



REPORT SYNOPSIS

HARVESTING OPPORTUNITY: THE POWER OF REGIONAL FOOD SYSTEM INVESTMENTS TO TRANSFORM COMMUNITIES

The [Cascadia Foodshed Financing Project](#) (CFFP) regularly reviews and illuminates educative research, media, and resources related to food systems financing for social and environmental impact. This document is a synopsis of the [Federal Reserve Bank](#) report entitled *Harvesting Opportunity: The Power of Regional Food System Investments to Transform Communities*. The publication is a collection of research, reports, and essays written by community development experts that explore the potential for local and regional food system investment to transform local economies, with the explicit end goal of improving equity for low and middle income households and communities. The essays come from a variety of perspectives including finance, government, academia, philanthropy, and more. Key lessons from this collection confirm CFFP endeavors to build knowledge including the [Ecotrust Regional Food Market Research](#), [accompanying lender analysis](#), and exploration of a relationship with the CDFI [Craft3](#).

Overarching takeaways include the imperative of cross sector collaboration, and the necessity for a wide variety of capital to meet diverse needs of local and regional food systems at differing levels of production. This synopsis provides high-level bulleted summaries of each chapter as an entry point to the full publication.

The Cascadia Foodshed Financing Project seeks to catalyze a thriving regional food economy in Washington and Oregon by aligning philanthropic resources with other business and financial interests. For more information visit cascadiafoodshed.org.

INTRODUCTION

PURPOSE

- Consumers are more interested in where their food comes from and how their food dollars can better support local food businesses and farmers.
- Through a collection of research, essays, and reports written by community development experts, this publication explores how this trend can be leveraged to transform low and moderate income (LMI) communities.

KEY FINDINGS

- Regional food systems represent a promising avenue for economic growth for rural and urban communities through creation/enhancement of jobs/businesses.
- With targeted policies and support, investment opportunities can advance economic and financial security of LMI households and communities.
- This work simultaneously opens doors for improved access to healthy food (resulting in improved community health, more productive workforce, and other impacts).

OVERARCHING THEMES

- The two most important tools for LMI communities to take advantage of their regional food system: knowledge and capital
 - Access knowledge of emerging opportunities
 - Access to capital required in bringing them to fruition
 - Both are historically lacking in LMI communities
- The importance of collaboration and partnership

CHAPTER 1. LOCAL FOOD DEMAND IN THE US; EVOLUTION IN THE MARKETPLACE AND FUTURE POTENTIAL

- Demand for local, regional and sustainable food is strong among direct, retail, and institutional markets. This demand crosses all income segments as consumers consider more than price. Large, established food companies are losing market share to smaller and new food companies.
- Direct market channels, accompanied with generally shorter supply chains, improve net revenues across multiple product categories while increasing purchases of inputs from other local/regional businesses.
- Direct to consumer sales increased by 223% from 1992 to 2012
- USDA ERS estimates overall local food sales in 2012 totaled \$6.1 billion
- 87% of consumers report availability of local food is “very” or “somewhat” important

CHAPTER 2. THE INVESTMENT CONTINUUM: RISK, REWARD, AND IMPACT IN LOCAL AND REGIONAL FOOD SYSTEMS

- The investment sector has pivoted its approach to include risk, return, *and* impact – a spectrum of impact investing has emerged in the last 20 years.
- Risk and return tolerances are different for the new food economy. Investors now ask: how can social and/or environmental impact be integrated into return expectations?
- This means creative capital use, higher risk tolerance, unorthodox collaborations, and more in order to leverage opportunities and address key issues – including food systems.
- New enterprise models are highlighted: Profit-driven, asset-light; Purpose-driven, social benefit; Infrastructure; Technology-based.
- Technical assistance and business development support should be anticipated to compliment and reduce the risk of an investment.

CHAPTER 3. LOCAL AND REGIONAL FOOD SYSTEMS DRIVING RURAL ECONOMIC DEVELOPMENT

- Strengthening local food systems is a priority for rural American development across many organizations.
- Rural economic development strategies typically include:
 - rural-urban linkages
 - import substitution
- Local and regional food systems as an economic development strategy are built on these two principles of rural-urban linkages and import substitution.
- More research is needed to support the hypothesis that regional food systems investment results in greater net income, economic stability or development than other investments. However,
 - There is evidence of small, positive regional economic impacts from local food initiatives. They tend to generate a small amount of additional regional economic activity;
 - There is evidence that the new markets resulting from growing consumer interest in local foods improve profitability outcomes for a range of small to midsize producers;
 - There is evidence that a wealth creation approach will demonstrate long term impacts of regional food system investment (e.g. human capital). Such an approach would reveal different results—and thus policy implications—than more traditional economic impact assessments.

CHAPTER 4. ADVANCING FOOD EQUITY THROUGH LOCAL AND REGIONAL FOOD SYSTEMS

- Critics of local and regional food systems stress that the local scale will not be big enough to feed the world. This analysis is based on a production chain comparison of small and midsize farms to big agriculture, and neglects other potential impacts (environmental, social, sustainability).
- Investments in local and regional food and agriculture combat structural inequities by developing pathways for underserved communities to build and acquire capital resources.
- Investments in food equity contribute to
 - Improved health outcomes;

- Employment opportunities;
- Strengthening of community ties and cultural heritage;
- A greater political voice for advocacy and policy change.
- Investing in local food systems produces more than just food:
 - Creation of social capital through job training;
 - Open access to markets improves economic growth;
 - Community development in LMI/marginalized areas.
- Programmatic and Enterprise examples highlight Job Training and Access to Markets; Creating Opportunities for Farmers; Prescribing Food; and Community Development and Sovereignty.

CHAPTER 5. IMPORTANCE OF INCLUSION IN LOCAL AND REGIONAL FOOD SYSTEM EFFORTS

- Increased demand for local and regional food is creating new business opportunities for traditionally marginalized populations. These groups now have access to new and better jobs with higher wages, safer working conditions, training, and upward mobility.
- If investing in local/regional food systems, choosing businesses that have better and inclusive labor practices is good for both economy and social equity.
- Investing in systems that prioritize workers is actually good for business:
 - Lower turnover (reduced cost of recruiting and replacement, reduction in interruption of operations, improved business performance);
 - Higher job security means improved skill building and overall productivity;
 - Development of a loyal customer base.
- Three case studies demonstrate how institutional purchasing policies, innovative business models and human capital investments help ensure that local and regional food benefits are shared by all: Los Angeles' Good Food Purchasing Program; Cincinnati's Our Harvest Cooperative; Detroit's COLORS Restaurant.

CHAPTER 6. FINANCING LOCAL AND REGIONAL SUSTAINABLE FOOD ENTERPRISES: A MATTER OF NATIONAL SECURITY

- This chapter covers a number of opportunities, issues and challenges related to financing the emerging food production sector, including
 - Critical components of a business plan in accessing capital
 - Importance of good management
 - How investors review and underwrite opportunities
 - Role of financial intermediaries
- Government programs - such as the SBA's guarantee program and federal tax credits like the Low Income Housing Tax Credit and New Markets Tax Credit - are a fundamental factor in inducing private investment by reducing the risk of the investment. However these programs cannot engage all regional food system entrepreneurs. Other risk reduction strategies are needed, like the emerging interest in patient capital.
- Obstacles to capital, while numerous, can be overcome:

- Insufficient collateral;
 - Equity and/or owners' injection;
 - Untested entrepreneurs;
 - Nascent business models;
 - Patient financier or group of investors engaged;
 - Location;
 - Logistics;
 - Customer acquisition;
 - Time;
 - Achieving the right mix of social impact and financial return;
 - Entrepreneurial goals (optimize vs. maximize growth);
 - Current global food system is incredibly efficient at providing inexpensive food.
- Farm advocates, state and federal agencies, and Congress alike are coming to view US agriculture as a national security priority given a rising world population and America's pending vulnerability in food production.
 - Making food a top national security concern at the policy level will create an enabling environment that offers opportunities for growth in local and regional food systems.
 - There's a national imperative for a food policy that induces investment, building on talent and enthusiasm of marketplace towards local and regional.
 - Lessons from the community development field can be instructive, particularly the civil rights era of the 1960s and the subsequent launch of the Community Reinvestment Act of 1977.
 - The national imperative for a food policy that induces investment can help turn the corner, but a federal policy of appropriate magnitude - complemented with state and private investment sources - is needed to stimulate a vibrant local and regional food system.
 - A business plan template and Investment Memorandum are included as appendices.

CHAPTER 7. THE NATURE OF LOCAL FOOD SYSTEM FARM BUSINESSES

- Due to variability between products, this chapter focuses on vegetable producing businesses.
- Local food and farmers need continued access to multiple market channels with varying degrees in ease of access, sales volume capacity, labor intensity, and net profit margins.
- Few farms make the transition from growers for farmers markets, then CSAs, then retail store, then wholesale.
- CSAs are the business model with the best net margin and net profit.
- Downscaling from wholesale to direct retail, and increase diversity of products, can take place as younger generations return to farm.
- Balancing cash flow is key to any business, particularly one that sells in to different markets. Lines of credit may hide a lot of ignorance related to managing cashflow over time. Realistic budgeting for net profit margin and owner's draw should be measures of operational performance.
- Food hubs, produce distributors, and food service distributors that see economic value in preserving local food identity are key in enabling local wholesale markets that are consistent, timely, handle larger volumes.
- Whole Farm Revenue Protection crop insurance is designed for growers of diversified crops.

- Marketing and communication around shared values, the story of the food, is an essential part of the economic worth of local foods.
- Technological improvements in the local food system will trend in three general directions:
 - First: logistical efficiencies
 - Second: customer choice improvements - such as CSA software - and particularly through mobile apps.
 - Third: on-farm productivity improvements such as crop scheduling tools integrated with accounting software.
- The business success of midscale local food farmers will be based on the adoption of new technology (including IT) and aggressive engagement of multiple market channels
 - “It’s all about marketing: producing a crop is easy compared to selling it at a profit”
 - Find market channels that capture a premium for local while handling the same farm product at different prices, quantities, and level of service
- IT plays an important role in faster sourcing and distribution, faster price discovery, and competitive pressure.

8. USE IT OR LOSE IT: LOCAL FOOD, REGIONAL PROCESSING, AND THE PERILS OF UNUSED CAPACITY

- Processing has a few basic models:
 - Provide services to others (Co-pack).
 - Tightly integrated to the benefit of one enterprise.
 - A combination of both models, especially where excess production capacity can help other businesses.
 - Processing cooperatives.
 - Mission-based processing (animal welfare, fair trade, etc.) that includes all services necessary for aligned businesses to succeed (food hubs).
- To be competitive, local processors need to bring down costs without compromising their mission of increasing value and sharing equitably across the supply chain. Examples highlight two general categories towards success:
 - Balancing differentiation against operating costs and constraints;
 - Assuring enough throughput to keep expensive infrastructure fully utilized and generating revenue. This can involve servicing fully aligned product alongside conventional product.
- Processors can address different size orders in a few ways:
 - Bundle smaller orders in to a few specific days per month;
 - Aggregating smaller orders in to one entity, and invoice, to lower overall transaction costs;
 - “Tail-end” processing that attaches smaller orders at end of larger orders;
 - Raise cost of smaller orders since higher product quality can open up higher value market opportunities that will cover the extra unit cost.
- Processors can serve as incubators to help prove out new products and ideas. They can provide relatively low-cost access to facilities, equipment, technical assistance and financing. They can also freeze product for a producer who then processes that product in winter, extending employment and cashflow.

- Processors who specialize can create a brand to market aggregated product for different producers.
- Regional collaboration presents a compelling model to address many needs:
 - Northeast Case Study: FPC, Northern Girl, and Vermont Food Venture Center joined in a regional business partnership to scale the scope and volume of their sourcing, processing, and marketing.
 - Each processor specialized in the type of produce and processing that it does most efficiently.
 - The collaborative sources jointly from across three states, buying at different prices for different farmers, pooling product with the appropriate partner, and selling at an appropriate “average” price.
 - This model brings more local produce throughout the region at a more affordable price while still giving farmers fair price for their product, and improving the efficiency of regional processing infrastructure.
- Processing will continue to be expensive in terms of physical “hard” infrastructure and “soft” infrastructure of human expertise and systems. Sharing equipment and talent across regional value chain players can help raise the quality of all products.

CHAPTER 9. GETTING THE MARGIN TO MEET THE MISSION: FOOD HUB FINANCIAL VIABILITY

- The success of regional food hubs is fueled by entrepreneurial thinking and sound business practices coupled with desire for social impact.
- Food hubs represent dual model for business profitability and community development.
- Food hubs provide producer, operational, and community services.
- High performing food hubs generally pay more for labor, and generate more output per employee.
- Wholesale food hubs have a higher breakeven point (\$1.2 million) than direct-market food hubs (\$314,000).
- Food hubs address the challenges of satisfying large markets with varied supply from small and midsize producers.
- Benefits range from ability to make a profit, job provision, and deeper social impacts that ripple out.
- Lessons learned from engagement with hundreds of food hubs across US:
 1. “Oxygen Mask Rule of Financial Viability”: secure financial success before assisting with social mission/returns;
 2. Don’t sell commodities;
 3. Sweat the small stuff;
 4. Be there year round;
 5. Get buyer commitment;
 6. Think farmers first;
 7. Make friends;
 8. Don’t buy what you don’t need;
 9. Put food safety front and center;
 10. Never forget “supply, supply, supply”.

CHAPTER 10. INSTITUTIONS: AN EMERGING MARKET FOR LOCAL AND REGIONAL FOODS

- Today, nearly 45% of all food is purchased and consumed outside of home.
- Institutional food purchasers - including K-12 schools, colleges and universities, and hospitals - play a significant role in creating and sustaining markets for local foods.
- Since most Institutions serve prepared foods, this market generally purchases products labeled Grade B, or Seconds. This benefits both the farmer (market for less desirable products) and buyer (lower prices).

CHAPTER 11. INVESTING IN INNOVATION: PHILANTHROPIC SUPPORT OF THE LOCAL FOOD MOVEMENT

- Philanthropies have the ability and opportunity to invest in higher risk, innovative ventures that may one day provide an intervention or solution that can be scaled by investors or governments.
- Grant dollars are being used to help prove innovative approaches, with final outputs available to the larger field.
- Impact-first investments can help early stage enterprises prove that they can deliver non-financial returns and market-rate financial returns.
- Collaboration between nongovernmental orgs, entrepreneurs, and other funders is key to developing systems-level solutions.

CHAPTER 12. PROVING THE OPPORTUNITY: COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS AND FOOD SYSTEM FINANCING

- Flexible financing to help a sector grow and build
- Attuned to matching right type of capital and to the right type of business assistance given CDFI risk factors.
- Early HFFI investments supported grocery stores in low-income areas. CDFIs expanded investments to incorporate the set of interconnected activities or sectors that grow, manufacture, transport, sell, prepare and dispose of food.
- Capital needs across the food system are as diverse as the food system itself. Each sector needs working capital.
- Lenders cannot easily do comparative analyses to traditional supply chains and business models.

CHAPTER 13. INSURED DEPOSITORY INSTITUTIONS AND LOCAL AND REGIONAL FOOD ENTERPRISES: LENDING AND INVESTING

- “ The opportunity at hand is to continue to identify partners and programs targeted to addressing the underwriting challenges, and to expand the capital resources available for each component in order to best serve the needs of areas lacking access to regional food enterprises.”
- Capital challenges are broken down for Supply, Retail, and Social Service.

- It is not uncommon for large banks to be grouped by investment banking, commercial, retail and consumer banking.
 - Agriculture, food processing and distribution companies are often served by the investment bank or commercial team within a financial institution.
 - Grocers would typically be clients of the commercial division, unless they are a large public company (investment bank), or neighborhood grocery or farmers market (retail team).
 - Food banks and local social service organizations, meanwhile, are often customers of a nonprofit lending team within retail or commercial lending, depending on the organization's size.
- Future support for regional food enterprises looks promising.
- Many CDFI participants in New Markets Tax Credits (NMTC) are focused on continuing to eliminate food deserts and Low Supermarket Areas (LSA's).
- While you can invest NMTC allocations towards anything, a sizable portion of the industry is directing resources towards food enterprises and producers.
- Additional financing products and funds continue to be developed to eliminate obstacles to healthy food access by city planning departments, community organizations, nonprofit, for profit partners alike.
- Creative market developments: small footprint grocery retailers in urban centers, fresh grocery home delivery, CSAs, SNAP at Farmers Markets, improved IT, communications and awareness building.
- Challenge going forward: How can we eliminate urban food deserts while protecting aging suburban and rural areas that face income decline, commercial vacancy, and loss of regional food enterprises?

CHAPTER 14. INVESTING IN THE NEXT GENERATION OF FARMERS

- Vibrant local food systems depend on farmers.
- Producers are aging. Average age of farmer rose from 52 in 1987 to over 58 in 2012.
- Local and regional food systems are attracting new groups of people to farming and ranching for many reasons including community wellbeing, fostering personal connections, and making a living from expanding market opportunities at the same time.
- Challenges/barriers for new farmers: access to capital, need for technical knowledge and skills.
- USDA and federal agency services include USDA BFRDP, apprenticeships, trainings.
- Still, the private sector has a crucial role to play in meeting the financing gap for new and beginning farmers: USDA farm service agency, Farm credit system, Slow Money, Kiva, Microenterprise revolving funds, etc.

CHAPTER 15. BRINGING BUSINESS TO LIFE THROUGH COMPETITIONS, INCUBATORS, AND ACCELERATORS

- The value of incubators, competitions, and accelerators lies in how well they can advance the business goals of the entrepreneur.
- It's challenging for entrepreneurs to engage in these activities as they wear multiple hats and juggle multiple roles within their business with limited time and resources.

- Business competitions can help accelerate a business idea, while also creating a marketing opportunities. The application process alone can refine a plan. Competitions highlighted:
 - Farm Bureau Rural Entrepreneurship Challenge
 - Women’s Initiative Awards
 - Mahi’ai Match-Up Gala
- Key considerations for entrepreneurs to think about as they contemplate participating in business competitions, farm incubators, food incubators, and accelerators:
 - business development stage
 - program duration
 - program requirements
 - resources provided
 - networking opportunities
 - graduation policies

CHAPTER 16. ORGANIC: A SOLID, BENEFICIAL, AND SUSTAINABLE INVESTMENT

- Some counties have emerged as “organic hotspots” that show good return on investment for investor, farmer, and consumer. Counties with a high concentration of organic agricultural activity that have neighboring counties which also have high organic activity have lower poverty rates and higher median annual household incomes. OTA’s white paper identifies 225 counties across 22 states as organic hotspots.
 - On average, county poverty rates drop by 1.3 percentage points, and median household income rises by over \$2,000 in organic hotspots. Organic hotspots also were found to lower the unemployment rate at the county level by 0.22 percentage point and raise per capita income by \$899.
 - General agricultural hotspots were found to lower the county poverty rate by 0.17 percentage point and raise the median household income by just \$75, while increasing the unemployment rate by 0.06 percentage point and lowering per capita income by \$1,076.
- Farmland LP and Inglewood Farm (Central LA) are highlighted. Keller Enterprises, Inglewood’s family owned company, now focuses on venture investing, venture philanthropy and venture farming.
- Research has determined key factors for organic hotspot creation:
 - Outreach and knowledge transfer
 - Agricultural extension agents knowledgeable about organics
 - Regional organic certifiers
 - Organic experts in the area (e.g. Farmland LP)
- Policymaking at the state and county level can boost the enabling environment for successful organic farming business.

CHAPTER 17. REFLECTING ON PAST PROGRESS, LOOKING FORWARD TO THE FUTURE

This concluding chapter, written by lead editor Andrew Dumont, emphasizes how food impacts each of us everyday as a part of our daily needs, family, local, regional, and cultural identities. There is growing consumer, academic, and industry awareness around our connections to food, where it comes from,

and the implications of our production systems. In this renaissance, the issue of food crosses many societal boundaries and has power to catalyze systems level change with real social and environmental impacts. By providing a wide variety of perspectives gathered around the singular goal of building local regional food systems, this publication paves the way for supportive policies and investments for regional food systems by contributing to the knowledge base of relevant policymakers and investors.

Main takeaways:

- Demand for regionally sourced food products is substantial, and it comes from multiple sources.
- The regional food system is an extension and diversification of the existing agricultural system, as well as an opportunity for new entrants.
- Partnerships are critical to success.
- There are investable opportunities up and down the supply chain.
- The benefits of investing in regional food systems extend beyond food yields.
- While positive case studies abound, appropriately nuanced but still generalizable findings on the economic development impacts of regional food systems remain elusive.
- Existing partnerships could be strengthened, and there needs to be more of them.
- Stubborn barriers remain to the efficient, effective deployment of capital to the sector.
- The Future Looks Bright.

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