

# GROWING REGIONAL WEALTH

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*A closer look at the impact  
of local food systems and  
creative financing.*

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Renewing the Countryside

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On the Commons

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On the Commons



# FOREWORD

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The goal of this project is to illuminate clear strategies for helping re-weave the economic fabric of local communities through local investment. Through research and stakeholder dialogues, we sought to understand how best to catalyze additional means of capital infusion into local economies and lay the groundwork to test these strategies.

An essay in a Northwest Area Foundation report (*Seeking the Common Good in Uncommon Times, Spring 2012*) made the case for transformative action: to come together to redefine the common good during this period of profound economic change. “Our country needs to tap into the energies, ideas and perspectives of every one of us” was the call to action in the essay. “It will take all of us.”

Indeed, many have been left behind economically and socially in the last decades, and we as a society are not well versed in putting the common good at the center of our strategies. In fact, societal norms and solutions drive more towards individual interests and needs. We are told that “we all do better when we all do better,” yet there is no clear roadmap for how to actually shift our worldview and construct pathways for everyone to benefit in our economy.

The work we proposed some months ago was aimed at exploring how we could engage more people meaningfully in their communities—in the common good—by creating a multitude of pathways for people to contribute directly to their local economy. We choose food as our area of focus because it has the power to bring people together in unique and powerful ways.

Small businesses, including farms, remain the backbone of many rural areas, especially in the north central and northwest part of the United States. But resources for small businesses, especially capital, are limited. This is particularly true for businesses that are outside the mainstream (e.g. diversified farms instead of corn and soybean operations) or those run by non-established families (e.g. the immigrant farmworker’s daughter rather than the banker’s daughter).

Ironically, as a region, we export much of our investment dollars to the coasts where they are invested in what, for many, seems like a black box. Those of us who have the good fortune to have retirement plans and/or money to invest are often dependent on a few large investment companies, often identified by our workplace or our bank. Even if we wanted to invest in our local communities—and more and more of us do—we do not know how to do this beyond donations and volunteering. Not only do people “not know,” our research indicates that an easy answer isn’t available.

Concurrently, the interest and enthusiasm for “local foods” is burgeoning. Nearly every publication – from small town papers, to the New York Times, to the American Journal of Agricultural Economics, are covering this re-localizing of our food system. If communities could leverage this interest locally, it could mean additional revenue for family farms, robust value-added food businesses, increased tax bases for counties and, with the multiplier effect of “buying local,” a strong and sustainable local economy.

The low rate of returns on investments, the anti-Wall Street sentiment, and the growing interest in local foods may provide the right conditions for radical change. Could this be a window of opportunity where community wealth is built through mutually supportive relationships among farmers, eaters, and businesses? Can we create pathways for

redirecting resources to those who need them most, while also providing many people new avenues for meaningful connection to the local economy? Our research focused on finding new strategies that are robust, sustainable and change-making.

Here are some of the questions we explored in our research:

- What are the issues small and growing businesses in rural areas face when it comes to accessing capital?
- What have the innovative, value-driven investors and lenders learned? What are the options and the problems?
- How can we keep more money connected to building community and local wealth for more people in rural areas?
- What are the dilemmas and barriers for smaller/non-accredited investors to be able to connect their money and values to investing in local sustainable growth (specifically in the food system)?

In the first phase of our research, we used these questions and investigated many different examples of how creative financing models are emergent in the food system--some are brand new, others are dreams, still others are in full swing and operating. This led us to look closer at the “deal flow” challenges, which are discussed in our section on Financial Mechanisms and Deal Flow.

From these conversations in the field, a picture emerged of a waterworks system in need of repair. We encountered a number of situations where it became clear that capital is available. In other words, in our analogy, the capital is the water, and a supply exists. We have investors who are saying, “I want my resources to go help a particular community or type of business,” and then when farmers and small businesses turn the handle on the faucet, anxious to get funds, nothing comes out.

The waterworks system is broken, and appears to be broken at several levels. What needs to happen is to either fix the current system or to build new systems that can efficiently get the water from the source to the faucet. While additional supply of capital could eventually be helpful, it won't be able to effectively give the local food system the boost it needs unless the system for getting the money from the source to the business is fixed. More capital, alone, is not the answer.

Because of the interconnectivities and complexities inherent in the examples we researched, we needed to look more broadly at regional food system development to understand what supports are in place, or more aptly, not in place. We were reminded of the quote, “To change a system you have to start everywhere at once.” We brought our attentions back to our overall framework for this research: a commons-based and community-wealth set of principles. These principles encouraged us to not stop at models that just support individual entrepreneurs, but also look at systems that generate long lasting community wealth.

We looked at regional economies where flow, vitality, and regeneration were apparent. In these regional examples we note several themes at work including broadening ownership and stewardship over capital, promoting equity and democracy in the workplace, and directing public and private resources towards a set of more profound challenges—such as, what will it take to fundamentally address poverty? How to address our yearning for community livability and livelihood? And our research demonstrated that these examples were employing a multi-tiered, multi-dimensional approach and many times several concurrent strategies that are correlated and working side by side.

A number of themes emerge from our research. They are summarized at the end of each section. The themes provide ideas of leverage points that could be pushed to accelerate a shift in world view to begin re-weaving the economic fabric of local communities through robust, interdependent food systems.

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# FINANCING MECHANISMS & DEAL FLOW

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When we began our research, we were interested in how people could engage more meaningfully in their communities by creating pathways for individuals and organizations to contribute and/or invest in their local economy, specifically in healthy, local food systems. What we learned is that the problem is not so much a lack of capital, but of deal-flow; a range of barriers that keep capital from flowing to farmers and food producers.

Where investment capital is available, it is often challenging for small food and farm businesses to meet the criteria for scale, levels of collateral required, and to be able to provide the rates of return traditional investors are looking for. Our current system for moving money from investors to businesses is oriented towards large businesses.

Looking to creative approaches for financing our local food system is important for a number of reasons:

- Traditional sources of money are difficult for small businesses to acquire. In 2009, US banks posted the sharpest decline in private lending since 1942. (According to the *Wall Street Journal*, 2/24/10.) This trend began to slowly reverse itself during the 4th quarter of 2012, but conventional lending to small businesses is still extremely challenging to obtain. Notes the *New York Times* in a January 8, 2013, article reviewing the landscape for small business financing, “If you’re trying to start a business today, you can almost forget about going to a bank for financing. ...The bigger banks simply aren’t equipped to handle small-business lending and Washington puts little pressure on them to figure it out.”
- Turning to established venture capital and other pools of accredited investment funds is also not a feasible path for the vast majority of local food businesses. These firms have a high set of standards for expected profit levels typically reject over 95% of new business plans.
- Investors who want to invest their money differently also have very few places to turn. This is true for accredited investors and especially true for unaccredited investors – the 99% of American’s who make less than \$200,000 per year and have a net worth outside of their residence of less than \$1 million. In 2012, \$9.8 trillion dollars was invested in defined contribution (401k, 403b and 457 accounts) and IRA plans (*Investment Company Institute*, 2012). These investments represent a large share of total savings and investment in the US, especially among unaccredited investors. Regulations and high compliance barriers keep these vast resources locked up in the Wall Street system and prevent them from being used to grow local, thriving communities.

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## Financial Research Sources

Carrot Project  
Northcountry Cooperative Development Fund  
Sunrise Banks  
Grant Abert/Willy Street Co-op  
Southern Minnesota Initiative Foundation  
Lorentz Meats  
Maine Slow Money  
Grow a Farmer  
Vermont Loan Fund &  
Vermont Sustainable Jobs Fund  
Featherstone Fruits & Vegetables  
Shepherd’s Way Farm  
Clean Yield  
AgStar  
Equal Exchange  
Hardwick, Vermont leaders  
Midwest Minnesota CDC  
RSF Social Finance

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Developing a regional food system is one of the most promising paths for broad and sustainable wealth creation in rural communities, yet these businesses are forced to rely on a more limited financing landscape than large-scale businesses. Small businesses generate a high percentage of new jobs overall and the local food sector is an important leverage point for rural wealth generation, so addressing these challenges is key.

Fortunately, many creative approaches are emerging and new doors are opening. Investors are adapting and re-energizing existing mechanisms and creating new mechanisms to move resources to the local food sector. Government agencies have recently begun to prioritize healthier foods, new farmers and local food systems and have a range of loan, grant and assistance available. Yet, as we mentioned earlier, the financial landscape is not organized in a way that makes it easy to understand where and how to apply. The same applies for investors – understanding where to place your resources, whether to invest directly or through a pool (and where these pools may be), and knowing how to best leverage your dollars for the best triple-bottom-line impact is challenging to discern. For both investors and farm and food-based businesses, navigating these options is a bit like being shot into a pinball machine. If you're lucky, you won't fall right through the flippers, but hit some bumpers where you get some info or helpful guidance, but hitting a target and scoring big isn't easily done. There are a few "pinball wizards" out there, but they are few and far between.

Also encouraging is the new narrative emerging around local food and farming. Traditionally, food businesses have been reliant strictly on market forces to survive. As communities deepen their appreciation for the range of benefits provided by this sector—sustainable wealth creation, health, regenerating rural populations, ecological restoration—we need to consider a mix of investments and not rely solely on the market. Philanthropic, slow/low return investment, community participation and more traditional forms of investment are all needed.

The examples below show some pathways for increasing investment through financial mechanisms, but our research also made it clear that regions that were the most successful at growing shared, long-term wealth focused not only on increasing investment for individual entrepreneurs, but instead on combining this with a community-based approach. They focused on place and region, identified the full system, the leverage points, and the institutions that could provide ready-made markets. The goal was to create wealth that would circulate equitably within their region for the long-term. We explore this combination of approaches later in this report.

## EXAMPLES

Encouraging developments are being made and mechanisms are being tested that may help ease the flow of capital to farm and food-based businesses. Below we have listed a number of sources of capital, and then provided a few examples that we researched.

### ***Deposit Funds***

*Deposit funds, like the examples below, create pathways for additional local investment and ways to allow broad participation by investors of any means. There are only a few examples of these funds being directed towards local food development, but we believe this is an important tool as it does pave a way for middle-class and other investors to participate.*

### **Equal Exchange CD at Eastern Bank, Massachusetts.**

Several well know examples of affinity CDs exist (CDs for specific companies). Eastern Bank in Massachusetts allows consumers to deposit as little as \$500 in a CD for the fair trade coffee company Equal Exchange. These three-year

CDs provide a competitive return to the investor (e.g. competitive with other CDs on the market) and the deposits back a line-of-credit for Equal Exchange. The funds are FDIC insured, but not completely risk free. If Equal Exchange does not pay back its loan, investors could lose some or all of their money in the CD. To-date, Equal Exchange has raised over \$1 million from these CDs.

### **Socially Responsible Deposit Fund (SRDF), Sunrise Banks, Minnesota**

Sunrise Banks offer customers the option of designating the funds in any of their deposit accounts (checking, savings, certificates of deposit) to the SRDF program. These funds are dedicated to supporting small businesses, nonprofits organizations, community services, eco-friendly investments, and affordable housing initiatives in the Twin Cities metropolitan area. Customers receive a market-rate return on their deposits and the deposits are FDIC insured. This is a good model to explore as it could be developed with a focus on food and farming systems.

We did not find any examples of deposit accounts focused on local food system investment in the eight-state NWA region, but there seems to be interest and the ability to replicate this for specific companies and/or for the larger food system approach.

#### **Food System Specific Loan Funds**

*A growing number of regions are developing pooled loan funds for local foods. These loan funds have the benefit of a deep understanding of local food enterprises. Portfolio managers are actively involved in planning and development processes within their regional food system and know how to best leverage investment to effectively grow the system. These funds often partner with a range of institutions to combine private funding with state and federal sources of financing.*

### **Carrot Project**

Based in Somerville, Massachusetts, The Carrot Project fosters a sustainable, diverse food system by supporting small and mid-sized farms and farm-related businesses by helping them access capital and technical assistance. According to their website:

*“The Carrot Project’s program model is designed to incubate, learn from, and establish financing programs (including business technical assistance) for small and mid-sized farms and farm-related businesses while providing investment opportunities for individuals and organizations.”*

The main innovation of this project is closing the financial gap that was preventing small and mid-sized farms and farm-related businesses from starting or expanding. The project began back in 2005 with a research project that sought to document the financial needs and interests of small and mid-sized farmers. Finding that a lack of collateral was a common barrier, the Carrot Project developed an innovative solution that brings together private investors and lending partners to provide loans to farm and farm-related businesses.

The Carrot Project’s loan programs include two different models. In one model, capital is provided to a lender, who then issues a promissory note and commits to lend the borrowed capital. In the second model, money from private investors is posted as collateral, and the lending partner lends their own capital. In each model, the loan funds have a 10% loan-loss-reserve provided by philanthropic dollars. Accredited and non-accredited investors can participate – but the minimum investment amount is \$25,000. Investors go into this arrangement knowing that their return on investment will, at best, be one or two percent, and that there is a risk that they may lose some of their capital.



The Carrot Project often partners with CDFIs – community development finance development institutions -- such as The Vermont Community Loan Fund, the Massachusetts Economic Development Finance Agency, and Coastal Enterprises in Maine. These partnerships provide greater access to new federal funds for local food initiatives, regional expertise and a wide-range of technical assistance services.

### **Vermont Sustainable Jobs Fund**

Based in Montpelier, Vermont, the Vermont Sustainable Jobs Fund was created in 1995 through an act of the Vermont Legislature. The enabling legislation created and provided partial funding for a non-profit organization dedicated to the development of Vermont's green economy. The Jobs Fund raises funds, partners with other institutions, and leverages federal dollars to provide grants, loans and technical assistance to advance growth in the arenas of local food, renewable energy, sustainable forestry, and green technology. The Fund takes a holistic approach to their mandate—researching rigorously, creating peer-to-peer learning, and running processes to develop a shared analysis and understanding of the system, key levers, and metrics to achieve access.

### **Northcountry Cooperative Development Fund (NCDF)**

NCDF provides financing to co-ops. Because they themselves are a co-op, they are able to leverage the funds of their member co-ops and institutional investors to secure other funds to support new and expanding co-ops. Founded in 1978 in Minneapolis, NCDF has played a central role in the development of food co-ops, and has been a backbone of the local food movement. Since its founding as one of the first such community development loan funds in the country in 1978, NCDF has originated over \$35 million in cooperative financing to food, producer, housing and worker-owned cooperatives in 30 states.

Like the majority of creative investment mechanisms, navigating legal rules is one of the constraints. In many cases, NCDF is able to accept funds from unaccredited investors who are members of the cooperative. However, state and federal securities rules and prohibitive legal costs make broadening their offerings impractical.

NCDF sees a need for mechanisms that would enable more people to invest in local food systems. They receive requests from food co-op managers wanting to offer their customers the option of investing through NCDF. The problem is that it currently isn't easily done because of regulatory barriers. NCDF's Director, Christina Jennings, is interested in exploring mechanisms that would enable small investments from many individuals and feels there would be broad participation. Tapping into the large network of co-ops and their customers could create significant levels of investment funds and is a promising path for further research and development.

### **Southern Minnesota Initiative Foundation (SMIF)**

SMIF serves 20 counties in southern Minnesota. It is one of six initiative foundations created by the McKnight Foundation in response to the 1986 farm crisis and broad economic slump in rural Minnesota. In 2011, SMIF granted Main Street Project their \$100,000 "One Big Thing" grant to support the development of a business incubator for Agripreneurs in Northfield.

Seeing the potential for local foods to provide economic opportunity in the region, SMIF commissioned the Minnesota Institute for Sustainable Agriculture to conduct a study that would help them to understand and articulate the potential of local foods businesses to strengthen the region's economy and understand the needs and issues facing food entrepreneurs in their region. With this report as a guide, SMIF has made supporting local foods businesses a key focus of their work over the next five years.

Using the Collective Impact Model, they have engaged stakeholders to develop strategies and plans to assist farm and food-related businesses to access capital and technical assistance that will foster business growth. One area of interest is creating a loan fund modeled after the Carrot Project. While this initiative was just launched in 2012, it holds promise for developing viable financing solutions for farm and food based businesses that otherwise may not be able to access traditional financing. Community foundations along with community banks and credit unions can play a key role in developing and helping organize regional coordination and catalyze additional participation from anchor institutions and others.

#### **Community Development Finance Institutions (CDFIs)**

*CDFI's can play an important role by offering financing to businesses and communities that are difficult for traditional financial institutions to serve. They play a key role in the emerging local food realm - accessing newly available federal funds for healthy food businesses and local food system infrastructure, while also providing greater technical assistance for business development than many traditional lenders. It is only recently that a greater number of CDFIs are starting to learn about and look at local foods based businesses as a potential part of their customer base.*

#### **Sunrise Banks, Minnesota**

Sunrise Banks was the first CDFI bank in Minnesota and is one of approximately 80 CDFI banks in the United States. CDFIs demonstrate commitment to community development by adhering to a primary community development mission, maintaining accountability and transparency and originating sixty percent or more of loans in low and moderate-income communities. CDFIs can access a variety of unique investments, including targeted federal funds such as dollars earmarked for Healthy Food Financing and New Market Tax Credits.

In 2000, the New Market Tax Credits program was enacted as part of the Community Renewal Tax Relief Act. This act offers incentives to investors to bring funds into underserved areas. While this program benefits underserved areas, the program is complex and requires substantial initial investment. Due to the expense, this program has generally only been available to large businesses looking to borrow over \$10 million. Sunrise Banks, with the assistance of the Midwest Minnesota Community Development Corporation, created innovative small-dollar loan pools which allows for accessibility by smaller businesses and smaller loan sizes than typical. The outcome is that small businesses can benefit from the program, which they would not otherwise be able to access. The New Market Tax Credit was utilized by the Evergreen Cooperative in Cleveland to help finance and develop their worker-owned cooperative businesses, providing a model for further exploration and potential development in our region.

#### **Investment Brokerage Organizations / Family Offices**

*Small investment firms and "family offices" — especially those with a green/sustainability focus, are playing a growing role in financing local food enterprises by connecting investors with worthy and mission-aligned businesses.*

#### **Clean Yield**

Clean Yield is a SEC registered investment advisory firm working exclusively with social investors. Co-founder Rian Fried has been a key participant in the Hardwick, Vermont story (see the Regional Economy section of our report) by connecting investors with emerging local food businesses and advocating for more investment in this sector through his various investment advisor trade organizations. Rian, and others like him, play a critical and often invisible connecting role while also catalyzing additional participation from their field at large. During one of our conversations, Rian remarked that he had to conduct all of his local food enterprise financing work without accepting compensation. As a SEC registered firm, the expectation is he will focus only on the goal of achieving high returns for his clients - financial returns that is. Helping investors use their resources to achieve a broader

range of social and ecological goals and thereby receiving slow/low returns, is not accepted and could open doors for regulatory scrutiny.

### **Self-directed IRAs**

*Most retirement funds are placed in traditional IRAs and defined contribution plans. These plans usually have a range of funds investors can select, but these funds are predominantly based on Wall Street.*

Self-directed IRAs allow for a greater range of investment options. IRA funds are placed with a custodial financial institution that manages the self-directed IRAs. The account holder receives the same tax benefits as they would with a traditional and/or Roth IRA, but individuals make their own investment decisions. Investment options are wide, including real-estate, Certificate of Deposit and other pooled investment funds, limited liability corporations, partnerships and unsecured loans to businesses and individuals. The primary restriction is that the investor can't "self-deal", e.g. individuals can't use their IRA funds to purchase the housing/real-estate where they live. (reference Pensco.com)

### **Expansion in Traditional Lending**

*Private agricultural loan services are taking small steps to expand their offering to non-conventional farm and food businesses. These early programs are still small in terms of scope and the amount of funds made available, but represent a hopeful trend. USDA-backed financing is taking bolder steps to support new farmers producing a wide-range of products, organic agriculture, orchards, ranching and production of other non-commodity crops. These funds have made an impact in the growth of the local foods systems and infrastructure required for broad success. While encouraging, these funding pools are relatively new and politically vulnerable, especially during challenging budget times.*

### **AgStar Financial Services**

AgStar is a Farm Credit association that serves 23,000 clients and manages \$8 billion in loan and lease assets. A cooperative, owned by its client-stakeholders, AgStar serves rural clients in Minnesota and Wisconsin. In 2012, AgStar, ventured into new territory. Realizing that a segment of the population could not access loans, they developed the Minority Lending Program for Farmers and Producers.

This program provides small loans (up to \$35,000) to minority agricultural producers. Internally, they call these "character" loans as they require very little collateral and place a large part of their lending decision on recommendations from others in the community. A very simple business plan is required, but AgStar staff will provide technical assistance. This is an encouraging developing and shows some shifts in the traditional lending field. Interestingly, these loans have not been as popular as initially expected. There are several potential reasons for this including citizenship requirements, unfamiliarity with the traditional banking system and in some immigrant communities, there are readily available sources of informal capital.

### **Government Financing**

Federal and state governments are trying to provide low-interest capital to new farmers (farmers with less than 10 years experience). The Farm Service Agency has developed a microloan program (up to \$25,000) that streamlines paperwork and lowers collateral requirements. Many states offer a range of small loan programs, often for all types of farming, but a growing number of them for niche, vegetable, fruit and other small farm enterprises. Some states have targeted resources towards local and sustainable food production as a key strategy for economic and community development. (See Vermont Sustainable Jobs Fund above.) This is an encouraging evolution for the USDA and state government into alternatives to commodity crops – and will hopefully result in larger pools available over time and more data and business information to support local food business models.

### **Local Investment Clubs**

Several communities have used creative strategies to allow people from all income categories go become investors in their local communities. These investment clubs serve several purposes - the obvious investment in new and small businesses, but also the opportunity to create direct relationships between entrepreneurs and investors which has had the impact of these investors finding additional ways - be it technical support, raising more funds, etc.- to be supportive. Additionally, members of these smaller investment clubs often help catalyze development of larger loan funds and other institutional giving and investing.

### **No Small Potatoes**

One such example of a local investment club is No Small Potatoes. With roots in Slow Money Maine and the movement to strengthen Maine's local food economy, No Small Potatoes is the first private investment club in the nation to make small loans that help established farms, fisheries and food businesses thrive and become more profitable. Their loans support improvements in physical infrastructure and special projects that increase the processing, marketing and distribution capacities and efficiencies of food businesses statewide. In turn, these loans help expand access to healthy Maine-grown food. Their website hosts a wealth of information about how to start a local investment club, meeting designs, and specific instructions on how to become an investor or a club member. They have done the movement a big service by making all of their operating instructions---all of which have been vetted by legal expertise---available to the general public. <http://nosmallpotatoesinvestmentclub.com/>

### **Informal Funding Networks**

*Informal funding networks have long been a strategy for launching new businesses. Restaurants, CSA farms and other service businesses have pre-sold future services and products, for example, to fund start-up costs. Many crowdfunding initiatives, such as Grow A Farmer (below) and Whole Food's Whole Planet Foundation, capture point-of-sale donations to fund microloan programs. Crowdfunding surged as a viable option for businesses when online platforms like Kickstarter gained popularity.*

### **Grow a Farmer**

Grow a Farmer is a concept in its developmental stages. Its goal is to engage community of eaters in supporting farm and farm-related businesses through donations, loans, and, eventually, investments. One approach was piloted in 2012 with Main Street Project's Agripreneur Program. Working with area co-ops and restaurants, a campaign was launched to collect funds for a micro-loan program that would benefit new immigrant farmers. These funds were then lent to farmers to help them purchase supplies and to help cover operating costs.

### **Online Crowdfunding**

There are now many online platforms that enable businesses to seek start-up or expansion funds. To date, these operations stay within SEC guidelines which limit businesses ability to ask unaccredited investors for loans and/or equity funding by defining and limiting transactions to rewards, products, future services and donations. Business ventures can ask for funds and in exchange they offer future services, products and other types of rewards, often tiered to different levels of giving, but they can not offer stock or other equity options.

The Jobs Act passed in 2012 paved the way for equity and loan-based crowdfunding. Rules defining how this will operate are expected in 2014. Under the new law, unaccredited investors will be able to make some investments in companies through registered portals. The amount individuals can invest annually will be pegged to their income.

## THEMES/LESSONS LEARNED

- A growing number of individual and institutional investors are using existing mechanisms or creating new ones to support local food system development. This is a promising trend, but deal-flow, the availability of investment ready business plans in this sector, and the ability for values-minded investors to connect their resources to food and farm businesses remains a significant hurdle.
- Margins for small and mid-sized farm and food enterprises are generally small. This makes them unlikely candidates for traditional investors, even if there were mechanisms to make the deal flows easier. Because they are stretched to the max in their daily operations of keeping their businesses above water, they don't have the time or resources available to step back and look for leverage points in the food system that could improve their profitability. Approaches are needed that provide a systems approach: What are the leverage points in a system? Where is their existing capacity that can be tapped into? What new markets can be created that benefit multiple businesses and not just the most innovative entrepreneurs? While government agencies can and do sometimes play these roles, they also are vulnerable to the political winds.
- Local farm and food businesses create a broad range of community value and provide one of the most promising pathways for rural wealth and health. We need to shift our thinking from believing that this sector will grow through market forces alone, and realize that we need to invest a mix of market rate loans, slow/low return money, and perhaps subsidies or philanthropic dollars.
- States and government can and are starting to play an important catalytic and significant role in the local food system through a growing range of loan, community development and grant programs for local food system entrepreneurs and infrastructure.
- Development of a food system development works best if it is well-coordinated, fosters interdependency, and builds systems that are mutually supportive of all those within the food web. This sector needs people to help pool financing, identifying creative ways to build capacity and share infrastructure to improve the margins for these businesses, create markets by working with institutions and other large buyers, educate communities about the impact of local businesses and investments, and work to reduce regulations designed for industrial-sized entities that make it impossible for locally-scaled enterprises to get off the ground. These are critical roles that need to be funded during this emergent stage of development.
- Many loan funds exist regionally, but they rarely focus on local foods businesses. Part of the issue is that the lenders are not savvy in the area of many local food businesses, and thus are reluctant to make loans. Additionally, some businesses do not meet the criteria required by the lenders. Those who are experimenting in these arenas site "scale" as a barrier. A traditional loan fund requires a certain level of assets to be sustainable (e.g. \$10 million).
- Policy changes are needed to facilitate a broader range of investment options for unaccredited investors generally and for 401k/IRA accounts. It is hard to create the thriving, interconnected local communities we all desire when a high percentage of a community's savings is tied up on Wall Street and not available to Main Street.
- Policy changes are needed to facilitate more investment from accredited investors. Investment advisors working with socially minded investors who want to place low or no-return investment in local food system businesses place themselves at risk for scrutiny by the SEC for advising their clients to accept a lower return and riskier business model.

# INVESTOR PERSPECTIVES

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## INTRODUCTION:

*A broken investment begins to noticeably shift....*

A shift of worldview in the investment realm is gaining momentum and more mainstream acknowledgement. This shift is apparent in both accredited and non-accredited investors. Accredited investors and philanthropists are looking more closely at how to leverage their investments to reach their social goals. They are expanding their expectations of return to include social and ecological measures. And many non-accredited people are striving to move their investments and retirement funds closer to home, out of the clutches of Wall Street. It is not surprising that there are overlaps in these trends albeit the groups of “investors” have different stories, different means, and, also, seemingly different needs.

Both accredited and non-accredited investors agree that there is something fundamentally broken about our financial sector and describe their weariness at the disconnection between their values, their community, and their money. At the same time, there is growing interest in “investment propositions” that are outside the box. This trend started with socially-responsible investment funds on Wall Street and has evolved to many creative options to move resources closer to home and invest more directly in creating a more vibrant local economy - sometimes even accepting a lower rate of financial return and/or a reward or future product as seen with the rise of crowd funding models.

## STORIES FROM THE FIELD:

Accredited investors (see appendix for definition) are beginning to question the Modern Portfolio Theory (MPT)—fined tuned post World War II-- as the framework upon which most current investment practices are based on. Leslie Christian, a well-known CPA and investment advisor who spoke at the last Slow Money conference in San Francisco describes in detail why the MPT no longer is relevant. She elegantly repudiated a framework that is based on narrow definitions of risk and complexity, has little regard for ecological limits, and is based on continued growth and increasing returns. This model is not sufficient for the complex needs and range of goals investors have for their community and sustainable future.

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## Investor Research Sources

Slow Money Conference, San Francisco  
Slow Money gathering, Minneapolis  
Woody Tasch, Slow Money founder  
Rian Fried, Clean Yield, Vermont  
Savannah Commons Advisors  
Marian Moore, Play Big co-founder  
Dean Harrington, Foresight Bank  
Christina Jennings,  
Northcountry Cooperative Development Fund  
Renewal, Vancouver, BC  
Endswell Foundation, BC  
Leslie Christian, Portfolio 21  
Tracy Singleton, Birchwood Cafe

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Christina Jennings, Executive Director of the Northcountry Cooperative Development Fund, is seeing “an acknowledgment [within her industry] that the assumptions of the dominant culture banking system are giving way.” In our interview with her, she wove tales of complexities of her investors caught between two realities—the rules of the SEC and the desire among some NCDF members to take steps towards building new financial tools that would further support the local food economy.

“I’ve found that most people are more rate sensitive on the borrowing front than on the rate-of-return front,” Jennings explains. “Our investors are not necessarily looking for high rates of return.” Christina says she regularly gets approached about providing entry points for more people to invest through NCDF. While it is something she is interested in, there are not clear pathways on how to make this happen with unaccredited investors.

Woody Tasch, Founder of Slow Money, talks about this transition as he speaks across the country and in his book, *Inquiries in the Nature of Slow Money*. Tasch states: “We have to find a new form of economy, an economy that knows how to govern limits, an economy that respects nature and acts at the service of man, a situation where political and humanistic choices govern the economy and not the other way around. We have to discover new economic relationships that move at a more natural pace.”

What we are witnessing in the investment field, then, is a study on what will replace these investment norms that no longer serve us. What seems to be emerging is a growing interest in investing closer to home, decoupling from Wall Street, and engaging with financial interactions that are direct, transparent and based more on personal relationships. Tasch describes the need to connect producer, consumer and investor as an antidote to an industrial logic that trains us to take ourselves out of our natural context, place mediators between us, our values and our money, away from any one piece of land, away from any one place—in short, the description of conventional lending and investment practice.

There are many experiments underway, including examples that involve creating community among investors, entrepreneurs, and local economy builders; brokers who are working outside the box; investors who are working at activate full portfolios and taking risks; farmers who are creating new forms of ownership and stewardship; and local investment clubs finding creative ways to support entrepreneurs.

Here are a few more vignettes from the field that illustrate these trends:

- Slow Money hosts regional and national convenings that include entrepreneur showcases where entrepreneurs and investors meet each other, learn from one another, and, sometimes, make business connections. Their website [slowmoney.org](http://slowmoney.org) includes a working set of principles that investors can sign on to, and also a samples of projects around the country where these investor “circles” have resulted in direct investments into food-based enterprises.
- RSF Social Finance, another leader in this field, has pioneered community-based pricing. Quarterly, they convene investors and borrowers to determine together the interest rate investors will receive the following quarter, and what base interest rate borrowers should pay. This is a radical form of transparency and connection, allowing those providing capital to better understand the businesses and meet the entrepreneurs creating their financial rate of return, and borrowers to understand the source of their funding. They are also moving a Field Collaborative effort ahead to help shift the overall investment paradigm from the MPT standard to a worldview that is more commons good based and local. Their focus will be trying to re-invigorate and regenerate the field of Community Foundations as well working with individuals of wealth.

- We learned that some investors are not charging clients for local food enterprise financing work. SEC registered firms are expected to only focus on the goal of achieving high returns for their clients - financial returns, that is. Helping investors use their resources to achieve a broader range of social and ecological goals, and thereby receiving slower and lower returns, is not accepted and could open doors for regulatory scrutiny.
- Each state interprets how to comply with SEC regulations differently. This can cause challenges for creating regionally-based financing that may cross state borders and create high hurdles for financing innovations in these states. For example, investors working to create the loan fund to support producers connected to the Willy Street Food Co-op faced both high set-up costs along with a requirement for a much larger loan guarantee fund (perhaps 100%) to protect investors and meet the strict regulatory standards in Wisconsin.
- A young couple in Wisconsin is attempting to develop a way to pool money from a many individuals to purchase 320 acres to develop a set of restorative farming enterprises. Their original plan was to start a land-owning LLC and take \$10,000 investments from 100 people, all of whom would own an equal share in the “company.” The company would purchase the land and finance the establishment of a restorative grazing operation, which would rent the land, paying its owners in produce from the land. The productive pastures would be held permanently by the commons, and small rent-to-own parcels of woodland would be available for homesteading families.

After hosting many conversations with interested investors, both unaccredited and accredited, the couple had to halt their plans because federal and state of Wisconsin securities laws allow only accredited investors to invest in a company like this. While some of their prospective members fit into that category, most did not. While working with only accredited investors would be technically feasible, this strategy would not align with their mission, which includes providing middle-income people with secure access to sustainable food and engaging a community of growers and eaters in the land’s restoration and sustenance. But the young couple is not giving up: they note, “What we have learned has us convinced more than ever that the structural problems with finance and markets that block sustainable agriculture are severe and will require creativity, trust, and community to resolve.”

- Slow Money Maine boasts a detailed website that shares their learnings from launching No Small Potatoes, a lending club that has had amazing success, built community and helped to build a robust local food sector in several areas of Maine. They share their stories of how they managed to become investors in their local food economy and stay within the boundaries of SEC regulations.
- In our own region there have been plans and dreams that were designed a decade ago to help point local investors towards local community and wealth building strategies. One such effort was the Hiawatha fund. Designed as a non-profit 501(c)(3), the Hiawatha Fund hoped to provide patient capital (repaid in graduated rates over 10 years) to rural or small-town businesses planning to incrementally expand or improve their operations.

In its prospectus, the Hiawatha Fund was described this way: “Created to invest strategically to strengthen the competitiveness of our region. Ninety percent of Southeast Minnesota businesses employ fewer than 20 people. These bread-and-butter businesses comprise the essence of our rural economy. Often overly dependent on debt capital, they need patient capital to help them expand, to improve marketing and management functions, or to make technology improvements that would increase their competitiveness.”



The majority of the Fund's capital would be raised through the sale of \$250 five-year Citizen Notes, to be sold to average investors in local communities. Additional capital would be raised through the sale of preferred stock to institutional investors. In recent conversations with the founders, including local banker, Dean Harrington of Plainview, they were not able to gain traction on this idea because they could not find philanthropic investors that would guarantee the fund thereby reducing the risk and making it possible for many regular investors to participate.

- Sunrise Banks developed a Socially Responsible Deposit Fund. This mechanism allows customers to direct their deposits into this fund that is used to support programs in targeted, low-income communities. Customers receive a return on their deposits, just as they would with any traditional deposit account. With this fund, Sunrise Banks is able to harness customer dollars in an innovative way.
- Renewal Partners/Endswell Foundation (Vancouver, B.C.), a seed-capital and investment firm, is a remarkable story of a regional investment strategy emerging from one investor that chose to implement a full-portfolio and integrated strategy. This effort resulted in a complex and more regional scaled effort that built wealth in the larger community and implemented “layered” investment strategy—a combination of investments, loans and grants that were applied with an overarching strategy. They focused their efforts in a specific region, had a major strategic vision, and went on record as supporting innovation, experimentation and solution-building. Their overarching purpose was to build infrastructure and create the conditions that would enable self-supporting social change over the long-term.

## THEMES/LESSONS LEARNED

- A central theme inherent in these stories is moving from investment practices that perpetuate and rely on disconnection to practices and transactions that are more human scale, place-based and meaningfully connect investors with the real consequences and outcomes of investment activity.
- “Layered” investment strategies—a combination of investments, loans and grants that are applied within an overarching strategy—help build wealth that stays in the community. The philanthropist/investor who funded Renewal in Vancouver states—“We focused our resources in every single way we could imagine: building networks, infusing bits of capital in every conceivable nook and cranny, building community and culture around a focus of sustainability. We used thousands of small infusion and sponsorships creating space for connection across multitudes of sectors and platforms. Endswell and Renewal worked together, combining philanthropy, equity investments, loans and sponsorships in a synergistic model and then amplified the power of this three-pronged approach by harnessing the power of connection and collaboration.”
- Both policy and regulatory realities need to be addressed to make the needs of all types of investors plausible. In most examples we researched, there are barriers that are severely hampering innovation and making it very challenging for investment funds to be placed close to home.
- Although there is an interest among average people to be able to invest locally, there are not easy ways for them to do so. For those with 401ks or work-based investments, choices are limited. Self-directed IRAs and other mechanisms such as affinity CDs are options that were reviewed earlier in this report. An informative resource for self-directed IRAS is [www.SDIRAServices.com](http://www.SDIRAServices.com).

- There is a deep-seated enclosure that perpetuates the standard investment practices, building walls between investors and how and where their dollars are placed. Investor coach Marian Moore puts it this way: “We are still in the pioneering stages of working with investors on “full portfolio activation - not limiting ourselves to philanthropy but using all of our financial assets to support positive change in the world.”
- The standards have been set and deeply ingrained. Financial advisors are trained with a very narrow understanding of what is right, what is smart. There are a set of “money manners” that all “smart” investors are taught, and those who dare to step aside of these tenets are ridiculed.

# FARMER/FOOD ENTREPRENEUR PERSPECTIVES

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Interviews and dialogues with farmers and food entrepreneurs provided insight as to how they accessed, or could not access, the financing they needed to start or expand their businesses. Most of the entrepreneurs interviewed had faced challenges with financing. For non-commodity farmers, lenders were often unwilling to provide loans for specialty crops, although there was indication that this is changing. A lack of collateral was also mentioned by multiple interviewees.

The issue, it seems, is not simply a lack of financing, but the difficulty in navigating the available financing options. The following section explores some of the creative ways farmers and food entrepreneurs have financed their businesses and some of the ongoing challenges they face.

## CREATIVE FINANCING EXAMPLES

### **Kappers Big Red Barn**

Bob and Jeanette Kapper wanted to add ice cream to the range of products they made and sold from their Chatfield farm. They had a strong customer base, excellent products, and were convinced adding ice cream would be a good business decision. Unfortunately, traditional lenders wouldn't finance the purchase of the new ice cream freezer. Rather than giving up, the Kappers turned to their customers and put a twist on the traditional CSA (Community Supported Agriculture) share. Rather than selling shares of vegetables, they sold ice cream shares. For \$100, a customer would receive 40 pints of ice cream over a 3-year period. The CSA idea was far more successful than they anticipated, and the Kappers are now in the ice cream business.

### **Lorentz Meats**

Lorentz Meats in Cannon Falls is a very successful meat processing business, but getting to where they are today was a long journey. Meat processing is a difficult business because consolidation in the industry has made it very difficult to compete. "In the early 2000s, cash flow was a real issue," explains Mike Lorentz. "There were at least three times where we were on the brink of going under, and at one point we were managing 14 lenders." On one occasion Mike was telling his troubles to an acquaintance who asked how business was going. The individual, on the spot, offered a substantial loan, which helped the business get through their cash flow crisis. Mike notes that when they needed money most, it was hardest to get from traditional sources.

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### **Farmer/Food Research Sources**

Bob Kapper, Kapper's Big Red Barn  
Mike Lorentz, Lorentz Meats  
Jack Hedin, Featherstone Fruits & Vegetables  
Sharann Watson, Featherstone Volunteer  
Creative Financing Dialogue, Sustainable Farming  
Association Annual Conference  
Jerry Ford, farmer  
Reginaldo Haslett-Marroquin, Main Street Project  
Pakou Hang, Hmong American Farmers Association  
Hli Xyooj, Farmers' Legal Action Group  
Doug Hilgendorf, Whole Grain Milling Company  
David Krueger, AgStar  
Dave Maroney, Cannon Falls EDA

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## Featherstone Fruits and Vegetables

Featherstone Fruits and Vegetables is a mid-sized organic farm in southeast Minnesota. The farm wanted to expand its cold storage and do it right. They knew there were grants available that would provide matching funds if they built an energy efficient facility and/or used renewable energy. But they also would need to come up with a significant amount of match. They lacked the time and expertise to pull off this plan, internally, but they had access to sophisticated, dedicated customers. One of these customers, a smart, well-connected, business woman, volunteered her time and spent a year researching, writing grants, and getting customers to make loans. The campaign was a success, and the new facility is up and running.

## NAVIGATING THE CONFUSION

There are many different funding sources for farm and food entrepreneurs: banks, credit unions, Farm Service Agency, and state agriculture programs are just a few. Then there are things like community supported businesses, crowdsourcing, venture capital. Furthermore, there are a multitude of ways to structure financing within the farm/food business – equity, loans, loans with options to convert to equity, royalty-based financing, pre-selling future food options, etc.

Given the complexities of the financing options, it is no wonder that entrepreneurs don't know where to turn or how to determine what approach is best for their circumstances. Every finance source has a different set of rules, different set of information they need, and each in a different format. On top of that, many of the government run programs are in constant flux (allocation changes, policy changes). Even the people who run the programs have a hard time staying on top of them. And while some of those people are very approachable and easy-to-work with, others are not. So the process of identifying and securing funding ranges from being a deterrent to being daunting.

The Creative Financing for Farmers Dialogue (2013 Sustainable Farming Association Annual Conference, hosted by this team of researchers) brought together a few dozen individuals that included new farmers, seasoned farmers and aspiring farmers. As people started sharing their experiences, it was clear that collectively the group had a lot of knowledge and strategies – but that the information is not easily accessible in one place. The participants agreed that what they need is assistance in navigating the financing options.

It was heartening to hear that some lenders are changing with the times. The Farm Service Agency that administers a variety of farm loans has dramatically changed its stance in the past few years. While historically their loans primarily went to commodity farmers, they have expanded their programs and now actively recruit small, beginning and specialty crop farmers into their programs. The hoops aren't gone, but they are more manageable.

A young farmer explained some of the issues that still remain. She went to apply for an FSA operating loan for her vegetable production business. The loan form is designed for large-scale commodity crops. As an applicant, you have to report which crops you are planting and how much. This task is fairly simple if you are planting 200 acres of beans and 200 of corn, but a lot more work if you are planting 40 different varieties in sixteenth acre plots.

## LACK OF EQUITY

An issue for many food and farm entrepreneurs is a lack of financial resources. There are families with children who want to take over the farm or food business. With the right professional help, this can often be done fairly smoothly. But for those who are not born into these careers, the process of getting established is difficult. In some rural food based

businesses, you can work your way up and may be able to accumulate the wealth which will enable you to get the financing to start your own business. But if there aren't those businesses to start with, then you're starting from scratch.

Farming is harder to get into because of the costs of land and equipment. Without these assets, it has been difficult to get financing. The positive news is that there is some movement in this area. One example is AgStar Financial Services which launched, in 2012, a Minority Lending Program for Farmers and Producers. This program does not require collateral, but rather looks at preparedness, references, and a relatively simple application. Recently both the State of Minnesota and USDA Farm Service Agency have also developed and launched simplified loan programs for new farmers (up to \$10,000 for MN, up to \$35,000 for FSA loans.)

But collateral still can be an issue for those wanting to scale up. Those with personal wealth, or wealthy friends who are use to investing in businesses, can access the finances they need. Those without such resources don't have an easy pathway to these finances. Therefore it is not unusual to find businesses who have the opportunity to expand and have the capabilities to expand successfully, but cannot do so because they can't access the financing.

## LAND ACCESS

For new farmers (or new businesses that need acreage), land access is an enormous hurdle. Record prices in commodity crops have meant that land is being snapped up by either the largest farmers in an area or by outside investors. Even rental rates are such that new farmers can't afford to get started. One result is that communities lose people, and when they lose people, they lose schools, and churches, and grocery stores. In these communities there ends up being a significant divide among those with wealth and those without. Because of the commodity agriculture structure, these are often the same communities that have a large influx of new immigrants and migrant workers, who come to work in the fields or in the processing plants. These communities also often have an elderly population that may be land rich, but cash poor.

Featherstone Fruits and Vegetables, the successful mid-sized vegetable farm mentioned previously, is worried about land prices. Their storage and processing facilities, and a few acres for crops, adjoin an industrial park in Rushford. They also own some acres nearby and lease land. But in the acres and acres of farmland in that part of the state, they are worried about being land locked – or more accurately – price locked. It is much more lucrative, at least recently, to be growing corn and soybeans than to be growing tomatoes and sweet potatoes. While land is available, it is too expensive to either buy or lease.

If a well established farm like Featherstone faces issues with accessing land, imagine how much more difficult it is for a new farmer with no collateral to get into farming.

## INFRASTRUCTURE

While not directly related to financing, our interviews uncovered some additional obstacles that impact farm and food entrepreneurs. A lot of the smaller scale infrastructure—the middle of the food chain that includes processing, distribution, and storage is not in place to support local food systems. Some of this infrastructure has disappeared and fallen by the wayside in rural areas and that which is left isn't always easy to access.

This is true for various sectors for the food system. Many schools lack kitchens that can process and cook food as there was a trend a number of years ago to go to heat and serve facilities. These facilities offer convenience, but limit the ability of schools to buy products from local farms and cook meals from scratch. Options for processing milk,

fruit, vegetables, and grains into value-added products is limited, and businesses often have to work with distance processors to make their product. And while there are some good examples of efficient aggregation and distribution systems for small farms and businesses, this is an area where improvements are needed.

## REGULATIONS

Another area that food and farm entrepreneurs face challenges is in the area of regulations. Many businesses and farmers alike may have entrepreneurial energy and savvy, but they find themselves stymied at every turn. Regulations are often crafted into a “one size fits all” model that is based on large-scale operations. While at the outset, this may make sense, it presents considerable barriers for smaller operations. There is a tangle of regulations that range from local to county, state and federal enforcement bodies. Zoning codes, health codes, and commercial real estate requirements—they all come to bear as our new multi-dimensional businesses and value added farmers are coming on line.

## THEMES/LESSONS LEARNED

- Savvy businesses who have strong links to their customers have found creative ways to finance their growth. This often takes a significant amount of work and a willingness to ask customers to invest.
- Often a challenge for farmer and food entrepreneurs is finding the financing that works for their situation. While there are many financing options available, ranging from loans, to equity, to grants - navigating the options can be daunting. It requires additional time and expertise that many small businesses are not able to invest in.
- The playing field is not level in accessing financing. Those with wealth or connections to wealth have the easiest time accessing financing. Those who lack wealth have higher hurdles when accessing financing, and often cannot qualify for conventional financing because of their lack of equity and/or collateral.
- For farming based enterprises, land access is currently a considerable barrier. With farmland prices at record highs in the Midwest, it is very difficult for those without land to afford to buy, or even lease, land.
- Margins for small and mid-sized farm and food enterprises are generally small. This makes them unlikely candidates for traditional investors, even if there were mechanisms to make the deal flows easier. They also face all the inherent risks associated with farming - weather, crop failure, volatile markets, etc.
- Creating realistic businesses plans is challenging in this sector as the enterprise costs aren't readily available.
- The infrastructure for many small and mid-scale food businesses is lacking or not easily accessed. In addition to business planning assistance, finding ways to create and maintain an inventory of needed infrastructure and services in the local food system and connecting these to promising start-ups is key.
- Because they are stretched to the max in their daily operations of keeping their businesses above water, small farm and food-based businesses don't have the time or resources available to step back and look for leverage points that could improve their profitability. For example, where is existing capacity that can be tapped into? What new markets can be created that benefit multiple businesses and not just the most innovative entrepreneurs?

# REGIONAL APPROACH & EQUITABLE URBAN/REGIONAL CONNECTIONS

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Most of rural America operates and thinks of their businesses and farms as export producers. The emphasis is on marketing to big, consolidated markets, not on keeping value and circulating wealth within the community. This approach has depopulated and depressed many rural regions to the benefit of a handful or very large corporate farms and the aggregators in the system.

Towns and cities across rural America have their roots in the valuable resources found in these places. Timber, minerals, oil, and productive land— these are the riches that historically brought people to rural areas. But in most cases, the wealth created by

these resources and the industries that accompany them didn't. The labor force (often cheap, often desperate) lives here, but the wealth is often extracted, along with the raw materials. Meanwhile urban areas, where now 80 percent of our population lives, have in the past been reduced to mere consumers of these extracts.

Ken Meter, at Crossroads Resource Center, has developed an economic model that quantifies the economic inputs and returns of the current agricultural model in a region and contrasts that with food purchasing data from the same region. His data and analysis paints a clear picture of why a new approach is needed. He has conducted this analysis with over 70 communities in 30 states, and the results are striking.

Take, for example, Meter's analysis of four counties in Northeastern Oregon. Meter found that farmers sell the food products they raise for \$500 million annually (1987-2009 average), while it costs them \$550 million to raise these food products. On average, that is a \$50 million loss each year. Furthermore, of the \$550 million spent, \$225 million of that is for inputs sourced from outside the region, which results in a net loss of \$275 million for these counties.

On the consumer side of the equation, these same four counties spent \$322 million on food each year. \$290 million of this food was sourced outside of those counties. Combine the losses on the farmer side, with the losses on the consumer side, and you get a total loss of wealth equaling nearly \$565 million. \$565 million exported from this region every year (source Northeast Oregon Local Farm & Food Economy December 11, 2011; <http://www.crcworks.org/crcdocs/ornesum11.pdf>).

We see more communities that are identifying visions to address these profound challenges and they are asking big questions: What will it take to fundamentally address poverty? How can we solve hunger permanently? How can we

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## Regional/Urban Research Sources

Evergreen Cooperative and The Democracy Collaborative  
Hardwick, VT  
Vermont Sustainable Jobs Fund  
Meyer Memorial Trust  
Crossroads Resource Center  
Clancey's Meats and Fish  
Lakewinds Natural Foods  
Farm Haven, LLC  
Appalachian Center for Economic Networks (Acenet)

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create livable communities and livelihoods during challenging economic times and in the face of climate change? In beginning to answer these questions, communities begin to build a new set of assumptions and strategies that include broadening ownership and stewardship over capital, promoting equity and democracy in the workplace, a focus on community resilience and sufficiency, an emphasis on connection and relationship, and the recognition of the need for more collaboration.

The local foods movement could help to readjust, to shift back, to equalize and balance this flow—in short to be a game changer. In this section of our research we showcase two trends, that when connected to the emerging food financing system discussed previously in this report may hold promise to help reverse these patterns.

First is the emergence of regional economies that are based on more of this authentic connection and also begin to ignite within local communities a nascent memory of self-reliance and small-scale wealth creation. The relationship of consolidation in the food and finance systems to the depopulation and economic downturn of many rural communities is stark, and we see broader awareness that “more of the same” is not going to create the future we want. Our current “cheap food” commodity approach and policy framework make it impossible to create and keep wealth in many (most) rural farming communities. Facing these facts fully was often the starting point for creating a new-shared vision for healthier and vibrant regions.

The second trend is very related and founded upon first developing a strong regional and community commitment. From this foundation, a better, fairer, more just relationship or resources between urban and rural areas creating a more reciprocal and more authentic rural/urban connection.

Below we showcase several examples of regional rebirth and authentic urban rural connection.

## STORIES FROM THE FIELD:

Building a new food paradigm requires a systems approach and simultaneous action to build different parts of the system. A system is only as strong as its component parts. The new food system can only grow significantly and become a viable economic and community wealth building activity for rural communities if there is a commitment to understand and strengthen each part of the system – often concurrently.

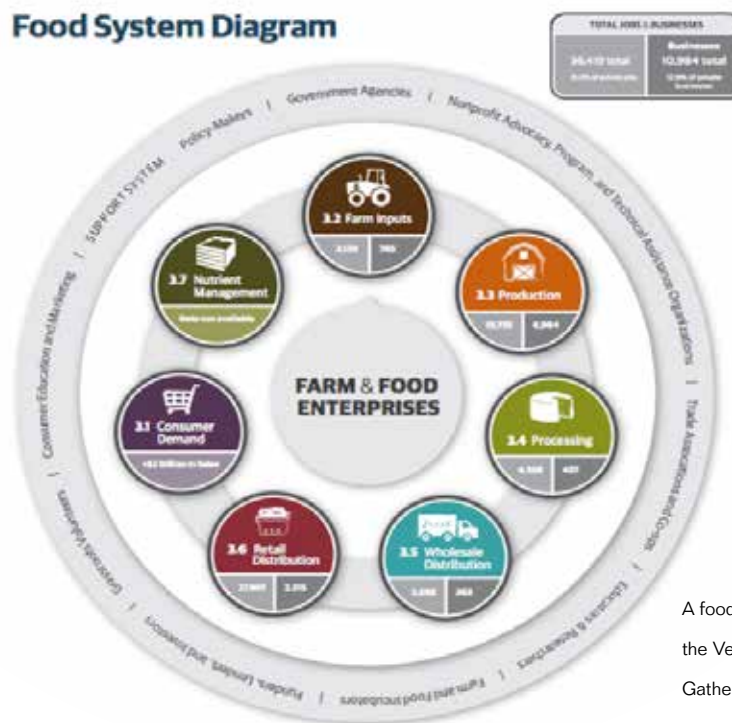
- The town of Hardwick, Vermont, is small (population 3,174), rural, and is a former mining town with higher unemployment and lower median income than the state average. Yet, towns like Hardwick, touted as the “town that food built,” help demonstrate the power of a regionally-based local food economy. Hardwick named a goal of feeding themselves (not just creating local foods for urban centers). Leaders in this community were methodical and intentional about growing their economy through a new local food system and working together to support each new business and initiative needed to grow the system.

Leaders, business owners, investors, and other community members started by mapping the food system and seeing what was already there, what was missing, and how they could work together to grow underdeveloped pieces of the system. They began creating enterprises and they told their story and restated their values over and over. The Hardwick local food system now includes a major organic seed company, many vegetable farms and CSAs, several nationally known cheese companies, breweries and a distillery, a food co-op, bakeries, a soy company, a company producing natural wood coatings out of whey, and the Food Venture Center – providing additional processing capacity, technical assistance, food incubation services and other food system services.



The story of Hardwick's local food restaurant is a good example of how creative thinking and community collaboration can create new and better solutions. Small rural towns often have a difficult time supporting a local foods oriented restaurant. A group of a dozen investors raised the capital to secure the lease and build-out the restaurant so that the restaurant had a lower debt load and a better chance of succeeding. The restaurant owners raised money from the community – mostly by pre-selling vouchers residents could cash in over the next four years. This allowed a restaurant to thrive in an area that conventional thinking would say can't support an establishment serving quality local food.

- In 2009, the Vermont legislature directed the Vermont Sustainable Jobs Fund to develop a collaborative, strategic plan to strengthen Vermont's local food system over the next 10 years. This has led to a powerful process and vision naming 25 goals and metrics for success. Every goal has specific targets and progress is tracked each year through an annual report. This in-depth and strategic approach has enabled Vermont to target resources toward key priority funding and infrastructure development needs within Vermont's food system. The reports have shown steady job and economic growth in the local foods sector, despite a decrease in the overall job sector in Vermont. Having this information helps build more support and momentum for local food businesses.



A food system diagram on display at the Vermont Farm to Plate Network Gathering. Photo by Rachel Carter

- The Cleveland Model is a place-based strategy that provides valuable lessons for other communities. Their model, a place-based strategy that is multi-tiered, complex in its financing and structural infrastructure and has been transported to other areas around the nation. At the heart of it is a wealth building framework that includes the elements of broadening ownership, anchoring capital and jobs locally, supporting individual family wealth while at the same time reinforcing stewardship and preventing the leakage of dollars leaving the community. Ted Howard notes that it is in asking a different set of questions and that our questions must require that the tending of the whole community comes before the investment in an individual's great idea. While

there have been numerous case studies on this remarkable initiative, there remain questions about how it might be replicated in rural areas because of its reliance on anchor institutional support - the power of being able to tap ready-made market for some initial significant “pull-through” and a scale that urban areas provide. Further exploration of this approach - perhaps looking to hospitals and colleges in rural communities (and perhaps even casinos on reservations) - could be fruitful.

- The Appalachian Center for Economic Networks (ACEnet), founded in 1992, was a pioneer in the field of creating a regional identity and local market focus for their mostly low-income region in Appalachian Ohio. They have identified three reasons for their success: weaving networks, encouraging innovation, and involving many groups in collaborative efforts. ACEnet’s approach was not to focus on individual entrepreneurs, but rather an entire specialty food cluster in the Appalachian region (e.g., salsa producers), which included manufacturers using their facilities, locally-owned restaurants, interested farmers, business service providers in design and accounting, the whole set of retail outlets and non-profits, agencies, and Extension. This approach helped everyone experience the impact of managing a whole system and gave them all the opportunity to see how it has the best chance of “lifting all boats.” ACEnet also developed other community-building strategies including festivals, regional branding, innovation funds, cooperative distribution, and other shared resources.
- The Vermont Sustainable Jobs Fund not only provides innovative financing and technical assistance, as mentioned previously, but in 2009, they were directed by the Vermont legislature to develop a collaborative, strategic plan to strengthen Vermont’s local food system over the next 10 years. This has led to a powerful process and vision naming 25 goals and metrics for success and aligning funding from their loan funds and other institutions towards key priority funding and infrastructure development challenges within Vermont’s food system.

## URBAN/RURAL AUTHENTIC CONNECTION

A great local example of urban-rural connections that have built-in reciprocity and wealth flow is demonstrated through the relationships between natural food co-ops and growers. Food co-ops have a long and impressive history of building urban/rural connections by sourcing food and other goods from local and regional growers in rural areas. Because of the principles by which they operate, co-ops are fair and open with their suppliers and truly seem to balance the interest of the farmers with that of their member-owners. In addition to getting a fair price for their goods, farms and businesses who sell to the co-ops get the added benefit of being promoted to the co-ops’ customers – through newsletters, in-store kiosks, signage, etc.

Our research took us beyond the producing, buying paradigm into examples that create even deeper relationship and also demonstrate that people are interested in more than just being consumers---some co-ops have taken steps to provide pathways for their members to more directly assist the farming community. Seward Co-op in Minneapolis holds an annual CSA fair where the public can come and learn about CSAs from throughout the region. All CSA farms are welcome, whether or not they supply to Seward. Other area co-ops partner on an annual “Eat Local Farm Tour” where they take their customers to area farms. And Lakewinds Co-op has an “Organic Field Fund” which supports local farmers and farming associations that are working on the development and sustainability of organics.

In addition to co-ops, a number of area restaurants and food enterprises also are playing a role in building an urban rural connection that has mutual benefits. The list of these businesses continues to grow, and their impact is substantial. For instance, one Minneapolis butcher who buys exclusively from local family farms reports that she

spends \$36,000 a month on payments to these suppliers. Another restaurant owner not only purchases from local farmers, but also organizes “crop mobs” during the growing season. This entails getting a group of customers to carpool out to area farms and spend a couple hours doing whatever the farmer needs done that day – be it weeding, planting, or digging potatoes. (Afterwards, the participants enjoy a nice lunch on the farm.)

More authentic Urban/ Rural connection can also be seen in the financing realm. People have acted on invitations from their CSA providers to become investors in expansion and renewable energy farm installments —again investments that are closer to home and/or more closely aligned with their values.

- Minnesota’s most well-known example is Farm Haven LLC. Farming is a risky business, and the Read family has seen more than its share of tough times, including a barn fire that destroyed all of their livestock housing and over six hundred animals. While the farm family and business was recovering, and continuing to make award-winning cheeses, the recession and banking crisis presented a new obstacle. The Reads’ mortgage, which was current, included a balloon payment due in July 2008. Although the bank had previously agreed to refinance the loan, amidst the financial crisis, they were no longer willing to do so and instead threatened to foreclose. After exploring a number of options, the Reads formed Farm Haven LLC as a financing vehicle for preserving the real estate and providing funds for progressing the operation. Through this group, the Reads raised the funds to protect the farm from foreclosure and to provide capital to move to the next step. Initial membership units in Farm Haven were \$10,000. Members would be repaid over time with interest. While those involved in Farm Haven will quickly note that the model has encountered bumps along the way, it is an example of the sort of “Slow Money” investment that is gaining greater interest from the public and could have tremendous implications in growing robust and successful businesses in rural communities.

## THEMES/LESSONS LEARNED

- Regions and/ or communities who develop and operate out of a shared vision and a set of questions that prioritize development of the region as a whole and aim to share benefits broadly and for the long-term are more successful at growing their local food economy and generating wealth in rural areas than areas focusing mainly on supporting individual entrepreneurs.
- Those engaged in leading regional food systems efforts acknowledge the challenges inherent with the current commodified system of food production. They are working to build new systems that emphasize community engagement, creative ownership models, and a desire to keep capital circulating in their regions. These communities are directing public and private resources towards a set of more profound challenges—such as, what will it take to fundamentally address poverty? How to address our yearning for community livability and livelihood? How can we create and support a new local economic system. These questions require a different set of assumptions be attached them—as Ted Howard from the Democracy Collaborative and Evergreen Cooperative so rightly put it—our questions must require that the tending of the whole community comes before the investment in an individual’s great idea.
- Catalytic Investors. Philanthropists and investors played important role often developing creative financing approaches, attracting other investors and connecting the dots. This role was sometimes visible and sometimes invisible, but an important pre-condition to see significant growth in the local food sector. Early efforts are often not able to tap conventional financing sources.
- In regional efforts, the role of catalysts, be they individuals or organizations, is crucial in helping regions “come

on line.” These catalysts make connections, crossbreed efforts throughout the region, and step into leadership in a variety of ways. In the examples researched for this report, this role was supported and resourced.

- Building a new food paradigm requires a systems approach and simultaneous action to build different parts of the system. The new food system can only grow as all of its component parts are strengthened. Regions with the most growth in their local food systems often have a larger collaborative table to help map, identify needs, establish metrics and connect, integrate and synergize hundreds of initiatives and points in the system.
- Tipping Point: Development of a new sector / approach / paradigm starts with innovators and their innovative customers. In order to grow, these consumers need to hear more about the idea, see other related products, and learn about the benefits from multiple sources, suggestions need to travel word of mouth. This circle of activity and activation of interest in this new economic paradigm begins to grow enough support to gain a foothold in a region—physically and in the imagination/vision of their community.
- Landscape matters – areas like Vermont that are not suitable for conventional large-scale agriculture – can more easily reconnect to their land, have more dense rural populations and some of the local infrastructure, including locally minded financing and banking systems – in tact. It seems easier for regions less commodified to make the switch – land is not prime ag, more family farms exist, financing infrastructure easier to re-create. Other areas more deeply involved in the conventional ag system can learn from the trajectory and strategies employed by places like Vermont, Oregon etc.
- Regions with the most growth in their local food systems often start with smaller communities and regions identifying their needs and challenges and starting to build their local food networks. This often leads to larger, more coordinated efforts and in a few places (Vermont) a state funded strategic plan and collaborative table to help map, identify needs, establish metrics and connect, integrate and synergize hundreds of initiatives and points in the system.
- Regions taking a connected, collaborative approach with the vision of “all boats rising” find growing and building their businesses to improve the quality of life in their regions is successful.

# APPENDICES

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## A. DEFINITION OF ACCREDITED INVESTOR

- The federal securities laws define the term accredited investor in Rule 501 of Regulation D as:
- A natural person must have experience in managing his personal portfolio.
- A bank, insurance company, registered investment company, business development company, or small business investment company;
- An employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of \$5 million;
- A charitable organization, corporation, or partnership with assets exceeding \$5 million;
- A director, executive officer, or general partner of the company selling the securities;
- A business in which all the equity owners are accredited investors;
- A natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds \$1 million (not including their home) at the time of the purchase;
- A natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.
- A trust with assets in excess of \$5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

## B. THE SLOW MONEY PRINCIPLES

In order to enhance food security, food safety and food access; improve nutrition and health; promote cultural, ecological and economic diversity; and accelerate the transition from an economy based on extraction and consumption to an economy based on preservation and restoration, we do hereby affirm the following Slow Money Principles:

- I. We must bring money back down to earth.
- II. There is such a thing as money that is too fast, companies that are too big, finance that is too complex. Therefore, we must slow our money down -- not all of it, of course, but enough to matter.

- III. The 20th Century was the era of Buy Low/Sell High and Wealth Now/Philanthropy Later—what one venture capitalist called “the largest legal accumulation of wealth in history.” The 21st Century will be the era of nurture capital, built around principles of carrying capacity, care of the commons, sense of place and non-violence.
- IV. We must learn to invest as if food, farms and fertility mattered. We must connect investors to the places where they live, creating vital relationships and new sources of capital for small food enterprises.
- V. Let us celebrate the new generation of entrepreneurs, consumers and investors who are showing the way from *Making A Killing* to *Making a Living*.
- VI. Paul Newman said, “I just happen to think that in life we need to be a little like the farmer who puts back into the soil what he takes out.” Recognizing the wisdom of these words, let us begin rebuilding our economy from the ground up, asking:
- \* *What would the world be like if we invested 50% of our assets within 50 miles of where we live?*
  - \* *What if there were a new generation of companies that gave away 50% of their profits?*
  - \* *What if there were 50% more organic matter in our soil 50 years from now?*