REGENERATIVE AGRICULTURE AND FOOD SYSTEMS SERIES

FINANCIAL BARRIERS AND INVESTMENT OPPORTUNITIES TO SUPPORT THE TRANSITION TO REGENERATIVE AGRICULTURE

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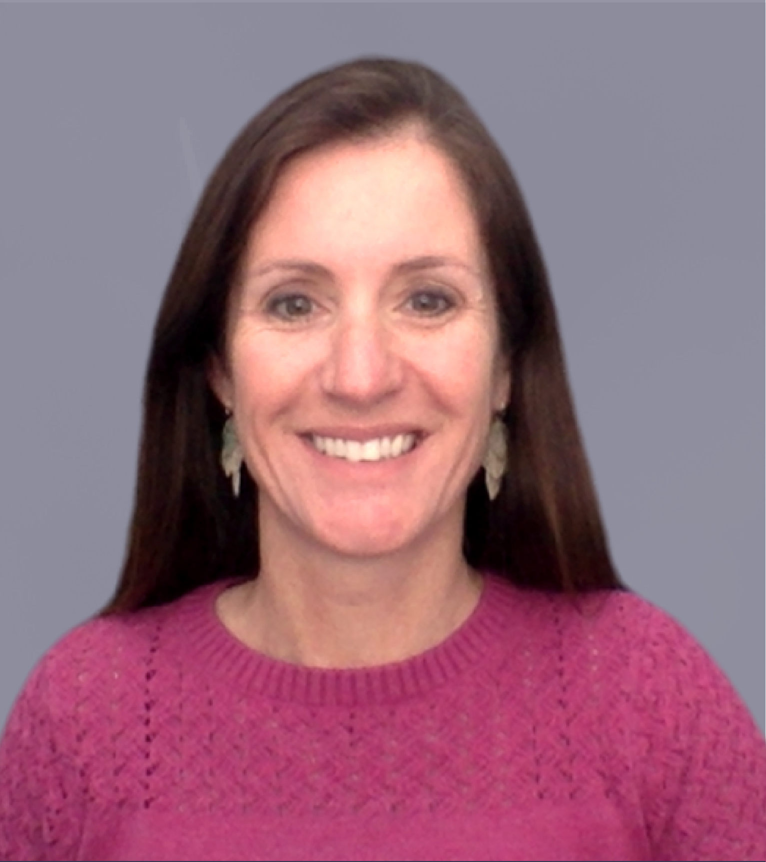
REGENERATIVE FOOD SYSTEMS INVESTMENT

Kisaco Research



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WHAT BARRIERS DO FARMERS FACE IN TRANSITION (FINANCIAL AND OTHERWISE)?

The farmers that we have worked with over the past 6+ years have emphasized the following barriers to adopting new regenerative systems:

CULTURAL BARRIERS

For many farmers, the idea and act of doing things differently than the way their parents and neighbors have done them for decades can be isolating.

LACK OF UNDERSTANDING AND TECHNICAL KNOW-HOW

Taking on new practices and new systems requires a new understanding of the system and tools, all of which take precious time and resources to learn.

ACCESS TO MARKETS AND PREMIUM

Many regenerative farmers rely on markets that can offer a premium for regenerative crops. These are not fully developed and often hard to find.

FINANCIAL RISK

The financial risk of transition to unconventional agricultural systems fall into several buckets, including transition expenses, lack of appropriate financing, delay in premium pricing during transition, and often inadequate or non-existent access to crop insurance.

Perpetuating many of these barriers is that in the U.S., policy and finance systems have been built over the past five plus decades to incentivize and subsidize extractive practices – such as chemically intensive, monoculture production systems – that run counter to the principles of regeneration.

WHAT KIND OF CAPITAL (WHO) SHOULD BE INVOLVED AND HOW CAN IT BE USED TO ADDRESS THESE BARRIERS

In short: all kinds of capital. The breadth and complexity of the barriers means there are a lot of ways for different types of capital to engage in the transition.

For farmers, capital will be needed to acquire new equipment, new materials, crops, trees, and animals, and working capital may be needed to cover the farm through transitional period. This may come in the form of public or private grants and loans, or even equity investments – depending on the farmer and their specific situation. Regardless of the particular form,

FARMERS NEED PATIENT CAPITAL THAT UNDERSTANDS THE TIMELINES OF TRANSITION AND DOESN'T IMPOSE ADDITIONAL RISK DURING THE ALREADY RISKIER TRANSITION PERIOD.

For farmers to make a successful transition to regenerative agriculture, however, they also need an entire system around them – from supportive farm tools and services, to processing and distribution, to buyers.

Building new systems like this requires engagement from diverse capital players – from corporate buyers to support transition of the supply chain, to venture capital to expedite the development of new tools, to real asset and private equity investment to support land transition and infrastructure, to public/private philanthropy and debt to de-risk certain points along the way.

WHERE DO GAPS IN FINANCING EXIST?

Regenerative agriculture as a whole is a financing gap within the larger agriculture and food system that needs to be filled. In the U.S. alone, it was estimated in the 2020 Soil Wealth report, that more than $700 billion in investments will be needed over the next 30 years to scale the regenerative agriculture market, and that investment will generate $10 trillion in net financial returns. Yet, to this point, we estimate that we aren't even 10% there.

Despite this, the pace at which capital is entering the regenerative space has picked up significantly in the last decade. Venture capital, for example, has seen overall deal value and quantity more than double, with particular interest and investment in biologicals, remote sensing, field machinery, and herd management.

WHERE WE HAVE SEEN A LOT LESS INVESTMENT, IS WHAT WE CALL THE MISSING MIDDLE OF THE SUPPLY CHAIN, PARTICULARLY PROCESSING INFRASTRUCTURE.

These investments tend to be riskier and less understood, which can be a turn off to funders entering the regenerative space. But regenerative farmers rely in this infrastructure, so investment here is absolutely necessary.

Another gap, specifically for farmers, is transition finance. The initial 3-5 years of transition can be particularly risky, yet there is a gap today in financing vehicles that can meet regenerative farmers where they are and serve them with more patient, less risky capital during this period when they are building soil health, adopting new practices and crops, and finding aligned markets that will maintain the integrity of their products and reward them for it. We need more actors willing to partner with farmers in the transition and share the risk.

HOW CAN INDUSTRY-LEADING PARTNERS COLLABORATE TO FIND SHARED KPIS AND SOLUTIONS TO HELP SCALE PROJECTS?

I THINK TRANSPARENCY BETWEEN LEADERS IS KEY. ONE OF THE BIGGEST THINGS HOLDING BACK SCALE IN REGENERATIVE MARKETS IS UNDERSTANDING THE HOW-TO, ESPECIALLY IN SUCH A WIDE VARIETY OF CONTEXTS, INCLUDING CROP AND GEOGRAPHY.

This is true at every point in the system – for farmers, for corporates trying to revamp their supply chains, and for finance as they look for new models to support. To address this, we need more shared data, lessons, and how-tos. We need less working in silos and more dialogue and collaboration. This will allow for faster transformation to regeneration by de-risking the learning process and getting us through the pilot phase and to scaled execution.

HOW DO YOU BUILD SUCCESSFUL STRATEGY AROUND THE OPTIMAL AMOUNT OF INVESTMENT AND INCENTIVES TO ENCOURAGE REGENERATIVE PRACTICES?

With all actors in the system, but especially the farmer, we need to consider the economics and the risk associated with adopting new practices. Most farmers will only take on new practices if it is ultimately a good financial decision and if they don't have to take on too much risk in the interim.

> **THE OPTIMAL AMOUNT OF INVESTMENT, THEN, IS HOWEVER MUCH IT TAKES TO REDUCE OR ELIMINATE UNNECESSARY RISK (FINANCIAL AND OTHERWISE) AS THEY TRANSITION TO BETTER FINANCIAL OUTCOMES THAN THEY CURRENTLY HAVE.**

This will obviously depend on the particular investment and context one is working in. But in general, a building strategy around this will rely on establishing shared goals for positive outcomes between investor and investee, as well as shared risk. These should be strategic partnerships that rely on communication and collaboration on reducing risk and creating an optimal financial situation for transition and growth.

ABOUT

SARAH DAY LEVESQUE

With over 15 years of experience in global agriculture, Sarah is passionate about creating a resilient path forward for the food system and her effort building impactful farming and investing communities reflects this. For the past 6 years she has worked closely with regenerative farmers in her role leading the development and execution of educational experiences at Acres USA. In late 2018, after witnessing the incongruencies in the scale of capital flowing to sustainable agriculture in the U.S., Sarah founded Regenerative Food Systems Investment to address the lack of attention, awareness, and capital being given to investment opportunities in regenerative agriculture and food.

Before joining Acres USA in late 2016, Sarah spent a decade working at the intersection of global commodity markets and agriculture/agtech investment and served as Editor-in-Chief of Global AgInvesting Media.

She holds an M.S. in Agriculture and Resource Economics and an M.S. in International Agricultural Development from University of California, Davis.

When she's not working, you can find Sarah running, hiking, coaching youth basketball, or playing ball with her family.