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Food

Foundations Can Unlock a Food System to Feed the World

Small farmers and food businesses are essential to building a resilient food system, but they need flexible, patient capital to thrive.

By Meredith Storton & Jennifer Astone | Jun. 27, 2019

In the face of climate change and food supply issues, foundations are taking a new approach to food-system finance. (Photo by LightFieldStudios/iStock)

Creating a food system that can feed a growing population in the face of climate change—without replicating the harms of the industrial food system—is one of the great challenges of our time. Worldwide, one in nine people lacks access to nutritious and healthy food, and that crisis will deepen as the global population nears 8 billion and meets further resource constraints. In the United States, 17.6 million people lack access to healthy food.

We hear a lot about agtech (technology focused on growing more food with fewer resources) as a way to solve food supply issues. But tech isn't the only path to an agricultural sector that can meet our evolving needs. Small farmers and food businesses across the United States are adopting a place- and equity-based approach to the problem. They're working to strengthen regional food systems in a way that gives communities more say in the allocation of resources while creating quality jobs and stewarding the land.

Financing these enterprises is essential to building a resilient food system. "Small" doesn't mean insignificant in this sector: Small farmers feed 70 percent of the world's population and are responsible for 20 percent of agricultural sales in the United States. Yet lack of access to affordable farmland and capital is limiting the number of new farms and farmers—a troubling fact given the average age of the US farmer is 58.

The investors funding tech solutions are not going to step in and fix this problem; it's not what they're set up to do. We need a new approach to food-system finance, one in which foundations —which have the kind of flexible, patient capital these enterprises need—go beyond grantmaking and start investing.

Why Current Investment Approaches Aren't Working

Current investment approaches to agriculture in the United States aren't working, partly because they're not targeting the parts of the food system that need the most help and that will help the most—namely, farms and food enterprises that produce domestic, biodiverse crops for local consumers. A study by the Initiative for Smallholder Finance found that financial institutions are providing only a quarter of the $200 billion smallholder farmers around the world need to scale their businesses.

A primary reason for this gap is that our existing financial tools aren't well-structured for food-system solutions. Traditional agricultural lenders are set up to finance large-scale monocrop farms, even though small, diversified farms are more resilient, especially in a changing climate. Many of them use agricultural practices that build healthy soils and increase water retention, carbon sequestration, and biodiversity.

Meanwhile, investors and financial institutions that are more-broadly focused look for a positive correlation between risk and return. That's a difficult standard for the agriculture sector to meet, given unpredictable weather patterns, pests, disease, undervalued markets for sustainable food production, subsidies for conventional production, and market fluctuations. It's doubly difficult for smaller farmers and food businesses, which, on top of these inherent risks, tend to operate on thin financial margins. But while these are high-risk, low-return enterprises in financial terms, their work aligns with many foundations' missions: They strengthen rural economies by providing quality jobs across the food supply chain, allow farmers to retain a bigger share of consumer revenue, and often have a lighter environmental footprint.

We need investors who see the value in these nonfinancial returns to put money behind smaller agriculture businesses. This is where foundations could have an enormous impact. Private foundations are arguably in the best position to finance family and smallholder farmers, transformative food entrepreneurs, and food-system organizations, given that the purpose of foundation capital is to further a charitable mission, and most private foundations can invest 95 percent of their assets wherever they choose.

More and more foundations are adopting socially responsible investing strategies for those assets. Often this means they're avoiding investments in certain industries, such as fossil fuels and tobacco, which amounts to doing less harm versus doing more good. But a growing number of foundations, including the F.B. Heron Foundation and the Chorus Foundation, are using their assets to support investments, loans, and guarantees to organizations tackling social and environmental problems. These foundations recognize the importance on solving problems today, rather than generating more assets for grants tomorrow. As our largest societal and environmental challenges—including feeding the world—loom, we need that commitment to dedicating all assets to solving problems now.

Investing in individuals, cooperatives, and businesses that provide critical services to farmers allows foundations to further activate their endowment capital and support their grantmaking in this area.

New Funding Models to Serve Smaller Enterprises

Some foundations are incorporating an impact investing framework that uses public and private investment in food systems to generate local wealth, rather than extract it. They are using MRIs and PRIs to integrate their grant and investment capital, and create new models that move capital to serve smaller enterprises.

The Swift Foundation, for example, aims to create impact across all asset classes, with a focus on smallholder farmer livelihoods, soil health, and access to diverse, healthy food. Swift supports food enterprises with grants, investment capital, and connections to other organizations and networks. It also promotes communication and collaboration between its program and investment staff—groups often siloed within foundations.

One organization Swift supports is California FarmLink, a community development financial institution and nonprofit that fortifies early-stage farmers with one-on-one technical assistance, education, connections, and resources. FarmLink serves farmers and ranchers from undercapitalized communities in central and Northern California—including beginners, people with limited resources, and immigrants—through land-access programs and capital that has more-flexible credit criteria than traditional agricultural lenders use. For example, FarmLink lends to people who have few or no assets, but who have farming experience and developed markets. Since making a loan to FarmLink, Swift has provided a multiyear general support grant that gives it added capacity to reach organic, sustainable farmers who otherwise can't get the financing they need to grow their businesses.

Developing the right structure and completing the due diligence for this type of investment does require some specialized knowledge and resources. Swift has arranged for field experts to help it carry out financial due diligence, prepare legal documentation, and conduct programmatic diligence for decision-making and monitoring. It hired a consultant with expertise in consumer-packaged goods, for example, to help investment staff evaluate a direct investment opportunity in a company sourcing sustainably gathered wild honey from Indigenous communities in India.

For foundations that don't want to invest heavily in staff resources, at least to start, investments in pooled funds are a good first step. Since they involve multiple farmers or enterprises, these funds mitigate risk so that co-investors share any portfolio losses. A few examples of funds focused on food systems include Iroquois Valley Farmland REIT, RSF's Food System Transformation Fund, and California FarmLink (Swift invests in both Iroquois Valley Farms and the RSF fund; RSF provides financing to Iroquois Valley Farms.)

Land access and affordability are two of the biggest challenges for young farmers, and Iroquois Valley Farmland REIT provides a new financing model that allows investors to support farmland ownership. The Illinois-based company gives both accredited and nonaccredited investors access to a portfolio of organic farmland. The investor funding gives organic farmers and farmers who are transitioning to organic access to land through long-term leases and mortgages with farmer-beneficial terms, as well as an option to purchase the land in the future. Iroquois Valley has invested in more than 50 farms in 14 states, comprising nearly 10,000 acres. These farms—more than half run by millennials—grow produce and raise pastured meats and dairy using organic methods, and they expand access to organic food.

Iroquois Valley reduces the inherent risk in agriculture by allowing impact investors or foundations to support multiple farms and provide return profiles that prioritize the needs of farmers—though that's not to say investor returns are insignificant.

RSF's Food System Transformation Fund is a way for foundations to invest using funds earmarked for program-related investments (PRIs) or mission-related investments. PRIs are often a foundation's first step into impact investing, since they use funds allocated for grantmaking. Through the FSTF, foundations can make a PRI in a direct loan fund. The FSTF, which currently funds 19 enterprises across the United States, lends to organizations providing regional food infrastructure services (such as processing, aggregation, and distribution) to help small farmers access markets and resources.

In these pooled fund examples, the farmers and enterprises are challenging industrial-scale enterprises, testing new business models, and supporting their regional food system. While the financial return may seem low to traditionally minded investment teams, the returns to soil health, farmers' well-being, job creation, and healthful food for communities can be high. This is why foundation capital is important.

Breaking Down Barriers to Resilient Food Systems

Foundations that want to take on the food system challenge will do well to assess internal barriers that may hinder success. Identifying the bottlenecks to investing in long-term, high-impact, and low-return investments is a good place to start (see the Surdna Foundation's report on its journey to impact investing).

The best next step is to create or join a community of practice, where foundations can learn from one another, hold each other accountable, and jointly participate in investments. Sustainable Agriculture and Food System Funders, for example, is a national network that provides learning and networking opportunities for members.

We need all forms of capital to create a better food system, but foundations are perhaps best positioned to support the ground-level innovation that will eventually lead to widespread change. To play that role, they must commit to rethinking the relationship between risk and return. They must align their investments with their grantmaking strategies and engage with foundation colleagues to encourage movement building. When that happens, we will be able to finance the food systems future we need.

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