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Analysis

# Slow money in an age of fiduciary capitalism

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ABSTRACT

In the era of fiduciary capitalism, investors have begun fulfilling non-financial goals in order to address the concerns of a broader range of stakeholders. Socially responsible investors – who were part of fringe movements headed by non-profit organizations – have emerged as powerful fiduciaries with a strong focus on triple-bottom line based outcomes. The slow money movement, which has been spear-headed by non-profits in the developed world, places a strong emphasis on making capital circulate locally, especially within agricultural communities. Slow money investors across the US, some of whom are private investment funds and community development financial institutions, are striving to generate triple-bottom line based outcomes.

In our study, we have discussed how the slow money movement mirrors fiduciary capitalism. We have analyzed how slow money investors have expanded the scope of traditional fiduciary obligations. Five organizations in the US have participated in our research and we developed a seven-point taxonomy of slow money to analyze our findings. Our findings revealed how slow money investors, as fiduciary capitalists, generate financial, social and environmental returns by investing 'patient capital' in agriculture and local enterprises.



## 1. Introduction

The concept of fiduciary responsibility has been expanding due to growing market pressures and changes in regulatory rulings. In the era of fiduciary capitalism, ethically motivated institutional investors are extending their fiduciary responsibilities beyond corporate governance and they are addressing the social and environmental concerns of a broad range of stakeholders (Hawley and Williams, 2005).

Fiduciary capitalism is gaining resonance with the emergence of socially responsible investors, who are catering to the needs of marginalized communities and environmental groups. Ethically motivated fiduciaries are backing a variety of social enterprises, notably microfinance institutions that provide access to credit to low-income groups in developing countries and strive to fulfill both financial and social goals. Fiduciaries in the US are spurring the growth of alternative credit market systems by supporting grass root movements such as slow money, whereby small-scale farmers and local food enterprises gain access to finance and also help propagate sustainable agricultural practices. In addition to the food industry, the slow money investors support artisanal goods, which by their nature create small-scale local employment.

In this paper, we focus on the slow money movement and, within it, the private investment funds and the community development financial institutions. We assess how slow money in the US is allowing fiduciary capitalism to reach the grass-root level.

## 2. Literature Review

### 2.1. Evolution of Fiduciary Capitalism

Today, fiduciary capitalism has made inroads worldwide, in view of the fact that over 50% of the shares of the largest 1000 companies is in the hands of large fiduciary institutions such as pension funds and mutual funds (Hawley and Williams, 2005) as well as sovereign wealth funds,[1] which own the shares in the interest of other beneficiaries. Fiduciary capitalism can catalyze the integration of traditional corporate governance issues with other stakeholders' concerns such as patience (Haberly, 2014) and sustainability because pension funds have the long-term interests of their members at heart (Amalric, 2006). In addition, more mainstream institutional investors are being encouraged to adopt the ESG (environmental, social and governance) approach towards investment decisions, which would be aligned with the UN Principles of Responsible Investment (Ho, 2010).

*Abbreviations:* CSA, community supported agriculture; CDFI, community development financial institution; CDC, community development corporation; LLC, limited liability company; ESG, environmental, social and governance; SRI, socially responsible investor.

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[1] The total investment size of sovereign wealth funds is $7.1 trillion, according to http://www.swfinstitute.org/fund-rankings/ last accessed on February 12, 2015.

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A case in point in the context of fiduciary capitalism would be the pension fund CALPERS, which screens emerging economies for transparency, political stability, the quality of the legal system, shareholder protection, and labor practices (Hawley and Williams, 2005). Ethically motivated fiduciaries typically address a broad range of social and environmental concerns due to a moral desire to change the world. Appropriate examples would be the public sector pension fund UK Universities' Superannuation Scheme and mutual funds with ethically screened portfolios such as Domini Social Investments (Hawley and Williams, 2005).

Fiduciary activists have a long-term perspective with respect to returns on investment and payback, which may extend well beyond a five-year period, since exit is difficult for those investors who may be required by prudence to reinvest in large companies (Hawley, 1995). Such fiduciaries tend to focus on broader issues such as innovation and high-value job creation (Hawley, 1995).

The question is whether fiduciary capital could successfully downscale to invest in small, local grass-root operations. We study the slow money movement in response to the above question.

### 2.2. Linking Slow Money With Fiduciary Capitalism

The emergence of the slow money movement follows the rise of SRIs (socially responsible investors), who have become key players in the field of fiduciary capitalism. In the past, SRIs were considered part of a subversive, fringe movement until financiers realized that the social and environmental behavior of companies can have financial repercussions (Richardson, 2008).

In a similar fashion, the slow money's roots can be traced back to erstwhile fringe movements such as slow food and organic food, which – to a certain extent – became more mainstream. As described by Tasch (2008), the slow money movement "contributes to a broader inquiry into our assumptions about fiduciary responsibility and the nature of fiscal prudence." The slow money concept questions the dominant logic of traditional fiduciaries, who do not integrate financial fiduciary duties with social and environmental concerns (Jayashankar et al., 2014).

For our study, we have developed a taxonomy of slow money by including Ashta's (2014) five-point framework as well as two additional features, namely social capital and capacity building.

#### 2.2.1. Patient Capital

Neubaum and Zahra (2006) have established a positive relationship between long-term institutional ownership and corporate social responsibility. Peifer's (2014) research indicates that a corporation's ethical behavior attracts more patient capital from fiduciaries like socially responsible funds and also boosts fund loyalty. Large fiduciaries such as public sector pension funds take into account the impact of sustainability on the long-term performance of companies (Sethi, 2005; Sievänen et al., 2013). Non-profit venture funds, such as Acumen, are deploying patient capital to fight poverty, combining the scale and efficiency of commercial capital with the social impact of philanthropy.[2] Such a concept also finds resonance among slow money investors, who provide patient capital in the form of long-term equity or debt to develop local communities, with a modest expectation of reasonable returns (Ashta, 2014). Slow money investors can use patient capital for purchasing and leasing land for organic farming. These investors also eschew quick exit strategies. For instance, a report by the Midwest Slow Money Institute (2009) indicates that slow money investors keep the dollars regional by transferring ownership to a community member or a cooperative instead of pulling money out of the investment.

[2] http://acumen.org/about/ last accessed on Feb 12.

#### 2.2.2. Level of Financial Intermediation

Credit markets in poorer neighborhoods in developing countries have transitioned from financial disintermediation to intermediation due to the advent of socially motivated fiduciaries. Tontines and ROSCAs, which typically bring about financial disintermediation in such markets, operate on a very small-scale due to the lack of scarce intermediary capital (Conning and Morduch, 2011). To overcome these constraints, fiduciaries such as large-scale social investors are working with specialized intermediaries to deliver cash grants and technical assistance to micro-lenders, and are thus ushering in more financial intermediation (Conning and Morduch, 2011).

In a similar fashion, the slow money movement was initially witnessing high levels of financial disintermediation due to the influx of direct investments by small saving clubs such as CIGALES in France (Ashta et al., 2012). However, community development organizations in the US are now paving the way for financial intermediation in the slow money sector. As intermediaries, these organizations receive deposits and grants from social and corporate investors and in turn, disburse capital to distressed communities (Liou and Stroh, 1998). Community development financial institutions affiliated with the slow money movement are generating social and environmental returns on investment in agriculture.

#### 2.2.3. Agriculture, Artisanal and Triple Bottom Line

The consolidation of farms, food processing operations, and distribution warehouses has increased the distance between food sources and consumers in the US, which has both socio-economic and environmental ramifications for rural communities (Heller and Keoleian, 2000). In response to such trends, slow money investors are backing mid-sized and small-scale family-owned farms and food enterprises. Founders of the slow money movement have sought inspiration from the slow food movement, wherein locally-based agricultural enterprises play a key role in enhancing the community's socio-economic welfare (Lyson, 2004). In addition to agricultural enterprises, there is a need to transform raw materials to satisfy basic non-food needs. Therefore, slow money investors also finance artisans and small-scale-businesses.

Parallels can also be drawn between the slow money movement and SRIs with respect to triple bottom line outcomes. Environmentally and socially responsible investors do not bind target companies to traditional fiduciary duties of maximizing market returns and they are willing to accept lower returns (which may stem from environmental/social causes that they espouse). Likewise, proponents of the slow money movement are also striving to attain triple bottom line by pre-empting environmental degradation and socio-economically empowering rural communities.

#### 2.2.4. Local

Fiduciaries may have divergent approaches towards promoting local investment depending on the scale at which they operate. Large-scale fiduciaries with a social/environmental mission tend to emphasize less on investing close to home. Mutual funds and pension funds, which are an integral part of fiduciary capitalism, invest across diverse economies and sectors worldwide (Hawley and Williams, 2005). Nonetheless, there are streams of fiduciary capitalism, which are giving rise to localization. For instance, ethically motivated financial intermediaries in the US such as community development organizations have been striving to localize and democratize capital at the grassroots with the backing of social investors (Owen, 1990; Liou and Stroh, 1998). Investment in community development can help enhance local control over land, capital and labor and also enhance local self-reliance (Owen, 1990; Bruyn, 1991). Community development organizations are also getting affiliated with the slow money movement in order to revive local food systems, and bring small-scale artisanal producers closer to consumers.

The slow food movement has spawned the growth of local food enterprises, and small-scale, organic farms specializing in heirloom crops in the US (McIlvaine-Newsad et al., 2008), and these would be considered ideal channels for investing slow money. As an alternative capital market system, slow money enhances the circulation of capital within rural communities.

#### 2.2.5. Right Size

Large pension funds have been wielding more influence on corporate behavior (Hawley and Williams, 2000, 2007) and the SRI sector has witnessed tremendous growth. Investees of large pension funds may include blue-chip corporations or Fortune 500–1000 companies. However, there are also SRIs who cater to the needs of small business ventures. A case in point would be community investing, which has a thrust on at-risk, low-income communities (Schueth, 2003).

Slow money investors are now showing their allegiance to 220 small food enterprises across the US by investing nurture capital to the tune of $30 million (Slowmoney.org). Small food enterprises strive to scale up their social/environmental impact and create healthy food systems (Tasch, 2008). The slow money movement has spawned the growth of several regional chapters and investor clubs. The slow money movement has also drawn large-scale funds, which, in turn, offer investment opportunities to accredited investors. There is also an emergence of institutions, which purchase and lease agricultural land for organic food production.

#### 2.2.6. Social Capital

Organizations, which engage with multiple stakeholders for developing social capital, would help empower communities and also fulfill a 'more meaningful business vision,' (Maak, 2007). Sacconi and Degli Antoni (2008) have established a symbiotic relationship between social capital formation and corporate social responsibility practices, whereby socio-economic development is fostered through social inclusion, social networks and trust.

In the realm of microfinance, social capital leads to community building, trust, sharing of information, skills development, better decision-making and enhanced bargaining power within families (Basargekar, 2010). Hence, social capital formation is an important non-financial outcome for ethically motivated fiduciaries, which fund microfinance institutions (Zeller et al., 2003).

Likewise, the slow money movement connects investors, entrepreneurs and other stakeholders through social capital creation (Tasch, 2008). Slow money investors can promote structural social capital formation through the formation of networks, which enhance cooperation among investees and other stakeholders. They can also bring about a change in the norms and attitude of investees, which would give rise to cooperative behavior (Uphoff, 2000; Sacconi and Degli Antoni, 2008).

#### 2.2.7. Capacity Building

A growing number of socially motivated investors such as impact investment funds and venture philanthropy organizations are providing capacity building services to investees (Brest and Born, 2013; Moody, 2008). Investors are strengthening social enterprises in developing countries through business mentoring and technical assistance (Kohler et al., 2011; Creditsuisse.com). For instance, the impact investor Root Capital develops training modules on administration, risk management and finance for social enterprises that have high potential for growth in Africa and Latin America (Brest and Born, 2013). Deutsche Bank and AXA provide both capital and technical assistance to microfinance institutions, which have a double bottom line mission (Businesswire, 2014).

Fiduciaries, which are reaching out to vulnerable groups in the developed world, are also placing an emphasis on capacity building. Community development financial institutions in the US have spear-headed poverty alleviation projects by providing capital as well as technical assistance, training and project management services (Liou and Stroh, 1998; Walker, 1993). Capacity building is also gaining prominence in slow money circles in the US. Regional slow money groups have established technical assistance programs in states such as Maine[3]. In addition, the Slow Money NGO is using seed capital to build local capacity to invest in local food systems across the US (Acres, 2009).

## 3. Materials and Methods

### 3.1. Research Problem and Conceptual Model

The above seven-point framework indicates that both large socially motivated fiduciaries and slow money investors have a focus on triple bottom line outcomes and patient capital. Parallels can be drawn between slow money investors and a few fiduciaries, which are promoting social capital formation and capacity building in order to empower vulnerable groups. However, slow money investors have a stronger thrust on building up small-scale enterprises to boost the local economy as opposed to large fiduciaries, which scale up social enterprises worldwide. Hence, we would like to determine to what extent the slow money movement converges with fiduciary capitalism.

The major research question is:

RQ: In which respects does the slow money movement tie in with fiduciary capitalism?

This RQ has been further sub-divided into the following minor research questions:

RQ a) How did slow money investors expand the scope of traditional fiduciary obligations?
RQ b) How did the slow money movement evolve into an industry in the context of fiduciary capitalism?

### 3.2. Research Methodology

A multi-case study research design has been developed for the study. Five organizations providing slow money (in the form of debt and/or equity) have participated from various parts of the US. These include Iroquois Valley Farms (IVF), North East Farm Access (NEFA), "Natural Capital Investment Fund (NCIF), Coastal Enterprises Inc. (CEI) and Craft3. Some of the respondents are listed on slow money chapter websites. The qualitative data was gathered through structured interviews. We analyzed the data based on the seven-point framework of slow money outlined above.

## 4. Results and Discussion

### 4.1. Description of the Cases

Table 1 provides the main features of the sampled case studies. It shows that the first two funds are for-profit and are focused on organic agriculture, while the other three funds are more engaged in community development. The first two provide land leasing, while the others provide a mix of debt and equity. The overall size of the funds, as measured by assets, varies from $15 million to $ 200 million.

### 4.2. Analysis

In this section, we look at IVF, NEFA, NCIF, CEI and Craft3 based on the seven-point taxonomy of slow money.

#### 4.2.1. Patient Capital (Long Term, Reasonable Expectations)

As a B-corp, IVF facilitates equity-based financing and land-leasing. Members (accredited investors) acquire a stake in IVF, which in turn, purchases and leases out land to farmers. The organization purchases farmland based on recommendations made by investee-farmers. IVF

[3] http://www.slowmoneymaine.org/meeting-minutes/2013/05/may-15th-2013-meeting-notes/

**Table 1**
Overview of slow money organizations.

| | Iroquois Valley Farms | North East Farm Access | Natural Capital Investment Fund | CEI | Craft3 |
|---|---|---|---|---|---|
| Mission of fund http://www.craft3.org/ http://www.ceimaine.org/ http://iroquoisvalleyfarms.com/ http://nefarmaccess.com/ http://www.conservationfund.org | Enable the next generation of young farmers to positively impact the world. http://iroquoisvalleyfarms.com/ | To secure social and financial capital in farmland using methods that work well for farmers, investors and the land. | Provides loans and equity for triple bottom line projects. | To achieve social and economic justice within sustainable communities. | To strengthen economic, ecological and family resilience. |
| Basic financing offered | Leasing land | Leasing land | Debt | Debt, equity | Debt |
| Target investees | Organic agriculture, small and mid-sized family farmers | Organic and sustainable agriculture | Diverse businesses | Diverse businesses (farmers, processors, retailers) | Diverse businesses, (organic farming, seafood, food processing, energy) |
| Who owns the fund? | Investors — the company has a Board of Managers, elected for three years by the voting membership | Investors; NEFA is the manager of a fund | A wholly owned subsidiary of The Conservation Fund. | Funding from individuals, banks, foundations, religious institutions, pension and university endowments, and state and federal agencies | Relies on donations, grants and loans from financial institutions, corporations, philanthropic and religious institutions, government agencies and individuals |
| Legal status | B Corp | LLC (limited liability company) | Certified CDFI: 501(c)(3) | CDFI (community development financial institution) and CDC (community development corporation) | CDFI |
| Fiduciary goals | For profit, but other goals too | For profit | Not-for-profit | Not-for-profit | Not-for-profit but it owns 2 for-profit investment LLCs. |
| Total funds | Equity of $15 million, assets totalling $20.3 million, land worth 2800 acres | Value of 2 LLCs established by NEFA is 3.4 million | Assets worth $17 million; loans totaling $15 million disbursed to 138 businesses | Assets worth $100 million; 16 million invested and 40 million leveraged in 89 projects. Since its inception, CEI has provided $1.05 billion to 2340 businesses. | Assets of $200 million, loans totaling $268 million given to 3954 entities. |

deploys patient capital to promote multigenerational farmland ownership and hence it does not force an exit strategy on investors or farmers. The founders believe that "investors trade stocks not land." To reinforce the notion of patient capital, IVF also educates investors about the long-term benefits of organic land ownership. Members can get voting rights only if they own stock for three years.

The average beginning term for the land lease is five years. An evergreen (with a two-year component) renewable lease is offered at the end of the land lease. Farmers can purchase leased land at the market value in seven years. Investees are required to lease the land, for which the annual rent is approximately 3.25% times the per acre purchase price times the number of acres. Proponents of the slow money movement factor in the long-term impact of their investment decisions and strive to enhance multigenerational farm ownership in the US. IVF is designed to offer multigenerational tenure to farmers, which enables them to stay on the land indefinitely. The organization follows the roquois Great Law of Peace, wherein every deliberation must consider the impact on the seventh generation. It has also used a long-term perspective in developing its governance structure and deploying patient capital.

The private investment fund NEFA is involved in land purchase and leasing and it enables farmers to gain access to equity-based patient capital for land-leasing purposes. As a social investor, NEFA does not expect high returns on investment within a short-span of time. Maximum returns on investment are in the range of 4–5% (out of which 2% is distributed annually). NEFA's patient capital is pre-dominantly equity-based. Both accredited and non-accredited investors are partnering NEFA. The organization has a convertible loan vehicle through which a loan gets converted into equity.

Officials at NEFA are sometimes faced with the challenge of kindling the interest of social investors in sustainable agriculture. Investors, who are in favor of safeguarding agricultural land and farmers, have to strike a trade-off between their social and environmental concerns and their financial targets.

Investors' exit strategies are developed by NEFA's legal team. NEFA's managing director has worked with non-profit organizations in the past and he helps investees plan sustainable exit strategies without compromising on principles. The redemption process begins after an 8–10 year period. Investees can either cross-purchase/buy or expand their farmland with NEFA's assistance. The remaining dues can be financed through farm credit (with the LLC amortizing the loan). NEFA also enables farmers to avail of conservation easements, wherein land development rights are foregone and the financial value of the land is reduced for conservation purposes. NEFA officials have observed that investors are seldom drawn towards conservation easement.

NCIF prefers to offer patient capital in the form of debt-based financing to various agricultural enterprises, as its managers are of the view that equity-based funding typically entails an exit strategy that impacts future governance. NCIF customizes loans in accordance with the seasonal cash flows of different businesses such as poultry farms and tourism-based enterprises. The interest rates are higher compared to those of conventional sources of agricultural finance.

CEI provides a mix of debt and equity-based financing. It offers patient capital in the form of equity/near-equity instruments such as convertible notes. Lenders at CEI point out that equity can be a source of permanent working capital and seed capital for investees. Its loans are at an interest rate of 5–8%. However, it provides small business loans in the range of $25,000 to $1 million at an interest rate of 7%–12% for a span of 7 years. CEI does not adopt a cookie-cutter approach towards financing, since it believes that the right type of capital is needed for every stage of business growth.

The CDFI Craft3 gives low-income groups access to patient capital in the form of debt. It provides small business loans at an interest rate of

7%–12% for a span of 7 years. In order to spread risk and preserve liquidity, Craft3 sells portions of its large loans to other lenders mostly on a parri passu basis.

The above cases indicate that both equity and debt-based financing are sources of patient capital in the slow money sector. Private investment funds such as IVF and NEFA have deployed patient capital in the form of equity to boost multi-generational land ownership. These funds also provide patient capital on a much larger scale compared to CDFIs. Both IVF and NEFA are selecting only those investors, who are in favor of sustainable exit strategies and are also willing to forego quick financial returns in order to scale up their social and environmental impact in the long-run. The CDFIs provide patient capital on a relatively smaller scale to meet the funding requirements of investees across a diverse range of sectors.

*4.2.2. Financial Intermediation*

Our findings indicate that both private investment funds and CDFIs are working with agricultural investees. Private investment funds are very focused in their investments as they are catering to a niche market of investors, while CDFIs look for a diversity of investees who can develop the ecosystem of the community.

As a B-Corp, IVF attracts funding from accredited investors, while NEFA has set up an LLC for channelizing funds from accredited and non-accredited investors. Both IVF and NEFA act as intermediaries between investors and investees and facilitate land-leasing for farmers. In order to generate triple bottom returns on investment, the CDFI CEI taps funding from both public private sources, spanning individuals, banks, foundations, religious institutions, pension and university endowments, and state and federal agencies. Likewise, the CDFI Craft3 deploys a mix of loans, donations and grants provided by financial, corporate, philanthropic and religious institutions, and government agencies to empower marginalized groups in the Northwest. NCIF partners with banks and community lenders to develop local businesses. It is evident from the above cases that financial intermediation is prevalent in the slow money sector, as the private investment funds and CDFIs liaise between investors and investees. Arguably, present-day slow money organizations are ushering in more financial intermediation in comparison to savings clubs formed in the early phase of the slow money movement. However, slow money investors such as NEFA, which intend to bring together local investors, slow money cohorts and investees, may pave the way for disintermediation.

*4.2.3. Agricultural, Artisanal and Triple Bottom Line Focus*

Both private investment funds and CDFIs are striving to fulfill triple-bottom line outcomes. However, social and environmental priorities vary across various organizations. For instance, the private investment funds place a stronger emphasis on impacting farming communities, while some of the CDFIs focus more on minorities and marginalized communities. Some of the investors rely on anecdotal information to assess the environmental impact of their investees and they are still in the process of development impact assessment metrics. Craft3 is the slow money investor in our study, which has developed triple bottom line metrics, although others indicate that they would be doing this.

*4.2.3.1. Balancing Different Outcomes.* IVF's partnering investors focus more on the farmers' welfare and environmental outcomes as opposed to mainstream commercial investors who want quick financial returns. Nevertheless, its farmers have witnessed an increase in sales and profits.

NEFA too indicates that it has witnessed how potential investors have sometimes been deterred by the relatively lower financial returns on slow money investments and have also been less receptive towards conservation easement. All of NEFA's investees are in the agriculture sector. Through cover cropping and vegan organic gardening, the investees have enhanced soil fertility, which is an important environmental metric for NEFA. The bio-diversity in buffer strips around farmland has been enhanced as a result of the organic farming practices adopted by NEFA's investees. In order to strengthen agricultural value chains, NCIF works extensively with businesses in the farm-to-fork space to fulfill its triple bottom line mission.

CEI promotes sustainable agricultural practices, which increase cash flows and enhance the profitability of businesses. For instance, it funded strip till agriculture, which is financial viable and also more sustainable compared to conventional agriculture.

Officials at Craft3 point out that transitioning farmers and cranberry growers have witnessed an increase in soil fertility. Borrowers' businesses have become more financially sustainable due to the increase in investment and local ownership of assets.

*4.2.3.2. Emphasizing Social Equity.* From a social equity standpoint, IVF's intervention has helped strengthen job growth in the agricultural communities. Family farmers have greater job security due to the long-term leasing options provided by IVF. Rural communities have been empowered by NEFA to retain the authenticity of their neighborhood and support local businesses.

CEI strives to promote financial inclusion and entrepreneurship among low-income groups. Native Americans owning fisheries through Treaty rights have also been positively impacted due to Craft3's support for subsistence livelihood. Craft3 has helped preserve the culture and also enhance the financial stability of Native American families.

*4.2.4. Local*

IVF has 166 member-investors across 25 states and Washington DC, as well as investees across seven states in the Midwest and the East Coast. While IVF has a larger national presence compared to the other slow money investors in this study, its investees, which are mid-size family-run farms, have contributed to the development of the long-term infrastructure of healthy local and regional food systems. Investees, especially those working with local processors/buyers/distributors, have catalyzed the economic revival of local communities. However, some investees, are reaching out to larger social enterprises and organic food companies, which have a national presence.

NEFA is focusing on developing sustainable agriculture in the North East. It is stepping up efforts to make capital circulate within local communities by networking with slow money cohorts and forging stronger ties with local investors through an affiliate organization Copake Center, where three of its investees are located. NEFA is also becoming active in the local food movement by promoting agriculture tourism, CSAs and farm stands.

CEI is working towards reviving the local economy in rural Maine by revitalizing farmland production, value chains and food systems. The funding from CEI is not only increasing wealth generation within rural communities, but also indirectly leading to the economic revival of downtown areas. Its officials are also keen on preserving the visual and cultural integrity of local communities by restoring downtown areas. In order to give its producers better market access in neighboring states, CEI invested in a large CSA called Farmers to You, which aggregates farm fresh products from Vermont and brings them to CSA members in the metro Boston area.

NCIF has financed enterprises across rural West Virginia, which has enhanced wealth circulation within local communities. As part of its value chain cluster development initiative, NCIF has strengthened local food systems. NCIF has funded organic meat production units as well as a butcher's shop, which sells local meat in North Carolina and a slaughterhouse in West Virginia. It has also financed a regional network of food producers and marketing cooperatives in North Carolina.

Craft3 is working towards creating more wealth and employment opportunities and restoring Native American traditions within local communities of the Northwest region. For instance, it has funded secondary education projects, food banks, retailers, restaurants, co-ops and value-added processing businesses, which have helped revive the local economy and social services. Craft3 has financed the Northwest seafood industry and has also provided market access to local food producers.

The slow money investors have a considerable focus on reviving local farms and businesses.

While IVF has a wide geographic network of investors, who partner local farms across the US, NEFA has a strong thrust on linking local investors with investees in the North-East. The circulation of wealth within rural communities has been enhanced due to the inflow of slow money into CSAs, local food systems and value chain clusters. The slow money investees predominantly cater to their respective local markets.

### *4.2.5. Right Size*

IVF has a strong thrust on promoting multi-generational, family-run farms. The size of investee-farms ranges from 40 acres to 259 acres. According to Iroquois Valley officials, investee-farmers can scale up their operations in a sustainable fashion in part through IVF's emphasis on supporting multi-generational farm tenure, and farming practices which have a positive social and environmental impact.

NEFA's investments are typically of the size of $500,000 but can go up to $2.5 million, and yields vary on a farm by farm basis. Officials indicate that some of NEFA's investees (such as flower producers) have the potential to grow into $1-million businesses. NEFA plans to replicate the Copake Center's model of mutual farmer engagement throughout the North East, which would give an impetus to investees' expansion plans.

NCIF has programs to enable borrowers to transition to traditional sources of finance. It has worked with banks and other CDFIs to finance larger projects such as cooperative groceries. Citing the example of an investee in the energy sector, which is earning revenues of $35 million to $45 million, officials point out that investees have the potential to scale up their operations depending on how effectively they fulfill their triple bottom line mission. In order to develop inclusive value chains, NCIF funds businesses, some of which are small-scale. Agricultural loans are generally in the range of $30,000–$350,000 (and in some cases as high as $2.5 million), while bridge financing is in the range of $5000–$350,000. Some projects require funding on a larger scale and in such cases, NCIF works with the borrower to identify additional financial resources.

The CDFI CEI provides loans ranging from $ 1000 to $ 500,000 and equity investments ranging from $250,000 to $3 million for investees. Potential investees include start-ups as well as companies in a mature phase of growth. Currently, CEI's investees include sole proprietorship firms and LLCs. One of its largest investees has a headcount of 500 employees. Although loans and equity can be provided to mature investees, CEI is aspiring to make investees ready to access funds from conventional sources.

Most of Craft3's borrowers have set up LLCs and a few have set up cooperatives. The CDFI has financed the vertical integration of the shellfish industry and it is working towards creating more opportunities for small enterprises in the canned fish industry that is dominated by a few players. Craft3 has also financed slaughterhouses and meat-processing co-ops, which have the potential to scale up and it has encouraged the graduating borrowers to reach out to credit unions and banks. The above cases reveal that slow money investees are too big for microfinance and too small for mainstream venture capitalists (Tasch, 2008). While a few of the investees have scaled up their operations, most aspire to operate as family farms or $1-million businesses.

### *4.2.6. Social Capital*

IVF has introduced investee-farmers to social enterprises such as Organic Valley and Stonyfield Farms as well as regional grain/milk processors. Farmers also share their “collective wisdom” on organic farming practices and marketing of products with each other through the IVF network.

NEFA selects investees who are receptive to the idea of working with other farmers (for instance, through a co-operative). It has introduced investees to social enterprises and potential investors. It has also started to build up ties with the slow money cohort in New York. The Copake Center works towards promoting mutual farmer engagement and trust and stronger ties between farmers and the local community. About one-third of the investors known to NEFA have begun networking with its investee-farmers. In addition, local investors and leaders are also beginning to support NEFA's investees.

CEI has introduced its investees to lenders and crowd-funding platforms. NCIF has networked with local and SRIs in order to create more funding opportunities for its borrowers. The CDFI has also created networking opportunities for the diverse value chain actors that it finances in West Virginia such as input suppliers, producers, processors, distributors, veterinary facilities and sustainable tourism enterprises.

Craft3 finds social network formation a challenge in the Northwestern part of the US, as fisheries are geographically scattered. However, Craft3's vertical integration initiative in the shellfish sector has enabled borrowers to network with other value chain actors. This CDFI has also leveraged its informal social networks to connect borrowers with lenders.

The foregoing analysis reveals that social capital formation takes place in the slow money sector within networks of farmers/investees. Slow money investors are playing an active role in creating informal networks for investees to interact with other lenders and investors. Value chain development initiatives of CDFIs are enabling investees to interact with other value chain actors. However, slow money investors are yet to take significant steps to facilitate knowledge exchange among investees (especially farmers) or link investees to regional slow money cohorts (with the exception of NEFA).

### *4.2.7. Capacity Building*

IVF maintains a strong relationship with each investee and also shares updates on agricultural techniques whenever appropriate. However, investee-farmers are expected to take responsibility for their marketing practices. NEFA has launched a technical assistance program called Scaling Up in collaboration with Cornell University Cooperative Extension to train farmers in business planning, administrative skills, and marketing and distribution. However, NEFA only selects investees who are already familiar with organic farming and the triple bottom line concept.

CEI's agriculture program staff provides technical assistance. Its business counselors assist producers in production planning, marketing and value chain development and also conduct workshops in business planning and finance. NCIF trains investees in accounting (including GAAP), commodity pricing, social media marketing, energy efficiency and the usage of Quickbooks and other financial reporting templates. The organization has collaborated with West Virginia University's extension and the Department of Agriculture in North Carolina to train to investees.

Craft3 has partnered the Food Innovation Center at Oregon State University to provide better market access to local food producers. However, it has not provided any other form of technical assistance.

The private investment funds do not provide much capacity building services, since they select only those investees who are already competent in running farms/enterprises with a social/environmental mission. CDFIs such as NCIF and CEI are stepping up efforts to develop the skills of local entrepreneurs. Extensions teams from land grant universities are also complementing the capacity building activities of slow money investors.

## 5. Conclusion

Our study has focused on how fiduciary capitalism, which was hitherto represented by large pension funds and sovereign funds, has spread to the grass-root level in the context of slow money investment funds. Table 2 below summarizes our results based on the seven point taxonomy which we developed. The table is based more on what can be generally expected and there are bound to be exceptions.

The table differs from the results of Ashta (2014) because he limited his study to micro-angel investor clubs in France, which are indeed very

**Table 2**
Large fiduciaries and slow money funds.

| | Large fiduciary capital funds (pension funds, sovereign funds) | Grass-root fiduciary (slow money funds) |
|---|---|---|
| Patience | Long term, near market returns | Long term, reasonable returns |
| Intermediation | Yes | Yes |
| Agricultural, artisanal, environmental | Yes, CSR | Focused on agriculture or on community development |
| Geographical coverage | International/national | Regional/local |
| Size | Large | Medium |
| Social capital formation | No | Yes |
| Capacity building | Passive | Active |

small and local, giving rise to disintermediation. Our study, on the other hand, reveals that in order to create an impact, investments need to be much bigger than $2000 to $3000 and investors also need to get together, which may lead to intermediation. However, the management has to be handed over to funds with the appropriate mission so as to bring about the desired environmental or social impact.

### *5.1. Expanding the Scope of Fiduciary Obligations*

Slow money investors are channelizing patient capital into local agricultural enterprises to enhance soil fertility and support local communities. On the bottom end of spectrum, slow money investors, as depicted in our findings, are revitalizing local communities, local food systems and value chains in rural regions. This differs from the top end of the spectrum where fiduciary capitalists such as pension funds and mutual funds, who become universal owners of representative fraction of several companies in an economy (Hawley and Williams, 2002). Arguably, such fiduciaries may not focus on the performance of individual firms or the impact on local economies. Instead, the fiduciary capitalists would evaluate the overall macro-economic efficiency and externalities generated by the portfolio firms (Hawley and Williams, 2002).

Similar to fiduciary capitalists with a long-term investment horizon, slow money investors are leveraging patient capital as a tool to address a broader range of stakeholder concerns as well as the long-term economic implications of sustainability-related issues (Hawley and Williams, 2005). As a departure from traditional fiduciary duties, slow money investors are reaching out to external stakeholders such as rural communities and socio-economically marginalized groups. Besides, challenging the dominant logic about fiduciary obligations (which solely focus on maximizing financial returns), slow money investors are also ushering in a paradigm shift in the principal-agent relationship. Slow money investors (principals) have both pecuniary and non-pecuniary motivations in funding agricultural enterprises (agents), as they consider the social and environmental consequences of their investment decisions, in the context of rigorous financial analysis (Derwall et al., 2011 and http://www.ussif.org)). As principals, slow money investors measure the returns on patient capital based on non-pecuniary (social and environmental) parameters, although, as we saw, a minimal financial return is also expected. Slow money investors, especially those who promote multi-generational farming to balance economic and environmental returns on investment, are paving the path for a new school of fiduciary responsibility, wherein they "measure their success as much by what they leave in their soil for the benefit of future generations as by what they take out (Tasch, 2008)."

The findings indicate that slow money investors seek to combine a rational economic calculation with a social mission through the formation of social capital (Shockley et al., 2002; Roper and Cheney, 2005). Here, 'rational' can be translated as reasonable as opposed to the irrational market exuberance of speculative expectations.

From a resource-based perspective, social capital, which includes the actual and potential embedded resources within a firm, would ultimately generate returns in the market place due to lower transaction costs and higher levels of trust (Nahapiet and Ghoshal, 1998; Lin, 2001; Maak, 2007). Likewise, slow money investors try to foster trust and cooperation among investees and/or with local communities, which, in turn, would lead to better knowledge sharing and value chain development. This would ultimately make the investees' businesses more financially sustainable in the long-run. Social capital formation is also considered an important non-financial performance outcome by socially responsible fiduciaries investing in microfinance institutions (LuxFLAG, 2012). However, large-scale, socially responsible fiduciaries such as pension funds are unlikely to propagate social capital formation at the grassroots. Our study indicates that some CDFIs in the slow money sector are taking an active interest in capacity building. This is unlikely in the case of large fiduciaries, although a few impact investors can be predisposed to provide capacity building services.

Interestingly, our findings suggest that slow money players can even extend their fiduciary duties towards fulfilling the quadruple bottom line, which encompasses the concept of cultural sustainability. For instance, our study revealed how CDFIs enhanced the visual integrity of rural landscapes and downtown areas as well as the traditions of Native Americans. In a similar fashion, a few fiduciary capitalists such as the Westpac Banking Corporation are working with groups such as the Maoris to restore New Zealand's indigenous culture and also incorporate Maori insights into sustainable development and business ethics (Spiller and Lake, 2003).

### *5.2. The Slow Money Industry in the Era of Fiduciary Capitalism*

Slow money investors are working at the grassroots with local communities, as opposed to some of the larger fiduciaries such as pension funds which operate on a macro-economic level. There are certain socially responsible fiduciaries, which have some of the characteristics of slow money. For instance, microfinance institutions funded by fiduciary capitalists work extensively with micro-entrepreneurs and low-income consumers at the grassroots. This is comparable to the decentralized, rural enterprises funded by slow money investors.

The slow money sector, which comprises local food systems, CSAs and informal networks, is highly heterogeneous and decentralized. Some slow money funds are B Corps, while CDFIs, which are considered the economic engines of urban and rural communities in the US (Carsey Institute, 2014), are also playing a significant role in the slow money sector. There is still a need to develop standardized triple bottom line metrics and indices in the slow money sector, which could be the subject for future research.

Socially responsible fiduciaries may form a continuum going from the extremely large pension funds and sovereign funds, to socially responsible mutual funds, impact investors in the bottom of the pyramid market and slow money investors. The boundaries for possible classification within this spectrum need to be established by future research. While some of these impact investment funds may like to become larger and national (Koh et al., 2012), others may want to stay mid-sized and local.

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