The towns in Vermont’s Northeast Kingdom around Hardwick have achieved an almost legendary status among food activists. Numerous small businesses, based in food and agriculture, have been spawned there in the last dozen years. The resulting economic development has provided a good market for local farm products, attracted young and talented people to the attractive combination of good jobs and a wonderful place to live, and enabled some entrepreneurs and investors to once again build value on Main Street rather than Wall Street. Already, books (The Town that Food Saved, by Ben Hewett) have been written about it!

This local entrepreneurial energy was prefigured by the early success of Jack and Anne Lazor in creating Butterworks Yogurt on their Jersey dairy farm in Westfield. The resulting cash flow enabled Jack to have the freedom to explore other value-added products, and particularly to experiment with producing grains and beans. He has become the mentor for many other northeastern farmers and the grandfather of the resurgence in grain growing here.

But the Lazor’s success was a little distant in time and space from what is currently going on around Hardwick. Perhaps a more immediate and continuously connected inspiration is that provided by Tom Stearns and his company, High Mowing Seeds.

Begun as a small home business in 1996, High Mowing now grosses $3.3 million in sales annually. It employs some 45 people at its building in Wolcott and at its nearby breeding and testing fields around the area. It also contracts with farmer-growers around the country for high quality seeds.

Originally serving the biodynamic market, High Mowing now specializes in serving the organic farming market and providing GMO-free seed to growers. But his biodynamic training still infuses his approach.

“When I was first taught about farming,” recalls Stearns, “it was from 2 biodynamic farmers. So I didn’t know any different. Even though we’re not using the preps and any of the specific measures, the whole vision and philosophy of measures, the whole vision and philosophy of

Tom Stearns at the High Mowing cucurbit isolation cages which produce the foundation seed for his proprietary crops. thinking of your farm as an organism and paying attention to the full cycle of nutrient cycling and sensitivity to things is still with me.”

High Mowing finds itself among the smaller companies which serve the organic market, Stearns asserts, but among the largest which do so exclusively.

“Johnny’s is probably at $24 to $25 million,” he believes. “Fedco has different divisions. I would guess that the seed division would be about $3 to $4 million, the tubers $1 million, Growers’ Supply a couple million, plus the garlic and fall bulbs and the trees. All told, the whole Fedco world, maybe is $8 million.”

“Of course Fedco and Johnny’s don’t sell just organic seed,” he continues. “You have to think about how much organic seed they sell. Even though we are smaller than they are overall, we sell more organic seed. I think Johnny’s sells about $1 million of organic seed. Seeds of Change is our only competitor selling only organic, but they only sell them in small packets now. You have Territorial Seeds in Oregon. It is independently owned, they have a farm and do seed production, but they are only about 10% organic.”

Much of High Mowing’s growth is based on the concern of small farmers to avoid genetically modified organisms (GMOs) and to seek seed bred with those concerns in mind. Since much of the GMO seed currently on the market is for corn, and since corn is notoriously promiscuous when it comes to pollination and thus can easily cross-pollinate neighboring corn, that crop needs particular watching for GMO contamination.

“Having control over your seed supply is crucial,” Stearns feels. “We are growing it and engaged with the production. It is hard for other seed companies that don’t have that control to guarantee it is GMO free. If we didn’t have the ability to produce seed ourselves, I don’t know where we would get clean corn seed. It is very important to our customers.

“We grow most of our corn seed here,” he continues. “There are zones in the country where seed can be grown GMO-free, as long as your starting stock seed is GMO-free. We know exactly where all the GM corn places are around here. Our minimum distance for corn is 2 miles. That is sufficient. We have done lots of tests. The pollen is viable for a few hours at best. Usually it is one hour, but if it is damp out it will survive longer.”
For Your Own Protection!

by Jack Kirttridge

I can hear you now! “What? After a season of record-breaking drought and soaring feed costs, I finally spent the last of my farming publication and I have to read about securities law?”

Rest easy, gentle reader. For reasons that will be made clear shortly, this is important to farmers and friends of organic and local foods. And, I promise, we will use no arcane terms!

As in so many other areas of our lives, for good or ill, we are being constrained by our government for our own protection. Every wonder why you can’t buy raw milk from a neighbor or sell bread baked in your own kitchen? Or employ a healer to your liking?

The answer, of course, is that you can’t because the government is protecting you — you are not qualified to judge wisely and undertake these risks.

Well, add to these constraints the fact that you can’t crucially influence buyer confidence is not only concern and care, but these days it also involves thorough testing. Reliable DNA tests are now able to detect tiny quantities of GMO proteins or other markers for a reason that has become well known.

People began ordering seeds in quantities well below production quantities. It may get a dimple, but that is all. So if you see a starch in it and it shrivels up. But field corn doesn’t. When sweet corn is dried it gets wrinkly, like raisins. It has very little compatible and can cross. But when sweet corn is dried it gets wrinkly, like raisins. It has very little genetic diversity so it can cross easily. We had one kernel of GMO corn go down as distance increases. Standard industry practice is to verify every 100 of GM-free, then 1 to 500, 1 to 1000, 1 to 10,000 and tested them all to make sure the tests were accurate. We have also tested planting close to GMO corn, and even within a GMO field. As you would expect, adjacent fields and the GMO fraction go down as distance increases. Standard industry isolation distance for corn variety breeding of a similar type – like field corn – is ~600 feet. It is 1200 feet for corn of different types. For us, we use one half a mile between our own corns, and two miles between our own and conventional corn that might be infected.

“One of our corn is routinely tested for GMOs,” explains Tom. “We test a 10,000 and 5000 and 10,000 and 5000 and 10,000, and 10,000, and tested them all to make sure the tests were accurate. We have also tested planting close to GMO corn, and even within a GMO field. As you would expect, adjacent fields and the GMO fraction go down as distance increases. Standard industry isolation distance for corn variety breeding of a similar type – like field corn – is ~600 feet. It is 1200 feet for corn of different types. For us, we use one half a mile between our own corns, and two miles between our own and conventional corn that might be infected.

“Mostly what is growing around here is sweet corn,” he concludes. “But the GMO corn is more of a problem. We are growing it in one field. Now sweet corn and field corn are fully compatible and can cross. But when sweet corn is dried it gets wrinkly, like raisins. It has very little genetic diversity so it can cross easily. It is worth $1 million, in five years it is worth $5 million. They invest when the company is sold. Until then, there is no mechanism for owners to get their money out when the company is sold. There were some banks that would have lent Tom a lot of money, but he was projecting several years of big losses and banks are risk averse. They don’t want to take those chances unless the loans are secured by a lot of collateral. But High Mowing rented its building and Tom’s personal property was already pledged for loans. So there wasn’t much collateral.

When most businesses get to this point they either sell shares to raise capital, or sell the entire company to someone with more capital — as happened with Odfalla, Fresh Samantha, Tom’s of Maine, Stonyfield. Ben and Jerry’s was sold a couple of years ago, but not to someone with more. But Tom didn’t want to sell the company, or even give up too much of the ownership in shares. So he needed to create a different vehicle to raise the money he needed.

“We were growing at 60 to 70% a year,” he concludes. “So we needed this money but couldn’t afford service on a traditional debt. We also didn’t want to take on investors in such a way that we would have to sell the company to enable that. They invest when the company is sold. They invest when the company is sold. Until then, there is no mechanism for owners to get their money out when the company is sold. There were some banks that would have lent Tom a lot of money, but he was projecting several years of big losses and banks are risk averse. They don’t want to take those chances unless the loans are secured by a lot of collateral. But High Mowing rented its building and Tom’s personal property was already pledged for loans. So there wasn’t much collateral.

The years 2005 and 2006 were challenging ones. The systems that had been created to run the business were not working. Order processing was breaking down with the phone system going from ten calls a day to 500. In 2005 Tom took on a co-owner, Meredith Martin Davis, who has run the company ever since. She really got good at managing people and systems.

“Meredith runs most things inside the walls of the business,” says Tom. “My job involves relations with the seed industry, customer relations, relations with seed producers, breeders and university people, with loan money to a local dairy seeking to expand its herd or buy shares in a company in your town set up to can tomatoes for use next winter. You might be fooled, cheated, and swindled. So the Securities and Exchange Commission (SEC) can prosecute to prevent you from taking such a risk.

Unless, that is, you are a person of means. A special exemption to securities law enables “accredited investors” to make such direct loans or investments. How do you get to be accredited? Not so hard — just acquire a net worth of one million dollars or more.

How can you do this, you may ask? Unable to earn a million with your radishes at the farmers market, or to invest your meager inheritance in local companies whose owners you trust? You can either buy a CD at the local bank (don’t hold your breath, tho. At 1% $10,000 over 50 years turns into not quite $17,000; at 2% you can get almost $27,000), or turn to the professionals on Wall Street.

Did I say they have where they want us?

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One was they could buy shares in the company with that principle. Tom set up the percent of ownership they would be entitled to based on High Mowing’s expected growth at the beginning, so they knew what they would get. An investment of $50,000 would be worth 1.6% of the company. Of course, with option one there was no way for them to get their principle back out. What they would be getting is dividends. Tom projected that they would be between 5 and 7% annually—“Not a home run, but a nice comfortable return.”

Option two was that they would, instead of convert- ing their investment into shares, convert it into a debt note and be paid back their principle over the next 5 years, still at 6% interest. So after ten years they would have earned 6% a year plus all their principle back.

“No this was not secured,” Stearns points out, “so they could have lost it all. But we had a track record and had been around for 10 years and were doing a million in sales. They were really investing in the people. Meredith and her role gave people a lot of confidence. Knowing that I wasn’t going to be doing that stuff helped, too (laughs).

“Legally,” he continues, “all these investors were “accredited investors”. That means that they have a net worth of a million dollars. The Securities and Exchange Commission makes you ascertain that because they figure that if someone has a net worth of a million dollars they should know better than to get into a crazy deal. If they do, it is their own fault. They do that to protect grandma from putting her last $10,000 into some risky company.

“I wasn’t trying to rewrite the rules,” he concludes. “I needed to raise money. The deal was fairly friendly to the company – the investor could lose everything and could only make 6% initially, and then 5 to 7%. That isn’t a great deal for an investor, but maybe for a Slow Money person, or a community investor, it was attractive. Our minimum was $25,000 too. So this was not for people wanting to invest $1000. I wanted to keep the group of people small. I was building a relationship with each of them. For us, this convertible debt was a chance to have $1 million for 5 years to grow through these gangly teenage years.

Of course, all this wasn’t accomplished without a small mountain of paperwork and procedures. Tom felt that because he had created an investment that was risky, he had to have all the documents and li- nancials in order. People would want to give them to their accountant or bookkeeper or lawyer. The more alternation the arrangement is, the more formal you want to be about it.

And using such a funding route, even though it was not publicly advertised and involved only affluent “accredited investors”, was possible only through an exception in the Securities and Exchange regula- tions on seeking investment capital. So numerous filings and disclosures were required to qualify for this exception. (This was before passage of the 2012 “JOBS Act”)

“It cost us about 1% or 2% of the money we were raising,” recalls Tom, “to create the paperwork to do this. This book is what we put together. It is a hun- dred pages or more. There is an executive summary, a description of the business, our growth in the past, our history, our competition, a historical profit and loss statement, the section of our balance sheet, a breakdown of our key employees, the current ownership, the offering, the plan for how we are going to use the money, and then the legal details: the note itself, the limits on investors, lots of legalisms, etc. We were careful not to use words like “we will” and instead say “we may” to represent the uncertainty of all this.

“This is the first time that I have seen,” he continues, “or our attorney in Burlington has seen, an alternative investment for one million dollars done with accredited investors and full legal wrappings. Of course the investors also needed to have some paperwork, to show that they had a net worth of one million dollars. Our attorney has gotten calls since then from almost 100 other companies from around the country interested in learning how to do this.”

Some of the investors came in at $15,000. That was below Tom’s minimum of $25,000, but they had been friends of High Mowing for a while and he let them in almost as a favor to them. The biggest in- vestment was $200,000, with a couple at $100,000, and lots at $50,000. Most of the 17 investors were local people. Three were not, but two of those had tight local connections like spending the summers there. The third was in a region, out west, where a lot of seed is produced for High Mowing.

“These are all really great people,” says Tom, grate- fully, “who have invested in us and in our cause. They don’t bug us about how we do business. Every quarter we send them a statement with all the finan- cial documentation so they are in touch constantly.

“Three foundations invested in us as well,” Tom says. “They normally give out grants, but they have investment money too. If they can invest in the causes they support, rather than give away, they love that. They saw this as an opportunity to do the same kind of thing they do with grants, but make a return on it. In their case they need to have a net worth of five million or more to be considered accredited by the SEC. They are all 501 (c) 3’s.”

High Mowing, an S corporation, is not able to take investors that are either corporations or are not US citizens. They had both interested in investing, however.

High Mowing’s financing deal was completed in 2007 and the five years is just about up as this jour- nal goes to print. Tom says the company’s growth has been good and he is not worried about paying back the money.

“We’re actually a year ahead of where we thought we would be,” he smiles. “We projected we would hit $2.8 million in sales this year, but we hit that last year and this year we are at $3.3 million. So we’re doing great. Our net is about the same, but the growth is ahead.”

But giving over a significant portion of the company is still difficult for Tom to face. If every one of the investors converted, they would own 26% of High Mowing. The whole idea of the founder of a compa- ny selling even a percentage of it, however, is often a hard thing to do. Many founders even have trouble hiring staff to do things they used to do. Fortunately, Tom realizes he is not really good at many things and finds other really smart people to help deal with the growth of the company. But he still likes to be in control.

“I’m young,” he says. “I’m 37 years old. I don’t feel the need to sell part of High Mowing! I would love to retain that ownership for me and Meredith so we can be in charge of directing where those future profits go. I’m excited about building this place to be the best place to work in the state! We have 45 people who work here. We’re trying to sell good seeds to the world and build community food secu- rity, but also build a wonderful place to work.”

But now he is going to have to deal with inves- tors who may want to become owners. Stearns said a few investors to whom he said “no” five years ago. He felt they wanted to control the company more than he wanted and was looking, instead, for people who would trust him and his vision of how to grow the company. So now he has had five years to “date” these investors, as opposed to the process of a traditional equity investment where you meet people, they put their money in, and then you are in bed with them right away.

“We have been positioning ourselves,” Stearns says, “to be profitable enough to pay them all back, so none of them convert and we can retain full owner- ship. Our job now is to have these conversations and present to the investors our case and the tax impli- cations of their choices now that the term is almost up. We have some new scenarios now. Alltho the conversion is available to all investors, the company would prefer they not do that and is presenting other options to them that might be more attractive.

“Some of those people,” he continues, “would like to stay involved in the company longer term. So we are offering a longer term loan option than 5 years. These folks, in the last 5 years, have made more return than most any other investors in the United States! But six percent is high right now – if people took their money out, they wouldn’t be able to find anything at 6%. So we are thinking of offering less for the longer term.”

Besides consciously turning down large investors who wanted too much control, Tom’s minimum $25,000 requirement also kept out many small in- vestors. At the time, of course, the SEC’s “accredit- ed investor” rules required that smaller investors be excluded. But Tom had an answer for these smaller people.

“We had many people who wanted to put in a thou- sand dollars,” he recounts. “So I told them: ‘invest it in the Vermont Community Loan Fund’. That is where you can get a CD for a thousand dollars or more, and in turn High Mowing borrows 2% of credit from the Loan Fund, as do many other businesses around. They don’t give us a better rate than the bank, but they are more flexible on terms. They’re willing to be in a second, third or fourth position after more secured creditors. With them we had an equipment loan. Five years is the usual maximum but they stretched it to eight for us. And
A more direct answer for farmers wishing to help High Mowing financially and get a reasonable return themselves is their Seed CSA. Farmers often have their most cash in the fall, when seed companies are cash poor. So High Mowing offers farmers a deal. If they put up money in the fall, before the end of the year, they can get their seeds the next year at a 10% discount. At the most extreme, a farmer could send the company $910 the last week of December and then order $1,000 worth of seeds for it in January.

"A CSA is essentially a line of credit from your customers," states Stearns. "It is a radical idea. Of course it has limits. We couldn’t do the expansion that way because it was over a much longer time frame. If we asked farmers for five or ten year’s money upfront, that is a large amount that they don’t have either. A farmer who might spend $500 a year on seed isn’t going to have $25,000 to invest for a five-year period. But we have hundreds and hundreds of farmers giving us their one-year seed money upfront for a 10% discount. Many of them are cash rich in November and December, but don’t want to pay taxes on it. So we give them a way to help us keep from bank borrowing, while they save on seed, and pay less taxes. That is a substantial method of financing for us. Quite substantial."

Local investing is very appropriate for a certain kind of unmet financial need, Tom suggests. If you had a graphic that showed the options in investment, it would show risk increasing as you move to the right along a continuum, and return would increase as you go up vertically. So you could plot various kinds of investments with traditional equity high and to the right, convertible debt like the recent kinds of investments with traditional equity high as you go up vertically. So you could plot various kinds of investments with traditional equity high and to the right, convertible debt like the recent

"Because we had offered our convertible debt notes," Stearns recalls, "and raised most of our needed money by January, 2008, Woody asked us to come to a gathering in Sundance, Utah, where they put together Slow Money. So I was part of birthing Slow Money for four days — and it was a challenging birth, let me tell you."

Besides the Slow Money organization, there are organizations like the Vermont Flexible Capital Fund and the Vermont Sustainable Jobs Fund active in helping people invest around local food and food system businesses. These organizations pool money and are mostly able to provide modest returns (3 to 6%) and ways of getting the principle back out so they don’t force sales of companies."

"I think there is a huge role for community investing. We have found that our best seed growers are the ones who are full time seed growers. Some are really good at a range of crops, like peas and beans. So they focus on those. Others do a broader range of things. Some grow seed but also place our seed on the farms of nearby friends."

All the farms where High Mowing sources seed have to be certified organic, however. High Mowing staff visit those farms and know them really well, both to make sure the organic methods are authentic, not just following the rules, and to make sure they are properly raising the seeds. The company requires contracts with the growers spelling out the isolation distances required per variety. Some crops need more, some less. Lettuce and beans, for instance, don’t need any. Crops like corn or chard, brassicas or cucurbits all need a half-mile or more.

This year High Mowing has about 25 acres total in breeding area and trial fields — with 15 to 18 of them growing out seed crops, trials on 5, and breeding seed on 1 to 2. They have about another 20 acres in cover crops. The company tends to produce their higher value seed on their own sites because it is in smaller batches and they’re not set up for mechanical harvesting.

“When we grow a crop here,” Tom says, “we also tend to produce a 2 or 3 year supply of it. Overall we produce about 20 to 25% of our seed here. It is increasing as we make an effort to push the envelope.

“We also rent some of our land to growers,” he continues, “and give them seed to trial. They plant it in commercial plantings, but give us the data on how the plants do. It gives us a chance to trial the plants
In seed growing parlance, there is a chain from breeder seed to foundation seed to stock seed to commercial seed. Breeder seed is that which you have developed as a variety and it is finally complete. You have a tiny match of that. But you blow that up by growing a small supply as foundation seed, which is super-protected, usually grown in a cage with a hive of bees, to prevent outside pollen contamination. That foundation seed is sired away in the freezer for the long term. You dip into that when you need to produce stock seed, which is what you end up growing, often in a bigger cage, to produce a commercial seed crop. That commercial seed is what you sell.

High Mowing likes to have a 5 to 10 year supply of foundation seed on hand, and a 2 or 3 year supply of stock seed. Every time they produce a seed crop for sale they don’t just grow out the commercial seed they have left. They go back to the stock seed. Which is how they are sure it is GMO-free and totally pure.

The company owns some acreage along the Lamoille River on which they grow seed. The stock seed and foundation seed is grown in cages to prevent unwanted pollination, with a hive of bees in each one. They have four major fields in the valley, stretching for about 2 miles with a field every half mile. Then about 400 feet higher, on the surrounding hills, there are other fields, each a half mile away from the others. The soils in all the fields are pretty similar, except some of the lower spots are more fertile and less bony. But they are all 4 to 6% organic matter.

“We’ve acquired these fields over time,” explains Stearns. “Because of the isolation issue, it is really important for us to control our surroundings. If another farm pops up on the edge of one of our fields, we just lost that field. We could do controlled breeding there, or grow in cages, but not open field growing.”

In the last few years High Mowing has been re-leasing a couple of varieties a year from their own breeding work. But 2012 will be a big year for releases, with a lot of breeding programs maturing. They will have seven new varieties coming out this year, including four hybrid sweet corns, a hybrid zucchini, and an open pollinated colored bell pepper.

On a July visit to one of their breeding plots I saw several of these new varieties. Ears of corn were bagged to control pollination, and flags identified varieties. I watched a team doing morning pollination crosses on winter squash.

“Squash flowers open in the morning,” Tom explains. “Last night our guys found this female that was going to open this morning. You can tell it is female because it has this ovary at the base of it, and inside it has very complicated stuff. They put a twist tie bag around it, and put a flag here. Then, on the same plant, they found a male that was going to open this morning. Just like in humans, boys are very simple. There’s nothing at the base of them. All there is is a little well down there with some nectar. They put a bag around it, too. The bags keep the bees out, who have pollen from who knows what on their toes.”

I watched them open and remove the guts of the male flower – the stamen -- open the female and rub the stamen against the female stigma to transfer pollen to it. After pollination they covered the female again to make sure no bees came in later.

“That keeps the parentage certain,” Tom says. “That female will not be viable tomorrow. The flowers open, are viable for a short time, and that is it. The staff cut off all the blossoms they didn’t pollinate, so the plant won’t put any extra energy into them.”

As we walk through the field full of bagged and flagged plants, Tom explains a little of the theory of plant breeding.

“These squash are in what are called progeny rows,” he says. “All these seeds in this row, number 151, whatever that is, came from a single fruit last year. Those seeds from that fruit, which was selected out of a similar field, were all planted. This is the development of either an open pollinated line or a parent line for a future hybrid. In either case a fruit from each plant will be self-pollinated. Throughout the season we will evaluate the plant – how strong is it, how vigorous, does powdery mildew come in stronger on one than another, mostly looking at the fruit at the end of the season.

“But if we were only looking at the fruit and not controlling by self-pollination,” he continues, “we would be doing maternal selection only. Because we wouldn’t know who daddy is and next year’s planting would be a different plant, genetically. This way we know exactly who dad and mom is. It is the same plant. All the genes in this fruit will be from this plant. So we can go through and say: ‘Of all the kids of the one we saved seed from last year, this kid is the best.’ We’ll get the seed from this one and grow it out next year in another progeny row. So 95% of what you see today will not be saved. You have to grow a lot in order to find the best and select for it.”

Of course there are some differences in how one handles hybrid and open pollinated (o.p.) breeding lines. With the parent lines for hybrids you need them to be very uniform. With an o.p. variety you don’t need such uniformity and you will ultimately cross two different lines.

“Developing a variety takes 4 to 8 years,” Tom sighs. “Once a variety has been developed, when you are close to the end, you take some seed and put it in trials. You grow out the whole thing and compare it to hundreds of varieties. The results give you an unbiased reading which gets kicked back to breeding. We trial size, uniformity, disease resistance, color, taste, all the basic features. Then, once it is ready, we start increasing from breeder seed, which is what is produced here, to foundation seed and stock seed. It may take 4 to 6 years to develop the variety, and then 2 more to get enough seed to have a commercial seed crop. We started our breeding program in earnest 6 years ago. This year we all of a sudden have a lot ready to come out.”
It was early in 2001 that I first came up with the off-the-wall idea of trying to make a living selling lacto-fermented pickles from locally-grown vegetables. My partner Addie and I were living in Somerville, and I'd been intensively experimenting with home-scale pickling ever since learning about the fermentation process at a NOFA Summer Conference a couple years prior. At a transition point in our lives, we decided to move to western Massachusetts. We both liked the area and, with all the organic farms and the interest in organic foods we had seen, it seemed like a good place to try launching an organic pickle business. I spent that spring scaling up my dill pickle recipe, securing my equipment supplier, and looking for a certified kitchen. By summer, having arranged for off-hours use of a small restaurant kitchen in Amherst, I was ready to produce my first 1,000 jars of Real Pickles product.

Jumping into the pickle business without business education or experience meant encountering all sorts of unanticipated challenges that first summer. Over this last decade, the work of gradually transforming Real Pickles into a viable business has produced many more. A central challenge has been the need to borrow significant amounts of money, and often without the proper collateral necessary for a standard bank loan. Through diligence, creativity, and strong community support, however, Addie (who joined me in running the business in 2004) and I have always managed to acquire the financing needed to keep Real Pickles operating and growing, by means both conventional and unconventional.

With the help of these funds, Real Pickles has (finally) arrived at the point of becoming a healthy, reasonably profitable business. With a fantastic staff of ten, we are annually producing and selling 150,000 jars of our Northeast-grown, 100% organic pickles to some 600 natural food stores around the region. Now in 2012 — the UN's International Year of Co-operatives — we are laying the groundwork for Real Pickles' next step of converting to a worker cooperative, a project which will pose its own unique financing challenge. We are excited about the role a worker cooperative structure can play in furthering Real Pickles' social mission, and so in the coming months we look forward to developing a creative financing approach which will facilitate this move.

Stocking Up

Real Pickles’ first financing challenge was one of my own making, resulting from a particular commitment I made when starting the business. My original inspiration for selling pickles stemmed in part from helping to build a regionally-based, organic food system. As a way of promoting this idea, I decided that Real Pickles would always buy its vegetables from within the Northeast (and as locally as possible), and would sell its finished product only within the Northeast. In a way, the business would be stocking up on regionally-grown vegetables for the region’s residents, in the form of lacto-fermented pickles. This meant producing pickles on a seasonal basis, and then gradually selling them off over the course of the year.

It took a little while before I really came to understand the financial implications of this decision. During my first year in business, I spent $4,000 (about half of my personal savings at the time) and brought in about the same amount in revenue, selling off my stock of Dill Pickles by October. In the following year, the season was small, and the revenue came in fairly quickly. It was when I increased production sevenfold in year two that I began to see that stocking up for the year meant investing a lot of money with uncertain returns. It was a lesson I learned in my first year of business, and one that would be repeated in many other years of our growth. As Real Pickles’ credit needs grew over time (and its profitability slowly improved), we continued to raise a substantial amount of money from other sources, and this outside money would need to be subordinated to their loan agreements. We also looked into buying land and building a brand new structure. Eventually, the best option turned out to be a century-old industrial building that came up for sale directly across the street from the Food Processing Center.

I designed the facility in consultation with our general contractor. It was to cover just over half of the 12,000 square foot building, and include a commercial kitchen, two fermentation warehouses, a small office and lobby area, and a 28‘ x 18’ walk-in-cooler. (We later leased out the remainder of the building to a worker cooperative that installs solar panels.) We worked hard to keep the budget as lean as possible, while also ensuring that we would be constructing a clean and efficient facility that would function well for years to come. Addie and I felt strongly about minimizing our energy usage, and so included many energy efficiency improvements in the plan. I researched and applied for a variety of government grants and utility rebates, which eventually helped to cover much of the energy efficiency improvements’ added costs.

Financing the project was a huge challenge. The final budget for the building purchase and renovations totaled approximately $650,000, and we had virtually no money with which to make a down payment. These circumstances prompted us to ask: could we possibly continue to operate out of the shared-use kitchen for a few more years, and perhaps build up some savings? But, we were clearly maxed out at the Food Processing Center, yet still producing limited net income. Moving across the street was the best and most affordable of all the options we had encountered in our multi-year search. Our conclusion was that, if Real Pickles were to keep operating, we needed to make this move.

Both our local bank and the FCCDC expressed interest in participating as lenders, but they made it clear that — in lieu of available down payment funds of our own — we would need to raise a substantial sum of money from other sources, and this outside money would need to be subordinated to their loan funds. So, we decided to turn to our network of supporters — contacting friends, family members, and business associates who we thought might have the interest and financial ability to lend to Real Pickles. I drew up a letter, framing the loan

By 2006, however, we had begun to outgrow the shared-use kitchen. It was time to start looking for our own place.

The project took three years, from the start of our real estate search until our move into our finished facility. It was a massive effort, involving many hundreds of hours of work time and plenty of emotional turmoil. We visited and evaluated numerous commercial buildings in the area, working extensively with a commercial realtor and a general contractor. We considered buying versus leasing. We also looked into buying land and building a brand new structure. Eventually, the best option turned out to be a century-old industrial building that came up for sale directly across the street from the Food Processing Center.

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Where did this money come from? Real Pickles’ first year was a small, informal one from my family. A second was soon added from the Franklin County Community Development Corporation (FCCDC) in Greenfield, MA, whose shared-use commercial kitchen we used from 2002 to 2009. Focused on lending to developing businesses that may not qualify for traditional bank loans, the FCCDC’s loan fund was hugely helpful. Real Pickles was unable to access regular bank financing in its initial years due to weak collateral and a limited business track record. Available collateral consisted of pickle inventory and receivables (the money owed to us by our customers at any given moment) — not nearly as attractive to lenders as, say, equipment or buildings, which can more reliably be converted to cash. Fortunately, the FCCDC was willing to work with us.

In 2004, however, our local bank decided they were willing to take on a chance at us. Though valuable collateral remained relatively weak, Real Pickles appeared to be heading in a positive direction. The bank extended a small line-of-credit to us, with the FCCDC loan subordinated to theirs (meaning that in the event of a default, they could use the collateral to try to re-coup their funds ahead of the FCCDC). As Real Pickles’ credit needs grew over time (and its profitability slowly improved), we continued to borrow from both the FCCDC and our local bank, with the loan amounts increasing over time.

A Pickling Facility

Borrowing money to buy local vegetables felt like a big deal until it came time to develop our own processing facility. Then the debt really started to pile up! Real Pickles had begun in its second year to operate out of the FCCDC’s Food Processing Center, whose existence was essential to enabling Real Pickles to develop into a viable business. Setting up a legal food facility was very expensive, and we were in no position to even consider such an option for many years. By 2006, however, we had begun to outgrow the shared-use kitchen. It was time to start looking for our own place.

The project took three years, from the start of our real estate search until our move into our finished

Real Pickles co-owners, Dan Rosenberg and Addie Rose Holland, at the Good Food Awards in San Francisco in January 2012, where they were honored for their Garlic Dill Pickles.
request as an opportunity to support our continued work in helping to build a vibrant regional, organic food system. I sent out the letter to about 50 people, asking them to get in touch if they might be interested in making a loan.

I found it very difficult to ask people I knew for money, so it was a big relief when positive responses started coming in. Ultimately, nine individuals or couples chose to lend $2,500 to $15,000 each; the loans totaled $65,000, or about 10% of the project’s costs. We drew up a simple loan agreement, outlining the arrangement as a five-year, non-collateralized loan with an interest rate of 6%. To help the loan administration from getting too burdensome, we proposed making one simple interest payment at the end of each calendar year for the interest amount accrued to date. We would re-pay the entire principal as a single “balloon payment” at the end of the five-year term, in order to allow for full and extended use of the loan amount. In accordance with the bank’s and FCCDC’s requirements, all of our individual lenders signed subordination documents granting the organizational lenders priority in seeking re-payment in the event that we defaulted on our debt obligations.

While these informal loans provided financing for only a limited portion of the project, they were critical in leveraging the remaining funds needed from the organizational lenders. Because they were subordinated loans, they could, in a way, be viewed by a banker as equivalent rather than debt. It did, however, solve the entire financing puzzle. Nearly 90% of the project still required funding, much more than our local bank would ever lend, and more than they and the FCCDC together were willing to fund.

The funding package was completed with the help of Equity Trust. Well-respected in the organic farming community for their years of involvement in helping farmers maintain access to affordable farmland, Equity Trust agreed to work with us because of our commitment to supporting local agriculture. With three organizational lenders involved – plus the subordinated loans – we were soon able to move ahead with our project. Our bank, however, still considered this a high-risk project for them and included a list of extra conditions designed to protect their financial interests. The most sobering was the requirement that I take out a $500,000 life insurance policy, and then sign it over to the bank as collateral.

It was an enormous leap for us to buy our building and set up our own pickling facility. Real Pickles was eight years old when we moved in during the summer of 2009. We had a solid track record, with good reason to expect increasing sales and profitability in the years to come. But at the time Real Pickles’ cash flow was sufficient to pay the mortgage with only minimal cushion for contingencies.

Fortunately, we have experienced increasing success over these last three years. Our new facility has allowed us to grow, and to do what we do more efficiently. Demand for regionally-grown, organic, and healthy food has continued to increase. And a fantastic Real Pickles staff has formed. Our annual sales have doubled since 2009, and our net income is now solid. Last year, we were able to implement a key building improvement that we previously had been unable to afford: we went 100% solar powered! With the help of another FCCDC loan and another informal loan – as well as excellent government incentives – we covered our roof with 80 photovoltaic panels generating 18,000 kWh of electricity annually, the same amount we use to power our Real Pickles facility.

Our Next Step

What’s next for an organic food business like ours? How do we best ensure long-term success?

A typical path for an organic food business these days entails getting big and then selling out to a multi-national food corporation. Entrepreneurs who have gone this route – like Gary Hirshberg of Stonyfield Yogurt – will offer all sorts of explanations for why such a move is socially beneficial. As I see it, leaving it to big corporations to run the world leads to very bad social outcomes. If we are to really change the food system (and our society as a whole), we need lots of small, mission-oriented businesses. And we need them to stay small.

The next steps for Real Pickles must support its long-term financial success and its success in contributing to a better world. Addie and I would also like to move Real Pickles in the direction of being able to achieve these goals with less dependence on the two of us. After over a decade of hard work building up the business, we would like to both have the space to pursue other projects. Eventually, we could be ready to move on from Real Pickles entirely.

What, then, is the best path?
Joe Mirkin, a long-time staff member, prepares certified organic pickling cucumbers for fermentation in barrels. Real Pickles operates out of their own 100% solar-powered, energy-efficient processing facility in Greenfield, MA.

worker-owners increasingly well-versed in running an organic pickle business, Real Pickles will also come to be able to succeed without its founders.

Last fall, we put the question to our staff: who might be interested in (1) making a long-term commitment to Real Pickles and (2) engaging in the work of guiding the business through a transition to worker cooperative, as founding worker-owners? Everyone on the staff expressed enthusiasm for the idea, and three people stepped forward. Five of us – those three staff members plus Addie and myself – have since been meeting regularly. We have been researching, tapping the advice of outside experts, discussing our vision for Real Pickles, and hammering out the details of transferring the business to the workers. (Addie and I ourselves will be worker-owners as long as we remain involved in the business, so we will actually be both buyers and sellers in this transaction.) In late July the five of us together decided that we would like to move forward and transition Real Pickles to a worker cooperative.

According to our plan, each worker-owner will pay $6,000 for a single share of common stock in the co-op. Staff members will need to work at Real Pickles for a minimum period of time before becoming eligible for worker-ownership. The worker-owners will govern the business via a board of directors, and will be entitled to a share of the profits through annual patronage dividends. Our current management structure will remain in place; we won’t be organizing ourselves as a collective. Addie and I will continue to own the building for now, and will sign a lease with Real Pickles for use of the facility.

We hope to make the transition to a worker cooperative in a matter of months. A key task we will first need to accomplish is to raise the money necessary for the worker-owners to purchase Real Pickles from Addie and myself – the $6,000 from each worker-owner will make only a small contribution toward buying the business at a fair price. As with our facility project, we will need to consider alternative financing approaches. Given the level of available collateral, it would be difficult to secure conventional debt in this situation. Much of Real Pickles’ selling price is based on goodwill (the intangible value of a business beyond that of its hard assets), which cannot be collateralized. More “flexible” capital will be needed, such as subordinated loans or forms of equity investment that will allow the worker-owners to maintain control of the business.
The coming months at Real Pickles are likely to prove both exciting and challenging as we work through all the necessary steps to making our transition. It will undoubtedly be emotional as well: Addie and I are preparing to hand off a business we have worked hard to build up over many years (even while we will be staying on), and three staff members are getting ready to shift into the role of business owners. We are hopeful that, at the end of the process, Real Pickles will be in an excellent position to continue far into the future to produce delicious and healthy food for people, provide meaningful and satisfying work for its staff, and make a lasting contribution to building a new and better food system.

You can learn more about Real Pickles at www.realpickles.com
Dan can be reached by email at dan@realpickles.com

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REFINE
REINVENT

This year’s KEYNOTERS

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PRESIDENT, EDEN FOODS
BOARD MEMBER, NON-GMO PROJECT

JANISSE RAY
AUTHOR, THE SEED UNDERGROUND: A GROWING REVOLUTION TO SAVE FOOD

ANDRÉ LEU
PRESIDENT, INTERNATIONAL FEDERATION OF ORGANIC AGRICULTURE MOVEMENTS (IFOAM)

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RESTORATION AGRICULTURE
Mark Shepard // 2 days (Dec. 4-5), $350

BIOLOGICAL FARMING SCHOOL
Gary Zimmer, Letanii Zimmer-Durand & Ellen Polishuk // 2 days (Dec. 4-5), $350

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26+ pounds $10/lb plus shipping

SWORDS INTO PLOWSHARES

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Catalyzing Connections and Investments in Maine Food Systems

by Bonnie Rukin

Slow money is flowing more freely in Maine these days. Since April, 2010, a steadily growing network of diverse food system players, called Slow Money Maine (SMM), has identified needs and moved collaboratively to create and implement effective strategies for a thriving food system. Our Steering Committee has 11 skilled leaders representing non-profit ag-focused organizations (MOFGA, Maine Rural Partners), financial institutions, private investors, farm and school enterprises and entrepreneurs. Together, with over 450 participants, we have made countless connections and helped to catalyze the flow of $3.5 million to Maine’s ag sector. This breaks down as follows:

- 50 loans helping 31 enterprises
- 26 grants helping 20 enterprises
- 15 equity investments helping 4 businesses

**Totals:**
- $1.6 million in loans, mortgages, loan guarantees, bridge loans
- $1.5 million in grants
- $535,000 in equity

As the Coordinator of this statewide network, I was initially introduced to Slow Money through Woody Tasch’s book and by attending the first national Slow Money Conference in Santa Fe in 2009. For those new to the concept, Woody defines Slow Money principles in relation to nurture capital and a restorative economy “where we can look at soil and place.”

Given my background as an organic farmer in Maine for 20 years, my leadership roles in varied nonprofits and my work with money and social change themes, I was drawn to these ideas and felt comfortable taking on this new challenge, discovering it to be a perfect match for my interests and skills. In our fairly consistent approach as a state agency, as well as loans & grants from two local livestock producers to have a state-inspected facility in Washington County. This will allow local livestock producers to have a state-inspected facility within 45 minutes of their farms, rather than driving several hours one-way for this service. With technical assistance from organic Maine milk), grain milling operations for livestock and poultry, fisheries, trucking distribution and fruit/vegetable storage and processing.

I’m delighted to report on the progress that we’ve made in just over two years of convening, connecting and catalyzing through Slow Money Maine activities:

a) Clayton Blake is expanding his livestock slaughterhouse and creating a poultry processing facility in Washington County. This will allow local livestock producers to have a state-inspected facility within 45 minutes of their farms, rather than driving several hours one-way for this service. With technical assistance from economic development agencies (Washington Hancock Community Agency & Sunrise Economic Development Council) along with grants from the Finance Authority of Maine, a state agency, as well as loans & grants from two individual SMM network participants, Clayton has received over $178,000 towards establishing these pivotal pieces of infrastructure in one of the more marginalized areas of the state.

b) Maine Organic Milling (MOM), a cooperative feed grain mill created by 12 dairy farmers, has begun operations in Auburn with the help of many financial stakeholders and significant technical assistance from Organic Valley, Androscoggin Valley Council of Government and Warren Cook and Linzee Weild of our SMM Technical Assistance Project (TAP) team. The farmers bought the mill to introduce more competition into the marketplace and to better control the content of their feed grain. MOM’s high quality grain translates directly into healthier animals and higher quality production of milk, eggs and other products. Currently grain is sourced from Canada and the Midwest. In response to spiking corn prices and grain shortages, Organic Valley, the nationwide dairy co-op that supplies grain to the mill, and MOM, have begun discussions with farmers in Maine to grow grains locally in order to help restore price stability and ensure grain availability. In addition to providing invaluable management assistance, MOM has connected MOM with $315,000 in loans and grants to renovate the mill and support marketing and operations.

c) In Skowhegan, a coalition of entrepreneurs, farmers and community groups has transformed the former county jail in downtown Skowhegan into a vibrant regional food hub. Amber Lambke is the dynamic driver of this project, which is in one of the most underserved counties in the state. She has received loans, grants and equity investments totaling $1.3 million to retrofit the building which will house a milling business, a multi-farm CSA called The Pickup, retail shops, the local farmers’ market, and more. Several contacts through the SMM network led to significant funds from foundations and private investors. Once again the TAP team of Linzee and Warren have provided financial planning and business management support to help launch the business.

In a pioneering approach to funding for the purchase of grain bins for the mill, Amber launched a Kickstarter campaign and exceeded her goal of $28,000! For those unfamiliar with this fundraising tool, Kickstarter is an online crowd funding form that showcases projects, including a deadline to achieve fundraising goals. People contribute funds online in return for a variety of rewards. Amber noted that many contributors were not familiar to her and most people chose “no reward” or bumper stickers as their incentives, a clear testament to the readiness for engagement in local food and community building!
The Natural Farmer

Fall, 2012

May use fermentation, heat, -
- Try The Best
- Contains more available nutrients
- FDA inspected plant helps insure
- North Atlantic fresh fish higher
- with hospitals and schools and the second year will
- focus on retail markets with individual consumers.
- the facility will be moving to a more permanent
- location in Van Buren in 2013 with a million pound
- per year capacity for production and markets
- extending from northern Massachusetts throughout
- Maine. As the company grows, its owners hold the
- intention to remain committed to purchasing from
- mid-scale family farms in Maine.

Jeff Wolovitz in production mode with Heiwa Tofu

organic gem

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Competition - Lower in natural occurring N

Organic Gem - 100% Enzymatic cold digest retains nutrients

Competition - May use fermentation, heat, and/or acid, thus destroying nutrients

Organic Gem - FDA inspected plant helps insure quality

Competition - ???

Organic Gem - Contains more available nutrients than competitors

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The startup of Northern Girl, a processing facility in Aroostook County, is a spinoff of Marada and Leah Cook’s Crown O’ Maine trucking company in Vassalboro. Northern Girl offers the two sisters a chance to return to their family roots in the county and to meet another food system infrastructure need. The business is being managed by SMM participant Chris Halfweaver and has four local investors through our SMM network, involved in equity positions. Total funds needed to open Northern Girl and provide working capital was $500,000 which was raised from the principals, five outside investors and the Finance Authority of Maine. This facility will allow the short growing season in Maine to be extended throughout the year by having fresh food outside of Maine and will allow more produce to be harvested for year round use. The business will provide quality frozen and dry storage space for commercial blueberry and cranberry growers, area farmers and food processing businesses. With a large tunnel freezer, the facility hopes to process 6 million pounds of berries this season. In addition to obtaining a million dollar loan from Farm Credit Maine, principals Jan Anderson and Wayne Snyder also attracted 20 equity investors to provide an additional million dollars for their new business. Several of these investors came from the SMM network. Others in nearby towns are expressing interest as they learn more about the positive impact of this facility on the local economy and healthful nutritional offerings available year round to local schools, daycare facilities, restaurants and hospitals. Some of these people have chosen to make loans or grants to help purchase equipment for the community kitchen that will be included in the design plan. Many producers of value-added food products will be renting the kitchen as needed on an hourly basis while others may seek dry and frozen food storage opportunities.

e) The startup of Northern Girl, a processing facility in Aroostook County, is a spinoff of Marada and Leah Cook’s Crown O’ Maine trucking company in Vassalboro. Northern Girl offers the two sisters a chance to return to their family roots in the county and to meet another food system infrastructure need. The business is being managed by SMM participant Chris Halfweaver and has four local investors through our SMM network, involved in equity positions. Total funds needed to open Northern Girl and provide working capital was $500,000 which was raised from the principals, five outside investors and the Finance Authority of Maine. This facility will allow the short growing season in Maine to be extended throughout the year by having fresh food outside of Maine and will allow more produce to be harvested for year round use. The business will provide quality frozen and dry storage space for commercial blueberry and cranberry growers, area farmers and food processing businesses. With a large tunnel freezer, the facility hopes to process 6 million pounds of berries this season. In addition to obtaining a million dollar loan from Farm Credit Maine, principals Jan Anderson and Wayne Snyder also attracted 20 equity investors to provide an additional million dollars for their new business. Several of these investors came from the SMM network. Others in nearby towns are expressing interest as they learn more about the positive impact of this facility on the local economy and healthful nutritional offerings available year round to local schools, daycare facilities, restaurants and hospitals. Some of these people have chosen to make loans or grants to help purchase equipment for the community kitchen that will be included in the design plan. Many producers of value-added food products will be renting the kitchen as needed on an hourly basis while others may seek dry and frozen food storage opportunities.

f) Among other coastal endeavors, Cobscook Bay Resource Center in Eastport and Heiwa Tofu in Camden have participated in SMM gatherings in the past two years and have received grants or loans from individuals and foundations in our network. As a non-profit, the Resource Center is creating a food hub focused on local sea scallops, farm produce and value-added items. In the past several years, the organization has received about $325,000 in grants from individuals, foundations and agencies (a HUD grant) towards construction of a facility to house offices, a commercial kitchen and marketing co-op. Will Hopkins, the Executive Director, has been involved in sustainable community development since 1993 with a focus on seafood production, creating a fishermen’s association and conservation of natural resources which have naturally led him to work on developing local and regional food infrastructures in Washington County and beyond. Jeff Wolovitz of Heiwa Tofu, initially converted a garage into a tofu production facility in Camden. In the past four years he has steadily expanded production and markets and will soon be moving his business to the Coastal Farms Food Processing facility in Belfast. With this move, he imagines doubling his current tofu production of 1000 pounds a week. Loans of $42,000 from SMM investors and guidance from business mentors have been crucial throughout this growth period.
In all of these investment connections, it is particularly important to recognize differences that exist in choices of legal structures, financial strategies of startup businesses and varied state regulations. While some opportunities are open to anyone, others are restricted to accredited investors, defined as individuals with an annual income of $200,000 or more in the past two years or net worth of $1 million, not including the value of one’s primary residence. We have also worked with the Maine State Office of Securities to determine relevant guidelines for entrepreneurs presenting at our gatherings and for the ways in which we publicly share our intentions and activities.

Additional investments of time, energy and skills have also propelled us forward in mutually satisfying ways. Through the SMM network and its Technical Assistance Project, invaluable connections have been made between startup food enterprises and successful business people. Skilled advisors and professionals have provided help with marketing, brand strategy, strategic focus, financing strategies, construction management, property management and operations. Like many lenders and investors, SMM participants are clear that technical assistance is essential to the success of these business enterprises.

Through our diverse network, we have found many predictable and unexpected opportunities to engage with each other. Regular gatherings with a mix of presentations and open time for conversations have enhanced these opportunities. Here are a few examples:

• A seafood pie producer from Eastport was preparing samples for snack during a SMM gathering and made a personal connection with a trucking distribution company to more widely and easily market his product.
• A parent who’d visited his son at camp was interested in improving the quality of food being served. With some suggested contacts, he made connections with camp owners and staff, a local organic farmer and distributor that resulted in over 600 campers benefiting from local healthful food. The project is further evolving to incorporate new camp practices of composting and using more local producers. A grant was received to create a directory of locally sourced food for the Maine Camping Association.

• A collaboration was developed with the Maine Federation of Farmers’ Markets, Rockland Farmers’ Market and related players through the SMM network, to bring Electronic Benefit Transfer to the market this summer.

In more focused ways, we’ve had pro bono help from a corporate lawyer to create legal guidelines for individuals and foundations to make grants to economic development 501(c)(3) groups that then deploy those funds to for-profit food system businesses.

Our pioneering example was the Sewall Foundation that made a $250,000 grant to the Somerset Economic Development Corporation, which then re-granted funds to six different food businesses in Skowhegan. Beneficiaries included a pasta maker, an apple orchardist, a multi-farm CSA, and a grain milling operation. We are now partnering with over six economic development groups along with several individuals and foundations that are adopting this concept and thereby strengthening Maine’s ag sector.

As we’ve deepened our awareness and conversations about the limited involvement of conventional financial institutions in support of Maine’s ag sector, we’ve brought the idea of a statewide ag-focused credit union to the table. One of our participants, John Sharood, has taken the lead role in researching and presenting ongoing updates about this option. There is notable excitement about the project, even though we know that clarifying regulatory and operational details will likely take a year or so to put in place. Established organizations like Maine Farmland Trust (MFT) & MOFGA are very supportive of this direction, especially since they have taken on roles in ag financing based on needs not being met by many lending institutions. Examples of these roles include MOFGA’s Loan Fund and MFT’s first program-related investment.
The high level of interest and engagement is clearly evident in the formation of loan clubs. For example, the Sheepscot Wellspring Land Alliance, a group of local farmers and producers, has recently formed a club called No Small Potatoes. The group now has 19 members who have each invested a minimum of $5000 to a shared financial pool. This pool serves farmers and producers who need loans of up to $5000 with terms of 1-3 years at 5% interest. To date, over 13 loans have been made in eight counties of Maine totaling over $52,000. While this club is based in Portland, another group has recently formed in the midcoast to consider replicating the No Small Potatoes model. Several other states have adopted this model as well.

Rather than joining an investment club, several individuals have chosen to make private loans to farmers and producers within their communities, after determining needs on their own or learning about opportunities through SMM. These loans have typically ranged from $5000-$25,000, with simple promissory notes used and terms of 1-5 years at 3-5% interest. A distinctive example of this was a $7500 loan to a farm for a hoop house. The transaction was arranged in March and completed in November and interest payments at 3% were handled in the form of vegetables selected at the farmers’ market throughout the following growing season. Some of this produce was actually grown by the consumer and everyone was delighted!

Other organizations have made creative investments as well. The Sheepscot Wesslupg Land Alliance in Liberty moved some of its endowment funds, held as well. The Sheepscot Wellspring Land Alliance in Liberty moved some of its endowment funds, held in a CD earning little or no interest, to a mortgage loan for MOFGA’s purchase of land to expand its educational programs.

Our choices of engagement are thoughtful, caring and vibrant social and economic communities, wherever you live. I feel confident that you will find experiences that are enlivening, creative and meaningful!

I invite you to learn more about our work through the following references:

- Slow Money Maine: www.slowmoneymaine.org - details on our mission, core activities, legal guidelines and more
- No Small Potatoes: www.nosmallpotatoesinvestmentclub.com - sample documents for lenders and borrowers
- Bonnie’s TEDx talk: http://www.youtube.com/watch?v=8h3h8Bxw8E
- Ag-focused state credit union: John Sharood: 978-257-1508
- MOO Milk: www.moomilk.com
- Blake’s Slaughterhouse: blakecat42@hotmail.com
- Maine Organic Milling: www.maineorganicmilling.com
- Somerset Grist Mill: http://somersetgristmill.blogspot.com
- Coastal Farms Food Processing: www.coastalfarmsandfoods.com
- Northern Girl: www.northerngirl.com
- Cobscook Bay Resource Center: www.cobscook.org
- Heiwa Tofu: www.heiwatofu.com
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Better Financial Services for Better Food

Introduction
Imagine that you could apply for a loan from a financial institution that truly understands small-scale sustainable agriculture. Imagine also that the representative from this financial institution could not only offer you reasonable interest rates but valued the way your farm operates, including understanding what a CSA is and the benefits of growing a wide range of crops. Consider that this financial institution could offer you loans that would responsibly meet YOUR needs, like a small farm mortgage on restricted land or a low interest rate credit card (with lower interest rates based on the season) or a loan to finance a used tractor. Finally, think about being able to deposit money into an institution with competitive rates and a government guarantee and that will use those deposits to fund loans to a sector that is consistent with your beliefs.

The Better Harvest Federal Credit Union (in organization) hopes to make those possibilities a reality for small organic farms in the Northeast. Better Harvest would be organized around the members of the NOFA Chapters and MOFGA and like all credit unions will be a non-profit, tax-exempt, member-owned cooperative—correctly aligned with its members who already use value cooperative structures in many areas.

With few exceptions, financing small organic farms has generally not been done through cooperative structures. In fact, most financing of the sector has come through savings, sweat equity (and lots of it), credit cards, friends and family, loan funds and related organizations (such as land trusts and foundations). Some financing has also come through government programs such as the Farm Service Agency (FSA) and the Farm Credit System. Lastly, financing is also starting to come from crowd sourcing through Internet sites such as Kickstarter or ThreeRevolutions.com recently launched by the Slow Money chapter in Maine.

Credit Union Basics
Credit unions are non-profit, tax-exempt financial cooperatives. Credit unions are organized around, owned by and exist to serve their members. Community development credit unions go one step further with mission-oriented business models specifically designed to help underserved and/or low-income clients.

While a credit union may look a lot like a bank in terms of its products and services (loans, deposits, etc.) consider some of these major differences between credit unions and banks:

- **Financial motivation:** Credit unions exist to provide competitively-priced financial services to their members. Any extra returns are used to grow the credit union and/or provide more competitively-priced deposit or loan rates. Most banks are run for the financial benefit of shareholders.

  - **Governance:** The governing board of a credit union is elected by its members. Bank boards are elected by shareholders who are primarily interested in their own financial returns. Given that boards then hire the management of the CU or bank, the credit union governance structure translates more directly into management that cares about member customer service over many other priorities.

  - **Board compensation:** Credit union board members serve as volunteers while bank board members may be paid by the bank and set their own compensation.

  - **Size:** Over ninety percent of credit unions are under $50 million in assets—roughly the size of modest branch of a large national bank. At the same time, the number of small community banks is shrinking.

  - **Rates:** Credit unions consistently offer better (higher) deposit rates and better (lower) loan rates than banks. This is generally considered a result of their cooperative status and generally smaller size, credit unions typically don’t have a lot of extra money to spend on advertising or fancy branches that attract customers.

Credit Union Limitations
Of course credit unions have their limitations. First, membership in a credit union is typically limited to specific groups of people based on where they live or work or through some other association.

Second, credit unions can only grow as fast as their own earnings grow. Unlike a bank that can issue stock if it wants to support more rapid growth, credit union equity has to either be donated by another organization or added to over time with the CU’s earnings.

Third, credit unions have restrictions on certain types of lending like making business loans. Also, because of their cooperative structure and generally smaller size, credit unions typically don’t have the financial benefit of shareholders.

Other Alternatives
A few other community development financial institutions currently provide funding to small organic farmers. For example, the NH Community Loan Fund, Coastal Enterprises and the Vermont Community Loan fund provide loan funding in the region.

These have a broader customer base than just small organic farmers, which is the target group for Better Harvest FCU.

Like other small businesses, small organic farms are probably best-served by a wide range of financing options provided from a wide range of sources. And with over $1.6 trillion in deposits in the region and the absence of any bank or credit union actively involved in the organic farming sector, there is ample space for a community development credit union focused on small organic farms.

Research into Better Harvest FCU
In 2010, I noticed that despite a wide range of community development banks and credit unions, none specialized in sustainable agriculture. In 2011, I launched the Sustainable Agriculture Credit Union Research Project (the SACU Research Project), to investigate four key questions:

1. Why don’t existing banks and credit unions lend to the sustainable agriculture sector?
2. Could a credit union fulfill the types of products and services needed for financing in this sector?
3. Is it feasible to serve a specialized membership across the wide geography represented by NOFA and MOFGA?
4. Is grant funding available to support the launching of a credit union for this sector?

The Research Project is supported by the John Merck Fund, the Jesse & Betsy Fink Foundation and individual donors. The Project is under the fiscal sponsorship of Third Sector New England in Boston.

To address the first two questions I interviewed farm and agricultural business members of NOFA & MOFGA. All interviewees were referred by the leadership of the NOFA chapters and MOFGA.

I met the farmers on their farms and learned the history of the farmers and the farm, their financial and personal goals, the workings of the farm (i.e., what is produced and how it’s sold), the farm and farmers’ financial relationships, gaps in financing and their opinions about potential loans and deposits offered through a mission-driven credit union like Better Harvest.

![Location of Qualitative Interviews](image)

The farmers I interviewed are all members of NOFA & MOFGA: five from NOFA-NY, four from NOFA-Mass, four from MOFGA, three from NOFA-VT, two from NOFA-NH, two from CT NOFA, two from NOFA/RI and one from NOFA-NJ.

From my interviews, I learned that small-scale organic farms have limited access to lending from traditional banks and credit unions because:

1. Small-scale agriculture is assumed to be very risky. Thus, traditional lenders avoid them.
2. Small-scale sustainable farms have business models with many features that are not well understood by lenders (like selling CSA shares or growing a wide range of crops or having restrictions on the land). Thus, traditional lenders feel they can’t understand them.
3. Small-scale sustainable farms present a very wide range of business and farm models. Thus it is dif-
ficult for traditional lenders to adopt a standardized “cookie-cutter” (or to them efficient) approach to analyzing (or in their words “underwriting”) loans to the sector.

4. Small-scale sustainable farms, while significant in number, are still spread out over a wide geography. Thus traditional lenders find it difficult to justify working with a sector where there may be only a few possible customers in their immediate area.

5. Finally, small-scale farms are, well, small. Small scale loans – particularly given the above observations – are very difficult for traditional lenders to do profitably. Simply put, a small tractor loan to a small farm may cost so much to approve and set up that it isn’t worth the effort of a traditional lender. Regarding whether a mission-driven credit union could help fill some of these gaps, the answer appears to be yes, with some caveats. The main caveat is that overcoming some of the obstacles above will require highly-specialized and innovative twists on a traditional credit union model. Some of these twists include:

• An extensive use of the Internet and minimal use of traditional branches to help keep costs low.

• Employing NOFA & MOFGA members as part-time lending representatives to avoid high levels of centralized costs while reaching out to members with staff in their own community.

• A limited number of financial products to allow for a streamlined approach to analyzing loans for approval and minimize the costs of processing payments.

• Employing a regional Northeast approach to reach the necessary level of members for the CU to be viable on its own. (Note: the NCUA now suggests the necessary level of members for the CU to be self-sustaining is only reached through a minimum of 10,000 potential members to start a viable credit union. This level is only approached through national or regional marketing efforts.)

Some of the potential products that could be met by a credit union for NOFA and MOFGA members are:

• Small farm mortgages, often when the land is restricted. The combination of land restrictions and land used for agriculture can make it unlikely traditional institutions will ever provide this type of loan. Also, more small farms in the region are likely to be on land restricted to preserve it from development.

• Low interest rate credit cards, possibly with even lower rates during parts of the growing season. Credit Card interest rates are still too high relative to the risk and could be customized for the sector to reduce interest costs during seasonal periods when cash is tight.

• Used Equipment Loans for purchases such as small tractors or trucks. Some small farms end up in a bind: they would like to purchase used equipment but don’t have the 100% cash up front to buy it. One result is that they purchase more expensive new equipment that requires only a small down payment and comes with 0% financing. (of course the 0% financing is paid for by a much higher equipment price).

I also learned that some types of lending for small organic farmers is certainly provided more efficiently by other types of lenders. These types of loans include very small loans, loans requiring very low (highly-subsidized) interest rates and loans to very new farmers. These are probably better-provided by community-based loan funds such as those mentioned above, through direct lending from one individual (or small group) to another or through crowd funding solutions (such as Kickstarter).

Next Steps
The Better Harvest FCU has several more hurdles to overcome before it becomes a reality. Federal regulation guarantees deposits through the Share Insurance Fund of the National Credit Union Administration (NCUA); some of the key next steps for addressing these regulatory requirements and launching Better HarvestFCU include:

1. Establishing the precise “field of membership,” or rules for who may join Better Harvest FCU with the NCUA;

2. Completing an additional survey of potential members based on NCUA requirements. This survey will be used to show the extent of the creation of Better Harvest FCU. This was rolled out at the 2012 NOFA Summer Conference.

3. Completing the financial modeling for Better Harvest based on the qualitative interviews mentioned above and on upcoming survey results.

4. Exploring potential grant funding to cover start-up expenses over an extended period.

Summary
Small-scale sustainable farms continue to present opportunities for growth and transformation of the food system. This growth appears unlikely to attract much interest or financing from traditional banks and credit unions, however, which are put off by their own misperceptions and some very real barriers to serving the sector effectively.

Better Harvest FCU—a proposed specialized credit union focused on NOFA and MOFGA members—could help fill some of these financing gaps and work alongside existing loan funds and government programs. With a cooperative structure, member-elected board and non-profit status, Better Harvest FCU will maintain a long-term mission orientation to support small-scale sustainable agriculture that reflects that of its members.

In the end, the goal is better financial services for better food.
The Natural Farmer Fall, 2012

Making the Connections: Financing Vermont Natural Coatings and Vermont Soy
by Jack Kittredge

One of the people behind the growth of food and ag businesses around Hardwick is Andrew Meyer. He is one of four brothers who grew up on a local organic dairy, milking 65 Holsteins and selling to Organic Valley. Growing up on a dairy farm, he knows about hard work for low pay. Growing up on that particular grass-based dairy, which for years won the award for the state’s highest quality milk, he knows about achievement and excellence.

“That seems to be the perfect combination,” he says, “for starting a business!”

It must be, for without any experience putting a business together, Meyer has done it twice already, with Vermont Natural Coatings and Vermont Soy.

He went to the University of Vermont, then spent some time back on the farm and working for the state agency for Agriculture. From that he was attracted down to Washington DC to work as an agricultural assistant for Senator Jim Jeffords.

“Jeffords was really about trying to diversify Vermont agriculture,” Andrew recalls, “and create opportunities to add value. While I was down there professor Mingrao Guo of the University of Vermont came down to talk. He is a functional food scientist at the University and was looking to develop safe products from agricultural inputs. Jeffords got excited about that and I was assigned to help find and develop these products. Jeffords made it a priority to fund the University of Vermont in this area. We got specific funding to allow professor Guo to create proteins to create film.

“He worked for several years to isolate the proteins in whey,” Meyer continues, “a byproduct of cheese, to create a very strong bond. What he found was that the bond was not only strong, but flexible. Michael Gregor had also started working with the forest products industry here, particularly the furniture industry. So we were able to use the byproduct of cheese, which gave value to cheese-makers, to create a durable green finish to add value to Vermont furniture makers.”

The University of Vermont filed a patent on the whey processing formula and created a license for the technology. Because of Senator Jeffords’ interest Andrew agreed to move back to Vermont and bought the exclusive license. So he went from working with Ming in the lab to working with furniture makers and contractors to try the product and give him feedback.

There are, of course, a lot of hurdles to jump until the ultimate dream is realized – Vermont cheese-waste whey used to coat Vermont wood products. For one thing, it takes a lot of whey to make a quality coating. It needs to be filtered and the proteins need to be isolated and concentrated. That takes equipment, and Andrew is still working on raising the money to build it and making the arrangements with Cabot and Jasper Hill to pipe the whey to it.

For now, Meyer buys in commercially processed whey from non-Vermont sources. Another problem is that a lot of whey is used for pharmaceuticals – certain medicines use the high protein concentrations it can make – and this it is not always easily available.

“There are a lot of constituents in whey,” he says, “lactose, solids, fat – and there are current markets for it. Hogs feed on it, processed whey goes into processed foods, nutrient drinks, etc. We are interested in extracting all the protein and putting a high value on that. The amount of whey it takes to convert to protein is 800 gallons of whey to one gallon of concentrated protein.”

From that whey protein and other water-based ingredients they make a solution that goes through their patented process to turn it into a resin, which creates the hardness and strength of the finish. The whey protein is key to the process, actually acting as a binder. From the blending tank the whey solution then goes to four tanks where different formulas are used to make different products for furniture, floors, exteriors or custom products. They need special ingredients, timing, monitoring, etc. depending on the formula. They can also add things that determine the sheen level – satin, gloss, semi-gloss, and a non-toxic vegetable-based color system to make various tints.

Vermont Natural Coatings also has a mineral-based wood preservative they are introducing as well as a vegetable-based cleaner. For that they are working with the new local distillery – the waste product from their gin is an alcohol-saturated juniper berry with natural antibacterial and anti-fungal features. They’re also looking to see if they can make any products from the byproducts of the distillery’s vodka!

“Our scientists and other workers here,” stresses Meyer, “don’t want to work in a facility with high volatile organic compounds any more than other workers. In most paint and coating facilities you should wear a respirator to work there. So giving our workers a safe product to work with is part of our mission. If we don’t feel comfortable working to produce it, how can we feel comfortable selling it to a family to use in their house? Or a school?”

Andrew is finding that there is also a shift of consciousness among contractors who have been working with toxic compounds. They are looking for alternatives. It is a tough, competitive market, with slots at retailers often tied up by the major companies, but once Vermont Natural Coatings get in front of people they do well.

“The best success we have,” he says, “is when someone tries it and tells someone else. We need to have an architect or homeowner who uses it to tell their story. It sounds almost too good to be true until people try it. So that is starting to open up now. Meyer is now trying to raise money in part to finance the new processing equipment he needs, but also for general operating capital for new market development. They sell to over 300 locations in 36 or 37 states now, and see themselves as a new category of product – safer than many products, and with a similar price point.

With his other company, Vermont Soy, he makes a fresh, gently pasteurized soy milk. The competition makes a high temperature ultrapasteurized product which has much longer shelf life, but Andrew’s product is good for twenty-one days and he feels their advantage is that it is closer to fresh, home-made soy milk. Distributors, however, tend to value the longer shelf life so again he needs to do a lot of product education to gain market share.

“There is so much interest now in fresh food products,” he remarks. “But the interest in it all does not match the system which supports it. The system supports processed food. Food moves by units that have long shelf life. These things begin to come up and people are beginning to understand how our economy works.”

Meyer has raised a million dollars for his company through the convertible debt to equity process that Tom Stearns pioneered.

“He gave me all the documents,” Andrew says, “and I worked with the same lawyer. That made the process much more manageable. When you see these models that are new to the investment world you have to match the investor to the return and their involvement in the mission. What is happening in the Hardwick area is that you have investors who are really place-based. They see that by supporting Vermont Natural Coatings, based in Hardwick, we are going to do well and in turn support other local businesses. And they are going to do well and can then support other businesses in this area. That gives everyone else a better opportunity.

“Our success here,” he continues, “is really based on the support we get from High Mowing Seeds and Jasper Hill and Pete Johnson of Pete’s Greens and the informal group that we have that has loaned hundreds of thousands of dollars back and forth. We are all going through out growth spurts, but our cash flows look different at different times of the year.
As we were growing, the ability to get a loan from Pete to pay payroll that week and buy that piece of equipment before your next round of funding was critical. And these are handshake deals. We’re all on the same page.”

Andrew got some of the same investors Tom did, as well as a lot of references. Now I’m passing on those references to other companies that need investors. Since he started going after money about two years after Tom did, and because the economy dropped off so much in those years, he offered 4% interest instead of 6%. But the rest of the deal was the same, five years out, convert the principle to equity or keep it as debt.

“The advantage of that structure,” Meyer says, “is that we have those five years to work with. As a start-up you work so hard to make operating costs each week that it is tough to pay interest on top of that. We can get loans early on, but to be able to let the money go to work for a while without having to service that debt is wonderful!

“There are a lot of issues with securities laws,” he says, “that makes it hard to attract investors. They say they are there for a reason, protecting the public. But who are they really protecting? This whole bank debacle involved major regulatory issues. So who writes the bill to fix it? The bank lobby! They make it harder for individuals to invest. Supposedly to protect us! So you are not qualified to invest on your own. You need to go to CitiBank, because they are professionals.”

What Andrew enjoys about developing things locally is feeling that he has an impact. Normally people are detached from the national economy and feel they have no impact on it. But when you act locally you can see an impact right away, which matters. He feels that the Food Venture Center is a wonderful example of how normal people can take control of that system.

Right now he is raising money for Vermont Soy. It uses organic Vermont grown soybeans to produce fresh soymilk, fresh tofu and cooking oils. It is also uses Vermont grown soybeans to make a white milk. Otherwise it is stained and people don’t want it. But there are hundreds of varieties of soybeans. So Meyer identified 2 or 3 varieties and started working with High Mowing and the University of Vermont. They did soy variety trials for three years in a row. Each year they took the top performers and replanted for the next year. Now all of his beans are grown in Vermont, in fields of 10 to 20 acres. They are not huge by Midwest standards, but big for Vermont. Jack Lazor helped them find small combines.

Once they had folks willing to grow the beans, Meyer needed infrastructure for storing, cleaning, and sorting. Then the beans that don’t meet his quality standards have to be converted into cow feed. So there is another business opportunity – preparing crops for various processing businesses such as soybeans, sunflowers for oil, wheat for bread, grains for baking and distilling. The macro distillery built two years ago in Hardwick does honey-based gin and vodka. But they do elderberry wine, too, and are sourcing all local potatoes, corn, and beets. Which means that now there are farmers who get a good price for their grains. In Vermont, organic, high quality, non-GMO soybeans are not a commodity. As a soil-improving legume, they fit into a rotation system on an organic farm.

“This whole local economy idea,” Andrew muses, “is built on smallness. And it takes time. The first people you go to from here to there to have to figure it all out. But that is what local economies are all about. You could ask, how do I make my case that this production facility should be here? You could ship whey protein, for instance, to New Jersey or Manchester, NH and process it there. But I’ve got investors who want 40 new jobs in rural Vermont. There is no building, the other places are closer to the market, but we have investors who care about place, so we make this happen.

“The buildings which we built,” he continues, “when we started this company and Vermont Soy, we had to build because there wasn’t an infrastructure for this in the region. Back then people had to go to New Hampshire or Chittenden County for food processing. If I had been able to plow that start-up money into the growth of the business, rather than bricks and mortar, we’d be farther ahead. We were the first food building in this park. People laughed at us back then. We were talking about an agricultural product! This was a rural area without easy Interstate access. It was going to cost too much to get to market. Then we didn’t have people to work here. It went on and on.

“Now we probably have 12 distributors,” he concludes, “who come through here on a weekly basis to bring our products throughout New England and beyond. We get more and more distributors because they realize they can pick up 6 or 7 different company’s products here now. The efficiency of going to Boston goes from $250 a pallet to $75 a pallet. It’s shared.”
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Creating Social Capital—
the Peacework Farm Story
by Elizabeth Henderson

Providing fresh, nutritious organic food for people is a deeply appreciated service. That appreciation can inspire them to reciprocate with unexpected generosity. At least, that has been our experience in establishing Peacework Farm. Our customers have helped us stick to our resolution to only buy what we could pay for in cash and to stay away from loans that carry interest payments. Their CSA payments, in advance of receiving the food, are a form of credit with no interest attached.

Besides their regular work harvesting and running distribution, or serving on the Genesee Valley Organic CSA (GVOCSA) core group, members have contributed services, large amounts of money for capitalization, and tax deductible donations to the Genesee Land Trust to buy the land to lease back to the farm.

Flash back: In 1988-89, Alison Clarke of the Politics of Food in Rochester, NY, worked with me and David, my partner at Rose Valley Farm, to start a CSA. Our first season, we provided 31 shares for 29 households. As an experiment, we asked that members pay on a sliding scale and that everyone contribute some work at the farm and help with distribution or serve on the core group. By 1997, membership had grown to 160 households. At the end of that season Greg Palmer and I left Rose Valley. The GVOCSA core asked David if he wanted to bring them with us.

We went over 20 properties before deciding to rent land at Crowfield Farm, owned by Doug and Rebecca Kraai. They offered to rent us 15 acres of high quality sandy loam plus two barns and some equipment. We had already been a renting member of NOFA-NY and had not used any prohibited materials on the land. We eventually settled on a rental fee that was in line with what other farmers in the area were paying per acre and replicated the five-year rolling lease used by our friends at West Haven Farm.

Starting over again, even on rented land with existing buildings, requires some financial investment. When I left Rose Valley, I took with me the $35,000 I had put into that farm when I became a partner. That was the insurance money I had received when my husband was killed in a car crash and that I had invested in Unadilla Farm in Gill when I started farming. Some of what I took from Rose Valley was equipment, including a set of disks, a wagon, a manure spreader and a lot of hand tools. I owned an Allis Chalmers G tractor and a carrot washer. Greg and I used the cash to live on for that year and to buy additional things we needed to farm. We went to auctions and second hand equipment dealers, and bought new Vermont cart and a Troy-bilt tiller. Instead of bidding against a farmer friend on a basketweeder, we bid together on the 10’ wide implement, and then had a welder cut it in half. Together, we paid $200 and each got the 5’ weeder we needed.

Greg and I presented a budget for the investments we considered necessary to the GVOCSA core group. I was determined to have basic infrastructure right from the start—a greenhouse, a walk-in cooler, and that I had invested in Unadilla Farm in Gill. I was excited to have basic infrastructure right from the start—a greenhouse, a walk-in cooler, and a packing shed. Although valuable to us, the price was modest ($12,500) since there was no other possible buyer. We already owned the wells that we had dug on the land, one of them with a $5000 grant from the employer of a member that also paid for a hoop house. The purpose of that grant was to encourage healthy and independent living for employees and their families.

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The GVOCSA core agreed to purchase food from other area organic farmers for one year. Members signed up to do their work shifts at Peacework Organic, the name we chose for our new farm. A lawyer helped us write a lease with the Kraais and a partnership agreement between Greg and me. Two architects designed a modified solar greenhouse. An electrician provided electrical components and one of his skilled workers installed the main line. A landscape designer helped us lay out beds. And the other hundred members helped us clear out the mountains of stuff Doug had stored in the barns and did construction.

We decided to situate the packing shed in a one-story wing of the old barn and built a walk-in cooler there. The compressor cost $800. The next winter, a freak ice storm collapsed the roof of that wing. Again, members helped us clear away the rubble, clean out the stuff we had moved from the big barn to the smaller barn, and then transform that barn into a packing shed.

During the first five years of Peacework, Doug was a supportive landlord, although relations were not without tense moments. He and his family joined the CSA, and on the morning of my son’s wedding at the farm, Doug proposed that we become sister and brother. We occasionally helped Doug with his bison round-ups. And then suddenly, Doug was stricken with a geoblastoma, a severe and astonishingly rapid brain tumor—and he died. In 40 days he was gone—leaving a very large hole in our world.

Rebecca offered to sell us the 148 acres that had been the Humbert Dairy Farm. Once again, the GVOCSA members came to the rescue. Suzanne Wheatcraft was a member of our core group and also the president of the board of the Genesee Land Trust (GLT). She served as liaison between the GLT and our farm and helped us negotiate a deal—the GLT would buy the farm and then lease it back to Peacework.

To raise money to pay for the land, the core group set up a special “Preserving Peacework” committee. Including all the ancillary expenses of land purchase—a survey of the property, a land stewardship fund to allow the land trust to monitor land use annually, etc.—the goal was $150,000. Because the GLT is a non-profit organization, people could make tax-deductible contributions towards the purchase price. The Preserving Peacework committee made this appeal to members: “So, what does this mean to us?”

It means our CSA is going to benefit by knowing that land ownership costs and the issues around buying and selling land are not going to be issues our CSA has to deal with, nor will the farmers need to worry about a landlord who decides to sell the land out from under them. In short, in addition to reaping the benefit of knowing that Peacework farm—‘our farm’ will have a stable home farm, the CSA will also be a partner in the permanent preservation of high quality organic soils. Ganargua Creek, wetlands and floodplains, and hardwood forest land with important wildlife habitat and beautiful wild flowers.

In only fourteen months, CSA members pledged $140,000. The GLT completed the purchase of the land in January 2008 and in March signed a twenty-five year rolling lease with Peacework. The very first contribution of $25,000 was anonymous and accompanied by this eloquent note: “I believe that the planet is in a serious ‘people created’ ecological crisis motivated by greed and perpetuated by ignorance. The privilege and good fortune of eating clean local food is a deeply appreciated service. That appreciation and hope so that my great grandchildren will have safe vegetables grown on a beautiful organic farm.”

The other contributions were not as large, but GVOCSA members dug deep into their pockets and savings accounts to come up with the money. The land trust board was very clear that they did not want to be responsible for buildings, so we farmers purchased all the “improvements”. A CSA member contributed the money to buy the big barn, and the packing shed. Although valuable to us, the price was modest ($12,500) since there was no other possible buyer. We already owned the wells that we had dug on the land, one of them with a $5000 grant from the employer of a member that also paid for a hoop house. The purpose of that grant was to encourage healthy and independent living for employees and their families.

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While the fundraising was in progress, we worked with Gay Mills, GLT Executive Director, to write the lease language. Susan Witt of the E.F. Schumacher Society (now the New Economics Institute), and Kirby White from Equity Trust helped us write into the lease agreements that will maintain the land in ecological farming and keep it affordable to future generations of farmers. (Equity Trust has a loan fund for CSA farms and will also help a farm arrange for its customers to loan the farm money with Equity Trust as the intermediary so that failure to make payments on time does not wreck the relationship.) In consultation with the land trust, we are allowed to build homes for farmers and additional agricultural structures. Should we decide to sell our farming business, we will not be able to benefit financially from appreciation to the value of the land and any buildings we may construct.

We had lengthy discussions with GLT about the appropriate lease fee. Under the terms of their non-profit status, they cannot offer us a “sweetheart deal”. The land trust asked me to research what farmers pay to rent an acre of land in Wayne County, NY. We were surprised to learn that the going rate, ranging from $35 to $50 an acre, just covers the land taxes. As a result, we agreed that Peacework will pay the land taxes, all insurance and local fees, and an administrative fee of $300 a year to GLT.

One further set of thoughts about organic farming and money. The less cash we need to live on, the freer we become. Part of my balancing act has been my conscious choice to live as lightly on the planet as I can manage and to pay as little in taxes to the war machine as possible. I keep close track of how I spend my money, always looking for little ways to spend less. I recycle fanaticaly. I can, freeze, and root cellar food from our farm to keep me out of the supermarket in the winter, and I belong to a food buying club. I do my other shopping at a food coop, where I get a worker-member discount by writing a newsletter column about farming. My fashion-plate mother would have been horrified to see me shopping for clothing in second-hand stores, though my grand-mother-in-law would have been tickled at my observance of her slogan - “never buy anything new.”

Shortly after starting Peacework, Ammie, Greg and I took a 3-day training in Holistic Resource Management and wrote goals for our farming. One of them expresses our attitude towards money and work: “to make a modest living for our two families: we are blue collar farmers; we enjoy physical labor and have no desire to become managers or exploiters of other people’s work.”

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So keep your eyes and ears open for alternatives to the usual cash economy. Maybe we are not yet ready to throw the moneylenders out of the temple of sustainable agriculture, but the organic farming movement is helping shift our culture’s negative attitude towards physical labor. There is great dignity in our work as well as sweat, joy, pain and satisfaction. When we allow our customers to invest in our farms, we are giving them an opportunity to turn social capital into the infrastructure for a healthier future on our planet.
Opportunities to Nurture the Local Food Economy

by Eric Becker, CFA
Chief Investment Officer, Clean Yield Asset Management

In recent years, eaters (all of us) have seen an explosion in the number of ways we can relocalize our diets and our food spending. CSAs and farmers’ markets have proliferated. New retailers focusing on local food have begun popping up. Restaurants increasingly feature locally sourced produce, meat and dairy. Even traditional grocers have allocated more shelf space (or at least more labeling) to locally produced goods.

Meanwhile, a parallel trend is emerging for our money. It is increasingly more difficult to access, but opportunities to invest in our local food systems have proliferated as well. These include:

• Donations made through crowd funding sites such as Kickstarter and Three Revolutions
• Direct investments in companies that are part of the Slow Money movement
• Local investment clubs like No Small Potatoes and Sprout Lenders
• Lending intermediaries such as The Carrot Project
• For Vermont Sustainable Jobs Fund’s Flexible Capital Fund

Perhaps most important is the opportunity that is yet to come due to changes in securities laws that were part of the JOBS Act that passed the U.S. Congress in March. Many of the options above are open to all, while some are limited to accredited investors (those with over $1 million in assets or annual income over $200,000). The JOBS Act will make possible more significant local investment by individual investors of modest means by allowing companies to raise investment capital through crowdfunding (rather than the donation model that has been used to date). This may be the most promising tool for catalyzing a new form of community-based financing for food system businesses. It will, for example, allow a local butcher to raise money from her customers to open or expand her shop and to pay those investors back in dollars, not discounts on steaks and sausages.

While many entrepreneurs have had success with Kickstarter campaigns to raise the capital they need, the current system limits the payback to modest premiums, essentially thank-you gifts for the donations received. For example your name on the wall and a t-shirt. The new system will allow the business to issue stock or other securities, making the investors partners. Entrepreneurs need to make sure they understand such solicitation of investment dollars from non-accredited investors was illegal, meaning producers could only approach deep-pocketed, sophisticated investors. This is a more profound form of involvement than a one-time donation and could help business owners raise significantly more capital than the donation model.

While the law was signed by President Obama in April, the new rules won’t go into effect until next year. In the meantime, hundreds of companies are launching new online platforms to serve as the officially sanctioned portals for this new form of capital-raising. Many of these platforms will serve all sorts of businesses, but some will focus exclusively on the food sector. Among the first to emerge is Three Revolutions, a Vermont-based initiative. For now Three Revolutions is operating under the old rules, essentially acting as a Kickstarter for food businesses. Entrepreneurs can create and post a campaign on the site, seeking a specific amount of capital for a project. Donors pledge funds to the project and receive a thank you gift based on the size of their contribution. For example, Boundbrook Farm in Ferrisburgh, Vermont is raising $6,600 to import a rice harvester that will help ramp up their production of Vermont Rice brand Japonica rice. A donor who gives $10 will get an electronic copy of the farm’s recipe book and their name on the farm’s website. For $25, a donor will receive the recipe book along with a one pound bag of rice. For $100, a donor will receive five pounds of rice and a silk-screened Vermont Rice t-shirt.

Kickstarter remains the largest platform for crowd-funding. It now has a Slow Money page where you can find sustainable agriculture related campaigns. Or you can simply search the food category, which has made up almost 3% of the projects funded to date on the platform.

Starting some time next spring, entrepreneurs will be able to start using federally qualified platforms to raise investment dollars in a more formal process that will allow individual investors to sink real money into small companies. According to the law, in any 12-month period an investor with annual income or net worth of less than $100,000 can invest the greater of either (1) $2,000 or (2) 5% of his or her annual income or net worth. An investor with annual income or net worth greater than $100,000 can invest up to 10% of their income or net worth, up to a maximum of $100,000. These caps are intended to ensure that small individual investors don’t risk their nest eggs in risky start-up businesses. Still, this will give people of moderate means a way to relocalize their money and invest in businesses that really believe in and want to see succeed.

Indeed, one of the potential upsides for farmers and other food businesses is increased loyalty from their customer bases/investors. This, in turn, can lead to free marketing, as the base of friends and fans promotes the business to their networks. The crowdfunding campaign process itself can help raise the profile of a business, bringing in new customers who hear about it for the first time.

There are real risks to this new form of capital formation, for entrepreneurs and investors alike. Entrepreneurs need to make sure they understand the form of capital they are using (debt, equity or hybrid), and figure out a way to offer investors a reasonable financial return for the risk they are taking on in putting cash into the business. How will they pay back investors when the time comes for them to cash out? How will they manage the relationships with and expectations of potentially dozens or hundreds of investors? These have always been challenging questions for young companies, and crowdfunding won’t make them any easier.

For investors, the risks are numerous. For people used to buying mutual funds, making the decision to invest in a tiny start-up food company or farm may be scary, and rightfully so. There are myriad questions that should be answered before making any type of investment, in particular one where the potential exists for losing every penny you put in.

And then there is the issue of fraud. How will prospective investors know that the information posted on the crowdfunding platforms is accurate? The best way to avoid the pitfall is to focus on successful local companies where you know the entrepreneur and their business well. Remember that start-ups are very high risk compared to established companies. And of course, don’t invest more than you can afford to lose.

Slow Money

The Slow Money movement has been gathering momentum over the past two years. The Slow Money national organization has identified more than $19 million that has been invested in 139 small food enterprises around the United States since the inaugural Slow Money gathering in 2009. In the northeast alone, Slow Money has documented $5 investments totaling $7 million. Fourteen local Slow Money Alliance chapters have formed nationwide. These chapters bring together investors and food system entrepreneurs to catalyze the flow of capital. Many have held entrepreneur showcases, which give food businesses the chance to present their plans and forge relationships that may lead to investment down the road. In the northeast there are active chapters in Maine, Boston, Pioneer Valley, Central New York State, Greater Hudson Valley, and New York City. These chapters serve primarily as convening organizations for people and groups that share the common goal of using money to help build more resilient and sustainable local food systems. The Maine group has identified five “core activities” for their group, which has been a model for other Slow Money chapters:

• Build a network to connect farmers, fishermen and other food producers to funders, entrepreneurs, non-profits, philanthropists, advocates and
peers to benefit from each others’ skills, experience and resources.

• Expose and introduce individuals to available financing options.

• Work with farmers individually to connect promising businesses with the necessary financing, technical, marketing, and distribution assistance to be successful.

• Develop and finance financing vehicles for investing in local food businesses, seeking innovations that develop a rich local food economy and value the farmer, fisherman and the resources they depend on.

• Create a forum for conversations that advance the public dialogue about Maine’s food systems.

Due to securities laws that limit the ability of business to solicit investment from the general public, the Slow Money chapters don’t serve as a formal way for people to invest. Rather, the building of social capital and connections that is the key feature of the groups. This has led to new relationships that resulted in investments. But it has also helped businesses in other important ways. For example, a January presentation to the Maine group by Paul Dobkins of the Ocean Approved kelp company netted him a new distributor. Still, the amount of actual investment capital that has been catalyzed by the group is impressive. According to Slow Money, Slow Money Maine participants have gifted or lent $3.5 million to more than 50 food enterprises.

Investment Clubs

The Maine group also hatched the No Small Potatoes Investment Club, which is modeled on old-fashioned stock investment clubs, but instead makes small loans to food system businesses. The clubs operate within Securities and Exchange Commission guidelines that allow individual investors to pool their money and decide together how to invest it. In the case of No Small Potatoes, each of its approximately 20 members made a $5,000 investment in the pool. The group makes uncollateralized loans of up to $5,000 for up to three years at low interest rates.

No Small Potatoes funds the following:

• Equipment or special projects that help a farm or food business operate more efficiently and/or expand

• Working capital loans that lower costs

• Businesses that advance sustainable practices and source their inputs primarily from Maine farms and fisheries

• Entrepreneurs with sufficient cash flow to support repayment of the loan

• Local food businesses that can show they are growing or have the potential to grow and are on a path towards profitability

Its next loan application deadline is September 28th. Visit the club’s web site for more information at www.nosmallpotatoesinvestmentclub.com.

Many of the club’s loans to date have helped farm- ers make infrastructure improvements or purchase capital equipment to expand their operations or make them more efficient. This includes MeadowSweet Lamb and Herb Farm in Denmark, ME, which is enlarging its barn, and The Farmers’ Gate Market in Wells, ME, which is buying equipment. Participants in the club don’t expect to make much money from their investments, but the aim is to make a modest return while helping to strengthen Maine’s local food system.

Inspired by No Small Potatoes, five other investment clubs have emerged around the country, including Sprout Lenders, which serves the Greater Boston food system. (Full disclosure: the author is a founding member of Sprout Lenders). Sprout launched this spring and is currently accepting applications for its first round of loans. Like No Small Potatoes, Sprout Lenders is focused on making loans to farmers and companies that are trying to grow their business- nesses rather than higher risk start-ups.

Sprout Lenders and No Small Potatoes are volunteer organizations run by alumni members who are putting their time and money on the line. More information is available at www.sproutlenders.com.

Intermediaries

One of the challenges for people who want to invest locally in or in sustainable agriculture has been a lack of investment vehicles that simplify the process and reduce the risk of investing in individual farms or companies. There are no sustainable agriculture mutual funds and you can’t go to your local bank and buy a CD that supports local producers. But that is starting to change. Institutions such as The Carrot Project, RSP Social Finance and the Vermont Sustainable Jobs Fund have established funds that channel money into such enterprises.

The Carrot Project has been making loans to small and mid-size northeast farmers for the past two and a half years. The goal is to address the perceived financing gaps for farmers who have difficulty accessing loans from traditional ag lenders. Its programs have rolled out throughout the region, starting with a partnership in the Berkshires in Western Massachusetts, and then expanding to Maine, Eastern Massachusetts and now the Greater Berkshires (including now the Greater Berkshire Agriculture Fund). Its next loan application deadline is September 28th.

Sprout Lenders is focused on making loans to farm- ers and companies that are putting their own time and money on the line.

The Carrot Project makes loans of up to $35,000, mainly for farmers to expand existing operations, most frequently for capital equipment. Bella Farm, an organic vegetable grower in Monkton, Vermont, recently received a loan for a produce cooler and weeding equipment. The cooler will give the farm more flexibility for its harvest schedule, while the weeding equipment will increase the efficiency of their operation. Overall, The Carrot Project has made 25 such loans.

The Carrot Project recently launched a new program, the Greater Berkshire Agriculture Fund. It has a higher maximum loan amount of $75,000 and serves farms with up to $500,000 in revenues.

Individuals can invest in The Carrot Project from time to time as the organization raises funds to secure the loans it makes. These investments are structured either as CDs or promissory notes, depending on the state. Generally they are three-year or five-year investments at close to CD-equivalent rates. New England residents do not have to be accredited investors to participate, but the minimum investment is $25,000. Visit thecarrotproject.org/for_investors for more information.

Accredited investors who are willing to take on more risk and can afford to seek away their money for a more extended period may be interested in The Vermont Sustainable Jobs Fund’s Flexible Capital Fund, which was launched last year. The state-supported $2+ million fund plans to invest about half of its assets in agricultural enterprises and half in clean energy firms, all in Vermont. The fund will offer risk capital and technical assistance to these growth companies, investing in near-equity securities of the companies rather than making loans. This means that investors’ dollars are unsecured and the returns will be determined by the success of the companies rather than a fixed interest rate. That means higher risk and potentially higher returns. The fund’s last agriculture related investment was in Vermont Smoke & Cure, which produces premium and natural smoked meats and fresh sausages. The funding helped VSC expand into a new USDA-inspected facility (an old cheese factory), greatly increasing its processing capacity, not just for its own products, but also for other local small-scale farmers and producers that use its services.

On the Horizon

With so much interest in sustainable agriculture and Slow Money there is sure to be continued innovation in the ways people can invest in food businesses. One promising investment approach is the Credibles model, which is being piloted by Slow Money chapters in Northern California and New York. It is a form of crowdfunding in which investors pre-buy (editable credits = Credibles) from participating businesses. The nifty tweak on the crowdfunding model is that you can redeem your credits at any participating business, not a single shop. In the Northern California pilot, your Credibles can be redeemed for heritage chickens from Amber & Son Farm, eggs from Soul Food Farm, or organic sauerkraut from Farmhouse Culture. If the model proves successful you can expect it to be replicated in other regions.

Resources

Books

Inquiries into the Nature of Slow Money: Investing as if Food, Farms, and Fertility Mattered By Woody Tasch

Locavesting: The Revolution in Local Investing and How to Profit From It By Amy Cortese

Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity—A Community Resilience Guide By Michael Shuman

Websites

www.slowmoney.org

www.financeforfood.com

www.thecarrotproject.org

www.nosmallpotatoesinvestmentclub.com

www.sproutlenders.com

www.vsjf.org/what-we-do/flexible-capital-fund

Credibles: slowmoney.clearnet.org

Kickstarter’s Slow Money page: www.kickstarter.com/pages/slowmoney

www.threeevolutions.com

Slow Money Charters

www.meetup.com/Greater-Boston-Slow-Money

www.slowmoneycentral.ny.org

www.meetup.com/The-Greater-Hudson-Valley-Slow-Money-Alliance

www.slowmoneymaine.org

www.slowmoneyynr.org

www.pgivs.net/slow-money-pioneer-valley

Investment Clubs

www.nosmallpotatoesinvestmentclub.com

www.sproutlenders.com

Cleant Yield Asset Management is a Vermont-based SEC-registered investment advisory firm working exclusively with social investors. A founding member of Slow Money, Clean Yield has a long track record of investing in agriculturally based enterprises. www.cleaneyield.com

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Achieve Real Prosperity--A Community Resil-

ience Guide

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Websites

www.slowmoney.org

www.financeforfood.com

www.thecarrotproject.org

www.nosmallpotatoesinvestmentclub.com

www.sproutlenders.com

www.vsjf.org/what-we-do/flexible-capital-fund

Credibles: slowmoney.clearnet.org

Kickstarter’s Slow Money page: www.kickstarter.com/pages/slowmoney

www.threeevolutions.com

Slow Money Charters

www.meetup.com/Greater-Boston-Slow-Money

slowmoneycentral.ny.org

www.meetup.com/The-Greater-Hudson-Valley-Slow-Money-Alliance

www.slowmoneymaine.org

www.slowmoneyynr.org

www.pgivs.net/slow-money-pioneer-valley

Investment Clubs

www.nosmallpotatoesinvestmentclub.com

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Consider the example of a $10,000 and $500,000 loan. On a $10,000 loan for 3 years at 6.5%, the borrower will pay a little more than $1,000 in interest. If the borrower had a loan for $500,000 for 3 years at 6.5%, the total interest over the life of the loan would be over $30,000. The larger loan size with some leeway allows for greater flexibility to balance the needs of the borrower, lender, and investor by a combination of lowering the interest rate to the borrower, increasing the return on investment to the investor, or covering the costs of the lender.

For The Carrot Project, in addition to making smaller loans there are other expenses incurred because we are making loans to a wide range of borrowers that are not easily assessed by a credit score, a balance sheet, or historical numbers. We frequently make assessments on what is possible with the resources at hand.

As an alternative assessment tool, we look at a business’ goals and projections, the applicant’s personal resources at hand. It also requires, in most cases, a greater amount of time and effort from our staff, partners, and loan review committee members to assist, understand, bounce ideas off of, to assistance with revamping books, to reconsideration of projections. In some cases, borrowers need monitoring and technical assistance during the life of the loan. Additionally, unexpected events can throw a business into turmoil; illness, accidents, or other emergencies can result in credit counseling or changing loan terms, requiring a re-evaluation of the business at a difficult time.

These are all costs that need to be considered when lending, especially given that the cost of the loan to the borrower—the interest rate—does not cover the cost of making a microloan. A non-profit that makes microloans needs to cover its costs, and usually does so with a combination of grants, gifts, and revenue from financing.

Balancing the needs of the borrower (who needs as low an interest rate as possible) with the needs of the investor (who wants as high an interest rate as possible) and the non-profit lender (who wants to cover costs) can be difficult. Reducing costs to make the lender generally means raising them for the lender, which makes it difficult for a nonprofit to offer investors a higher return in the case of microloans.

So, is investing in small farms and farm-related businesses right for you? That is up to you and your desire and ability to balance financial returns with non-financial returns. For some people it will be desirable and possible, for others it won’t be. Is it worth it for the borrower, for the greater community, and growth of a sustainable food and agriculture sector? Yes. If borrowers can get the support they need to cover their business goals while contributing to their communities and the larger food and agriculture economy, it makes us all stronger.

If you would like more information about The Carrot Project’s please visit our website at http://thecarrotproject.org. More information about how our programs are set up is described in ‘Setting Up Microloans in Three States’ at: http://thecarrotproject.org/programs/report.
The Bee’s Knees: A Community Supported Restaurant

by Jack Kittredge

Like so many young people in Vermont, Sharon Deitz Caroli is there by choice.

“I grew up on Long Island,” she says, sitting at a table in the back of her restaurant “The Bee’s Knees” in Morrisville. “I came to Vermont with a guy in 1996. We were both long distance hikers, did the Appalachian Trail and fell in love with Vermont. I moved to Burlington and got a job here, in special education.”

As happens, Sharon and the guy eventually parted company, but she stayed on in Vermont, moving to Morristown. She loved it there. It reminded her of home.

The largest town in Lamoille County, at just over 5000 souls, Morristown was built by the railroad in the late 19th century, becoming somewhat of an industrial center for the area. Its central village, Morristville, is the downtown and main commercial area for the whole county.

But it lacked any kind of a community space, Sharon decided. And she determined to fix that deficiency.

“When my grandparents died,” she recalls, “my dad got a small inheritance. He offered to let me borrow it to start a business. So I got together with a friend from work and we decided to start a coffeehouse serving light meals – a sandwich and soup. The idea was a place where people could come that wasn’t home or work. They could play cribbage, write poetry, have live music, meet. That was my main interest. I never really wanted a restaurant, but I wanted a community space.”

They struggled with a name for their new restaurant. The building was built in the 1920s, so it seemed appropriate to brainstorm up a name from then. They finally settled on the name “The Bee’s Knees” after some market research. It is a 1920s expression meaning a good thing, the very best. It also recognizes the serendipitous thing – pollination – that happens when bees go about collecting nectar and doing their thing. And when the pair tested it on people, that was the name they remembered.

So Sharon and her friend bought a brick building on the main street of Morrisville. It had a small business space on the ground floor with no kitchen, but there was an apartment upstairs. One of the reasons they chose it was that it was in the downtown and they were interested in supporting downtown businesses. Also it was run down and affordable. They renovated the building and the apartment upstairs, blowing through their money before they opened.

“She and I had always also thought about buying the attached brick building,” Sharon says, “and breaking through the wall and making them into one bigger space.”

So Sharon thought about selling the business. She had planned on having a business partner and being able to take time off and do other things. She didn’t want to be an owner, tied everyday to the business. So she put the business up for sale. A few people were interested and she helped them develop a business plan. But as she did that she thought: ‘If I’m going to do all the work planning this out, I might as well do it for myself’.

At some time, there was a growing bunch of people who were committed to the place. They wanted it to stay the same and offered to help. Eventually she fell back in love with the business and decided to expand – to buy the back building, which had become available, add a kitchen there, hire a kitchen chef, and get her apartment and her life back.

“I had sacrificed a lot to get this far,” she states. “I had run up debts on my credit card and stopped paying my dad back. I figured with the extra space I could add seats and a bigger menu, and turn the finances around. The old space was counter service only and felt funky. It was perceived as a vegetarian and hippy place. But as a sit-down restaurant with meat dishes we could attract a larger clientele, and people wanted that. What was sustaining the business wasn’t the $2 cup of coffee but the $7 sandwich. I expanded the menu to include burritos, pot pies, whatever you could cook ahead of time. But of course, I was living upstairs and it was getting exhausting to have my kitchen used 8 to 10 hours a day prepping food for the cafe. My living room was turned into a storeroom with paper products and dry goods. I had no privacy. I would come out of the shower in the morning and there would be people making soup in my kitchen. The model we started with was not working any more!”

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The only problem? She didn’t have any money and her property was already mortgaged.

Several things happened to make the expansion possible. First, Sharon’s father traded her debt for equal ownership of the building. That meant there was no money owed on it and they were eligible for a mortgage from the bank for a construction loan. Sharon feels that one of the reasons she got the loan was that Union Bank is local. It has property in town, and they knew her business had accomplished, and it counted the community financing that they were doing in the calculations. The bank president sometimes lunches there and emails Sharon about what he likes and doesn’t like.

With a construction loan the bank feeds you the money as you need it to build, and when that is done they convert it to a typical 15-year mortgage. It took about a year to do Sharon’s whole project, and they were able to stay open in the front building the whole time. The project started at the beginning of 2008 and finished the end of that year.

Second, Sharon had a Vermont Community Loan Fund loan. She used her kitchen equipment as security for that.

Third, Sharon issued Community Supported Restaurant (CSR) certificates.

“We offered them to the community at $1000 apiece,” she relates. “I wrote an open letter about what I was doing and left it in the cafe and Emailed it out. How it worked was you write me a check for $1000 and you get paid back in food for the next 3 years at $90 a quarter. I modeled that on Claire’s Restaurant in Hardwick, which was doing a similar thing at the same time. They started maybe a few months before I did. We have a lot of the same customers. I think their offer was $25 a month. But people asked us to make it $90 a quarter so they wouldn’t lose out if they weren’t around a certain month. Or they could bring friends in and all eat together. So I listened to people and modified her offer. The way it was written, if you didn’t use it that quarter you lost it, but in fact if people asked me I always let them use it. I was grateful to them for the loan! One couple was only here in the summer, so I arranged theirs so they could use in all those months.

“There was also interest in a half share,” she continues, “so we did those at $500 and $45 a quarter. We sold $40,000 worth of shares, and used that for operating costs. We had increased expenses, increased payroll and operating losses during the transition. Of course those were unsecured loans. We started selling them in the fall of 2007 and our deadline for purchasing was by March or April of 2008. Part of

Sharon Deitz Caroli in front of her restaurant in Morrisville, VT.
the bank loan deal was being able to raise a certain amount from the community.

Sharon met with a lawyer who reviewed all the documents she sent out, including the CSR shares. She made some changes to make sure Sharon wasn't making a public offering of some kind. The lawyer wanted to make it clear Sharon wasn't taking money from complete strangers in violation of SEC regulations. Legally, it was important that the CSR be an exchange between people who were connected in some way. The lawyer was a little uncomfortable with Sharon just leaving a letter out in the cafe as it might be seen as a public offering. In fact, there were some people who Sharon met through that process that she hadn't really known. There were also a few people who just wanted to support it and who she never developed a relationship with. But it hasn't been an issue and the shares are all paid off now.

"Most of the shareholders continue to come back," Sharon smiles, "because we are a downtown business, we buy locally, and hopefully we also provide a good product!"

Fourth, Sharon also did unsecured community loans in $5,000 increments. They were 4% loans with a balloon payment at the end of 5 years. During the period of the loan the lender could also come in and get a 10% discount on their food, which some people availed themselves of and others didn't. She offered these because, as she talked to people, such a loan was what some wanted to do. She is not sure it was a good idea, however.

"These other loans will come due next spring," she sighs. "These are personal loans. These were not rich people, and some asked to do $2500 instead. We sold $35,000 in those, all in all. I kind of wish I hadn't done them, because they all come due at once and I'm nervous about how I'm going to pay them back. I haven't been able to save the money. The CSR loans are all paid off now, for which I am grateful. I probably should have sold more CSRs. That way, as long as we are open people are getting paid back. But the $5,000 sounded good at the time!"

Lastly, Sharon traded work for restaurant meals. She explains: "A guy named Josh said: 'I'm a bricklayer. How can I help?' Our brick alley was an undeveloped spot where we had our garbage cans. But we wanted to get outdoor seating. So we asked Josh to build a dining spot there. We paid for the materials, and his bricklaying we paid for with a gift certificate. He used it for a date night with his wife and it took him a long time to get through the whole certificate, using it every couple of weeks. Another guy was a housepainter. He continues to work here on minor renovations and all his labor is paid for with a gift certificate. We've been doing that for years. There are a few other people like that. We provide the materials and they provide labor in exchange for meals for." As a result of the various financing efforts, Sharon feels she is a little heavy on debt. But she is hoping to refinance the payments coming due from a new bank loan. She feels that her chances are good because she has demonstrated community support with all the financial and work help she got.

As a final example of such support, she cites the week they finally cut a hole in the wall and connected the dining room and kitchen with the front building. Between Christmas and New Years they shut down for a week to do the last touches and connect the two spaces. In that week Sharon didn't ask anyone to come help, but people started stopping by anyway. They counted over 60 different people who came to help out, gratis. Some just spent an hour or two. They would paint, upholster chairs, do whatever their skills were.

“It was a great work party,” she recalls. "Then we had this great party New Year's Eve. It was amazing. All these people who had helped came and were a part of it. That was a big part of the community financing, to me -- actual community commitment. I had been working long hours by myself, but I didn’t feel like I was in it alone anymore."

Another way that Sharon felt community support was by being a part of the entrepreneurial network that formed locally around 2007 and 2008. It was informal, but they would meet for pot lucks and take turns hosting. When they went to High Mowing, Tom would give a tour and pick a topic for discussion. Then they’d have an opportunity to talk it out in a circle. There was Mateo Kehler, Andrew Meyer, Tom Stearns, and a lot of others.

“We became friends," Sharon recalls. "It helped a lot to fall back in love with the business. I realized I wasn’t a failure – everybody is struggling with the same issues, there was a general community support I already knew about, but this was special -- support of my peers."

Sharon is always thinking about ways to improve and expand the business, but wants to make sure they fit what she wants to do. She thought about moving the business to Burlington, where there is more traffic, but loves the community where she is. She has also considered making foods in her kitchen, with her label, like frozen sauces and potpies. They could be sold at the restaurant or sent out to distributors. But she is not sure if she wants to do that.

Ever since she started the business, Sharon’s financiers have been tight. But she is trying to avoid new debt and feels every year it is getting better. She is confident that next April, when the community loans come due for their balloon payments, she will have the money.

She used to not draw money for herself from the business when she didn’t think she could pay her. That’s how her credit cards got overburdened. But now when she does the paychecks, she can pay herself a modest draw -- $25,000 a year. Given that she lives upstairs, the mortgage is paid by the business, and she eats at the restaurant, she figures this could end up being a good year. She is particularly pleased that she has learned to focus on what she does well.

“It’s changed my management style a lot from being the person who does everything to being a full-time mom and a fulltime manager. My work time is now focused on cost control, marketing, revenue generation. That is what the CEO should be doing, rather than taking the garbage out, pouring beers and mopping the floor.”

Another major change is that two years ago Sharon got married. Jay is an architect and they bought some land in Wolcott with a little off-the-grid house with no running water. But they hope to make it a homestead and already have chickens and bring eggs to the restaurant, as well as fresh produce and pork from their pigs. Connecting the restaurant more to their young farm is her new dream.

“We’d like to say," Sharon says, "that all the bacon we serve here comes from our local pigs. So we’d like to raise more ourselves. We could also do salsas, ham sandwiches, pulled pork. It’s fun to serve local food and say you have been to the farm where it was produced. It’s even more fun to raise your own food -- eggs, produce, meat. I think the farming finnaces will be challenging. But if we can figure that out, it will work for us."
Easing the Path for Start-Ups

by Jack Kittredge

One of the keys to the success of start-up food and agriculture ventures in the Hardwick, VT, area is a facility called the Vermont Food Venture Center (VFVC). It is a building in an industrial park containing 15,000 square feet of food processing and office space.

An earlier version of the center first opened in Fairfax in 1996, but was too small and grew outmoded. Along with other such business incubators started a decade ago, including a national model in Denver, it folded in the recession 5 years ago. The non-profit Center for a New Agriculture Economy (CAE) was recently asked to assist in constructing a new and better facility in Hardwick.

With the assistance of Senator Patrick Leahy and an adviser board the VFVC, now owned by CAE, received nearly $4 million in public money and grants. Without debt, it has the potential to be a model for how to add value to farm products and take advantage of the growing interest in local food.

But the CAE did more than raise the money for the Center. They also put together a range of services and expertise to support new businesses with financial planning, labeling, marketing, distribution and shipping logistics, and a concept of waste-stream utilization more geared to organic farming than industrial production – that one venture’s wastes could be the feedstock for another venture’s operations.

Physically, the Center offers industrial kitchen space (3 of them, for hot process, cold pack, and bakery), professional equipment like ovens, mixers, and food processing tools. Once signed up, clients also get help with the necessary certifications, licenses, forms and contacts.

Andrew Meyer, who started a business in the previous Fairfax facility and is now head of two businesses connected to the Hardwick Center (Vermont Soy and Vermont Natural Coatings), feels VFVC is a vital step in the process of going from innovation to production and distribution. “It’s very difficult to go from your home kitchen to a major market,” he says. Such an incubator allowed him “to experiment with products, take them to the next level, commercialize them, and introduce them to the marketplace.”

The facility is available 24/7 and some clients begin use at 3 a.m. Rates start at $20 per hour, although $50 to $500 is more what the Center hopes to pull in to pay its bills. Asked at the November 2011 openhouse when the Center would take to break even, interim director Louise Calderwood said they hoped to be 30% full the first year, and break even by year four. At this writing there are 20 to 30 small companies renting space and facilities by the hour.

One of the problems with earlier incubators was that they were not charging enough to support themselves. So with this one backers are trying to have operations – staff, utilities, etc. – covered by the clients who use it, with grants just used to cover equipment. In order to do that, however, they figure they need to have two anchor tenants.

“If you have all start-up people coming in for a day here and a day there,” says Tom Stearns, founder of High Mowing Seeds, who is active on the VFVC board, “you can’t make money at all. But an anchor tenant paying 50 grand a year – that works.”

Organizers hoped one anchor might be a meat processor, since one is needed in the area. But a search for a meat processor has so far not been successful. A cheesemaking operation, however, has taken on the other lease.

The Cellars at Jasper Hill is based on a Greensboro dairy farm in the family of brothers Mateo and Andy Lazor, who have run the cheese business at VFVC. Without the Jasper Hill commitment, VFVC “never would have got off the ground,” according to Ms. Calderwood. Part of the Jasper Hill plan there, she says, is to use the space to train other cheese makers.

“We outfitted this whole cheese cell for these guys on a ten year lease,” reports Stearns. “They have three places where they make cheese, and this is one – the one where they train new cheesemakers. One woman’s family milks 500 Jerseys in town. It is a conventional dairy with super high quality milk. She has been hired by Jasper Hill and is training as a cheesemaker. Ultimately she will do that at her family’s farm.”

Jasper Hill buys cheese from lot of different cheesemakers. They have two components. One is their own cheeses, made from their own milk. The other is buying cheese from other cheesemakers, with Jasper Hill doing the aging and marketing and distribution. Those latter tasks are more than 60% of the work of a cheesemaker. There is a big facility at the Jasper Hill farm with 7 different climate controlled rooms, as well as two processing plants.

The future of conventional dairy farms in Vermont is not good. Anyone milking 100 or less cows is either going organic, making cheese, or going out of business. Since a lot of the local cheesemakers are very small operations, however, they are shipping cheese overnight to restaurants via FedEx. They don’t have enough volume for a distributor to pick it up. But that is very expensive. In collaboration with Jasper Hill and the others, they can pack a pallet from ten different local cheesemakers, all aged at the one facility, and send it off. The weight of the pallet and the cost of shipping it is then spread over many cheesemakers.

“Jasper Hill is in the economic viability business for farms,” says Stearns. “They are trying to build a business so that every dairy farm within 15 miles of here has the ability to survive making cheese. They put together a program to build their cellars – their big aging and distribution facility – with some bank financing, some from a foundation doing ‘program related investing’, and some private investors. That was a $3 million project. It had a lot of moving parts. They blasted seven aging caves totaling 22,000 square feet out of a hill at their farm. But they did the same thing that I did for individuals – filing all the SEC forms. They also included banks in the deal. So maybe they had more collateral than I did, to interest the banks.”

Besides providing practical space for ventures, the Center also provides spiritual space for entrepreneurs. “New users are being incorporated into a social network,” says Mateo, referring to about 3 dozen producers who meet monthly, often at the VFVC, for a potluck supper and a tour of someone’s business operation. “You get to see the trajectory of successful businesses,” he says.

One of the other visions arising out of the synergy of these businesses is the idea of waste stream utilization. The idea is embodied in Vermont Natural Coatings’ (VNC) production of a high-quality and natural wood finish made from whey proteins. Whey is a byproduct of cheesemaking. Another example is VNC’s using the alcohol soaked juniper berries left over by a local gin distillery for a cleaning product. Juniper berries have natural antimicrobial and anti-fungal properties.

A Tipping Point?

“Up until 5 years ago,” Stearns says, “everything was vacant in downtown Hardwick. This whole agricultural resurgence of jobs and hope and possibilities has made a lot of other balls get into motion. It has really reached a tipping point in this area. High Mowing and Jasper Hill and Sterling College are the biggest employers around now. There is a new all local pizza place opening tonight!”

Some of the new businesses he points to were only dreams a few years ago. Lisa Johnson’s tasty sweet potato dip “Yummy Yummy” was a home-cooked product and as such had reached its sales limit. Now she makes big batches at VFVC. “Without the Center I would have shut down,” she says. Same with “Michelle’s Spicy Kimchi” sold by the caseload in Burlington now, or Monique Duckworth’s spicy fried pepper chips “Dream’s Jalapenos”.

Jack and Anne Lazor’s “Butterworks Yoga”, of course, is an example of an early value added farm-based food operation and what it can mean financially for a farm.

“It funded things that Jack wanted to do,” Stearns recalls, “raising grains and dry beans, things where there isn’t really a lot of money to be made. But with the sugar daddy of the yogurt business, he was able to figure out what worked in these other areas. Now lots of people are growing grains and dry beans again. Without Jack having started that, it wouldn’t have happened. It shows that people with vision can realize their dreams.”
Crowdfunding: Three Revolutions

by Caitlin Gildrien
NOFA-VT Outreach Coordinator

When asked what barriers they face to starting or expanding a farm, one common reply from new farmers is “access to capital.” Finding the funds to purchase the seed, implements, seed, soil amendments, livestock, feed, fencing, and all the other accoutrements of farming – not to mention land – is a perennial challenge. Farmers have traditionally approached this challenge in a number of conventional ways, such as bank loans, leveraging government or private grants, using credit cards, and the good old-fashioned method of saving up and growing slowly.

There are other, less conventional ways that farms work around the cash-flow problem. Systems like community-supported agriculture (CSA) infuse a business with cash early in the season when members sign up, with the product delivered later over the course of the season. And of course, entrepreneurs (including farmers) have always borrowed from friends and family, and interested community members have always invested in new businesses.

One local example of community investment is Claire’s Restaurant and Bar in Hardwick, VT. Claire’s owners raised capital by finding fifty people willing to invest $1,000 each into the new venture. These shareholders get their investment back in a restaurant credit of $25 per month over the course of four years. Combined with a novel real estate situation – the restaurant leases both the building and the equipment – Claire’s was able to get started without major debt.

With the advent of online social media has come a new version of community investment, known as crowdfunding. Crowdfunding refers to the process by which a group of people collectively funds an enterprise, either by donation or as a loan. Most online crowdfunding platforms follow a model in which independent projects are submitted with a funding goal, and given a limited amount of time in which to reach that goal. The project originators offer rewards for different levels of investment, generally given in a donation. If they reach their goal, everyone who pledged support pays up and the project goes forward; if they fail, no one is charged.

Several online platforms now exist to facilitate crowdfunding in this manner; Kickstarter (www.kickstarter.com) is the most popular. Most of the projects funded on Kickstarter are artistic – film, music, and photography are popular – but there is a category for “food” ventures, many of which are farms or farm-related. Sugar Mountain Farm, a hog farm in the Northeast Kingdom, raised over $33,000 earlier this year on Kickstarter to fund an on-farm butcher shop. In 2011, according to Grist magazine, Kickstarter food ventures raised more than $2.8 million from over 30,000 backers.

Evidence indicates that the local food movement in the three county areas that comprises the Pioneer Valley of Western Mass (Hamphire, Hamden and Franklin counties) is happening, with or without centralized coordination. This movement appears likely to continue to grow in its own accord and the question facing a group of local food advocates centers on what kind of coordination is likely to add value to the movement.

Three Revolutions launched in July with projects intended to increase rice production, test a beekeeping strategy, and expand a local food processing business. More projects are on the way, and investors have already begun to respond. “The true reward from being involved in crowdfunding on Three Revolutions,” says Lehman, “is in fostering connections and building support for emerging and growing farm- and food-related businesses.” This form of funding is unique in its democratic spirit. Rather than resting on a loan officer or credit score, the project’s viability is judged by the community and the support that the project originators can cultivate. This creates an opportunity for greater risk-taking and deeper creativity, since the public at large may be more willing to back an untested idea.

However, the same social aspect also creates an emphasis on promotion: a project with a snappy video may garner more “shares” – and thereby more supporters – than one with less impressive presentation, regardless of the merits of the project itself.

In an age when the economy is slow but technology moves fast, crowdfunding is one answer to the question of how to make ends meet on the farm. As a new concept, its full impact probably won’t be known for some time, but as over 240 successful Kickstarter food projects can attest, the potential is great.

For more information:
• www.kickstarter.com
• www.threerevolutions.com
• www.clairesvt.com

This article originally appeared in NOFA Notes, the quarterly newsletter of NOFA Vermont.

Can Investors Help to Bring the Local Food Movement to Scale?
Lessons from the Pioneer Valley

by Jeff Rosen

In this article I will explore the need to convert consumers into investors, share the early stage experiences of a number of successful local food ventures, and consider what lessons we can learn.

Evidence indicates that the local food movement in the three county areas that comprises the Pioneer Valley of Western Mass (Hamphire, Hamden and Franklin counties) is happening, with or without centralized coordination. This movement appears likely to continue to grow in its own accord and the question facing a group of local food advocates centers on what kind of coordination is likely to add value to the movement.

PVGrows (www.pvgrows.net) was founded in 2008, driven from the outset by a perceived need to enhance efficiencies in a large but by coordinated local food movement and to connect that local food movement to capital. It is a network that brings people who are doing food system work together. It tries to help them to do their work more efficiently by offering twice year gatherings, and supporting smaller working groups, where people come together to collaborate on specific topics such as workforce development, higher education or finance.

PVGrows is a membership organization that charges no fees. As of May 2012, there are over 450 members. The network sponsors forums designed to promote networking and to highlight specific issues, most recently centered on enterprise viability. The last three forums have been full; the April meeting was attended by more than 150 participants.

The Pioneer Valley spans a diverse geographic and socioeconomic region, rich in cultural, economic and agricultural history. The Pioneer Valley is loosely defined as the region lying to the West of the Connecticut River, between Connecticut to the South and Vermont to the North, spreading West to the Berkshire regions. It contains seemingly idyllic New England towns and hamlets and struggling...
The group collaborates to place investments from a shared $750,000 loan pool. We launched a pilot fund because we thought we would learn more about investing in a local food system if we actually tried to do it.

Here is how it works: Sam Stegeman, the PVGrows coordinator leads the outreach efforts and takes in applications to the fund. The group reviews applications with a three-person panel. We also look at business fundamentals, as we would not want to look too closely at a business that is far from being a credit worthy applicant. If the applicant meets the mission objectives of the group, and seems viable as a business, he or she is passed on to Common Capital which provides the due diligence and professional loan administration for the group. If Common Capital comes up with a favorable ruling on the loan application, the applicant is funded.

There are mission investors into the loan fund, as well as the institutional investors listed above, and this allows the group to provide slightly below market loans, at slightly higher risk levels. At the outset we targeted viable but not fully bankable food enterprises, striving to fill the capital gap we identified from the research phase of PVGrows.

To date, the main challenge we are finding in the Pioneer Valley is that we are not seeing the stream of entrepreneurs who will be needed to build out the enterprise base for a local food economy. In the design phase of our project we heard from neighboring communities such as Vermont, where young and experienced entrepreneurs were emerging, business plans in hand, with complete confidence in the traditional investment model in mind. We prepared for a new generation of young entrepreneurs and experienced business operators, shut out of corporate America by the 2009 recession, and eager to develop alternatives to a global economy. We don’t know why we are not seeing this entrepreneur class coming to us.

Next Generation for PVGrows and Others: Engaging with Local Investors

PVGrows set up the Pilot Loan fund to learn more about the community and the potential for collaboration. But neither PVGrows nor any other community in this country can point to a dedicated, pooled local food fund, supported by a large number of community in this country can point to a dedicated, pooled local food fund, supported by a large number of community investors, to tell you how to make it work. We are working on it, but we don’t have it yet.

As this trend emerges nationally, we very see a desire to use local investors to provide the flexible investment capital needed to grow out the local food system. It is challenging to raise this capital in a traditional sense, as local, sustainable agriculture initiatives will be relatively high risk, and unlikely to offer high returns. Traditional investors shy away from.

Overview of the Investor Returns: Thesis One

• A commitment to treat their suppliers with fairness and mutual benefit in mind (Fair Trade in Supply Chain)
• A commitment to treat its workforce fairly and to provide living wage jobs with benefits where possible (Fair Wage Practices)
• A commitment to best ecological practices within its own environmental footprint (Bring Externalities onto the Balance Sheet)
• A commitment to supporting local businesses as much as possible within its economic sphere of influence
• A commitment to avoid engaging in the worst practices of using money to create political leverage
• A commitment to a business model that perpetuates local ownership and control over the long term
• A long term commitment to local ownership and control

The commitment to local ownership and control is central to shifting from the global to the local economy. Using the model below, we can see how this place-based requirement for the businesses that make up the local food economy makes it much harder to get investors a traditional market rate of return.

Sample Case Study: Illustrating Investor’s Role in Local Food System Development

Table 1. Economics of a TBL Firm

<table>
<thead>
<tr>
<th>Global Dairy</th>
<th>Local Dairy</th>
<th>Local/Sustainable Premium/ Deficit</th>
<th>Effect on local Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Invested</td>
<td>$500,000</td>
<td>$800,000</td>
<td>no difference</td>
</tr>
<tr>
<td>Your total investment</td>
<td>$50,000</td>
<td>$50,000</td>
<td>no difference</td>
</tr>
<tr>
<td>% of company you own</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Gallons of milk sold</td>
<td>250,000</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>Retail Price</td>
<td>$4</td>
<td>4.80</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$1,000,000</td>
<td>$1,200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Management Wages</td>
<td>$200,000</td>
<td>$180,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Line Worker Wages</td>
<td>$160,000</td>
<td>$300,000</td>
<td>$140,000</td>
</tr>
<tr>
<td>Facilities &amp; Operations</td>
<td>$150,000</td>
<td>$204,000</td>
<td>$54,000</td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>$70,000</td>
<td>$108,000</td>
<td>$38,000</td>
</tr>
<tr>
<td>Lobbying</td>
<td>$20,000</td>
<td>$0</td>
<td>straw dog assumption</td>
</tr>
<tr>
<td>Total Costs</td>
<td>$800,000</td>
<td>$1,152,000</td>
<td>$172,000</td>
</tr>
<tr>
<td>Profit from Operations</td>
<td>$200,000</td>
<td>$48,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Dividend to investors @ 5%</td>
<td>$10,000</td>
<td>$2,400</td>
<td>$500</td>
</tr>
</tbody>
</table>

urban centers, facing contemporary challenges associated with the collapse of their traditional industrial base. In the cities of Greenfield, Holyoke and Springfield huge tracts of former industrial complexes lay abandoned, and the cities struggle with many of the typical challenges of our times, as the municipal budgets decline and services are stretched to the breaking point. Within a few miles of some of the finest soils in the world, the residents live in food deserts, suffering the effects of low-nutrition diets.

The Pioneer Valley is well situated as a transportation hub, with rail, road and air transport and close proximity to Boston, New York City and large Connecticut cities such as Hartford and New Haven. In addition to its own vibrant local food economy, it is centrally situated within the regional food system of New England and the Northeast.

The local food system in the Pioneer Valley has many assets, including:

• Excellent farmland and a variety of agricultural microclimates, including fertile bottomland, sloping orchard sites, and upland pastures, that support a wide diversity of agricultural products;
• A steady, if small, influx of new farmers, often with good experience and training from local farms, colleges, and incubator or training programs;
• Strong support for local farm products and farm issues;
• Active agricultural organizations;
• A growing number of businesses using locally grown ingredients in processed products, many of them supported by the services of a shared incubator kitchen facility;
• Community gardens and farms, youth leadership programs focused on food and agriculture, and strong farm-to-school programs;
• A growing awareness of the connections between many overlapping goals, including a strong and resilient local economy, community health and self-determination, thriving farm and food businesses, access to healthy food for all, and jobs that foster environmental sustainability and community well-being;
• Large tracts of physical infrastructure in the form of shuttered factories, warehouses, railway lines and other remediable, built infrastructure which is currently dormant;
• Underserved communities who lack access to local, healthy foods, who present a food justice challenge, as well as a marketing opportunity;
• A number of experienced, innovative community focused finance institutions.

Most local food investment structures rest on the thesis that we are more successful investing in our own place, with whom we know and with products with whom we are most familiar. This is rooted in the success of the international microfinance industry and community investing in this country. People have learned that neighbors are apt to repay neighbors. Community members feel their obligation to repay the debt to their peers even more deeply than they do when they are fully secured by a complicated, legally binding agreement to a bank. There is something about community lending that provides relationships-based collateral. Obviously, at some scale, this is lost. The question surfaces: Can we ramp up a local food movement to a real economic engine, maintaining the relationship aspect of lending?

Using the PVGrows network, the Finance Workgroup is working on it, but we don’t have it yet.

As this trend emerges nationally, we very see a desire to use local investors to provide the flexible investment capital needed to grow out the local food system. It is challenging to raise this capital in a traditional sense, as local, sustainable agriculture initiatives will be relatively high risk, and unlikely to offer high returns. Traditional investors shy away from high-risk-low return models, but this growing segment of potential impact investors sees something else. They see the opportunity to put some of their capital to work for blended returns, combining some low financial return (or even a loss) with the significant social returns associated with a vibrant local food economy, close to home. The local food system needs a capital pool that is structured to provide these community benefits to its participants.

The investments have to adhere to traditional financial discipline in order to guarantee that these community returns are coupled with reasonable financial returns.

Supporters of a resilient local food economy have high expectations for the businesses they would want to support. Though potential investors will value certain business characteristics more than others, in general, in a sustainability oriented economy, these expectations would most likely include:

• A commitment to treat their suppliers with fairness and mutual benefit in mind (Fair Trade in Supply Chain)
• A commitment to treat its workforce fairly and to provide living wage jobs with benefits where possible (Fair Wage Practices)
• A commitment to best ecological practices within its own environmental footprint (Bring Externalities onto the Balance Sheet)
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Sample Case Study: Illustrating Investor’s Role in Local Food System Development
The following example and above table illustrate the difference between a conventionally managed business and one that integrates many of the business practices we seek in our local food system entrepreneurship. This case, called the Milk Plant, is a great illustration of how social entrepreneur incorporates the business criteria detailed above. They are smart, hard-working and dedicated enough to the venture to run a profitable business. And, as the following example shows, this may be possible, but that this level of profitability may not be enough to attract investment. Given the operational weight that arises at the business level we need investment capital to scale up the local food movement, this is a problem.

So, if you are a numbers person, reference Table 1 is a condensed version of a financial statement highlighting the differences between a conventionally and a locally run business. In the case of this example, the TBL firm, which is dedicated to the development of a local food economy, fills a gap in the local food landscape. And, as illustrated in the Local Milk Plant example and above table, illustrates the difference between a conventionally managed business and one that integrates many of the business practices we seek in our local food system entrepreneurship. This case, called the Milk Plant, is a great illustration of how social entrepreneur incorporates the business criteria detailed above. They are smart, hard-working and dedicated enough to the venture to run a profitable business. And, as the following example shows, this may be possible, but that this level of profitability may not be enough to attract investment. Given the operational weight that arises at the business level we need investment capital to scale up the local food movement, this is a problem.

Table 1. Investors Return (IRR) of a TBL Firm

<table>
<thead>
<tr>
<th>Year</th>
<th>Local Dairy</th>
<th>Investor Return (0 yr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$50,000</td>
<td>$(15,000)</td>
</tr>
<tr>
<td>2</td>
<td>$10,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>3</td>
<td>$1,000</td>
<td>$240</td>
</tr>
<tr>
<td>4</td>
<td>$1,000</td>
<td>$240</td>
</tr>
<tr>
<td>5</td>
<td>$1,000</td>
<td>$240</td>
</tr>
<tr>
<td>6</td>
<td>$1,000</td>
<td>$240</td>
</tr>
<tr>
<td>7</td>
<td>$2,000</td>
<td>$400</td>
</tr>
</tbody>
</table>

Table 2. Investor Returns (IRR) of a TBL Firm

<table>
<thead>
<tr>
<th>Year</th>
<th>Investor Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>26%</td>
</tr>
<tr>
<td>2</td>
<td>26%</td>
</tr>
<tr>
<td>3</td>
<td>26%</td>
</tr>
<tr>
<td>4</td>
<td>26%</td>
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<tr>
<td>5</td>
<td>26%</td>
</tr>
<tr>
<td>6</td>
<td>26%</td>
</tr>
<tr>
<td>7</td>
<td>26%</td>
</tr>
</tbody>
</table>

Table 3. Key Differences between Local Food Funds

<table>
<thead>
<tr>
<th>Local Food Funds</th>
<th>Traditional Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>More concentrated investment</td>
<td>More diversified investment</td>
</tr>
<tr>
<td>Lower risk</td>
<td>Higher risk</td>
</tr>
<tr>
<td>Lower return</td>
<td>Higher return</td>
</tr>
<tr>
<td>More patient</td>
<td>More aggressive</td>
</tr>
</tbody>
</table>

The traditional way to provide investors with a healthy return on their investment is to grow quickly and increase profits through sales at an equal pace. If you grow big and fast, you can give investors double or triple their money back in the relatively near term. If you don’t grow much, and you don’t grow quickly, you cannot provide adequate returns.

The following example and above table illustrates the difference between a conventional and a locally run business. In the case of this example, the TBL firm, which is dedicated to the development of a local food economy, fills a gap in the local food landscape. And, as illustrated in the Local Milk Plant example and above table, illustrates the difference between a conventionally managed business and one that integrates many of the business practices we seek in our local food system entrepreneurship. This case, called the Milk Plant, is a great illustration of how social entrepreneur incorporates the business criteria detailed above. They are smart, hard-working and dedicated enough to the venture to run a profitable business. And, as the following example shows, this may be possible, but that this level of profitability may not be enough to attract investment. Given the operational weight that arises at the business level we need investment capital to scale up the local food movement, this is a problem.

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Fall, 2012

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Workers at High Mowing Seeds, in Hardwick, Vermont, select, mark, cover, and breed cucurbits for their seeds. Faced with strong demand for organic seed, High Mowing had to raise $1 million to add the staff, storage and office space, and growing fields it needed to serve its customers.

It managed to do this without giving over control of the business to investors.

This issue contains news, features, and articles about organic growing in the Northeast, plus a special supplement on Local Investing.