

GREENER PASTURES FOR NEW FARMERS

CASE STUDY NONPROFIT MODEL

THE CARROT PROJECT'S REVOLVING LOAN PROGRAM

The Carrot Project | <http://thecarrotproject.org/financing>

Written By: Amy Verbofsky, Food System Planning Associate

Last Updated On: August 18, 2014

Founded in 2005, The Carrot Project fosters a sustainable local farm and food economy by providing financing and business assistance so farm and food enterprises thrive. The Carrot Project partners with farmers, lenders, investors, donors, and farm service providers to create loan programs connected to technical assistance, and strengthen the sector's knowledge base through research and information sharing. The Carrot Project collaboratively administers four geographic-specific programs in the Greater Berkshires, Maine, Massachusetts, and Vermont, working with a local lending institution like a regional bank, a Community Development Finance Institution (CDFI), or an economic development agency. The Carrot Project supports their partner lending institutions by providing loan origination and underwriting services usually performed by a lender, like outreach to agricultural businesses, business technical assistance, assistance with the application process, site visits, and loan monitoring. As of 2013, The Carrot Project has provided services to more than 70 farm and food businesses. Working with four lending institutions and 28 investors, they have made loans totalling over \$450,000 to 33 businesses.

KEY POINTS:

- The Carrot Project found that best lending partners have a good understanding of agricultural or small business lending and are prepared to accommodate interest-only period and cash-flow lending.
- Loans range from \$3,000 to \$35,000, depending on the lending partner. Interest and fees for small loans do not necessarily cover the cost of making loans.
- The Carrot Project's investors typically are accustomed to making a "community-investment" with a portion of their portfolio to support the mission of the program since they get a very small return on their investment.
- The majority of technical assistance needs consist of developing cash-flow projections and polishing business plans.

The Carrot Project fosters a sustainable, diverse food system by supporting small- and mid-sized farms and food system businesses through expanding access to financing and increasing farm operators' ability to build successful, ecologically and financially sustainable businesses. The Carrot Project partners with farmers, lenders, investors, donors, and farm service providers to create loan programs connected to technical assistance, and strengthen the sector's knowledge base through research and information sharing. The Carrot Project implements financing programs connected to technical assistance instead of other farmer financial aid options because financial literacy and investment readiness are important skills that farmers and food entrepreneurs can gain by engaging with their programs. The Loan and Outreach Coordinator, Benneth Phelps, said, "Having a successful borrowing experience is something that puts those businesses in a position to borrow [more] in the future; and through our programs borrowers make a relationship with a particular lending institution in their community that can serve their business going forward. Our borrowers go on to access other financing in the future and have the know-how to use financing to meet their business goals."¹

Dorothy Suput founded The Carrot Project in 2005 as an extension of her interest in the business side of sustainable agriculture to explore whether or not emerging business and financing models could support sustainable agriculture and sustain farm communities. The Carrot Project's first loan program began in Vermont and Western Massachusetts in 2009 as a partnership between a nonprofit, Strolling of the Heifers, Chittenden Bank (now People's United Bank), and The Carrot Project. Since then, The Carrot Project has expanded their loan



Matthew Burke, Bloomfield Farm, Microloan Recipient

Source: E. Ferry, The Carrot Project

program, finding new partners across the Northeast. They collaboratively administer four geographic-specific programs in the Greater Berkshires, Maine, Massachusetts, and Vermont, partnering with a local lending institution, such as a regional bank, a Community Development Financial Institution (CDFI), or an economic development agency, making loans to small and mid-sized farms and food system businesses that use sustainable or organic practices and serve local or regional markets.

Regardless of the type of financial institution, The Carrot Project found that the best lending partner has a good understanding of agricultural or small business lending and works with borrowers of a similar profile to the population being served. The lending institution is prepared to accommodate interest-only periods, cash-flow lending, and to occasionally rework loans.

The initial loan program provided loans up to \$15,000. The Carrot Project later increased that amount to \$35,000 after determining that median need for operating financing is \$29,000 and for capital financing is \$28,000. The minimum loan that a Carrot Project program can make can be as low as \$3,000, depending on the lending partner. Interest and fees for loans at the minimum amounts do not necessarily cover the cost of making the loan. All of the loans have one- to seven-year terms. Interest rates vary but are generally higher than market interest rates. Although the terms of the loans differ by geographic program, all of The Carrot Project loans can be used for working capital, capital needs such as equipment or buildings, or other improvements for production or value-added enterprises. The Carrot Project loans are typically not used to purchase land due to the loan size and term limits, although they have been used occasionally for bridge loans while a farm is awaiting funds from USDA's FSA.

The Carrot Project's loan programs include two distinct operating models. One model provides capital to a lender who, in turn, issues a promissory note, commits to lend the borrowed capital, and pays back The Carrot Project. In the second model, The Carrot Project provides capital as a guarantee to the lending partner, who then uses its own capital to make loans up to an agreed-upon amount. The capital used as a guarantee is the amount of capital required to absorb potential unexpected economic losses. The Carrot Project's first loan program with Chittenden Bank (now called People's United Bank) required 1:1 risk capital for all loans made. MassDevelopment, the lender

¹ Benneth Phelps, personal interview, June 13, 2013.

for the Massachusetts loan program, requires that The Carrot Project provide 25 percent of the total loan amount as security. The lower security amount works well when the typical borrower profile of the lender is similar to The Carrot Project's applicants, such that only 25 percent additional security is needed to make the deals work.

The Carrot Project's investors are individuals and family foundations who may make Program-Related Investments as a part of their grant activities with the difference being that the funds may be reused when an investment is acceptable. The investors typically are accustomed to making a "community-investment" with a portion of their portfolio to support the mission of the program since they get a very small "community-return" on their investment, generally comparable to current CD rates (0.25 percent to 2.75 percent depending on the loan program). They are motivated by the desire to maintain principal and the nonfinancial—social, community, environmental—returns of the program. Some of the initial capital was also funded through donations. For instance, The Carrot Project was able to raise the initial risk capital for the Massachusetts loan program at a "5% Day" sponsored by the Whole Foods Market in Cambridge, Massachusetts, and for the Vermont program from a benefit concert by Pete Seger. The Carrot Project will reach out to investors to raise additional capital for the loan fund only at strategic times when it is needed, such as when it is expanding the loan program and wants to make more or larger loans. The Carrot Project's operating and program costs are funded primarily through donations and grants, although the loan programs do generate revenue.

The Carrot Project supports their partner lending institutions by providing loan origination and underwriting services usually performed by a lender, like outreach to agricultural-based businesses, business technical assistance, assistance with the application process, recruiting and staffing a volunteer loan review committee, loan analysis, site visits, and loan monitoring. The volunteer loan review committees screen the applicants for loan readiness, looking primarily at the applicant's cash-flow projections and the long-term viability of the business. The Carrot Project loan programs also require collateral. The Carrot Project and their partner lenders understand that small and beginning farmers and startup food businesses may lack collateral and can be flexible on what they accept as collateral depending on the borrower's loan readiness.

Although The Carrot Project has recently started working with food system businesses, approximately 70 percent of The Carrot Project's borrowers are beginning farmers and almost 100 percent need some form of technical assistance. The amount of technical assistance needed can differ greatly among applicants. Some need 40 hours and others need only 5 hours before they are ready to apply for a loan. The majority of applicants fall into the 5–15 hour range. How technical assistance is provided varies by loan program and the availability of other external technical assistance providers like a state agricultural extension. The majority of the technical assistance needs consist of developing cash-flow projections and polishing business plans. Ideally, applicants receive technical assistance before submitting their loan applications so that they are loan ready. The Carrot Project noted that deciding how and when to borrow, invest, or grow a business, as well as how to prepare a quality application (accurate cash-flow projections, tidy bookkeeping, and thorough business plan) are two of the biggest challenges that they see farmers face in the loan process. Collaborating with organizations that provide business and financial assistance or having the skills and funding in-house to provide technical assistance to borrowers both pre- and post-loan is absolutely critical to making loans and to ensuring a low default rate.

As of 2013, The Carrot Project has provided services to more than 70 farm and food businesses in Maine, Massachusetts, Vermont, and the Greater Berkshires. They have worked with four lending institutions and 28 investors to make loans totaling over \$450,000 to 33 businesses. While several loans have been reworked due to conditions outside of the borrowers' control such as illnesses, only one borrower has defaulted. This situation is offset by the program's overall goals to help businesses become financially viable. The vast majority of their borrowers are doing well by meeting their business goals, expanding to meet new markets, purchasing land, paying themselves a livable wage, and serving as an asset to their community.