Projections

The expansion of the existing food box program to 100 boxes, and the resulting inclusion of more producers will generate both a larger budget for food purchases and greater revenues from membership fees in the cooperative.

Consumer members	- 100 members @ \$25 =	\$2500
Producer members	- 20 members @ \$50 =	\$1000
Organizational members	- 10 members @ \$50 =	\$500

This would provide the program with operating funds that can at least partially replace or supplement the small grants and in-kind donations received in 2010.

<u>Revenue</u>		<u>Expenses</u>	
Membership Revenue	\$4,000	Food Purchases	\$19,000
Box Subscriptions	\$20,000	Part-Time Coordinator**	\$5,544
Small Grants	\$1,000	In-Kind Services*	\$3,000
In-Kind Contribution*	<u>\$3,000</u>	Overhead Expenses	<u>\$456</u>
	\$28,000		\$28,000

* - nominal value assigned to in-kind services of Health Educator

** - projects a part-time coordinator for 22 weeks, 15 hrs/week @ \$15/hr plus 12% payroll costs.

The sample budget above illustrates a scenario where the Locavore Co-op could essentially pay for the labour contributed by the KDSCIA intern last year on an ongoing basis. In addition to membership revenue, this requires that only 99% of box subscriptions be directed to food purchases. The PACE and Health Unit grants would have to be renewed or replaced by a similar sized grant.

Using this as a base, we can project that for every 25 boxes above the 100 mark that can be added, \$1125 in additional revenue can be directed towards more staff time or other overhead expenses, and an additional \$4975 can be used to make purchases from local producers.

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

The above scenario does not preclude the Locavore Cooperative from applying for employment grants or other project development grants, but merely shows that in the absence of such grants it is still possible to run a viable food box program. If the grants are successful, they can be used to enhance marketing and plan for more rapid diversification in the future.

While it is speculative to project sales for the "custom" food box without knowing exactly how the cooperative may choose to structure the service, some illustrative estimates are suggested.

For sake of argument, one can assume that the custom food boxes will not generate additional producer or organizational memberships, but that they will appeal to a different sort of consumer in Dryden. Consequently, it is assumed that initially 50 "custom box" customers will subscribe, and that 75% of these would be new consumer members for the cooperative, generating an additional \$950 in membership revenue.

The inclusion of meat and higher value-added products, plus the fact that the custom box is a monthly order, means that the average box value is much higher. A random sample of items from the Ottawa Valley website resulted in a box worth \$101.50

5 lbs red beets	\$12.50
2 loaves speciality bread	\$10.00
1 box brownies	\$15.00
1 jar natural ketchup	\$5.50
1 lb. heirloom bean mix	\$13.00
1 bar blueberry soap	\$4.25
1 jar honey	\$5.25
1 brisket @ 6 lbs	<u>\$36.00</u>
	\$101.50

In order to be conservative, it can be assumed that any custom box containing meat is likely to average \$70.00. The price structure for the Ottawa Valley Food Cooperative adds a 5% surcharge to the subscribers bill, and charges producers a 10% commission on sales. If this pricing was applied in the example, the 50 boxes at \$70 per box would generate \$3500 per month in purchases from producers, and create \$525 in monthly revenue to the cooperative. This would result in \$7200 towards annual overhead/staff once the additional memberships are included. The annual purchases from producers would total \$42,000.

If the custom box approach is extended to outlying communities, the cooperative might set a threshold of 10 boxes in order to establish a "route". For every route established, annual food purchases would bump up by \$8,400, and cooperative revenues would increase \$1,260. There would likely be some additional overhead costs associated with

Dryden Local Foods Coalition - "Towards a Feasible Cooperative"

out of town delivery, so it is possible that the net gain to cooperative revenues would be in the order of \$700-\$800.

The illustrative figures offered in this section of the report are quite modest by small business standards. However, they are achievable, they are sustainable, and it is believed that success will breed success. As the service entrenches itself and becomes known within the community, more producers will want to participate, offering more product volume and diversity. New home based businesses are likely to be created as non-farmers see the opportunity to add value to local food in the creation of speciality products.

While the creation of a Locavore Cooperative will not result in an immediate and dramatic economic impact, it represents the next logical step in a low risk process that builds on past achievements towards the creation of a stronger local food system in Dryden.

APPENDIX "A" - Multi-Stakeholder Cooperatives in Ontario

The formation and operation of any cooperative in Ontario is governed by the Cooperative Corporations Act, R.S.O., 1990, Chapter C.35 (as revised to 2010).

Within this Act, there are provisions to form a multi-stakeholder cooperative. The specific authority is found within the definitions section of the Act, which reads:

- “ multi-stakeholder co-operative” means a co-operative,
- (a) the articles of which provide that it is a multi-stakeholder co-operative for the purposes of this Act,
 - (b) the articles of which provide for the division of its members into two or more stakeholder groups,
 - (c) the articles of which set out the method of determining the number of directors each stakeholder group may elect, and
 - (d) for which the requirements set out in subsection 1 (1.3) are satisfied;
- (“coopérative composée de partenaires multiples”)

Article 1(1.3) stipulates that every member of a cooperative belongs to one stakeholder group, but that no member belongs to more than one stakeholder group at a time. Stakeholder groups are defined as members who have a common interest, or those who reside within a defined geographical area.

Article 1(1.4) requires that any special resolution of a multi-stakeholder cooperative must be approved by the board of directors and then ratified by a two-thirds majority within each stakeholder group of members. Special resolutions are required by the Act in certain circumstances, such as selling most of property owned by the co-op, dissolving the co-op, converting the co-op to a corporation, amalgamating with another co-op, or similar decision which fundamentally change the nature of the cooperative.

Article 1 (1.5) prohibits assigning the number of directors to represent a certain stakeholder groups solely on the basis of how much value they have invested in the cooperative.

Article 60(2.1) allows multi-stakeholder cooperatives to require that membership within the stakeholder group must be approved by the directors elected by the appropriate stakeholder group rather than by the directors as a whole.

Article 104.1 permits any stakeholder group in a multi-stakeholder cooperative to remove a director who represents that group and elect a replacement, through a motion made at a meeting specially called for that purpose.