CASE STUDY

Cascadia Foodshed Financing Project

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From cultural giving traditions to tech boom wealth creation, Pacific Northwest philanthropy has forged a reputation for blending collaboration and innovation. In this spirit, Cascadia Foodshed Financing Project (CFFP) aims to bring foundations and individual impact investors together to improve the regional food economy. The group’s vision includes identifying untapped areas for co-investment in Oregon and Washington, then using a combination of grantmaking and investment strategies for transformational impact.
Since beginning its collaborative, innovative work four years ago, led by Project Coordinator Tim Crosby, CFFP has identified three key challenges:

1. **Access.** Food system businesses are primarily located in rural communities, where resources are fragmented across distances and many small pots of money. Technical assistance is harder to secure than in urban areas; lack of broadband access limits virtual assistance options. Place-based collaborations work best, among trusted stakeholders with deep roots in the community – but these tend to be time-consuming and complex.

2. **Patience.** Long-term, sustainable gains in complex systems require a thoughtful process: starting with small trials, incorporating emergent learning into a strategy flexible enough to pivot as needed, then proceeding with major grants and investments. While institutional philanthropy partners have embraced this approach, individual investors are used to faster returns, with shorter timelines and clearly defined benchmarks.

3. **Perspective.** Many types of capital — philanthropic, financial, intellectual, social — can and should be harnessed to tackle community needs. Even when presented with the same needs assessments, however, foundations and private investors tend to make fundamentally different conclusions about how to proceed. Both types of funders require clarity and acceptance of their respective goals, risks and returns before co-investing in aligned enterprises.

After experiencing and learning from these challenges, CFFP has emerged ready to test the pipeline and demand for investments arising from its Northwest market research, which has already been used to inform a national research study on grass-fed beef and a grant fund managed by a regional conservation district. CFFP will also continue sharing its learnings with the field, including funders working in other regions and issue areas.
Background: 2010-2013

Tim Crosby, an impact investor and Seattle Foundation donor-advised fund-holder with a background in agriculture and family foundations, has spent many years talking with grantmakers and investors about the Northwest’s food economy. In 2010, he founded Slow Money Northwest, a regional nonprofit aiming to connect accredited investors with farmers and food-system entrepreneurs. Three years later, as a founding member of the Seattle Impact Investing Group (SIIG), a local network of impact investors, he helped create a $150,000 pooled fund to invest in food-related social enterprises in Oregon and Washington.

Also in 2013, Crosby and Michael Brown, Seattle Foundation vice president of community programs, began meeting with other foundations interested in supporting sustainable food in Oregon and Washington. The discussions revealed that several organizations, including Empire Health Foundation and JPMorgan Chase Foundation, were funding similar programs in different parts of the region — missing critical opportunities for collaboration and shared learning. In response to a subsequent invitation from these four funders, staff from a dozen foundations agreed to try working together to explore using market-based strategies to advance the region’s food economy. Crosby retained Ted Lord from The Giving Practice, the consulting arm of Philanthropy Northwest, a regional network of foundations and corporate grantmakers, to facilitate these initial discussions about the intersection of food, finance and philanthropy.

At a follow-up meeting at Philanthropy Northwest’s office, which Crosby had also invited SIIG members to attend, the group determined there was common interest in food and financing between all players. However, due to the different types of funders in the room — individual investors as well as private, community and corporate foundations — it could take years to find alignment on how to invest in a fund. In hopes of achieving faster outcomes, the group agreed to adopt a “don’t outrun the headlights” action-oriented approach proposed by Empire Health Foundation CEO Antony Chiang, based on his venture capitalism experience and supported by the Stanford Social Innovation Review’s article on “Strategic Philanthropy for a Complex World.” This learning-as-you-go, risk-tolerant methodology is a fairly common approach in the business world; the foundations were intrigued to give it a try.

“Foundations generally move slower than investors — and yet folks in the philanthropy world had been getting frustrated, not seeing the outcomes they wanted related to deployment of grants and financing,” Crosby said. “There is a definite need for new fund structures and investment vehicles that can align grant and investment capital; the trick is finding grantmakers and investors who want to engage.”

While deciding on a comfortable pace for this nascent collaboration, the group had to quickly contend with vocabulary challenges between the foundation and investor perspectives. Each used different terminology for similar concepts — e.g., “technical assistance” vs. “business development”

The Cascadia Foodshed Financing Project (CFFP) formally launched in January 2014 with 10 founding partners: Ecotrust Natural Capital Fund, Empire Health Foundation, Greater Tacoma Community Foundation, JPMorgan Chase Foundation, Meyer Memorial Trust, Seattle Foundation, Thread Fund, Whatcom Community Foundation and two individual investors from SIIG.

Some of the partners had made significant impact investments, but not in the food system; others were new to impact investing, but had made grants in this issue area. In addition to their investing experience, sector knowledge and vocabulary differences, Lord recalled that each type of funder came with different expectations of the cultural rules and norms for the collaboration.

“Angel investors would show up 15 minutes before the meeting, community foundations would show up 15 minutes after the meeting was supposed to start, and the folks from corporations would often be in the hallways on the phone,” he said, with a chuckle. “When you have these problems of communication and expectation and mental model, you need to take extra time.”

Through its organizing principle of connecting foundations and funds interested in market-based strategies to improve the Oregon-Washington food system, CFFP’s primary goal was to develop groundbreaking forms of collaborative financing.

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to catalyze growth of the regional food economy and drive better outcomes. These could include “better food in stores or institutions, better wages for farmers or better access to markets and distribution channels for all concerned,” explained Sayer Jones, Meyer Memorial Trust director of mission related investing. The group’s working assumptions were a shared interest in identifying what businesses needed which types of financing and the untested potential for impact investing collaboration between nonprofits and for-profits. The partners also expressed confidence in “money being available for the right deals – it just needs coordination, technical assistance and brokering,” Crosby said. By working together, the partners could test these ideas at lower risk, and also amplify their voices for potential advocacy work related to food and farming in the future.

Next, CFFP determined a core set of guiding principles — incremental job creation, social equity, health, policy, and rural vitality — and developed relevant questions to screen potential investments. The partners planned to identify and vet potential opportunities, and test out new models of collaboration and measurement starting with four co-investment possibilities within 6-12 months in Whatcom, King, Pierce, Spokane and Multnomah counties. Each deal would be a stacked capital opportunity for at least two different funders to engage in different positions. For example, one funder could make a program-related investment (PRI) loan while another guaranteed the loan, or one funder could make a market-rate investment while another awarded a grant for technical assistance needed to make the social enterprise more deal-ready.

By June 2014, in response to its request for proposals, CFFP received 50 applications for more than $12 million in total financing. Reviewing these requests, which overwhelmingly came from startup enterprises, generated two epiphanies for CFFP partners: the importance of hiring an intermediary to assess and underwrite opportunities, and a shared desire to fund transformational rather than transactional investments. For the latter, they decided to narrow their focus to helping scale up mid-sized producers and businesses — generally too large for farmer’s markets, but too small for global markets — and focus on products that already grow well in the Northwest.

“We wanted to be more strategic in our efforts to catalyze growth,” Crosby explained. “We didn’t want to just fund, say, the next kale chip manufacturer. Existing businesses are also generally less risky than startups and can impact more producers and consumers.”

Individually, CFFP partners opted to make six loans and grants totaling more than $1 million, and to provide financial advice and relationship-building support to others. One applicant, Terra Organics, a Pierce County, Washington organic produce distributor, helped test the concept that customized technical/business development assistance could align grants with financing and a new way to engage intermediaries; Gina Anstey, Greater Tacoma Community Foundation vice president of grants and initiatives, later shared that experience with the group. Collectively, however, CFFP decided it was not yet ready to create a shared fund.
“As funders, we shared a passion for sustainable food systems, but our knowledge of the dynamics of food production and distribution markets was spotty and largely anecdotal,” Crosby explained. “We needed a better understanding of the community and the existing infrastructure.”

An incremental learning curve is common in the philanthropy sector; a desire to “fail fast” and pivot as needed is common in venture capitalism. As a funder collaborative of both grantmakers and impact investors — representing foundations, donor-advised funds and private investors — CFFP found itself straddling both tendencies.

While CFFP did not achieve its primary goal of a new tool for collaborative financing by 2015, partners felt they had made important gains towards that goal: developing a common vocabulary, agreeing on a set of core principles that act as impact screens, becoming more informed of market needs for investments and gaining a better understanding of a gap between foundations and other types of investors. For the Washington community foundations, traditionally focused on just one county, the map of investment proposals scattered across Oregon and Washington also prompted productive conversations with their colleagues about how investing in opportunities outside their borders could strengthen their own communities. Through this period of trial and error, the partners also strengthened their relationships and built more trust for future work.

Intrigued by CFFP’s progress and potential, Philanthropy Northwest invited the collaborative to join its incubation platform in 2015. As fiscal sponsor, Philanthropy Northwest could offer more stability and administrative support than Slow Money Northwest’s platform, while also allowing the project to grow without having to slow down to launch a separate nonprofit or social enterprise. In return, Philanthropy Northwest would gain an action-oriented learning model for its members interested in impact investing and supporting the regional food system.

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During this same period, CFFP pivoted from its initial plans to begin deploying capital as soon as possible, in favor of a refined four-step strategy:

1. **Show how investments can help grow the regional food economy.**
2. **Commission research that informs that strategy.**
3. **Identify or develop a financing vehicle that uses the research and supports the strategy.**
4. **Evaluate the financial and non-financial returns of investments using an appropriate methodology.**

The first step places wellness and economic viability as the primary goal of CFFP’s work, with three proof points of success: more healthy food is available and affordable; food production close to home becomes more sustainable; and food production close to home remains a viable economic option.

The second step — commission research — conveniently coincided with the release of the Oregon Food Infrastructure Gap Analysis, a 15-month Ecotrust study funded by Meyer Memorial Trust, a CFFP partner. That report provided solid evidence that mid-scale producers need key infrastructure to compete; one frustrated farmer told researchers, “I just want to know why my product is more expensive when it hits the loading dock.” From this inquiry, a quick case study pinpointed the cost of feed for small-to-mid-size orders as a primary driver of production costs. CFFP’s market research sought to complement these findings, by shifting the focus from infrastructure to production costs, and including both Oregon and Washington.

As CFFP’s evolving strategy entered this research phase, the individual investors opted to step back until concrete investment opportunities emerged — once again illuminating what Crosby called “the temporal gap between the speed in which foundations and individuals engage.”
Research & Evaluation: 2016-2017

For the first half of 2016, CFFP had hired Ecotrust to conduct market research focused on the same product categories as the prior Oregon infrastructure report: beef, poultry, pork, small grains, leafy greens and storage crops. Its goal was to identify market drivers and investment opportunities, help inform outreach to other financing interests, and help determine if a dedicated fund was needed in both Oregon and Washington. CFFP shared preliminary findings with several individual investors to determine if the conclusions were relevant to their interests; in addition to sharing knowledge and gaining feedback, Crosby hoped to resume aligning different types of capital along a developing investment strategy.

CFFP’s full market research report, released July 2016, succeeded in determining which sustainable production models work well in the region and identifying specific supply and demand drivers for each product. Having worked through this funder collaborative’s challenges of access and patience, however, partners then discovered its third and perhaps largest obstacle: grantmakers and investors, based in the same region and presented with the same information, had different conclusions about how to proceed.

Nonprofit Analysis
- High opportunity
  - WHEAT & SMALL GRAINS
  - INTEGRATED
- Moderate opportunity
  - PASTURED POULTRY
  - GRASS-FED BEEF
  - HOOP HOUSE PORK
- Minimal opportunity
  - ORGANIC STORAGE CROPS
  - ORGANIC FIELD GREENS

For-Profit Analysis
- High opportunity
  - WHEAT & SMALL GRAINS
  - STORAGE CROPS
  - ORGANIC INDOOR GREENS
- Moderate opportunity
  - PASTURED POULTRY
- Minimal opportunity
  - HOOP HOUSE PORK
  - GRASS-FED BEEF
Ecotrust’s recommendations, through a nonprofit lens, had focused on viable opportunities to transform the food and agriculture system, especially those that work across overarching sustainability goals and different product lines. For example, no-till grains can improve soil health while sequestering carbon — and can also be used for chicken feed. The for-profit analysis, performed by Mark Bowman, a seasoned agriculture loan officer, emphasized investor priorities: production cost accuracy, potential linkages and gaps for investors, and important industry issues, business configuration and entrepreneur expertise.

Surprised, CFFP partners discussed the divergent recommendations and what they meant for the group’s next steps. Foundations tend to fund for transformational system change, they observed, while for-profit investors seek to “pick winners” based on transactional financial success. In other words, nonprofit audiences reading the report sought opportunities to transform the overall food system, while for-profit investors looked for enterprises with the best chance of repaying their investments.

“It was described as a difference between a utopian ‘I want to change the world’ view to a ‘what’s actually going to provide some returns?’ view,” said Mauri Ingram, Whatcom Community Foundation president and CEO, who praised Crosby for having the research evaluated from both points of view.

The logic model gap between nonprofit and for-profit investors needs to be acknowledged and overcome, CFFP members agreed, for any project seeking to bring funders together for maximum community benefit — not only for investing in a regional food system, but for any issue area, in any geographic footprint.
Recommendations

CFFP is now engaged in the third step of its strategy: identify or develop a financing vehicle that uses the research and supports the strategy. Further refining its financing goal, the group is exploring investment opportunities that strengthen values-aligned supply chains and can help achieve regional food system change. The partners want to continue working on all six product and supply chain categories analyzed in the market research, but with particular emphasis on small grains — the only category that both the for-profit and nonprofit reviewers agreed held high opportunity for success.

At the same time, CFFP has crossed a critical fork in the road, representing the choice between which investors to engage in the next phase of work. Foundations will remain the core partners, with private investors invited to co-invest in specific opportunities as they emerge. By offering a full range of philanthropic tools — grants, program-related investments, convenings — foundations are best positioned to build new relationships and engage additional partners (i.e., government agencies, financing institutions and private investors), Crosby explained.

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“Different entities working in the agricultural space appear to be working on the same thing, but shades of difference are important,” added Rosalie Sheehy-Cates, Philanthropy Northwest’s impact investing fellow with deep experience in rural communities, and The Giving Practice consultant working with CFFP since 2015. “Financing is a good tool at the enterprise level; over time, the enterprises can change the food system. But system needs — branding, consumer education — are more aligned with grants.”

In their continuing search for a collaborative financing vehicle, CFFP partners have concluded they have to engage or create a finance structure that would be able to accept grants, which points away from an LLC structure commonly used by private investors for fund development. Rather than starting its own fund at this point, CFFP has decided to engage with intermediaries, beginning with Craft3, a Portland-based regional Community Development Finance Institution (CDFI) interested in diversifying its portfolio to include more food
and agriculture investments. Craft3 would primarily need grant capital to build out its lending infrastructure, and could then focus on testing the actual demand for strategic investments for the next two years.

“If after two years, Craft3 has proved that there’s enough viable deal flow, they can internally finance their operations,” Crosby explained. “If they do not see viable deal flow, we’ve saved raising $20 million for a dedicated fund.”

Some of the CFFP partners have worked with intermediaries before, with mixed results; CFFP’s scope of work with Craft3 aims to explore whether there’s a way to involve more direct input from the funders on where the money is invested. CFFP is also engaging with other CDFIs, credit unions, farm service and government agencies, and private investors on its emergent strategies model; Crosby has been making presentations at trade meetings, and also in meetings with other financing organizations. Brown, of Seattle Foundation, describes this ongoing work as “defragmenting the financing system to get to the social impact.”

As it pursues collaborative financing vehicles and co-investment opportunities, and seeks to reengage individual investors, CFFP will also continue sharing its findings related to the logic model and finance gaps with the field. In addition to facilitating other collaborations between nonprofit and for-profit investors, Crosby noted that foundations can use these findings as internal discussion points between their program and finance teams.

Lessons for the Field

Calling CFFP’s work “a labor of love,” Jones praised the project for “doing something few other collaboratives have been able to do: get hyper-regional funders to work together and see the bigger picture. For instance, we have funders who only work in specific counties working with funders who don’t fund in each other’s states. It’s been a big win.”

When tackling a complex system problem, funders should be prepared to spend a lot of time, CFFP partners agreed; what you may think will take months may actually take years. On the rare occasion when shortcuts may be available instead of reinventing the wheel, take them. For example, rather than establishing itself as a new nonprofit or social enterprise, CFFP secured a fiscal sponsorship. Rather than starting its research from scratch, it built on prior work.

“The CFFP work has been slow moving, but I think it’s necessary with all the funders involved,” Jones said. “As much as we would have liked to have just gotten some money on the street early, our first attempts at that were not well received by the community and if anything, we harmed our relationships with some partners. By taking our time and doing things in the right order we have been able to make progress and are on the cusp of actually seeing our vision through.”
“It’s exasperating for [investors] to wait around,” Ingram admitted. “But if you’re really going to change the world, we need to figure out how we’re going to carve out the time and the patience to create these new processes and methodologies and all these moving parts.”

Cat Martin, JPMorgan Chase vice president and relationship manager of global philanthropy, emphatically described the group’s pace as “appropriate” for its mission and vision.

“This work just takes time,” she said. “Getting the right people to the table, doing the data and research, then making recommendations grounded in analysis and being willing to fund a pilot. It’s a challenge to have the patience to do the work thoughtfully and come to a place where you have your partners ready to coalesce around the right idea.”

With the benefit of hindsight, Crosby said CFFP could have skipped its 2014 pilot investment phase. Yet a willingness and ability to try new things, then pivot as needed, is crucial for any innovative effort. Throughout its process, CFFP’s understanding of the Northwest food economy’s market drivers and production systems has evolved, he said. Ultimately, CFFP may conclude that there isn’t a need for a dedicated investment fund, but rather that funders should focus on capacity-building and technical assistance grants and loans to make mid-scale producers more deal-ready for larger investments.

“We started out thinking, let’s make a fund that can bring foundations and investors together. Then we said, maybe we need to be more narrow and strategic in our focus — and get a better sense of what’s out there,” Crosby said. “While we have stuck to the overall strategy developed after the first attempt, we pivoted a bunch as we incorporated research and other learnings. As the project evolved, we also realized that the real innovation has involved how foundations utilize their different types of capital – grants, PRIs, mission-related investments (MRIs), convenings – on strategy and with individuals, banks and other partners.”

Hiring consultants helped the group identify its strengths and its challenges in order to move ahead together. By working
with The Giving Practice, a consulting team experienced at guiding collaboratives among funders, the group was able to create a level of trust that allowed them to stay together from the beginning.

“We’ve had Rosalie say candidly to us, you’re not ready for a fund. And some of you may never be ready for a fund,” Ingram said. “That mirror and that outside perspective is invaluable. We want to be doing good things — but we want to be doing the things that are the right good things at the right time and in the right way.”

Looking back on CFFP’s early meetings, however, Lord said he would have liked to spend more time helping participants talk about each other’s work and make sure they felt comfortable expressing any confusion or questions about the wealth of knowledge and breadth of information Crosby eagerly presented.

“There needed to be more explicit storytelling to illuminate the difference in the room,” Lord recalled. “A lot of the community foundation people were afraid of looking stupid, the investors were afraid of looking callous, and everyone just shut up but secretly were lost.”

In the meantime, CFFP’s research has informed a national research project involving grass-fed beef, influenced the strategic direction of King County Conservation District’s regional food grant program, and transformed how Ecotrust approaches their food and farming work. Several of the partners are already incorporating what they’ve learned about supporting healthy food systems into their own organization’s work.

“My grant portfolio is open and available to my colleagues, and it is something I talk about as a strategy for small business growth and has cross-pollination with our other pillars,” Martin said. “There’s a long-term impact that I can talk about for benefitting health, of local residents and hospitals and larger ecosystems.”

Brown added, “It’s helped with an understanding about the food economy — strategies, approaches — but also about how others are doing impact investing and the power of doing things collectively.”

Ingram reiterated her praise for Crosby’s practice of seeking feedback and recommendations from a for-profit perspective, in addition to the nonprofit analysis.

“I think that was just brilliant,” she said. “We are constantly, as a community foundation, trying to put ourselves in the different shoes of people in our community — from the business perspective, from the social services agencies — yet we often ask for just one set of analysis. That’s something that I continue to take away [from this project].”
As CFFP’s work becomes more widely disseminated and helps shed more light on the logic and finance gaps between foundations and other types of community investors, it may inspire other funders to consider an innovative, collaborative model for their own regions and issue areas.

Conflicting timelines, vocabulary differences and other aspects of the logic model gap CFFP discovered are also playing out on a smaller scale within foundations seeking to integrate impact investing into their funding strategies. At most foundations, investments and grants are handled by separate teams, in silos. CFFP’s work has shown how grant capital — by funding research and business development assistance to make nonprofits and social enterprises more deal-ready — can work together with investment interests, which can help grantees scale up and become more financially sustainable.

“Through CFFP, we are forming a bridge of understanding between foundations and other investors,” Crosby concluded, “and even across different departments within a foundation.”