# Slow Money Northern California Institute

Point Reyes
December 13, 2008

Meeting Notes

# Introduction

Steve Costa, the owner and founder of Point Reyes Books, introduced the Slow Money Institute as a good fit for West Marin, which he described as one of the epicenters of sustainable food: Weber was one of the first organic farms in the country; Michael Pollan wrote part of *Omnivores Dilemma* at Mesa Refuge. Steve said "We have a lot of action here and we are proud of it."

Describing *Slow Money*, Steve said, "As a bookseller I appreciate the power of books. I appreciate books that have significant impact, and Slow Money is going to unleash a major movement in this country."

Helge Hellberg, executive director of Marin Organic, an association of Marin County organic producers, noted that Marin has some of the most progressive folks in agriculture. He added,

> "Authenticity and truth in agriculture is one of our challenges today. Progressiveness needs funding. And it's an honor to introduce the person that is perhaps holding the idea of slow venture capitalism."

# Slow Money: Vision and Mission

Woody Tasch introduced the program for the day and described Slow Money as both a movement and an entrepreneurial effort. Slow Money workshops have been held for the past several years, involving a few hundred leaders in food systems from across the United States. In 2008, the decision was made to formally establish a new organization, in order to bring the Slow Money vision to market. Woody said, "The goal is to see if we can catalyze something at a local level and really make a difference. So we're here to learn from you."

Slow Money addresses the issue that the vast majority of businesses dedicated to sustainable food systems do not qualify for either philanthropy or venture capital. Woody said, "If we wake up every day and spend all of our time thinking about how we use our financial resources to serve markets or to chase markets, we should not be surprised that our places are degraded."

## Slow Money Team

### Slow Money Alliance

Slow Money has brought together 38 people to join the Slow Money Alliance, which represents a broad group with experience in philanthropy, investing, social enterprise, and food systems. Members have written checks from $1,000 to $85,000. If Slow Money aims to raise a fund in the 10s or 100s of millions of dollars, it needs to show it has a broad group of support, which is what the Alliance brings to the table.

### Directors

Woody invited the directors of Slow Money, Tom Miller and Cathy Berry, to introduce themselves.

#### *Tom Miller*

As president of Kentucky Highlands Investment Corporation, the first development venture capital organization in the US, Tom focused on why capital does not go to the places that need it, and Tom addressed the problem of poverty through the strategy of enterprise and private capital. Tom later ran the PRI program for the Ford Foundation where he oversaw a portfolio of $125 million. He noted that the foundation, like others, viewed its investment capital as separate from its philanthropic capital. Therefore, the social impact of the other $14.8 billion of the foundation's endowment was not discussed.

#### *Cathy Berry*

Cathy was the first funder of BALLE, The Business Alliance for Local Living Economies, a network of businesses committed to building local economies and transforming the community economic development field. Cathy credits her grandparents for her interest in local economies. They ran a dairy farm and struggled to make a living at it. Early in her career, Cathy was a stock broker. And while in Philadelphia, Cathy met Judy Wicks, founder of the White Dog Café, and founding Co-Chair of BALLE.

Cathy sees Slow Money as filling the gap to make local living economies viable again. To her, "This is a national security issue we are talking about. It is about how we live."

### Vision

Woody invited the audience to envision a shift from markets that promote extraction and consumption to markets that promote preservation and restoration, and to imagine that within a decade a billion dollars a day going to build restorative economies. "I realize that this sounds bombastic: billions of dollars a day.  But in a world of trillions of dollars a day, billion of dollars a day is what we are going to need to redirect if we are going to make a difference.  We are not just talking about a new fund or two.  We are talking about seeding a whole new sector of financial activity that links millions of local investors to tens of thousands of local enterprises."

## Small Food Enterprises: Stories of Raising Capital

Jim Cochran, Founder & President, Swanton Berry Farm, introduced the Small Food Enterprise panel, which also included:

- Albert Straus, founder, Straus Family Creamery

- Sue Conley founder, Cowgirl Creamery
- Thomas Broz, founder, Live Earth Farm

## Albert Straus, Straus Family Creamery

Albert's father started his family's dairy farm in 1941. For most of their lives both of Albert's parents struggled to keep the land, operation, and way of life going. In 1980 his mother cofounded MALT, Marin Agricultural Land Trust.

Albert studied at Cal Poly, where he majored in dairy science. In 1990 he was approached about doing organic milk for ice cream. He started to look into how to become organic and how to go through the process of building a plant. For Albert, financing the plant was difficult. While the SBA only required 33% collateral for a loan, the loan had to be through the bank, which required 150% collateral. Instead Albert ended up leasing equipment and getting loans from family.

Straus Family Creamery became the first organic creamery west of the Mississippi. When it started, the whole community got together to help out. He noted that they were only open for 30 hours and then the county inspectors came and tried to shut it down. But they survived it all.

Albert said that the creamery's aim is ". . . not only to have product that is sustainable, organic, and tastes good, but to have a whole operation that is more sustainable." Straus has used no till planting since the 1980s. The creamery gets 6-8 uses out of each glass container for its bottled milk. It produces 90% of its electricity and hot water by converting waste from cows to power. Now Straus is working on making an electric truck for their creamery, so the cows will power the truck that feeds them.

Goals for the creamery include getting feeds closer to home, reusing more containers, and developing a demonstration dairy which will allow the consumer to see the production from the cow to the finished product. Albert's father used to say, "We have a lot of good ideas but they take a lot of money."

## Sue Conley, founder, Cowgirl Creamery

Cowgirl Creamery's mission is to keep agricultural land for the community by providing the market for an agricultural good. Sue was inspired by Albert Straus' mother, Ellen, who Sue worked with at MALT.

Cowgirl Creamery did not do well until it opened its second store in the Ferry Building. For them, the urban market and all the exposure it brings to their region are crucial.

Like Albert Straus, Cowgirl Creamery went for SBA financing, which was used for the purchase of the building. They spent all of their savings getting through development. In 1997, the bank that was used for the SBA loan pulled it. Cowgirl received help from a neighbor and friend, Peter

Barnes, refinanced their homes, and got an equipment loan from the SBA. For their cheese, they could not get a distributor, so they became their own distributor.

For financing Cowgirl Creamery took on outside investors for the Ferry Building retail store and a Washington DC store, which opened 2 years ago. While the Ferry building store was an instant success, the DC store has been a slow starter. And for the first time they got a "grown up loan" from New Resource Bank to finance a new creamery on the East Coast. Sue commented that this region has got some of the best milk in the world and some of the most ordinary cheese.

For Cowgirl, business is up 30% a year--every year and even this year. But because of the late start on the East Coast project they are behind projections and over budget. Despite the recession, Sue thinks Cowgirl will be okay because people are looking more closely at what and where they buy.

## Thomas Broz, founder, Live Earth Farm

Tom started Live Earth farm in Watsonville on 20 acres of marginal land. They soon found that they needed more land. So they started leasing. They got some capital from family and friends. Like so many other farmers, they were not able to get loans from the bank.

Live Earth Farm started its CSA through word of mouth. CSAs offer the community the assurance of getting their food year in and year out. "CSAs give farmers the sense of not being on their own."

Live Earth Farm had 15 members the first year. At the time, it was a concept that very few people knew about. Tom finds it powerful that a community will pay up front and share the risk. Now Live Earth Farm has grown to 700 members and has 500 members on its waiting list.

Tom's goals now are not about growing bigger as a farmer but about building a network that supports farmers. It would be great for them to get milk, grain and bread to their members. And they have done that to some extent.

For Tom, another aspect that is really exciting is that families hunger to get back to the land and see where their food is grown. And he sees this as a shift in how people see food and land. Now, two public schools got money from the USDA and are using that to get local CSA delivered food for their lunch program.

Tom sees enormous potential to expand the CSA concept into something much more than direct food marketing. "We can create a food system that anyone can invest in." People send Live Earth Farm money now for a product delivered from March to November. As a result, Live Earth Farm has a better cash flow in the offseason. Tom stated that, "As a farmer you get an amazing sense of stability when 700 members send a $1000 check up front. The person you are going to feed is investing in your operation and that is something that should be promoted."

## Jim Cochran, Swanton Berry Farm

Jim began his talk by comparing his farm to a machine with lots of moving parts. The farm has loyal customers, and each one of those relationships represents a very small gear. However, when you have a machine with lots of moving parts it moves slowly. It is not really popular with bankers because bankers like fast money. Jim said, "I've been farming for most of my life, 25 years. We live on fumes. Farms lose money but farmers are excited about what they grew. And that is what keeps them going."

Jim started as a business manager for a cooperative of conventional farmers, which had borrowed lots of money in the late 1970s when interest rates went from 10% to 18.5 %. As a result, Jim began his own farm with a healthy fear of borrowed capital, and he expanded slowly. Jim started farming on four acres. After 25 years, he now farms on around 80 acres. He attributes his success to starting small and maintaining a healthy fear of equipment, the borrowing to finance equipment, and not owning land. To start his business, Jim borrowed a quarter of a million dollars against his house and worked with a community development bank.

"We have to create an organism that farms and sells food and is able to sustain itself financially," Jim said, while describing some of the steps he has taken at Swanton Berry Farm.

One of these is the employee stock ownership plan (ESOP). ESOPs offer an entry and exit mechanism. Employees acquire stock in a separate retirement account. ESOPs provide cash advantages to the company. An outside investor could also invest in the company and then be bought out by the ESOP. There are 11,000 ESOPs in the US, but, when Jim founded his, there were none in agriculture.

## Small Food Enterprises: Q&A

In response to a question about an effort to engage the public to buy into CSAs, Tom Broz discussed creating a marketing network for CSAs, which would allow the small farmer to remain small. The challenge of the network would be to make sure the farmer's identity does not disappear. But this network could bring efficiency of a network to support CSAs and feed the Bay area.

Jim Cochran suggested a CSA bank, where people who put the money in would have the option to cash it out at a number of CSA venues and farmers' markets. Through this, they would support a number of CSAs and sustainable food enterprises.

Philip Beard, GoLocal Cooperative, pointed out that there is a way of financing businesses without banks: through credit clearing. This capital will provide people the opportunity to save money and finance local small scale businesses.

## Small Food Enterprise Financing Initiatives

### Michael Dimock (President, Roots of Change Fund)

Roots of Change's goal is to create a sustainable food system in California by 2030. Roots of Change brings people together. They have a council of leaders in the food system and those folks have been helping Roots of Change, which aims to stimulate connections between entrepreneurs and capital. Roots of Change is also increasingly doing more policy work.

In this region, they have brought together Gavin Newsom and the secretary of agriculture for the San Francisco Urban Rural Foodshed Roundtable. Michael sees critical links between urban areas and rural areas. He asked, "Can we figure out a way for CSAs to provide subsidies for no income and low income people to buy from CSAs?"

### Don Shaffer (President & CEO, RSF Social Finance)

Around since 1984, RSF has made over $150 million in loans and $65 million in grants. They lend, give, invest, and aim to change the way the world works with money. They want to promote a shift from a financial system that is complex, opaque, and based on short term outcomes to a financial system that is direct, transparent, personal, and based on long term relationships.

RSF has an $84 million loan portfolio with $1,000 minimum investment. RSF is launching a PRI fund to work with small family foundations to make loans and to build local food systems. Don sees that for CSAs the biggest issue was marketing. Now the issue is capital. Don wants to create a Kiva model to help CSAs. This would allow non-accredited investors to keep their money local and support these ventures.

### Slow Money

#### Amy Dickie, California Environmental Associates

Amy Dickie introduced the Vermont study she did for Slow Money. The study analyzed deal flow, created a portfolio model and projected net financial returns of 4-5%. Amy also looked at other roles that Slow Money could play such as investing in timber and farm land.

#### Woody Tasch, Chairman & President of Slow Money

Woody sees the venture capital model as broken. The goal of Slow Money is to step from a broken system to a new system. And break barriers between philanthropy and investing.

The idea of Sustainable Food Enterprises (SFEs) has not been recognized by investors.

> ***"We heard about how difficult doing a start up is. We've heard things about exit strategy. We need a new financial model that is not about extracting for investors, but about building long-term healthy relationships."***

Woody noted that Paul Newman's obituary in the New York Times ended with a quote about farmers. Newman said, "I'm not running for sainthood. I just happen to think that in life we need to be a little like the farmer, who puts back into the soil what he takes out."

Small food enterprises and entrepreneurs are vital to change our culture. From a macro standpoint, what is our need? From philanthropy, the amount of capital going to sustainable agriculture is about $50 to $60 million. In the USDA budget of $100 billion only $8 million is going to research in organics.

Slow Money can play a role in beginning to create intermediation that will bring a new source of financial horsepower from outside a region in order to galvanize new flows of capital within the region.

## Small Food Enterprise Financing Initiatives Q&A

Ari Derfel of Back to Earth Restaurant said that for his organic catering company it is illegal to raise money from the community because they are not accredited investors. He asked if we can change the system.

Scott Killips stated that he did not think the VC model is broken. "Can I disagree with you, Woody? You've got to make VCs your friend. I think you are wrong to emphasize low returns. I think you are going to be able to make a lot of money. This is a huge transformation we are talking about. We can create great businesses that will put the hurt on things going wrong."

"Even if you are right," Woody responded, "Even if we were able to generate higher returns, the point is that we would need to find ways to keep those returns in the region. What we are about is fundamentally at odds with the model of bringing in outside capital, investing it, then liquidating the investments so that high returns can be sent to investors outside the region. That is a fundamentally extractive model of investing. We need to design an alternative." [Applause.]

Sherry Keith said "I am a slow money maker. I am not the type of person that would invest in venture capital. There are no good investments there, and millions of us that want to have options and have good options. Maybe this movement can help us."

David Katz of California Farm Link said that what we have learned is that with the land trust model for agriculture the maximum you can give investors back is 2-4% on their investment. “But even good folks don't want to invest at 3% with limited liquidity.”

## Keynote: Paul Dolan, Former President of Fetzer Vineyards and Author of “True to Our Roots”

“We were born into a particular world and into this world together. And this world is a reductive world. It's a scientific world and that is its nature. It is pretty effective in its design. Everything we do is alternative but it is not going to be accepted. You can make progress to a certain degree.

In farming the reductive world is obvious. We spray pesticides and herbicides. To move away from that has been a challenging part of my industry. Only 3% or 4% of wineries are organic.

I am a fourth generation wine maker. My children are fifth generation winemakers. I have a young one. Her name is Sassicaia. It's the name of a winery in Tuscany. She came about 3 weeks early. I called one of my cousins to bring a bottle of Sassicaia. And when she was born, I put a drop on her tongue. And I started doing that, so by the time she was three she could blind taste wines with some of the best winemakers.

I did tell you about my family because this is why we are all here.

> ***We are here for the next generation. We are here because we are concerned. We are here because we are afraid. We are here because we know the information, we know the systems breakdown: a water crisis, emissions crisis, and a seafood crisis. All those things are the paradigm in which we are here having this conversation.***

The big awakening for me was 20 some years ago. It was just before harvest, and I was tasting grapes for Sauvignon Blanc. I tasted one grape and it had the characteristics perfect for Sauvignon Blanc. I walked ten feet over and tasted another grape, and it was flat. Each year I would be disappointed in that vineyard.

Three years after we converted the vineyard to organic the same grapes started going for our top Sauvignon Blanc. It made that big of a difference. On one level, I realized that if I could just convert vineyards, I could make better wine. On another level, I realized that we are destroying the earth. We are killing the microbial life of the soil. I started to realize that my business is part of a much larger system. What happens downstream from the vineyards, and what is the impact of the chemicals we use? Everything we were doing had an impact.

As a business we started to explore the triple bottom line. We had goals in each area: environment, social equity, and economic equality. We were able to make significant changes. So we made that transition. By the time I left the company we were farming 2,000 acres organically. We saw that flavors were really key and that we could really improve the vineyards and the quality. That's the good news.

The bad news is that eventually the corporate pressure got to be too much and they broke down the systems thinking approach and moved back into a reductive approach: "We will fix this and that."

> ***All farming is exploitive. We are taking nutrients and elements out of the ground, and we are putting it in fruits and vegetables. We have to put back in the soil what we take.***

In conventional farming, we measure it; then we use petrochemicals. But in my industry we say the expression of the place is very important. And we're proud of that. If you have a conventional grape vine, and if you replace what you take with foreign chemicals through a drip system, in the 2 foot diameter circle there is no longer an expression of place. In organic farming, there is a movement to replace those nutrients naturally. Rather than watering and feeding the plant you are feeding the soil. We feed the soil so that the vine puts its roots out deep, far and wide, and extracts flavor and captures the expression of the place.

In biodynamic farming we see that there is a "life energy" in the soil. How do we replace that energy? Rudolf Steiner was a very big systems thinker and he reminded us that we really need to pay attention to the changes in the cosmos. It is a fact that we need full system thinking.

There is this great word, 'pachamama.' If is often interpreted to mean 'mother earth.' But it means 'all universe and all time.' And that is the power we have in this room. And Woody sees a new possibility for systems thinking to money. We need leadership like this. Anytime we break out of a systems view we go back to this old paradigm. We need everyone's capacity to make change, and we need everyone's thinking to get this systems view."

Following these remarks, and picking up on Paul's theme of systems thinking, Woody read the following excerpt from *Inquiries into the Nature of Slow Money:*

> Such system-design questions are difficult to address in the macro. We would do well, therefore, to trust a good measure of our future, if only a small portion of our portfolios, to the disaggregated, fertile, diverse creative genius of entrepreneurs and farmers.
>
> Entrepreneurs and farmers are the poets of the economy. They are holders of ambiguity and risk. They cultivate interstitial spaces, where demand and need and aspiration coexist in a mildly turbulent state of chaotic possibility. They continuously test the boundaries of quality and quantity, as a poet tests the boundaries of denotation and

connotation. Ideas in a business plan; seeds in potting soil; rhymes in search of new reasons.

Some of which may have been on his mind when Greg Steltenpohl, the founder of Odwalla, said during a recent conversation, “We want to make entrepreneurs more like farmers, not make farmers more like entrepreneurs.” Such a statement may have sounded downright daffy a generation or two ago, when mass production and shareholder capitalism were in their infancy. Today, however, we need to reexamine the conventions of entrepreneurship and entrepreneurial finance, taking care not to continue acting in ways that once made sense, but now seem awfully mechanical, awfully prosaic, for a world whose social fabric is fraying and whose biological integrity is under threat.

The rules and objectives of the Industrial Revolution and industrial finance, which have made possible everything from space travel and Velcro to the Internet and Pizza Hut, cannot be extended forever in a straight line. One kind of corporation is not going to serve all the needs of an evolving planet. One kind of capital market is not going to be responsive to the needs of all communities and bioregions. One definition of profit is not going to be appropriate for all stages of economic maturity.

In fact, we might say that the urge to simplify and its paradoxical cousins, befuddlement and monoculture, are culprits that have led modern, economic man astray. We have cut everything up into tiny buy-low/sell-high pieces. We have sliced and diced risk into a zillion securitized fragments. We have traded baguettes for Twinkies. We have traded freshness for shelf life.

## Small Group Discussions on Launching Slow Money Fund in Northern California

Woody asked the group to discuss in small groups two items:

- For growth of a healthy food system, how could seed capital be most effectively deployed
- What haven't we talked about? What can we do differently? Is there something that has not been said?

The groups reported that local partners and capital are available. Slow Money should do a study in Northern California similar to the one done in Vermont.

Roles of Slow Money could range from facilitators and integrators to local portfolio management. Slow Money could also serve to catalyze low risk investment to start and develop a kiva.org type model for agricultural investment. Alternatively, Slow Money could develop a CSA type approach to capital or “community supported capital.”

Suggestions for points of intermediation for Slow Money in Northern California's food system included centralized distribution for small farmers, providing housing for farm workers, and work to diversify the agricultural production in Marin, which because of the lack of water for vegetables is mostly devoted to livestock and dairy.

## Concluding Discussion/Next Steps

The closing discussion focused on issues and challenges that the region will have to address to develop its local economy for sustainable agriculture. In particular, it is currently difficult to get young people into farming. And if farming remains too hard, young people simply will not enter it. There is a need for land to be made affordable and available for agriculture. There may be opportunities to approach land from a communal perspective. And the financial burden and risk of maintaining a community's agricultural land should not rest solely on farmers.

The question of low returns came up again, as Helge Hellberg cautioned that change might not happen quickly enough if we aim for minimum returns. In addition, whatever we are funding should also be able to qualify for USDA technology and innovation grants.

Greg Steltenpohl presented different models for raising capital for a Slow Money fund. It could be a bottom up or top down approach. That is, it could be from a handful of large investors or a multitude of smaller investors. Or it could be a transactional model such as 1% tax at farmers' markets which goes into an industry loan fund for farmers.

General enthusiasm was expressed both for the program of the day, and for the prospect of Slow Money returning to Marin to collaborate on an on-going basis.

"I've been to lots of one day programs," commented Mark Dowie, Pt. Reyes resident and author of *Losing Ground: American Environmentalism at the Close of the 20th Century.* "This is one of the best I've ever attended."

Woody thanked the Slow Money staff, Helge and Steve for their support in organizing the conference and Roots of Change and RSF for their sponsorship. Woody closed by reading a passage from Wendell Berry's book *In the Presence of Fear.*