Raising Capital for your Food/Farm Enterprise

A roadmap for early-stage entrepreneurs

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Special thanks to Peter Lupoff, CEO of Net Impact, for his oversight and support through his role as a Fellow at the Gabelli School of Business.

A project of Slow Money New York City

SLOWMONEY NYC

Slow Money NYC is a local network of Slow Money, a national non-profit catalyzing investment in sustainable food and farms. We build community, spark dialogue, and inspire action at the nexus of food and funding in the New York area foodshed.

OUR MISSION

To catalyze the flow of capital to our local food system by developing a network of entrepreneurs, farmers and investors guided by new impact investment principles connected to place, rooted in relationships and respecting human dignity and environmental limits.

OUR GOALS

Build a diverse community of Investors and Entrepreneurs aiming to finance local, sustainable food businesses.

Inspire and educate people through events and public forums about the connected nature of investing and food system change.

Catalyze new and democratic opportunities for investment in food and farm businesses that yield a better food system for all.

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Foreword

First things first: No matter how close or how far you believe your company is from embarking on formal capital-raising initiatives, you must have your books in order! The next thing to do is begin to craft a set of goals and values[1] that will help you define how you will conduct business and seek the right type of investor for you and your company. (Jump to exercise.) At this point you can begin to estimate the amount of capital necessary to fund your business, but don't move too fast! Before diving into fund-raising, prepare yourself to have a planning meeting with a lawyer and an accountant, where the following issues should be discussed:

- Mechanism used to bring capital into the business; security type
- Amount of capital needed
- Exit strategy

Figure 1 and Figure 2 should help you visualize a typical startup funding life cycle. Picture these graphics when conversing with attorneys and accountants. Every action taken based on those conversations should help you and your business get from A to B. Companies start with personal capital and end with cashing out, handing down, or closing the business.

[1] List of goals and values from *Raise Capital on Your Own Terms* by Jenny Kassan.

Figure 1: The Capital Ladder

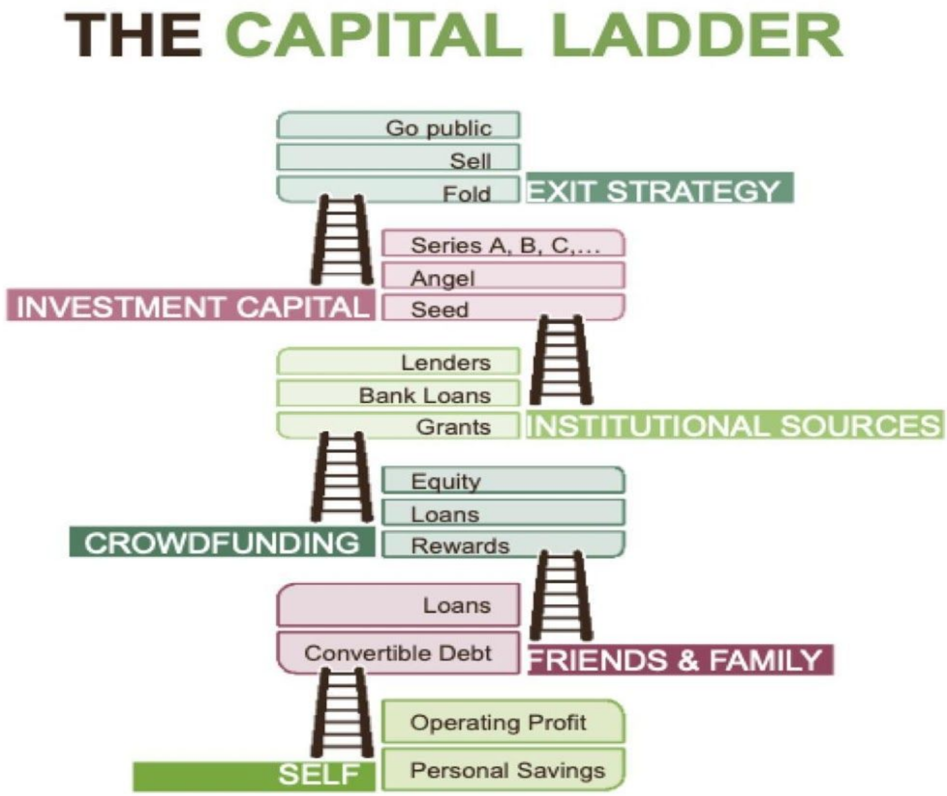
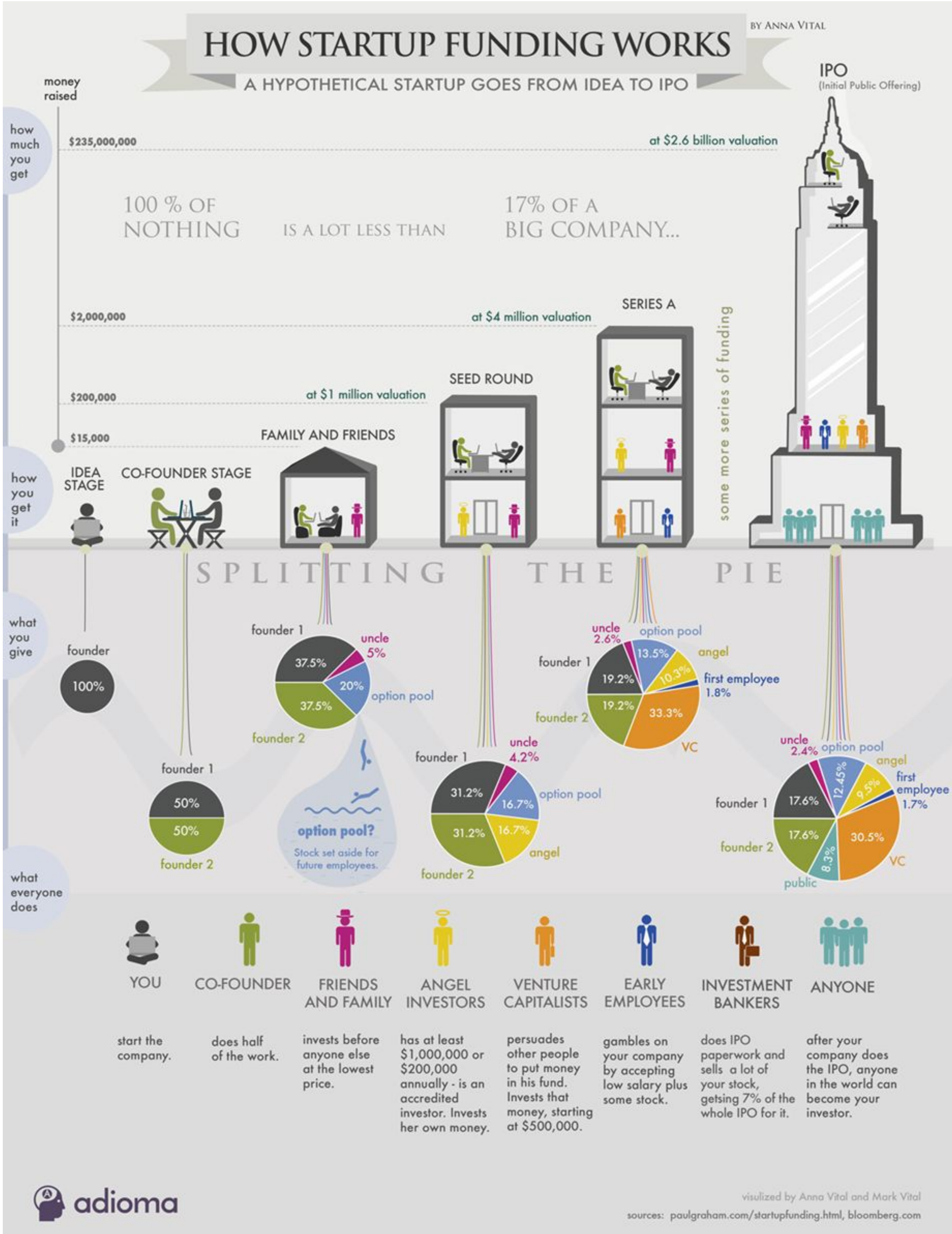


Figure 2: How Startup Funding Works



There are several steps to getting your books in order. Most businesses are initially funded by the founder's personal capital. It is perfectly acceptable to manage your own books at this stage; what is not acceptable is for you to do so in a way that can't be scaled. Accounting work is not rocket science and modern accounting software like QuickBooks makes abiding by the rules and guidelines relatively easy. Start with an income statement, a balance sheet, a cash flow statement, and a break-even analysis; using these accounting tools will save you an enormous amount of time and energy down the road.

You have probably thought about a mission statement, company values, and goals prior to selecting your accounting software, but have you written them down? Have you organized them in a way that can be presented concisely? Organizing your thoughts on these types of issues, along with your business plan, into formal corporate documents will help you identify the best type of financing institutions for your company.

These documents, along with conversations with your lawyer, will drive decisions about the appropriate corporate legal structure. Your legal structure will impact state and federal filings regarding corporate registration, taxation (corporate and personal), and capital-raising regulations. Unfortunately, most entrepreneurs find a lawyer and accountant via word of mouth. Be ready to put some effort into this process. It's important to work with a lawyer and an accountant that have experience working with companies like yours. Consult the "Legal Structures Chart" and consider what might be the right fit for you. (Jump to Legal Structures Chart and Legal Compliance Strategy Questionnaire.)

The final consideration prior to diving into your capital-raising plan is to ponder an exit strategy. You should not be married to one strategy, but it is important have an end goal in sight. This could be selling the company in 5 to 10 years, or it could be handing it over to family members when you are ready to retire. Investors of any kind like to hear what your plan is from the beginning. (Jump to case study interview with Anna Hammond of Matriark Foods where she discusses funding her business.)

Introduction

Congratulations on exploring the possibility of raising capital for your sustainable food business! Slow Money NYC put together this document to help you at the beginning of the process. After reading this you should have a basic understanding of various sources of capital and the foundational knowledge needed to construct a smart fundraising action plan.

The graphic below, created by our friends at Align Impact, an independent advisory firm that helps individuals, families, foundations, and their financial advisors increase the effectiveness of mission-driven investments, provides an overview of the impact investing universe.

Figure 3: Impact Investing Matrix[2]

	Philanthropy	Liquidity	Income and Wealth Preservation		Capital Appreciation and Wealth Growth			Inflation Protection	
	Catalytic Capital	Cash/Cash Alternatives	Private Debt	Bonds	Public Equity	Venture Capital	Private Equity	Real Estate	Other Real Assets
Education	Patient Venture Philanthropy for Education in Emerging Markets		Student Finance	K-12 and University Tax-Exempt Bonds	Sustainable Impact Tilt	Education Technology	Education Delivery	Charter School Facilities Finance	
Energy and Climate Change	Solar Debt Fund Catalytic Tranche	Banks Screened for Sustainability	Off-Grid Solar Finance	Green Bonds	Shareholder Engagement	Clean Energy Technology	Distributed Generation and Storage	Retrofit Real Estate Strategies	Solar and Wind Projects
Financial Inclusion	Financial Inclusion Venture Capital		Microfinance Funds			Digital Financial Services	Microfinance and Insurance Firms		
Food and Agriculture	Balance Sheet Support for Agricultural Finance Fund		Smallholder Agricultural Finance		Negative Screening and Shareholder Engagement	Lab-Grown and Plant-based Meat Alternatives	Sustainably Sourced Food		Organic Farmland
Health and Wellness	Technical Assistance for Healthcare Debt Fund		Private Healthcare Business Loans	Hospital Tax-Exempt Bonds	Sustainable Impact Tilt	Biotechnology	Healthcare Delivery and Devices	Healthcare REITs	
Housing and Community Development	Nonprofit Low-Income Community Lenders	Community Development Banks	Lending in Low-Income Communities	Affordable Housing Bonds		Built Environment Technology	Workforce Development	Affordable Housing Preservation	
Resource Efficiency	Seed Funding Innovative Technologies		Conservation Notes	Green Bonds	Low Carbon Strategies	Waste-to-Energy Technology	Recycling	Green REITs	Sustainable Timber
Water, Sanitation and Hygiene (WASH)	Credit Enhancement for Water Infrastructure		Water Development Finance	Water and Waste Utilities Tax-Exempt Bonds	Water ETFs	Water Purification Technology	Water and Sanitation Infrastructure		Water Rights

This document is organized into four sections: capital raising options, exercises to help you determine the best investor for your company, case studies and success stories from Slow Money NYC entrepreneurs, and an investor network directory. We have pulled some of the best guiding questions from *Raise Capital on Your Own Terms: How to Fund Your Business Without Selling Your Soul* by Jenny Kassan and *Raising Dough: The Complete Guide to Financing a Socially Responsible Food Business* by Elizabeth Ü. These books provide a comprehensive roadmap to funding.

[2] Align Impact, "Impact Investing Opportunity Overview." August 12, 2019, https://alignimpact.com.

Capital-Raising Options

Raising capital is no easy task, no matter the company, but recently it has become a bit easier for socially responsible businesses. Governments, as a result of pressure from citizens, philanthropic and investment capital, and the baby-boomer wealth transfer, have greatly contributed to the increase in capital flowing to socially responsible businesses. According to a *Harvard Business Review* article published in January 2019, dollars committed to environmental, social, and governance (ESG) investment strategies in the US increased from roughly $3 trillion in 2010 to about $11.6 trillion at the beginning of 2018.[3] This means it is more likely now than ever before to successfully raise capital!

Unfortunately, many funding barriers remain. It can be very difficult for idea stage and pre-seed stage entrepreneurs to find startup capital. If you are seeking idea or pre-seed stage capital you can skip the Defining Security section for now and jump to Public Sources of Capital and/or the Non-Profit Institutions section, where we discuss grants and crowdfunding. If your company is at this stage you might want to put some networking time in to potentially find a co-founder that can help fund the business. Slow Money NYC has The Good Food Spotlight,[4] and Be Social Change[5] has a variety of programs designed to connect sustainability professionals.

In order to bring capital into your company conventionally, you will need to have a mechanism to literally bring it in. That's right, you're going to need an investment vehicle! This vehicle can be a grant, a loan from a friend, pre-purchase of a product or service, or a traditional public or private offering. The last option will certainly require assistance from legal and accounting professionals, who can help you design your security in compliance with the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 while evaluating debt, equity, and hybrid options.

Defining Security

A solid understanding of how the SEC defines a security is crucial to any individual planning on soliciting investor capital using traditional methods. There are ways for a business to raise money without securing a grant, selling a good, issuing a security, or beginning a crowdfunding campaign—think of a sports team selling ad space on their jersey.

This document does not discuss these types of options. Instead, we will focus on educating entrepreneurs about how to get off the ground with personal capital or partner capital, secure a grant, start a crowdfunding campaign, or use a security to bring in outside capital. It is important

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[3] Adam Connaker and Saadia Madsbjerg. "The State of Socially Responsible Investing." *Harvard Business Review*, 17 Jan. 2019. https://hbr.org/2019/01/the-state-of-socially-responsible-investing.
[4] Good Food Spotlight is described as a pitchfest for food business owners, investors, and advisors. Companies are at various stages. There is a panel of experts to provide instant feedback.
[5] Be Social Change organizes a professional network focused on connecting like-minded people living a sustainable life and doing purposeful work.

to work with attorneys who are familiar with securities law if your company is considering issuing an offering. This section should help you have a productive conversation with your lawyer.

The term security is defined by the federal government in several places: the 1933 Securities Act, the 1934 Securities Exchange Act, and the 1940 Investment Company Act. These three laws are consistent in how they define the meaning of the term "security." They are also consistent in terms of readability; they are not easy to get through.[6]

A simple way to think of a security is as an agreement or arrangement where something of value is exchanged for the possibility of receiving something of value in the future. This definition is intentionally vague. What is important to understand is that in most cases you will need to carry out your capital-raising plan in compliance with federal and state securities laws. State securities law varies between states and usually concerns the registration and marketing of securities. These laws are intended to protect investors from fraudulent and misleading information while evaluating a potential investment.

Debt Securities

Debt is used to describe a relationship where an investor provides a loan—usually a sum of money—in exchange for repayment of their initial outlay plus interest, usually in the form of cash. Principal is the term used for the initial outlay. Collateralized loans are less risky for the investor. In the event of a default of a collateralized loan, the principal amount (or a portion of it) is returned to the bondholder in the form of collateral or proceeds from liquidating the collateral. Collateral is usually a hard asset. In most cases, a debt instrument is contractualized via a promissory note. Debt will show up as a liability on your balance sheet, since you are obligated to make interest payments and return the principal.

A significant amount of liability will hurt your ability to qualify for loans. Another aspect of a debt contract you should be aware of is covenants. Covenants are designed to reduce risk; they do this by identifying certain steps or milestones a company must take or achieve to maintain the contractual relationship. Covenants can be used to reduce risk for both the issuer and the bondholder, depending on the wording of the covenant. For more information on bond covenants, check out the Investopedia page on the subject.

Investors in the Slow Money network, as well as investors who embody Slow Money principles, are more likely to be open to using covenants that prioritize business health and growth over a

[6] Security definition from 1940 Act Section 2(a)(36): any note, stock, treasury stock, security future, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security (including a certificate of deposit) or on any group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a "security," or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

stream of regular coupon payments. Picture a debt agreement between a farmer and an investor familiar with farming business cycles; the investor knows that things like rain and temperature change impact the timing of a harvest. This investor might allow for a suspended or reduced coupon payment depending on how weather impacts crops.

Equity Securities

Equity investments are considered more complex than debt agreements. Equity investments cannot be made into non-profits or sole proprietorships. Equity means ownership, and with ownership come certain rights, such as a share of profits. Non-profit organizations don't generate profit and sole proprietorships, by definition, can only have one owner. Equity investors will likely require regular glimpses into operations and updates on the health of the company, since investors consider equity more risky than debt. Be prepared to share financial documents with equity investors.

An additional consideration when evaluating an equity raise is pricing. There is no way to distribute shares of your company without pricing them. This is called a pricing round. Pricing rounds are significant because they mean you were able to attract investors (celebrate!), but they also provide a benchmark valuation of your company. This valuation can significantly affect the ability of your company to raise debt, and will shape subsequent equity rounds. To be clear, a valuation can make things easier or more difficult for your company to raise capital going forward. Check out this great blog post on Gust[7] that can help you start thinking about valuation. It also touches on the idea of share dilution, which is how ownership percentages can change from investment round to investment round.

Hybrid Securities

These types of securities will make things more difficult for your accountant but provide flexibility for entrepreneurs and investors. According to securities law, every security must be classified as either debt or equity, largely for taxation purposes. Hybrid securities straddle that line. Securities classified as hybrid do share some characteristics, but many of the details in the investment contract are negotiated on an *ad hoc* basis. For more information check out the hybrid securities Investopedia page.

Hybrid or convertible securities are a common vehicle for launch, pre-seed, and seed stage opportunities because they offer benefits associated with both equity and debt investments for the entrepreneur and the investor. For instance, a typical debt transaction results in a series of payments in exchange for an infusion of capital into a business. In this situation, assuming the investment is made into a startup, the investor is taking on a significant amount of risk, as most startups fail. In turn, the entrepreneur who enters this agreement is forced into making interest

[7] Gust aims to help founders build investable companies. They have many tools for entrepreneurs to help them start a company, grow a startup, and raise capital.

and principal payments at regular intervals—something that can become quite burdensome for a startup, especially one with irregular cashflows.

A hybrid security can be beneficial to both parties in this scenario if that security allows for irregular interest and principal payments (perhaps payments are made when certain revenue thresholds are hit) in exchange for an opportunity to convert the hybrid note to equity at certain predetermined points in the future. Check out this blog post if you'd like a more detailed example.

Recently, a simplified hybrid security has increased in popularity: SAFE (simple agreement for future equity). SAFEs are essentially a warrant to purchase stock in a future pricing round. SAFE agreements are designed to be a simple version of a convertible security by reducing some of the *ad hoc* milestones and material business event clauses.

Capital Sources

Sources of Personal Capital

Before we begin defining various types and classifications of individuals and institutions that provide capital to startup businesses, it's important to consider options involving your personal capital. This is particularly relevant to companies that do not currently generate revenue or have a short revenue track record.

Many entrepreneurs are forced into using personal assets to fund initial and launch stage operations. This can be done in a number of ways, none of which are optimal. One strategy is accruing credit card debt. Credit cards can work for short-term credit but usually charge extremely high interest rates (15%–18%) for credit exceeding 30 days. Another option, if you have collateral, is a personal line of credit from a bank. With this option, you won't be gouged with excessive interest payments, but you are risking your personal assets.

The option of last resort is peer-to-peer lending. This is mostly done online and is usually between two unknown entities. These peer-to-peer sites can be used for short-term personal loans, but like credit cards they involve a high interest rate. It is important to separate your personal finances from business finances as soon as possible by working with a lawyer to get a legal entity registered.

Many entrepreneurs have a hard time sourcing launch capital, whether it be difficulties with personal funds or difficulties with loans from friends and family. You might want to consider taking on a co-partner or co-founder. Take this process slow—many startups fail because of disagreements between partners. There are many organizations that host sustainability networking events in and around NYC; attend these events to network and perhaps you will uncover a win-win-win situation for you, your business, and a potential partner. Before moving on, it is important to mention the pros and cons of taking family members on as investors. Keep in mind the risks associated with your business and how a capital loss might alter your personal relationships.

Public Sources of Capital

Securing funding is a time consuming and stressful process. If you need a boost, you might want to remind yourself that you are taking part in a crucial aspect of our economy. Your contributions are so important to the success of our economy and our society as a whole that local, state, and federal governments have created incentives to make starting and operating a new business easier. But first you have to find the right program. To help with this we created a list to get you started.

Federal Sources

Perhaps the most comprehensive federal program designed to infuse capital into small businesses is managed by the Small Business Administration (SBA). The SBA does not discriminate among the types of businesses they assist, so long as they are small businesses in the USA. The SBA assists in constructing a business plan, compiling legal registration docs, facilitating business operations training, and funding! The SBA is a great alternative if you are having trouble obtaining financing from a bank.

The SBA does not make direct investments; instead they lend through SBICs (small business investment companies). An SBIC is willing to make a loan when a traditional bank may not because the SBA provides downside risk protection—in other words, the SBA provides insurance for SBIC losses. The SBA and other governmental agencies have grant programs. Unfortunately, the Search Grants page is not well organized. This list, created by New Venture Advisors, a Chicago-based food systems consultancy, provides a good starting point.

The US government has specialized financing programs meant to aid certain types of businesses. For instance, in 1916 Congress established the Farm Credit System (FCS), which makes loans to local financing institutions that lend to “American agriculture.” Additionally, the USDA has many specialized programs meant to stimulate business and economic growth: the Agricultural Marketing Service, the Farm Service Agency (FSA), the National Institute of Food and Agriculture, the National Resources Conservation Service, the Risk Management Agency, Rural Development, and the Sustainable Agriculture Research and Education (SARE) Program.

State Sources

Each state has its own suite of programs designed to foster small business growth; we’ll focus on New York programs. The Empire State Development Corporation is a good place to start the process of identifying state programs that might help your business grow. This initiative focuses on tax strategies meant to take advantage of state incentives, operational support, growth support (finding financing), and innovation development (fostering relationships between your company and universities or community organizations). The New York State Small Business Development Center (SBDC), which is partially funded by the SBA, provides services similar to the SBA but on the state level. The New York State Department of Agriculture and Markets has resources meant to aid in small business development needs. The agency has 12 divisions that serve different aspects of the agriculture industry in the state. NYSTAR (Empire State Development Corporation's Division of Science, Technology and Innovation) funds 20 incubators throughout the state; a list can be found here.

Crowdfunding Sources

Crowdfunding campaigns can be divided into two types: donation-based and investment-based. Donation-based campaigns are usually meant to support a cause, and funders do not expect anything material in return for their funds. Investor-based campaigns were made possible by Obama-era legislation. Crowdfunding sources differ from the federal and state sources mentioned above because they do not use public funds. That said, crowdfunding sources are not institutions. Crowdfunding is in this section because the federal government, via the JOBS Act, made it much easier for startups to solicit investment capital. The law reduces state regulatory requirements as they relate to investment opportunity marketing materials. Before the JOBS Act, public offerings needed to meet state regulatory requirements for each state in which they solicit or accept capital. The elimination of the state-by-state filing requirement is referred to as the *crowdfunding exemption.* This exemption is a big deal—complying with state-by-state regulations is a time consuming and expensive endeavor. as each state has its own policies.

While the JOBS Act has made things a bit easier for investors and startups, there are certain limitations. Perhaps the most significant is the cap on the amount a company can raise. Currently the most you can raise via crowdfunding is $1.07 million total, and from as little as $2,000 to as much as $100,000 per investor (the amounts are adjusted for inflation). Another limitation is the requirement to work with a Title III web-based intermediary (see this FINRA list) or a broker dealer (a traditional market maker, most likely not the right fit for a sustainable food startup).

The term "web-based intermediary" may sound intimidating, but it simply refers to websites that have the OK from the Feds to list an investment opportunity. Crowdfunding sites cannot handle any funds, or offer investment or marketing advice. They do, however, charge fees and may impose their own limitations on per-investor contributions and the total amount raised.

Title III crowdfunding involves the usual liability associated with incomplete, misleading, or falsified marketing materials. Ultimately, it is up to the entrepreneur to provide investors with all the information needed to make an investment decision. Be sure to describe your business and the opportunity fully and clearly. A good way to get an idea of what makes a great crowdfunding page would be to check some out; Investibule aggregates offerings and may be a good place to start.

Lastly, crowdfunding provides for some unique opportunities for food businesses, and if you've read the hybrid securities section the following might sound familiar. Food businesses are in a position to offer their product or service in exchange for an investment. If you're a restaurant owner you can offer free meals for a year; if you're a farmer you can offer a share of the crops.

Institutional Sources of Capital

Most mature businesses have a relationship with a financial institution. Working with these institutions can be overwhelming. If you are just getting started these sources of capital are probably not for you—you can, however, look into micro finance or community lending programs. For most diligent investors and for large investment opportunities, be prepared to take part in a detailed diligence process that will take between 6 and 18 months. It is important to time capital needs appropriately.

Once an investment is made, the financing institution may require oversight or direct decision-making authority. Giving up some control is a big deal—you must be sure that you and your company can deliver on the expectations formed during the diligence process. Be sure to pick the right investor, as you will be interacting with them regularly. Start by creating a short list of 10 to 20 institutions that might be a good fit for your company. Check out this case study interview with Kevin Egolf to get an idea of how impact investors approach opportunities. Below are brief descriptions of several types of financing institutions.

Non-Profit Institutions

The good news is that there is a great deal of capital available to non-profit institutions to fund entrepreneurs. The bad news is that most of this capital is difficult to access, as it can come in the form of grants or investment capital. Some non-profits create funds that do not seek market returns—search for this type of fund. To access this kind of capital you will need to compete against many other businesses in a process that resembles the 6–18 month diligence process mentioned above. In these situations it helps to work with non-profits that are mission aligned with your startup.

Social Advocacy Groups

The ideals of social advocacy groups usually boil down to social justice—that is, these groups work to create a society where the disadvantaged, disenfranchised, and discriminated against receive equal rights and opportunities. Many of these organizations have grant programs or provide low-interest-rate loans to businesses that help them accomplish their mission. Each of these groups is unique, making it difficult to speak in general terms about their funding initiatives. Below are some examples of social advocacy groups:

The Whole Foods Local Producer Loan Program is a great example of how these organizations can be affiliated with your customer. Whole Foods is devoted to locally sourcing its products and has set up a low-interest-rate loan fund to invest in local producers. Loans are typically between $10,000 and $100,000 and require collateral (usually farm equipment).

RSF Social Finance is a non-profit organization devoted to funding social enterprises in the US and Canada. RSF has a loan program to fund the development of resilient, regional food systems in the US in addition to other debt and equity programs.

Foundations

Foundations are financial entities that can make grants through charitable activities as well as equity investments via an endowment. There are several types of foundations; some are grant makers while others are not. If your business is currently or will be involved in some sort of charitable giving or stakeholder empowerment, you may want to consider foundations as a source of capital. Similarly, foundations may be interested in providing funding if there is mission alignment.

The following is a high-level overview of various types of foundations. Each of these foundations must abide by a set of laws unique to their classification when deploying their capital in order to maintain their preferred tax status.

- **Private foundations** are typically grant making and are generally funded by a family trust or individual. Most money in these foundations comes from the family endowment plus donations.
- **Private independent foundations** are similar to private foundations but do not have ties to an individual, family trust, or corporation.
- **Community foundations**, also grant making, are primarily funded by donors. It is possible that a donation may come with stipulations; for example, the funds must be used in the local community, or must go to a women-run business.
- **Operating foundations** do not make grants. These foundations focus donor money on developing specific mission-related programs. Working with these organizations can be surprisingly beneficial. If you were an urban farm struggling with labor, for example, would you like to have 30 third-graders from the public elementary school come seed in exchange for a botany lesson?

Credit Unions

Credit unions are a type of co-op that, because of a non-profit designation, can offer higher interest rates on deposits and lower interest rates on loans compared to for-profit banks. Credit unions offer members banking services like savings accounts, checking accounts, and loan services. Membership requirements vary, but expect to pay an initial membership fee to use a credit union's services. Generally speaking, to join a credit union you must meet eligibility requirements, make a deposit, and then use your account. Most individuals in credit unions have some shared commonality, and to join you must prove you are in the union's *field of membership*. This means you would need to highlight commonalities between you and the rest of the members of the union. This is a relatively low threshold, and in some cases simply having family members already in the credit union can justify commonality.

A great example of a credit union focused on helping farmers is Farm Credit. Farm Credit is a US network of 73 customer-owned financial institutions that provide loans and credit union services to US farmers, ranchers, farmer-owned co-ops, ag businesses, rural home buyers, and rural infrastructure providers. The Farm Credit website has a tool to find a local lender in the network. To search for credit unions outside the Farm Credit network, the NCUA (National Credit Union Administration) created a credit union locator.

For-Profit Institutions

For the most part, if you are seeking financing from one of these institutions your company should be primed for growth—meaning, your company has traction. These institutions are typically interested in mature startups and are likely seeking significant financial returns for what will probably be a large investment.

Some for-profit institutions have programs that are not meant to generate profit or achieve market-rate returns on their investments. For instance, a large food and beverage company may have grant, incubator, or accelerator programs designed to generate innovation. Similarly, there are banks that get downside protection from the government in exchange for providing loans to idea and pre-seed stage companies. Unfortunately, grants from for-profit institutions are very difficult to find. You will need to do a lot of research—be prepared for dead links, canceled programs, and at times strict limitations as to how grant funds can be spent (example: FedEx's Small Business Grant Contest). Incubators and accelerators are much more common, but not all are created equal and some fold abruptly. We have created a quick reference incubator/accelerator database.

Lastly, there are community banks and CDFIs (Community Development Financial Institutions) that may be willing to take on risks other banks might not. Banks that make these investments usually have some sort of loss coverage provided by the local, state, or federal government in exchange for boosting economic production. These organizations are great for those having trouble raising capital in a traditional setting. Loan and program requirements vary. (See this list of New York State CDFIs and an example of a community bank, Spring Bank in the Bronx.

Banks

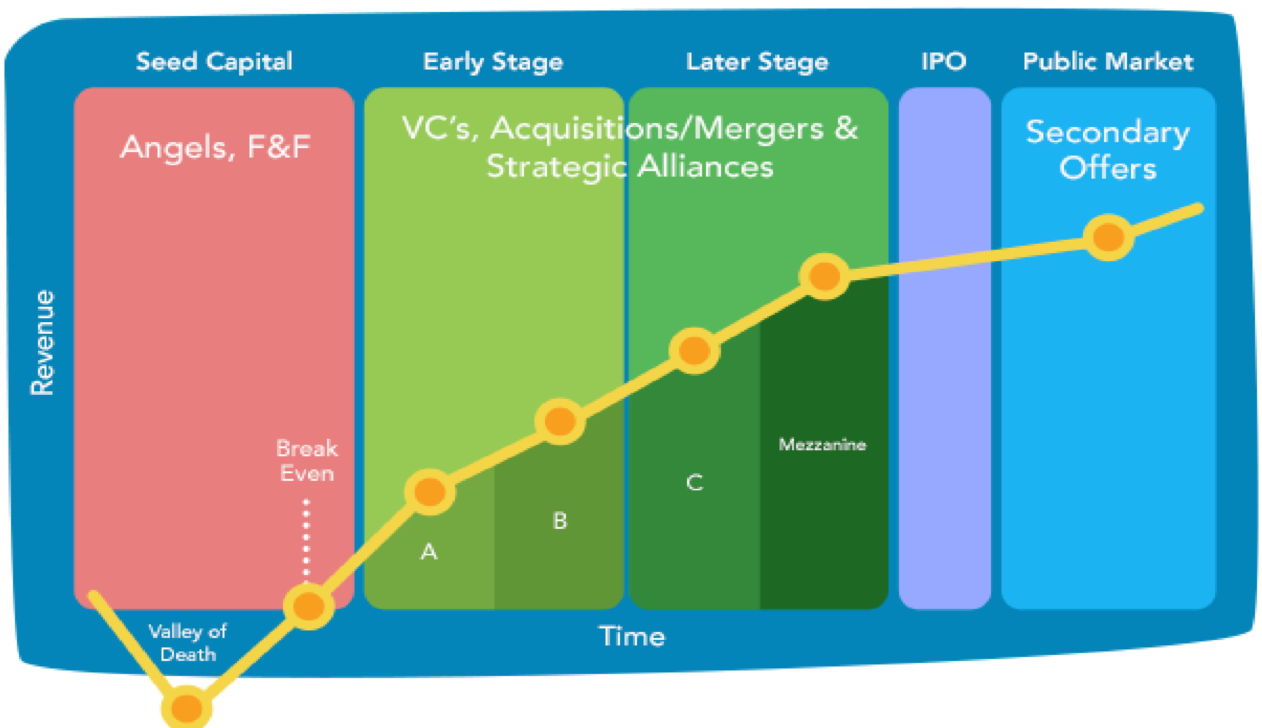
The bank is probably the first place you think of when pondering sources of financing—and in fact, it's not a bad place to start. While most loan applications are rejected, bankers and loan officers at retail branches are always keen to start a new business relationship. It will be beneficial to you to work with your bank to identify ways you can increase the likelihood of qualifying for a loan. Be prepared to adjust your application based on the feedback you get from the banker—don't hesitate to apply and reapply. Don't forget about community banks. These institutions can be great resources for socially responsible businesses, as often these banks embrace the stakeholder theory; if your business improves the lives of those living in the community the community bank will be motivated to find ways to help.

Alternative Funds

Unfortunately, this classification of capital source does not fit into one box, so it might be best to think of this classification as a catch-all. These funds can be arms, divisions, or branches of extremely large corporations or they can be small boutique operations with five employees. Some make huge investments and others make very small investments ($10,000+). Some do debt, some do equity, many do both. They might specialize in a particular industry, product, or entrepreneurial mindset ("we invest in businesses that will change the world"). These funds or investment vehicles can be almost anything. A simple way to break these types of institutions down is by their investment criteria. In order to do this, let's go over some background information.

Companies go through stages, and when an investor speaks about a company's maturity they are often referring to a particular company stage. Definitions and characteristics of company stages vary slightly from person to person, so it is always a good idea to make sure everyone is on the same page when discussing stages. The following illustration is a straightforward interpretation.

Figure 4: Stages of Company Evolution[8]



[8] Jacqueline Zenn, "The Stages of Startup Funding (with Infographic)." *Evus Blog*, 18 Jan. 2017, http://www.evus.com/blog/startup-funding-stages/.

Alternative investment funds begin to become a viable option at the seed stage via angel investors, as defined in the above illustration, but most alternative transactions are associated with mature startups in the venture capital and private equity niche. These companies have established a legal entity and have already raised capital from founders, family, and friends. The company will likely generate revenue but might not be profitable just yet. The seed stage is aptly named; think of these investments as seeds that will grow into a huge money tree. Look for seed funds that are based where your company is located. Many of these funds feel more comfortable being in close proximity to their investments.

An example of an angel fund that is more aligned with Slow Money values compared to other angel funds is Almanac Insights. Almanac is a $30 million fund founded by a co-owner of Blue Hill Farm at Stone Barns. The Fund echoes values outlined by Stone Barns—to "create a more sustainable food system, together."[9]

The growth stage (or "early" stage in the illustration) is where most venture capital funds operate. These companies have some revenues and are positioned to grow if they get an infusion of capital; that is, they have a specific need for the money. Obtaining funding from this type of organization is challenging.

You must have financial projections to prove that your company will grow if the investment is made. Often you'll read about series A round or series B round financing. These letters just indicate how many times a company has reached out and obtained venture funding. As an entrepreneur/owner you must be cognizant of how these rounds will dilute your ownership. Work with your lawyer to ensure your ownership percentage is not whittled away to a point where you lose control.

Individual Sources

Many entrepreneurs have the most success raising capital from individuals; this is where you should go after funding your business with personal capital. Prior to beginning any investment solicitation you must work with your attorney to file the proper documents (federal and state). The US has many laws meant to protect investors from fraudulent and unethical behavior related to investment marketing. Laws, rules, and guidelines restrict how much capital can be raised, from whom it can be raised, and where it can be raised. Below we outline some of the basics related to sourcing capital from individuals.

Individual investors can be filtered into a couple different groups. The first filter will separate accredited from unaccredited investors. Accredited investors are financial institutions or individuals considered by the SEC (Securities and Exchange Commission) to be financially sophisticated, having a solid understanding of markets and securities. The qualifications change from time to time and are based on income, net worth, asset size, governance, and professional status. For the most part these are extremely wealthy individuals or individuals working as financial professionals. Accredited investors can invest in certain securities that an unaccredited

[9] Stone Barns Center, "About Stone Barns." https://www.stonebarnscenter.org/about/.

investor cannot. These rules are in existence to keep members of the general public from taking on undue risk.

The mechanism your lawyer will likely recommend for obtaining capital from individuals will be a direct public offering or private placement (note that these mechanisms can be used by funds as well). A direct public offering or DPO will allow you to market to the largest population. The issue is that you will need to work with each state individually to get your advertising approved. A private placement is done without advertising and only with accredited investors. Private placements require minimal state and federal filings but will greatly limit the pool of potential investors.

The internet, to the benefit of the entrepreneur and the individual, has disrupted public and private security offerings via crowdfunding, as noted above. To reiterate, The JOBS Act created certain exemptions regarding state filings related to crowdfunding sites. It is possible to take in capital from all 50 states when using a crowdfunding site. Different sites have different rules, but you should expect to be forced to funnel all capital investments through the crowdfunding site and to pick a duration for your capital-raising period.

Exercises/Questionnaires

Developing Values Exercise

Defining company values may seem trivial, but it is a crucial step in your capital-raising plan. These values will guide you and your team (including lawyers and accounts) as you conduct business. They will also give your investors an idea of how they company will be managed. Below is a list of statements that may help you formulate company values. The full exercise can be found in the Introduction of *Raising Capital on Your Own Terms*.[10]

- I don't want to give up control or decision-making authority.
- I want to grow as fast as possible/I want my business to capture market share quickly.
- I want to make my business attractive for sale to a larger company in the next 5 years to 7 years. I don't care who I sell to; I just want the biggest check.
- I am open to selling my business but I must be sure that the business will continue to uphold the values I established.
- I want my business to grow to X size, then stay pretty steady from there. I want to maintain a reliable source of income and a manageable company size.
- I want to keep the business in my family for generations
- I would like to convert my business to a co-op or other type of stakeholder-owned business where workers, producers, and/or customers can take ownership control.

Goals and Values Questionnaire[11]

- How do you want your employees to be treated?
- How do you want your suppliers treated?
- What quality standards do you intend to hold your product or service to?
- What standards do you have for your contractors?
- What effect do you want your business to have on the environment?
- What effect will your business have on the community?
- What company information are you willing to share with stakeholders?
- How many hours would you like to work?
- How much vacation would you like?
- What are your salary needs?

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[10] Jenny Kassan and Ro Khanna, *Raise Capital on Your Own Terms: How to Fund Your Business without Selling Your Soul.* Berrett-Koehler Publishers, Inc., 2017.
[11] Ibid, p.34.

- How do you want your company to affect the world? (Jump back to Foreword.)

Security Type Questionnaire

The following is a short set of questions that will help you and your lawyer pick a security type (debt, equity, or hybrid). The full exercise can be found in introduction of *Raising Capital on Your Own Terms*.

- Do your investors have voting rights, and if so, what are they?
- Do you regularly share profits with your investors, and if so, how much and when?
- How will you and your investors be taxed?
- How will investors exit their investment?
- How should the offering be priced?

Legal Structures Chart

Business Structure	Ownership	Liability	Taxes
Sole proprietorship	Single individual	Unlimited personal liability	Personal tax only
Partnership	Two or more individuals	Unlimited personal liability unless structured as limited partnership	Self-employment tax (except for limited partners); personal tax
Limited liability company (LLC)	One or more individuals	Owners are not personally liable	Self-employment tax; personal or corporate tax
C corporation (C corp)	One or more individuals	Owners are not personally liable	Corporate tax (requires accountant)
S corporation (S corp)	1 to 100 owners, all owners must be US citizens	Owners are not personally liable	Personal tax (requires accountant)
B corporation (B corp)	One or more individuals	Owners are not personally liable	Corporate tax
Non-profit corporation	One or more individuals	Owners are not personally liable	Tax exempt, but corporate profits can be distributed
Co-op (cooperative)	Owned and	Limited to the amount	Varies depending on

	controlled by individuals who use products, supplies, or services of the co-op.	of investment	the type of co-op and location. IRS Subchapter T is designed for co-ops

Legal Compliance Strategy Questionnaire

Securities laws are meant to prevent investors from making an investment without considering all relevant information. Securities law can be tricky, especially since the laws are constantly evolving to keep pace with changes in the capital markets. What is important to understand is that these laws regulate how you offer your security, who can invest in your security, and how you can market your security. Your legal compliance strategy must be developed with a lawyer; here are some questions to help you prior meeting with a lawyer:[12]

- Are you interested in soliciting accredited investors? Unaccredited investors? Both? If you include unaccredited investors, how many?
- Do you want to be able to publicly advertise your offering?
- In what states do you plan on marketing your security?
- How much capital are you interested in raising? (Jump back to Foreword.)

Capital Raise Amount Exercise[13]

Deciding on the amount of capital to seek is an inexact science and can vary greatly for companies in the same industry.

1. Make a detailed list of the things you need to buy and the people you need to hire over the next year or two that you will not be able to afford. Many estimates are based on an 18-month runway.
2. Add 10–20% to the total reached above.
3. How will the purchases and hiring in step 1 affect your business? Will expenses increase?
4. Plan multiple scenarios in Excel or another spreadsheet tool.
    a. For instance, if you are purchasing heavy equipment or another asset that is easy to value, consider funding the purchase with a grant or a separate loan. If you default the asset can be sold and returned to the investor, decreasing their risk.

[12] Kassan and Khanna, p. 31.
[13] Ibid, p. 47.

b. How would revenue loans or accounts receivable factoring affect your books? If you need a short-term loan these might be an option.

Success Stories & Case Studies

Kevin Egolf, LFF (Local Farms Fund) Case Study

www.localfarmsfund.com
Kevin Egolf is Co-Founder and Manager of LFF, an impact fund that supports young and early-stage farmers.

What was your experience like creating vehicles for funding?
It was definitely interesting. With impact being a fairly new and innovative space, it was important to figure out new and creative ways to structure entities in a manner that was equitable to both the investors and business owners. The Local Farms Fund was an LLC with investor members, and I used different mechanisms to make it function as a fund. We provided a fixed return and did reasonably well for our investors.

How did you choose the entities you invested in?
One of the hardest things about early stage investing is that you don't know what the business owner will be like as an executive just yet. Some people are amazing visionaries and mediocre executives, and some are the other way around. So I always looked at the potential farmers for the Local Farms Fund from an executive management perspective. I wanted to know if they truly understood the factors that went into how they made or lost money, and gauge their ability to change things up when it wasn't going their way. Were they organizationally effective, or did they waste time on things that didn't add value? Traditional venture capital takes the same approach to evaluating their potential investments; someone can have the best product in the world, but if they can't manage it, they're going to run into problems.

What have you learned through working in impact investing?
It's important for any business owner to understand the value that capital will create for you, and whether or not it's the right time to make that jump. If you have a fully formed product, with producers, distributors, and customers lined up, taking on capital would make sense to increase your inventory. But if you're still in the early stage of your venture, and you want capital to *grow*, then what is the plan? It's important to determine if the money actually provides value to where you are now, and where you want to go. Maybe it makes sense to bottle by hand for two years and save up for something bigger, if that helps you get to your eventual end goal.

Understand the terms that come with taking capital. As a business owner, you need to understand your obligations and their rights, and make sure that, no matter what, you can live with that. Even a limited rights investor can become a nuisance if conditions change.

Parting thoughts?
"An entrepreneur having struggled and still figured things out who demonstrates a level of capability ingenuity and resourcefulness; that gives investors' confidence that when they do give them capital, it gets put to good use." (Jump back to Institutional Sources of Capital.)

Anna Hammond, Matriark Foods Case Study

www.matriarkfoods.com
Matriark Foods CEO Anna Hammond provides some insight into securing funding for your business. Matriark Foods works with farmers and aggregators to reduce food waste.

What first inspired you?
After years of working in the public sector, both at the federal and state level, I had learned a bunch about food waste and farm surplus. It didn't make sense to me—there's such a demand for healthy food, yet at the same time a ton of food is left to waste and no added-value products that are being widely distributed at affordable prices. So I looked at the *need* and *quantity* and asked myself, "What's the simple solution? How do we turn this into something people can eat and won't break their wallet?"

How did you get things started?
First, we had to perfect our recipes, and not just at the level that works in the kitchen. We needed to quickly figure out how to produce products at scale; most co-packers don't work with smaller businesses. For them, it's difficult and expensive, and for businesses like us, the biggest barrier to entry is determining how to produce enough product to make it worth their while.

Our first tests were done with a product in frozen form. Any product that's stored in frozen form has to be brought to a boil before cooling off and being packaged to freeze; this can sometimes ruin the original flavor, so we were thrilled when we got the recipe just right. But then we realized that we needed to significantly reduce our production costs in order to significantly reduce our prices, so we could stick to our initial mission of distributing our product at affordable prices. We managed to build a relationship with Tetra Pack, but a new issue arose. A product that will be stored in Tetra needs to be exposed to *even more* intense heat than a frozen product. When we did our second round of flavor testing, it was clear we had to figure out the recipe all over again...

What stage of the funding process has Matriark reached?
We initially started the business with some personal capital and grant money. Government grants can be very difficult to get, and more difficult to make work. Even options like economic development grants—they tend to be matching grants, which means you'll be reimbursed up to a certain amount, but there isn't any money up front. If you're at a point where your company is building a factory, that might make sense, but if you need $50,000 in the short term to kick your business off, and another $250,000–$400,000 to really ramp things up, a grant won't even coming close to hitting that.

What has the funding process looked like?
Now that we're ready to go into full production and all of our distributors are lined up, we need access to more capital and we're currently in the process of finding the right investors. There's a clear need for more [gender diversity] when it comes to potential VC opportunities. For a

business like ours, the investor should understand a different approach, so perhaps it requires someone with a different worldview.

The pressure to get a return on traditional VC capital can be *HUGE*! So maybe there's a need to redefine what success in social impact investing really looks like? Small and local ventures may not seem as grand as something that scales to a multinational level, and is likely to take much longer. Social impact has its' own dimensions, different from corporate, and in that sense, maybe some investors should be more willing to take [conciliatory] returns.

What have you learned through this process?
Things change every day – you'll set out with a plan and the best thing you can learn to do is be willing to sit down, consider your current challenges, and change it.

I decided I wanted to change something deep within the food system, which is complicated as is, but if you're really committed to making change, you have to be willing to be on this ride.
(Jump back to Introduction.)

Resources

Federal Program	State Program	Other[14]

Government Grants

Grant Name	Description	Eligibility	$ size	Application notes
Conservation Innovation Grants	This program can spend up to $12.5 million, cumulatively, to help support the adoption of conservation approaches on agricultural lands. Specifically mentions urban ag, pollinator habitat, water quantity, and increasing the pace and scale of conservation adoption.	unrestricted	Up to $75,000	Applications due 7/30/2019.
CIG On-Farm Conservation Innovation Trials	This program is meant to stimulate the adoption and evaluation of innovative conservation approaches in partnership with ag producers. The program has $25 million in cumulative funds to invest with each grant being between $250,000 and $5 million. This program is intended to reduce risks farmers take on to become more sustainable, so a method to measure conservation data is a necessary component of a successful application.	unrestricted	$250,000 to $5 million	Applications are accepted in the spring.
SARE Farmer Grants	This program is for commercial producers who have an idea they want to test (field trial, on-farm demo, marketing initiative, other technique). This program is not meant to start or expand business.	commercial farmers	Up to $15,000. Projects can run up to two years.	Applications for the next cycle open fall 2019.
SARE Partnership Grants	Northeast SARE's Partnership Grant program funds projects conducted by researchers, educators, and agricultural service providers working in direct partnership with farmers to encourage design and implementation of innovative solutions to current sustainability challenges related to production, marketing, and/or household and	researchers, educators, and agricultural service providers working in direct partnership with farmers	Up to $30,000	The next cycle will open early 2020.

[14] Programs in this classification are not exclusively federal or state programs. For instance, a program could be federally mandated but executed by the state.

	community well-being in Northeast farming and food systems, or to strengthen working partnerships between farmers and agricultural service providers to advance sustainable agriculture.			
Other SARE Grants	In addition to the Farmer Grant program and the Partnership Grant program SARE operates Grad Student, Research and Education, Research for Novel Approaches, and Professional Development grant programs. These programs serve a niche that might not line up with food systems entrepreneurs.			
EDA Seed Fund Support Grant Competition	EDA's Regional Innovation Strategies (RIS) Program awards grants that build regional capacity to translate innovations into jobs through the formation, launch, and growth of early-stage seed capital funds.			The next competition is in early 2020.
EDA Revolving Loan Fund	The program focuses on areas that have experienced or are under threat of serious structural damage to the underlying economic base. Under Economic Adjustment, EDA administers its Revolving Loan Fund (RLF) Program, which supplies small businesses and entrepreneurs with the gap financing needed to start or expand their business.			
Farmers Market Promotion Program	The purpose of the Farmers Market Promotion Program (FMPP) is to increase domestic consumption of, and access to, locally and regionally produced agricultural products, and to develop new market opportunities for farm and ranch operations serving local markets by developing, improving, expanding, and providing outreach, training, and technical assistance to, or assisting in the development, improvement, and expansion of, domestic farmers markets, roadside stands, community-supported agriculture programs, agritourism activities, and other direct producer-to-consumer	Unrestricted for domestic companies		Applications for 2019 grants are closed.

	market opportunities.			
Local Food Promotion Program	The Local Food Promotion Program (LFPP) offers grant funds with a 25% match to support the development and expansion of local and regional food business enterprises to increase domestic consumption of, and access to, locally and regionally produced agricultural products, and to develop new market opportunities for farm and ranch operations serving local markets. Two types of project applications are accepted under LFPP—planning grants and implementation grants. Applicants can apply for either but will receive only one type of grant in the same grant cycle.	Eligible entities may apply if they support local and regional food business enterprises that process, distribute, aggregate, or store locally or regionally produced food products.	SBIR Phase I grants are limited to $100,000 and duration of 8 months and are open to any small business concern that meets the SBIR eligibility requirements. SBIR Phase II grants are limited to $600,000 and duration of 24 months and are only open to previous Phase I awardees. SBIR program funds are allocated in proportion to the number of proposals received over 10 broad topic areas. Proposals are reviewed through a confidential peer review process using outside experts from nonprofit organizations. All applicants receive verbatim copies of reviews.	
Small Business Innovation Research Program (SBIR)	The SBIR program at the US Department of Agriculture (USDA) offers competitively awarded grants to qualified small businesses to support high quality research related to important scientific problems and opportunities in agriculture that could lead to significant public benefits. The program stimulates technological innovation in the private sector and strengthens the role of federal research and development in support of small businesses. The SBIR program also	Small business research topics: Forests and Related Resources, Plant Production and Protection—Biology, Animal Production and Protection, Air, Water and Soils, Food Science and Nutrition, Rural Development,		

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	fosters and encourages participation by women-owned and socially or economically disadvantaged small businesses.	Aquaculture, Biofuels and Biobased Product, Small and Mid-Size Farms, Plant Production and Protection—Engineering.		
Specialty Crop Block Grant Program	The purpose of the Specialty Crop Block Grant Program (SCBGP) is to enhance the competitiveness of specialty crops. Specialty crops are defined as "fruits, vegetables, tree nuts, dried fruits, horticulture, and nursery crops (including floriculture)."			
Value Added Producer Grants (various states)	To get state-specific information you must use the drop-down menu to select your state. The Value-Added Producer Grant (VAPG) program helps agricultural producers enter into value-added activities related to the processing and/or marketing of new products. The goals of this program are to generate new products, create and expand marketing opportunities, and increasing producer income. Applicants may receive priority if they are a beginning farmer or rancher, a socially disadvantaged farmer or rancher, a small or medium-sized farm or ranch structured as a family farm, a farmer or rancher cooperative, or are proposing a mid-tier value chain. Grants are awarded through a national competition. Each fiscal year, applications are requested through a notice published in the Federal Register and through an announcement posted on Grants.gov. There is a 50% match required.	Independent producers, agricultural producer groups, farmer or rancher cooperatives, and majority-controlled producer-based business ventures, as defined in the program regs, are eligible to apply for this program.	Planning grants: $75,000; Working capital grants: $250,000.	
Community Food Projects	The program is run by Jane Clary Loveless, Ph.D., RN, and is designed to fight food insecurity in low-income communities by promoting self-sufficiency. The program provides project-specific	non-profits with reserve capital	$10,000–$400,000 over 1 to 4 years	Roughly 18% of applicants who apply receive grant funding. Application submissions open in the spring.

	grants to nonprofits operating in the food systems space. All grants require a dollar-for-dollar match.			

Crowdfunding Sites

Organization	Description	Debt/Equity	Website
Steward	The world's first crowdfunding platform that enables people to invest in sustainable farms.	Debt	https://gosteward.com/
Kickstarter	One of the first crowdfunding sites. They host hundreds of startup nonprofit and for-profit enterprises, and have a section on food & craft.	Philanthropic and "perks"	https://www.kickstarter.com/
Foodstart	This company helps restaurants and food trucks raise capital online in small amounts, as small as $50.	Philanthropic and "perks"	http://foodstart.com/
Indiegogo	A platform that helps companies raise initial funds to validate their idea and develop a product.	Philanthropic and "perks"	https://www.indiegogo.com/
Patronicity	Helps source funds for community projects.	Philanthropic, with a focus on matching grants.	https://www.patronicity.com/#!/
IOBY	IOBY stands for "in our backyards." The platform gives local leaders the ability to crowdfund the resources they need to build real, lasting change from the ground up.	Philanthropic	https://ioby.org/
Fundly	Raise money for any type of project on this site.	Philanthropic	https://fundly.com/
CauseVox	A platform that allows organizations to run donation pages, crowdfunding, and peer-to-peer fundraising.	Philanthropic	https://www.causevox.com/

Note: it is important to check the fees associated with each of these platforms.

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