

Perennial Fund
End-of-project Report
NRCS CONSERVATION INNOVATION GRANT
Final Report

Grantee Name:	Mad Agriculture
Project Title:	Perennial Fund
Agreement Number:	NR203A750008G001
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Report Period Covered:	3/13/2020 – 3/9/2023
Project End Date:	3/9/2023

Mad Agriculture launched the Perennial Fund to provide an alternative lending arrangement for farmers transitioning their operation to organic production. The original goal was to raise a \$3M-5M Fund, but with such phenomenal interest from both investors and farmers, the Perennial Fund ultimately closed at \$10M, with 42 participating investors from 7 countries worldwide. By the end of 2022 all \$10M has been loaned to 24 organic and transitioning-to-organic farmers in the United States.

Background/rationale for the project

Healthy soil is critical for the long-term vitality of the natural and agricultural ecosystems that humanity depends on. However, half of the topsoil on the planet has been lost in the last 150 years through erosion and soil health has been degraded through mismanagement. Global interest is rising around restoring soil health. Farmers and ranchers are reinvesting in soil to improve profitability, build resilience, and reduce dependence on costly and often dangerous inputs. Consumer demand for regenerative and organic products is sharply rising, yet there is a lack of domestic supply. Organic food represents [5% of US food](#) consumption, yet [less than 1%](#) of US cropland is organic (in 2019, at this project's inception). There is an opportunity for farmers, the environment, and consumers to benefit from an increase in organic and regenerative farming systems.

However, the transition to organic agriculture involves a multi-year period of financial uncertainty and loss before the profitability of organic markets can take hold. Conventional operating capital available to row crop farmers in the US exists in annual cycles that do not often recognize the long term nature of the investment, or is unwilling to take on the risk of an organic system transition. By creating a farmer-friendly long-term operating note (i.e. the cash farmers need to buy seeds, fuel and operating costs during the season), the Perennial Fund enables farmers to transition more acreage, more quickly to ecologically and financially beneficial production methods. Some farmers are interested in this opportunity and are attracted to the Perennial Fund's approach to financing. Still, the capital to invest in these farmers needs to be raised.

Fortunately, there is an enormous amount of capital (up to \$1 trillion) on the sidelines in a wide array of asset classes that could be mobilized for financing regenerative agriculture. [Soil Wealth](#), a recent study led by the Delta Institute and Funded by a CIG grant, which examined investment strategies or criteria across investment asset classes, concluded that 'philanthropy and government Funding have critical, catalytic roles to play in creating an environment for more private capital to be mobilized in

support of regenerative agriculture that truly delivers on its environmental and social impact potential...we strongly recommend greater blending of private investment with catalytic sources of capital from philanthropy and government at multiple levels.' In 2017, a report from the NRCS and Encourage Capital stated 'NRCS's Funding alone will never be sufficient to address the persistent natural resource challenges that affect private lands, and each year the backlog of interest in NRCS programs grows'.

In short, the opportunity and need for farms to transition to organic and regenerative agriculture exist but are hampered by misfit available capital. Mad Agriculture's Perennial Fund can provide conservation-oriented and farmer-first capital to help farmers act on the opportunity. Investment capital is out there and needs a vehicle (PF) to be stewarded to the right place (organic farmers).

The Project

Here we are creating a new Fund, called the Perennial Fund (PF), for financing the transition to organic and regenerative farming. The PF is a blended financing approach designed to build upon the foundational body of work produced from previous USDA NRCS CIG grants such as the "Financing Regenerative Agriculture" lead by Delta Institute resulting in the Soil Wealth Report, the Encourage Capital report "NRCS and Investment Capital".

The PF offers 10 year loans of flexible capital to cover the loss of operational cash flow, equipment and/or infrastructure needs during organic transition. The PF offers a variety of loans, including operating lines of credit, term notes, revenue-based financing loans and equipment loans. The majority of loans were long-term operating notes with interest only during the transition period, then amortized over 3-5 years.

The goal of this project is to use an innovative, scalable, and transferable financial mechanism to deliver on farm conservation by leveraging USDA Funding and attracting private capital that accelerates the implementation of regenerative and organic agriculture using carbon farm planning and access to organic crop and carbon markets.

Methods

The successful implementation of the Perennial Fund involved 3 essential bodies of work:

- 1) Build demand for farmers that want to participate in the program and agree to loan terms.
- 2) Raise the Fund from values-aligned investors and agree on investment terms.
- 3) Create the Fund entity itself (i.e. legal) and manage the deployment, return and recycling of Funds, as the PF is 10-year revolving debt fund.

1) Farmer Demand:

The Fund was marketed to organic farmers across the United States. This involved a postcard campaign sent to registered organic farmers in priority regions, a series of road trips and conference attendances to meet with farmers in person, and countless hours of phone calls with farmers to understand their needs, frustrations, and opportunities, building trust and relationship along the way. The primary way we connected with farmers was through trust and word-of-mouth referrals.

2) Fundraising from Investors:

Developing the business model and case for investment was the first step in raising the Perennial Fund from interested investors. We worked with Craig Chase, economist from Iowa State University, to build a model based on contemporary enterprise budgets (production costs) for both organic and conventional systems, and crop returns (yield X price) using current market conditions. The model identified and enumerated the 'valley of death', which involves 2-3 years of unprofitable production before organic price premiums become available (USDA organic certification requires 3 years of

organic production prior to certification). The model, extended to 10 years of production, also identified that after 5-8 years, organic production is profitable enough to make money in the given crop year as well as cover the losses during transition. Over 10 years, farmers are clearly in a better position at that time and for the future. This model allowed us to engage knowingly with farmers and investors both, and to build terms of engagement on the investor side (rates of return/ IRR to be repaid from the Perennial Fund at the end of 10 years) and on the farmer side (annual interest rates and deferral year options).

Once the model was created (and refined and refined and refined) investors had the information needed on their end to evaluate the investment opportunity. The information about the Perennial Fund as an investment opportunity was held in a 'data room', which is basically a password protected webpage with relevant information. Dozens of family offices, philanthropic foundations, and values-aligned organizations were pitched on the concept.

The emergence of a few key 'anchor investors' catalyzed the commitment of the rest of the 42 participating investors. These anchor investors provided early commitment of Funding, taking the leap as early adopters. Along with the anchor investors and Mad Agriculture advisors, we developed and refined terms of engagement with investors. Potential investors were identified through a variety of sources, including conferences like RFSI, networks of Mad Ag advisors and board members, and ultimately word-of-mouth as the Fund gained traction and attention.

3) Fund Creation and Organizational capacity:

The Perennial Fund, LLC is managed by Mad Agriculture, 501c3. We worked with a team of lawyers and accountants to develop the Private Placement Memorandum, set up the legal structure, accounting protocols, and bank account to receive, hold, and distribute the capital. Legal considerations included the formation of the Perennial Fund LLC, its relationship with Mad Agriculture, and the terms of engagement with investors and loanees (farmers).

Mad Agriculture's 'Mad Capital' team also needed to be developed and grown. The Director of Mad Capital, Brandon Welch, and Executive Director, Philip Taylor, hired experienced talent (i.e. farm credit expertise) to help the team. After a couple of attempts, the right match was found and the Mad Capital team was able to manage farmer and investor relations to steward the project forward.

Mad Capital is part of the organization, Mad Agriculture, which also includes teams that offer access to markets, farmer support, and strategic storytelling. The holistic approach to supporting farmers in their transition to organic and regenerative agriculture proved to be very important in raising the Fund, attracting participating farmers, and supporting the transition.

Results

1) Farmer demand and participation

We had a very high response rate from farmers (200+ farmers contacted Mad Ag for more info) that had already transitioned some acreage to organic and wanted to transition more and/or all of their farm to organic production.

24 farmers received a total of 36 loans (31 active, 5 fully matured pay offs). These loans provided operating capital for 44,095 acres under management with 6,920 transitioning to organic because of our financing. The majority of the non-transitioning acres are already organic. The farmers that originally participated in the Perennial Fund program were so pleased with the experience of working with Mad Agriculture they shifted an even higher percentage of their operating capital agreements to the Perennial Fund. Mad Agriculture is proud that the farmers participating in this project are not only transitioning to organic production, but are able to maintain organic production

over time. We've heard from many of our farm partners that they enjoy working with the Perennial Fund because of deep values alignment, favorable cost of capital, flexible payback terms, long-term loan commitment, ability to underwrite based on future cash flows, broader access to supporting services providing through Mad Ag's Land consulting team and Markets team, and feeling a part of a larger community of learning and practice. Many farmers now solely use the Perennial Fund as their sole source of operating capital, which reduces complexity in borrowing arrangements with multiple lenders.

2) Raise the Fund

The original goal was to raise a \$3M-5M Fund, but with such phenomenal interest from both investors and farmers, the Perennial Fund ultimately closed at \$10M, with 42 participating investors from 7 countries worldwide.

3) Organizational capacity

The success of the Perennial Fund has inspired the launch of Mad Capital, a newly founded public benefit corporation that both manages the Perennial Fund and is beginning to offer other forms of financing, such as term notes, mortgages, equipment loans and more. The Funding received from USDA-NRCS through the Conservation Innovation Grant was absolutely critical to the development and success of the financial innovation through the Perennial Fund, as well as the formation of Mad Capital. 3 years after the beginning of the CIG project, Mad Capital continues to manage the Perennial Fund and is expanding the capital offerings available to farmers that seek to transition to and thrive in organic and regenerative agriculture. More info on Mad Capital: <https://madcapital.com>

The farmers participating in the Perennial Fund have access to support from Mad Agriculture's other departments: Mad Markets (to help with selling crops to values aligned buyers), Mad Media (to tell the story of their work), and Mad Lands (to provide on-the-ground support and research). More info on Mad Ag: <https://madagriculture.org>

We are actively connecting Perennial Fund farmers to new, organic markets. Our Markets team is working on both brokerage and origination for transitional and organic crops across the entire portfolio. Several crops have been placed into markets, other crops were discovered to have had positive buying relationships in existence, so not all markets have changed.

We have shared videos, photos and stories of these farmers to a growing audience (250+ journal subscribers, 6,200+ instagram followers, 5+ story-based projects with food brands highlighting Mad Agriculture farmers).

We provide farmers with the technical assistance and community they want and need to realize successful transition to and thriving maintenance of organic and regenerative systems. We've partnered with experts like Rodale Institute to enhance our agronomy services, and are constantly building relationships with and amongst the growers in our community.

Impact

A wide variety of conservation practices were used across the acres financed. Within the loan documents, we created a menu of options for farmers to choose from to ensure they were going above and beyond organic in practicing regeneration. Here are some of the highlights:

- 1) On 100% of the acres financed on 24 farms, cover crops were used.
- 2) 12 different crops were grown.
- 3) Over 2,500 acres have transitioned to the new Regenerative Organic Certification.
- 4) Perennial crops were used on at least 50% of the rotations.
- 5) Livestock integration occurred on at least 25% of the land.

- 6) Agroforestry development occurred on 3% of the land.
- 7) Interseeding or polycultures occurred on 2,800 acres of the land.

To understand the impacts of this program more deeply, Mad Agriculture launched a Perennial Fund Research Project. The research project is managed and operated by Mad Agriculture's Mad Lands team, under the direction of Kaitlin Kimmel, Ph.D. According to Dr. Kimmel, "The goal of this research is to capture the ecological, financial, and personal wellbeing impacts of regenerative agriculture on real working farms. We are interested in the holistic view of agroecosystems. It all starts with the farmer and understanding the individual impacts of regenerative agriculture. From the farmer's stewardship, the land base is then impacted. This is where we seek to understand the impacts on the ecology of the system and the feedbacks into production. The ecological transformation of the land will likely generate impacts beyond the farm like sequestering carbon in soils and providing nutritious foods to consumers. We want to understand all of these aspects and how they are interrelated." It is also for crop buyers to understand the impact of their purchasing choices and investors to show them the impact of their investment.

The Perennial Fund Research Project is 2 years into a 10+ year study period. Baseline data has been collected on 28 total fields from 11 farms in 5 different states (MT, WI, MN, IN, NE). We are working closely with Ecdysis Foundation and Resource Environmental Solutions as contractors to measure and monitor soil health, soil carbon sequestration, water infiltration, and the biodiversity of insects, plants and birds.

More info on impact can be found: <https://madagriculture.org/mad-lands/impact-assessment>

As far as impact to conservation in the US, the success of the Perennial Fund demonstrates business viability to create modern financial offerings to farmers that reflect their needs and the status quo of agriculture and conservation. Other examples include Iroquois Valley Farms, Go Steward, and Dirt Capital among a handful of others; each success story creates positive momentum to improve the financial landscape to which conservation farmers have access.

Similarly, the stories of farmers transitioning to regenerative and organic agriculture encourage and inspire other farmers to recognize that it is both possible and attractive to adopt conservation practices and systems. Our story telling approach is positive in nature while maintaining a raw, genuine feel that enables other farmers to see themselves in the stories of Mad Agriculture farmers and, hopefully, join on.

As Mad Agriculture continues to build partnerships and network with other farmer support organizations, the intellectual and social resources farmers need will become more robust and further reaching. In many cases, farmers transitioning to conservation agriculture feel alone or isolated, so the development of community and support resources that meet farmers where they are (both physically located and personally prepared) in order to help them navigate the transition.

Lessons learned

1. Marketing to farmers does not have to be slick. Keeping the language extremely direct and to the point is key. Farmers want to know what benefit they will receive by working with us and we have to be upfront about this.
2. Innovative financing does not have to be complex financing. Good design is simple, easy to understand, and easy to use.
3. In order to raise a Fund, you must have a strong indication of product market fit beforehand. At Mad Ag, we validated the business model early on by cold calling farmers, starting a website, and generally trying to hear the opinions of as many farmers as possible. We wanted to ensure there was some interest in the first rendition of the loan product.

4. **Farmers current practices are part of their identity. Do not try to force change upon them. A better approach is to use the Socratic method and to bring up questions that allow the farmer to do the deep work necessary to make meaningful change.**