



Harvesting Opportunity

The Power of
**Regional Food
System Investments**
to Transform Communities

Federal Reserve Bank of St. Louis

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Contents

ACKNOWLEDGEMENTS 9

ABOUT COMMUNITY DEVELOPMENT AT THE FEDERAL RESERVE..... 10

FOREWORD 11

Lael Brainard

Governor

Board of Governors of the Federal Reserve System

James Bullard

President and Chief Executive Officer

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CHAPTER 1 15

Local Food Demand in the U.S.: Evolution of the Marketplace and Future Potential

Debra Tropp

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USDA Agricultural Marketing Service

Malini Ram Moraghan

Principal, Drawing Board

Principal, DAISA Enterprises

CHAPTER 2 43

The Investment Continuum: Risk, Reward and Impact in Local and Regional Food Systems

Malini Ram Moraghan

Principal, Drawing Board

Principal, DAISA Enterprises

Kate Danaher

Senior Manager, Social Enterprise Lending and Integrated Capital
RSF Social Finance

Gray Harris

Senior Program Director, Food Systems and Natural Resources
Coastal Enterprises Inc.

CHAPTER 3 57

Local and Regional Food Systems Driving Rural Economic Development

Becca B.R. Jablonski

Assistant Professor and Extension Economist in Food Systems
Colorado State University

Mary Hendrickson

Assistant Professor of Rural Sociology
University of Missouri-Columbia

Stephen Vogel

Agricultural Economist
USDA Economic Research Service

Todd Schmit

Associate Professor
Cornell University

CHAPTER 4 79

Advancing Food Equity through Local and Regional Food Systems

Ariel Kagan

Senior Program Associate
George Washington University

Kathleen A. Merrigan

Executive Director of Sustainability
George Washington University

CHAPTER 5 93

The Importance of Inclusion in Local and Regional Food System Efforts

Sasha Feldstein

Master of Public Policy Candidate
Goldman School of Public Policy
University of California, Berkeley

Joann Lo

Co-Director
Food Chain Workers Alliance

Christina Spach

National Good Food Purchasing Campaign Coordinator
Food Chain Workers Alliance

CHAPTER 6 113

**Financing Local and Regional Sustainable Food Enterprises:
A Matter of National Security**

Ron Phillips

Retired President and CEO
Coastal Enterprises Inc.

Daniel Wallace

Loan and Investment Officer
Coastal Enterprises Inc.

CHAPTER 7 139

The Nature of Local Food System Farm Businesses

Gary Matteson

Vice President, Young, Beginning, Small Farmer Programs and Outreach
The Farm Credit Council

CHAPTER 8 151

**Use It or Lose It: Local Food, Regional Processing and the Perils
of Unused Capacity**

Lauren Gwin

Assistant Professor, Crop and Soil Science Department
Associate Director, Center for Small Farms and Community Food Systems
Director, Niche Meat Processor Assistance Network
Oregon State University

Nick McCann

Michigan Good Food Fund Value Chain Specialist
Center for Regional Food Systems
Michigan State University

CHAPTER 9 173

**Getting the Margin to Meet the Mission: Food Hub
Financial Viability**

James Barham

Agricultural Economist—Food Systems Specialist
USDA Rural Development

James Matson

Owner and Principal
Matson Consulting

CHAPTER 10 189

Institutions: An Emerging Market for Local and Regional Foods

Matthew Benson

Program Analyst
USDA Food and Nutrition Service

Danielle Fleury

Farm to School Regional Lead
USDA Food and Nutrition Service

CHAPTER 11 209

**Investing in Innovation: Philanthropic Support of the Local
Food Movement**

Kat Taylor

President, TomKat Foundation
Co-CEO and Co-Founder, Beneficial State Bank
Co-Founder and Managing Partner, Radicle Impact Partners

Julia Sze

Managing Director, Impact Investing
Arabella Advisors

CHAPTER 12 221

Proving the Opportunity: Community Development Financial Institutions and Food Systems Financing

Donna Leuchten Nuccio
Director of Healthy Food Access
Reinvestment Fund

CHAPTER 13 243

Insured Depository Institutions and Local and Regional Food Enterprises: Lending and Investing

Kevin Goldsmith
Program Manager, Community Development Tax Credits Group
JPMorgan Chase

CHAPTER 14 255

Investing in the Next Generation of Farmers

Jill Auburn
National Program Leader
USDA National Institute of Food and Agriculture

CHAPTER 15 265

Bringing Businesses to Life through Competitions, Incubators and Accelerators

Lisa Benson
Director, Rural Development
American Farm Bureau Federation

CHAPTER 16 283

Organic: A Solid, Beneficial and Sustainable Investment

Maggie McNeil
Senior Editor
Organic Trade Association

Edward Jaenicke
Associate Professor of Agricultural Economics
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Reflecting on Past Progress, Looking Forward to the Future

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FOREWORD

The Federal Reserve promotes a healthy economy and financial stability. One of the important ways the Federal Reserve carries out these responsibilities is in its role as a research institution dedicated to adding to the general knowledge and understanding of the economy, including the experiences of households and communities that are low- and moderate-income (LMI), and those that have traditionally lacked access to a broad array of financial products and services. Through its community development function, the Federal Reserve conducts and helps promote research on the economic challenges and opportunities facing these communities, and highlights policy and program implications.

In 2015, the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of St. Louis began conversations with the U.S. Department of Agriculture about how we could work together to better understand consumers' increasing interest in where their food comes from and how their food dollars can provide greater support for local food-related businesses and farmers. As a result of these conversations, we decided to partner on an effort to learn from other experts on this issue, and in turn take what we learned and develop a resource to help increase the public's awareness of it and the associated opportunities. This publication—a compilation of research, essays and reports by community development experts around the country—is the result of that process.

Through this work, we have learned that regional food systems represent a promising avenue for economic growth for both rural and urban communities through the creation of new or the enhancement of existing jobs and businesses. We also learned that, with appropriately targeted policies and support, the attendant opportunities can advance the economic and financial

security of LMI households and communities. What is especially interesting about this work is that the approaches that support the development of regional food systems not only contribute direct economic benefits to the community, but can also open the door for improved access to healthy food and other positive outcomes that could result in improved community health and a more productive workforce.

For LMI households and communities in both rural and urban areas to take full advantage of the opportunities that regional food systems provide, they need access to two important tools: knowledge and capital. They need access to knowledge of what the emerging opportunities are and how to take advantage of them, and they also need access to the capital required to bring those opportunities to fruition. Unfortunately, access to knowledge and capital networks is something that has historically been lacking in many LMI communities. Through our work on this project, we have become aware of organizations across the country that are working to provide LMI and underserved communities with access to these important resources. There are examples of such organizations detailed throughout this publication, although the list of examples is far from complete.

The importance of partnership and collaboration is a refrain that echoes again and again when working on community and economic development policies, including efforts to advance food systems—partnerships among the regional food enterprises themselves, the financial institutions that fund them, and the technical assistance providers that help them navigate the marketplace. Each financial partner has a different risk appetite, time horizon and type of capital to deploy—grants, debt, equity—and each regional food enterprise needs access to different types of knowledge and capital. By combining and coordinating the capital sources and technical assistance providers available, the variety of needs that exist can be addressed.

This publication is designed to highlight the prospects available in the regional food systems sector, advance efforts to provide meaningful earnings and job opportunities for LMI households and communities, and illustrate the vital partnerships needed to deploy the necessary knowledge and capital to support the sector's continued growth. On behalf of the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of St. Louis, we look forward to learning how communities take the information

and examples contained in these pages and use them to continue the innovative work underway to leverage regional food systems for the benefit of LMI households and communities. ■

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Organic: A Solid, Beneficial and Sustainable Investment

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Organic agriculture has long been proven to yield important benefits to our soil and to our environment. In the spring of 2016, the Organic Trade Association (OTA) released research findings that show organic agriculture can also transform and lift our rural areas and communities by providing real and potentially long-lasting economic benefits to struggling parts of our country.

The white paper, *U.S. Organic Hotspots and their Benefit to Local Economies*, is based on three related research papers of Edward Jaenicke of Penn State University and co-authored by Julia Marasteanu. It finds that counties within “organic hotspots”—counties with a high concentration of organic agricultural activity that have neighboring counties which also have high organic activity—have lower poverty rates and higher median annual household incomes.

For the first time, the hotspots research links economic health at the county level to organic agriculture and shows that organic food and crop production—and the business activities accompanying organic agriculture—leads to meaningful regional economic improvements. It finds that, on average, county poverty rates drop by 1.3 percentage points, and median household income rises by over \$2,000 in organic hotspots. Organic hotspots also were found to lower the unemployment rate at the county level by 0.22 percentage point and raise per capita income by \$899.

The same beneficial results are not found for general agricultural hotspots. General agricultural hotspots were found to lower the county poverty rate by 0.17 percentage point and raise the median household income by just \$75, while increasing the unemployment rate by 0.06 percentage point and lowering per capita income by \$1,076.

“We know that organic agriculture benefits our health and our environment,” said Laura Batcha, CEO and executive director of the OTA. “This significant research shows organic can also benefit our livelihoods and help secure our financial future.”

“Organic agriculture can be used as an effective economic development tool, especially in our rural areas,” she said. “We’ve always had an intuitive sense that organic is good for communities, and studies show that organic’s price premiums and the employment that organic provides have a positive impact. But this is the first study that puts it altogether in a rigorous set of research.”

Organic is one of the fastest-growing sectors of the American food industry. In 2015, U.S. organic food sales jumped by 11 percent to almost \$40 billion, far outstripping the 3 percent growth rate for the overall food market, according to the OTA’s 2016 Industry Survey. Nearly 5 percent of the food sold in the United States is now organic; in the produce aisle, that percentage is more than double, with almost 13 percent of all fruits and vegetables sold in this country grown organically.

While much of the growth in organic is being driven by the nation’s 75 million millennials (individuals aged 18 to 34 in 2015), organic products are sought by all ages. More than 8 in 10 U.S. families now buy organic at least sometimes, and the number of families never buying organic has steadily decreased, going from almost 30 percent in 2009 to just 18 percent today.

Organic agriculture is governed by a strict set of federal regulations and guidelines that prohibit the use of synthetic pesticides and fertilizers, genetic engineering, antibiotics, growth hormones, and artificial preservatives and colors, as well as require the use of farming methods that promote ecological balance and foster on-farm biodiversity.

Organic crops command a significant price premium over conventionally grown crops because of the strong demand and relatively tight supply of organic products. As a result, farmers’ interest in organic production has grown, and more organic businesses are sprouting.

But many more farmers are interested in organic than are taking the actual step of transitioning. Farmers and communities throughout the country are missing out on organic agriculture’s proven economic benefits. What is the role of the investment community in this still hugely untapped sector? How can the investment community help more growers switch to organic and invest in organic agriculture in ways that benefit both investor and local communities?

The Virtuous—and Profitable—Cycle of Organic Investment

The investment fund Farmland LP has developed a successful model of investing in and fostering organic agriculture to produce returns for investors, create healthier soils and expand money-making opportunities for producers.

Farmland LP Managing Partner Craig Wichner calls this a “virtuous cycle.” Using sustainable agricultural practices to convert farmland to organic allows farmers to scale up and sell higher value crops; this increases their incomes and enables them to spend more money in their local communities, stimulating the local economy and all the while supporting the conversion of more land to organic.

Farmland LP, based in San Francisco, was launched in 2009. It buys conventional farmland, converts it to organic using a pasture and crop rotation, and then manages the farmland to deliver environmental, societal and financial returns. The company bought its first property—the 150-acre Fern Road Farm in the Willamette Valley—in 2010. Farmland LP now manages a \$120 million portfolio of farmland, including 13,000 acres in Northern California and Oregon’s Willamette Valley. More than 2,000 acres of Farmland LP’s portfolio have been certified organic, with several thousand more in the process of being converted into organic.

“We provide the opportunity for investors to invest in sustainably managed farmland and gain exposure to both real assets and the organic sector,” Wichner said. “Farmland has historically been overlooked as an asset class, yet its track record of superior, risk-adjusted returns makes it a good fit in a diversified investment portfolio.”

The transition of conventionally farmed land to certified organic is a rigorous three-year process, as prescribed by the U.S. Department of Agriculture’s National Organic Program. During the three-year transition process, farmers cannot use any chemicals or pesticides prohibited under organic regulations, are forbidden from using genetically modified organisms (GMOs), and must follow all other rules governing organic agriculture. They have to develop a detailed farm plan system for their operation, keep meticulous records that will eventually be closely scrutinized by their organic certifier and, during the conversion period, are not allowed to sell their products as certified organic.

BABIES ARE CRYING FOR MORE ORGANIC BUTTERNUT SQUASH!

Fern Road Farm in Oregon's Willamette Valley was the first land that the investment fund Farmland LP purchased. In 2010, the company bought the 150-acre farm, which was growing conventional commodity seed and grain crops.

Farmland LP took the farm through the three-year conversion process to organic, bringing in livestock, pasture, cover crops and specialty crops, including butternut squash. In just the first year of transition, the company calculates it avoided using about 19,600 pounds of synthetic nitrogen fertilizers and 595 pounds of pesticides on the farm, while boosting its revenue by some 40 percent.

Fern Road Farm's organic butternut squash—in high demand by organic baby food makers—has been almost flying out of the fields! Since the acquisition, the farm's revenue has increased fourfold.

Many farmers cite the transition process as the biggest hurdle to converting to organic. As a result, less than one percent of the farmland in the United States is certified organic.

Farmland LP addresses the transition hurdle by raising the capital to purchase high-quality farmland and infrastructure, managing the organic conversion process, and leasing the organic land to farmers and ranchers, thereby removing the capital barriers of going into organic for producers.

Farmland LP prefers to concentrate its holdings in specific regions to create economies of scale for farmers and ranchers leasing its land. Within these regions, a diverse set of farmers and ranchers rotate across fields to grow their crops or pasture their livestock. The number of farmer and rancher tenants operating across Farmland LP's holdings varies by season but currently is between 10 and 20.

The company's integrated model of livestock and crop rotation improves the health of the soil, manages weed pressure and breaks pest cycles. It also generates more revenue than conventional monocropping practices.

Farmland LP sees firsthand the “tremendous multiplier effect” of organic agriculture and organic hotspots.

The more diverse organic farming practices of Farmland LP's holdings not only increase revenue, but also require a greater amount of year-round work,

which creates more permanent local jobs, according to Wichner. Greater farmer profits and consistent employment all result in increased economic activity in the local community and help create the economic benefits of organic hotspots.

Helping Alleviate Rural Poverty

The OTA's white paper identifies 225 counties across the United States as organic hotspots. Organic hotspots reflect the diversity of the organic industry and the various kinds of organic agriculture and related business activities: crop production, livestock production, organic processing and organic handling. Along the West Coast, organic hotspots are often areas of high organic fruit and vegetable production. In the Pacific Northwest, organic grain production comes into play. In the Midwest, organic dairy production dominates most organic hotspots, and in the Northeast, organic vegetable and organic dairy production are prevalent.

Organic hotspots are found throughout the country in 22 states—from Tulare and Fresno counties in California's Central Valley to Piscataquis County in Maine's Highland Region. Organic hotspots are particularly strong on the West Coast, with smaller areas of hotspots in the northern Midwest, New England and the northern Mid-Atlantic states, plus a few other isolated areas in the rest of the country.

The Southern U.S. has noticeably few organic hotspots of any kind, even if you also look at "outlier hotspots"—a county of high organic activity surrounded by counties of low activity, or a county of low organic concentration in the midst of heavy organic counties.

With the exception of Broward County in southern Florida, there are no full-fledged organic hotspots in the Southern U.S. and very few outlier counties. The dearth of economy-boosting hotspots in the American South—where rural poverty is a significant and widespread problem—is a telling statistic.

A recent report published by the USDA's Economic Research Service shows that 1 in every 4 children in rural areas was living in poverty in 2014, compared with 1 in every 5 urban-dwelling children. The report also shows that there were 43 counties with child poverty rates of 50 percent or higher, with 31 of these counties in the South.

"There's a tendency for some folks to think of poverty as an urban issue, but it's a serious rural issue," then Agriculture Secretary Tom Vilsack said at the OTA's

Annual Policy Conference in May 2016. “We obviously want to expand those (organic) hotspots. We want to make sure that unemployment comes down in those rural areas; that the poverty rate comes down.”

“The outlier counties, especially in the American South, offer real promise for rural development,” Batcha said. “Now we need to figure out how to have a steady investment into organic, and remove the access to capital and to loans and to other barriers that block organic from moving forward. Organic has been proven to have broad economic benefits for local communities, and now we can work to craft beneficial policies for all.”

Changing Lives in Central Louisiana through Careful Organic Investment

Big changes most often start in small ways. In Rapides Parish in Central Louisiana, a single organic farm is transforming the lives of thousands in the local population. Inglewood Farm, in just five years, has become the largest certified organic farm in Louisiana. It has helped create a new awareness and interest in healthy diets, it has spurred the attention of consumers and local farmers alike to organic, and it has helped foster new jobs and entrepreneur opportunities for many.

Rapides Parish is considered an outlier organic hotspot—in this case, a county of high organic activity in the middle of counties of low organic activity.



But as Inglewood Farm so clearly demonstrates, the benefits that organic activity brings even in outlier hotspots are significant:

- six farmers markets in six rural communities where there were none before;
- 22 year-round employees where there were just five or so seasonal workers;
- Saturday get-togethers drawing local families, with plate lunches featuring garden-fresh treats, live music and fresh-produce tasting tests for the kids on a farm dedicated to the health of its soil and of its neighbors; and
- a successful and community-engaged organic farm growing produce, grains and pecans, and raising grass-fed livestock where a conventional commodity farm had existed for decades.

“The effects of Inglewood are like yeast fermenting; they are growing and spreading—from the farmers markets to community gardens to new restaurants opening in town that want to source locally,” said Elisabeth Keller, president of Inglewood Farm. “Plus when the farm makes money, other farmers see this. We hope Inglewood is setting the stage for more farmers getting into organic.”

Inglewood Farm dates back to the 1800s, and the Keller family has owned it since 1926. After decades of farming mostly cotton, corn and soybeans conventionally on the land, the family began to convert it to organic five years ago. The farm now boasts almost 400 acres of certified organic vegetables, pecans, corn, soybeans and wheat, with another 40 acres of vegetables in transition to organic and almost 700 acres of cover crops and pasture being converted to organic.

In 2015, Inglewood Farm grossed around \$600,000 in revenue from its organic operations. It is now the anchor vendor in six farmers markets in Central Louisiana that didn't exist a few years ago, providing a new market for young entrepreneurs raising and butchering their own livestock, soap makers, woodworkers and other local artisans. It's become the go-to place on Saturday for local families to buy organic produce, see cooking demonstrations and sit down to a home-cooked, healthy lunch. It's the spot for aspiring organic farmers to get the latest and best information on organic.

Inglewood Farm is the operating business of Keller Enterprises, a family company focusing on venture investing, venture philanthropy and venture farming. Founded in 1998 by Caroline Keller Winter, the company is headquartered in Alexandria, La., and has a successful track record of philanthropic investing in Central Louisiana. It has become a major force in providing opportunities to

the citizens of the struggling rural areas of Louisiana, creating greater access to locally produced foods and educating the local community about healthy eating habits and the local farmers about organic.

“We’re not the Rockefeller or the Ford Foundation,” said Caroline Davis, president of Keller Enterprises. “But in a smaller community, the dollars we can bring to bear and the impact we can have in a local area like Central Louisiana are significant.”

In 2011, in partnership with the Central Louisiana Community Foundation and the Food Bank of Central Louisiana, Keller Enterprises designed the Good Food Project (GFP) to create greater access to local foods through a network of community gardens, to educate the community about the importance of healthy eating habits, to sponsor related community enrichment programs and to encourage others to invest in Central Louisiana.

The board of directors of Keller Enterprises also approved a gift of \$1.1 million to the Central Louisiana Community Foundation to fund the GFP, which the food bank would manage and staff. Two committees were established to oversee the activities of the GFP: a finance committee made up of representatives from the community foundation, the food bank and Keller Enterprises, and a community advisory committee consisting of food bank board and GFP staff members, food bank clients, GFP volunteers, and community partners.

“We wanted to ensure that there was broad community ownership of the GFP. We knew that for the project to be a success, we needed to foster buy-in and engagement among everyone invested in the work of the GFP,” Davis said.

Has the Keller investment been successful? “It’s been a tremendous success in every way,” she said. Some highlights: More than 9,000 pounds of fresh local foods have been made available to local low-income families, 46 community gardens in nine parishes and 24 schools across Central Louisiana are now in active production and almost \$200,000 in cash has been raised to put back into the GFP.

Plus, one good investment leads to another. In 2014, following philanthropic investments made in 2011 by the Blue Cross Blue Shield of Louisiana Foundation and the Rapides Foundation, Keller Enterprises invested \$500,000 in the Central Louisiana Local Foods Initiative. From the beginning, the Local Foods Initiative was partnered with the food bank and the GFP, with money from the grants going to support work at the Food Bank and the GFP. Keller Enterprises had followed the work of the Local Foods Initiative closely and knew



TOP: Children learn to garden as the result of efforts by the Good Food Project. The Louisiana based project helps schools, nonprofits, neighborhoods and others to establish and maintain food gardens.

BOTTOM: A school garden being developed with the help of the Good Food Project, a partnership between the Central Louisiana Community Foundation, the Food Bank of Central Louisiana and Keller Enterprises.

how critical its work was to the local food economy. Since the Blue Cross Blue Shield investment was going to sunset, Keller Enterprises knew it had to make sure that work continued.

As one of the projects of the Central Louisiana Economic Development Alliance (CLEDA), the Local Foods Initiative's goals are to increase access to and production of locally grown produce and create a vibrant regional food economy. Strengthened by the resources of the CLEDA, the Local Foods Initiative has become the driving force behind the burgeoning food movement in Central Louisiana.

"We consider ourselves organic pioneers in this area," Davis said. "Through our investment in organic, in Inglewood and in our local food projects, we can see other efforts springing up and ideas spreading. It's changing how the community thinks about food. That's the good return for our investment. Everyone is benefiting."

USDA JOINS FORCES IN CENTRAL LOUISIANA TO GROW LOCAL FOOD ECONOMY

Hard work, commitment, collective engagement. Taken together, these three things usually produce results and so it has been the case with the Central Louisiana Local Foods Initiative. Initially funded by Blue Cross Blue Shield of Louisiana and the Rapides Foundation, the initiative has been supported, in part, by a philanthropic investment made in 2014 by Keller Enterprises.

The project is a community effort that aims to strengthen Central Louisiana's local foods economy while increasing access to fresh foods for local residents. It's one of the activities of the CLEDA. The project has been so successful that the USDA has taken note and wants to make it even better.

At the kickoff of National Farmers Market Week (which took place at the Keller Enterprise's Inglewood Farm) in August 2016, the USDA and the CLEDA signed a memorandum of agreement to signify their commitment to work together to further strengthen Central Louisiana's local food economy. The CLEDA and the USDA want to host more workshops and events together to identify program and funding opportunities for beginning and small farmers across Central Louisiana.

Creating More Organic Hotspots

Why are some counties organic hotspots and others not? The white paper identified what factors create organic hotspots, and highlighted outreach and knowledge transfer as essential in the formation of organic hotspots.

Outreach and knowledge transfer come in many forms for the local farmer aspiring to convert to organic or the young person wanting to get into organic farming. The white paper found that in areas with an organic certifier actively involved in the local agriculture, the chances of the county being an organic hotspot increases significantly. The presence of agricultural extension agents who are schooled in organic also boosts the chances for more organic activity. And outreach and educational efforts and close ties to the farming and local community by organic operations like Inglewood Farm and organic experts like Farmland LP go a long way in advancing organic at the local level.

The organic sector has always been unique in its response to and need for outreach and networking. For more than 75 years, conventional agriculture has enjoyed an infrastructure of county agricultural extension agents, university agronomists, commodity marketing experts, a host of supportive government programs and even knowledgeable farmer neighbors at the local elevator or coffee shop. That hasn't existed for organic producers. The farmer who's converting to organic is often on his or her own.

In converting Inglewood Farm to organic, the Keller family found that they, too, were often without established resources to turn to for organic advice. According to Elisabeth Keller, the local agriculture extension agents "were interested in organic, but didn't know much about it. The advice we got came from other farmers." Connecting with the Southern Sustainable Agricultural Working Group and its farmer members, making farm visits and picking the brains of other farmer experts in organic helped them navigate the organic learning curve.

Successful, forward-thinking organic operations like Inglewood Farm and Farmland LP view educating others about organic as a critical part of being a good organic steward.

"The findings of this research show that organic certifiers and the transfer of knowledge and information play a critical role in developing organic," OTA's Batcha said. "Outreach, technical assistance and the ability to have a network are vital in creating organic hotspots."

“This research is an important reminder that we need to be looking at the state and county levels to create policies at these local levels to truly maximize the beneficial effects of the organic hotspot,” she said. “Organic has come a long way on its own, but this research proves that if we invest in organic, the returns will be high for everyone, including the investor. Organic is good for the environment, good for us and good for our communities.” ■