

# ANCHORS IN RESILIENT COMMUNITIES

## Food Systems Impact Strategy 2021

### Scope

Against the backdrop of the East Bay regional food system and the redistribution of ownership, wealth and assets back to communities, Emerald Cities Collaborative Oakland assessed the impact and feasibility of the ongoing Anchors in Resilient Communities programs, and generated new ideas and opportunities to be part of a pitch for impact investment in 2021.

Through a combination of research and analysis, we answered three key questions:

1. [Who & Why] -- What are the biggest barriers to wealth creation and redistribution for Black and Brown farm and food entrepreneurs in the regional food system?
2. [What] -- What are the core needs and immediate lever(s) to pull in 2021 for farm and food entrepreneurs to get to the next level of growth and transcend the short term/charity paradigm?
3. [How] -- What's the path forward to engage and develop strategic partnerships with anchors in the East Bay regional food system that will bring the greatest long-term benefit to communities?

### The Problem

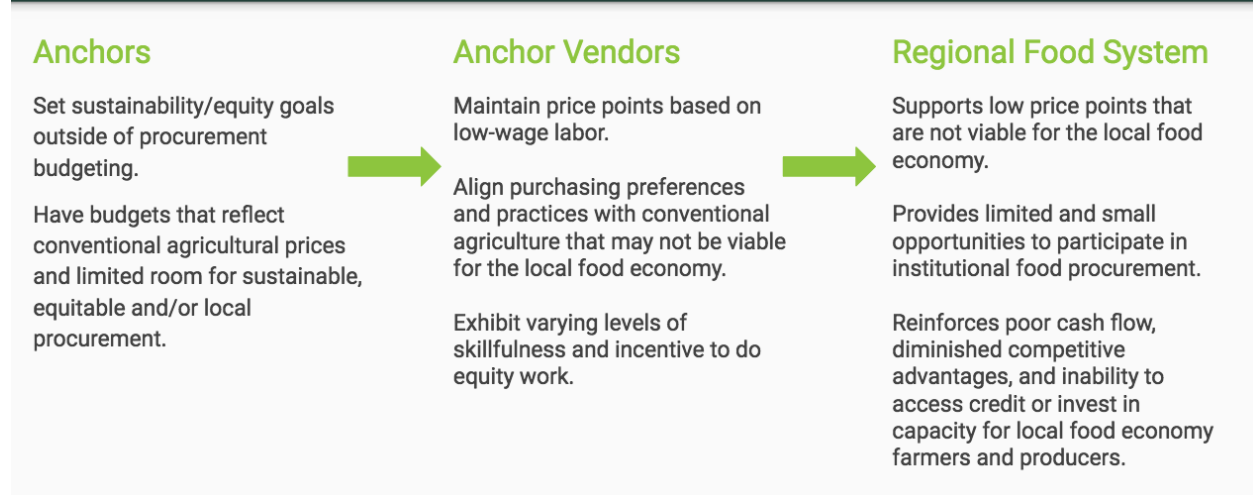
East Bay anchor institutions procure food for their programs and services at a very large scale, but a very small percentage of their total food spend goes to small-scale, local Black and Brown farmers and producers. The contracts and forward agreements used in the institutional food market could allow small-scale farmers and producers to grow and scale their businesses, but market-based barriers to entry prevent their participation and create gaps between anchors and small-scale farmers and producers.

These gaps in the market are hampering sustainability and equity-driven procurement.

Anchors and funders tend to focus on hard infrastructure and scale to bridge this market gap, with a particular focus on ability to scale rapidly. At the same time, infrastructure that strengthens the soft side of the market (relationships, agreements, people, pricing structures, systems, guidance) is both underfunded and under valued. It's also harder to develop.

The major players in institutional food and the food system itself present several challenges to small-scale Black and Brown farmers and producers that limit their participation and keep them in an unsustainable short-term funding paradigm.

# The Challenge



31 March 2021

## The Opportunity

Anchors' commitment to changing their institutional food procurement spending to meet sustainability goals has generated change in the market, evidenced by the goal for [100% sustainable sourcing by 2025 by Kaiser Northern California](#), reflecting a shift to a more values-driven procurement model. There is a ripe opportunity to leverage this shift in the market to bridge the gaps between anchors and small-scale farmers and producers and also drive impact toward equity goals.

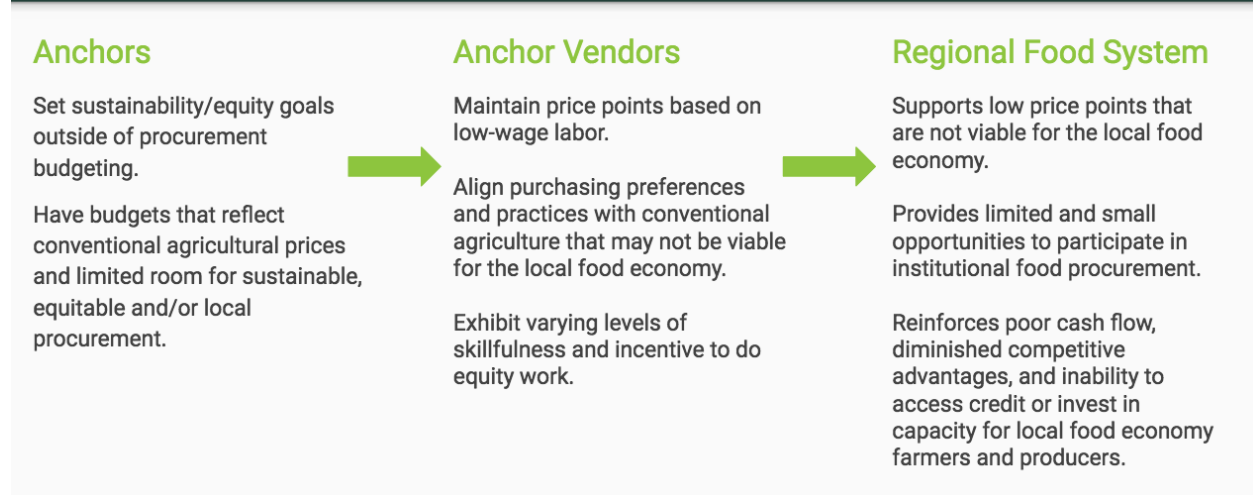
We propose to do this by funding the core hard and soft infrastructure needs and immediate lever(s) to pull in the next three to five years that will ramp small-scale Black and Brown farmers and producers into greater participation in the institutional food market and position them to reach the next level of growth and sustainability by redistributing wealth and capital within the regional food system.

## Approach

Anchors and Black and Brown farmers and producers are experiencing a gap between their needs that's hampering equity-driven procurement, so the market interface is where we need to focus. The Market Readiness areas that we've identified focus on addressing both the supply and the demand sides of the institutional food market equation. The programs and raise amounts are designed to feed progress in Market Readiness that drives Black and Brown farmers and producers' ability to participate in the institutional food market.

The recommendations in this paper blend impact investment in both hard and soft infrastructure in Black and Brown farmers and producers and the institutional food market, but focus on soft infrastructure as having the most potential to drive transformative change. By hard infrastructure, we mean tangible things like warehouses, kitchens, storage and processing facilities and equipment, and by soft we mean relationship-driven things like commitments to purchase, transparent discussions, key people and policies, as well as systems to reduce friction in these relationships. In other words, the connective tissue between the bones of the food system.

# The Challenge



31 March 2021

We also want to define at the outset what “long-term” and “low contingency” must mean for investments and commitments in order to drive change. We detail a five-year budget for investment to lay the groundwork. In the following years, the commitments of anchor food spending to Black and Brown farmers and producers, as well as the relationships that support them, must continue over the next 4-10 years in order to take hold. In addition, to meet the standard of “low contingency”, especially in the first 10 years, investments must come in the form of grants and zero interest loans to address gaps in access to capital for Black and Brown farmers and prevent a cycle of debt that is not realistic for short or long-term success.

## Structure

The focus of this paper is two-fold:

1. Describes the Market Readiness focus areas that will position Black and Brown farmers and producers to increase participation in the institutional food market
2. Recommends the programs and raise amounts that will feed progress in Market Readiness and impact for Black and Brown farmers and producers.

### Market Readiness Focus Areas

These describe and justify the dimensions of Market Readiness that we feel have the greatest potential for transformative change to increase participation by Black and Brown farmers and producers in the institutional food market.

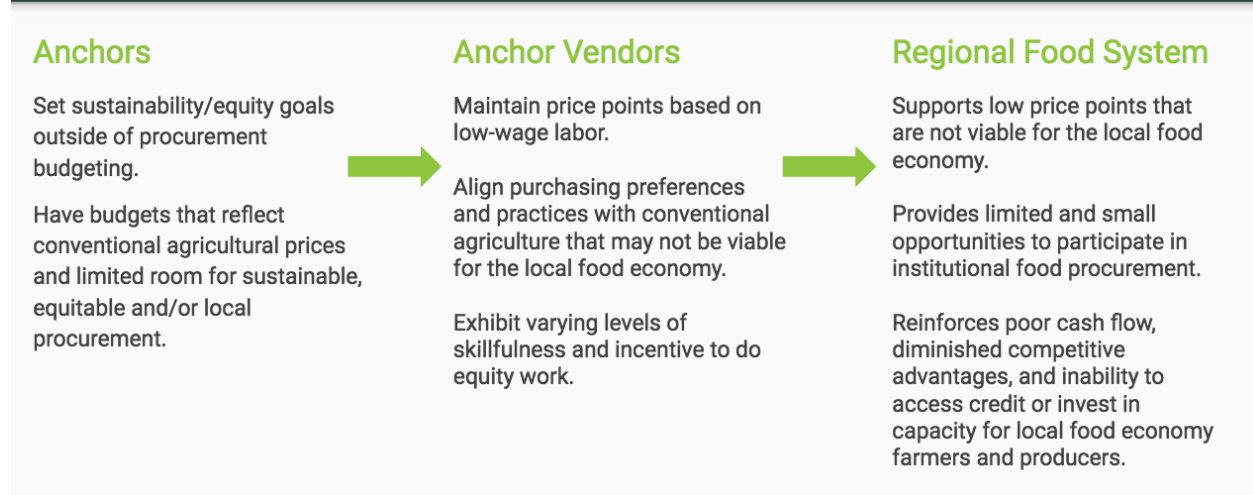
### Programs

These focus on the “how,” along with some context for the “why.” Critically, they specify the projected Market Readiness outcomes that will generate impact for Black and Brown farmers and producers.

### Raise Amounts

We’ve included high level budget estimates for each program, and recommendations for methods and approaches to develop them with more specificity. In many cases, iterative stakeholder engagement and transparency around operating and capital budgets are a key starting point, and will be necessary to refine the raise amounts in future phases.

# The Challenge



31 March 2021

In general, the raise amounts for each program comprise:

1. Development budgets on the side of Black and Brown farmers and producers (supply-side) to support market readiness (capital investment plus technical assistance and business guidance);
2. The costs associated with facilitating stakeholder engagement for anchors and farmers and producers to dig into anchor food budgets and the effect of increased anchor spending on farmers and producers' businesses. These costs will include compensating participants as well as the fees for the consultant(s) that facilitate this work.

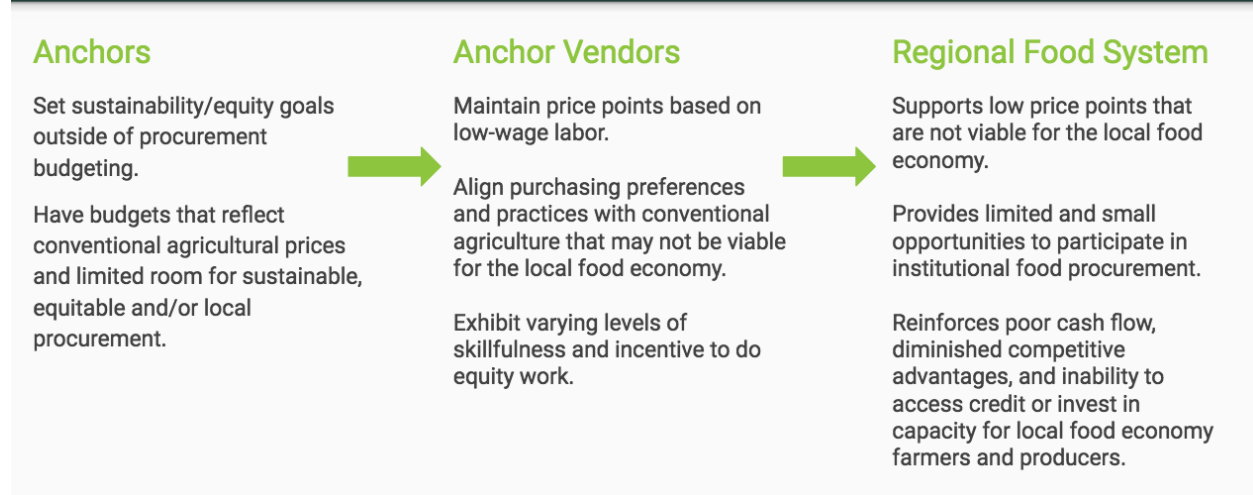
## Method/Approach for Stakeholder Engagement on Pricing Model

A transparent and collaborative pricing model between anchors and farmers and producers is the cornerstone of this strategy, with the key underpinning of market readiness to support it on the Black and Brown farmer and producer side.

We've identified several key calculations that will serve as the basis for the new collaborative pricing model. Farmers and anchors will need these numbers in order to take action on changes to procurement, business growth and budgeting, with the key outcome being that equity goals are built into procurement budgets. And in order to produce this change, Emerald Cities Collaborative (and/or affiliates) will need to facilitate the transparent exchange of budgets, negotiations and ultimately agreements on both sides. The scope for this phase of supply and demand-side stakeholder engagement includes:

1. Determine the current margin versus desired margin for farmers and producers, the size of the budget gap it creates for anchors and the budgetary strategies for bridging the gap, which could include impact investment and/or reallocation within anchor food procurement budgets. Most producers we know operate on a negative to 2-3% net margin, after all associated inherent costs. Most market data suggests that a 10-15% net margin is needed in order to achieve certain growth milestones (increase in wages and benefits for workers, capital raises, erasing institutional debt, quality of life measures like paid time off beyond just sick days for workers). In addition, pilot data suggest that the price increase for sustainable whole produce from small-scale farmers and producers is approximately 30% over conventional whole produce, and the Pricing Model Agreement program can refine this estimate.

# The Challenge



31 March 2021

2. If anchors commit to increasing procurement from Black and Brown farmers and producers over the next 2 years by a certain amount (ECC targets 3-5%), there are several key questions whose answers can be refined by the Pricing Model Agreement program, although we have developed hypotheses for each of these questions based on current knowledge and pilot data:
  - a. How much money is this overall?
  - b. What does it translate to in terms of volume of product?
  - c. What's the gap between what farmers produce now and what they would need to produce (or aggregate) to meet this demand?
  - d. What market readiness capacity do they need to do that and who/what do they need to achieve that?

## Market Readiness Focus Areas

We used three criteria to evaluate the dimensions of market readiness that have the greatest potential for impact on Black and Brown farmers and producers.

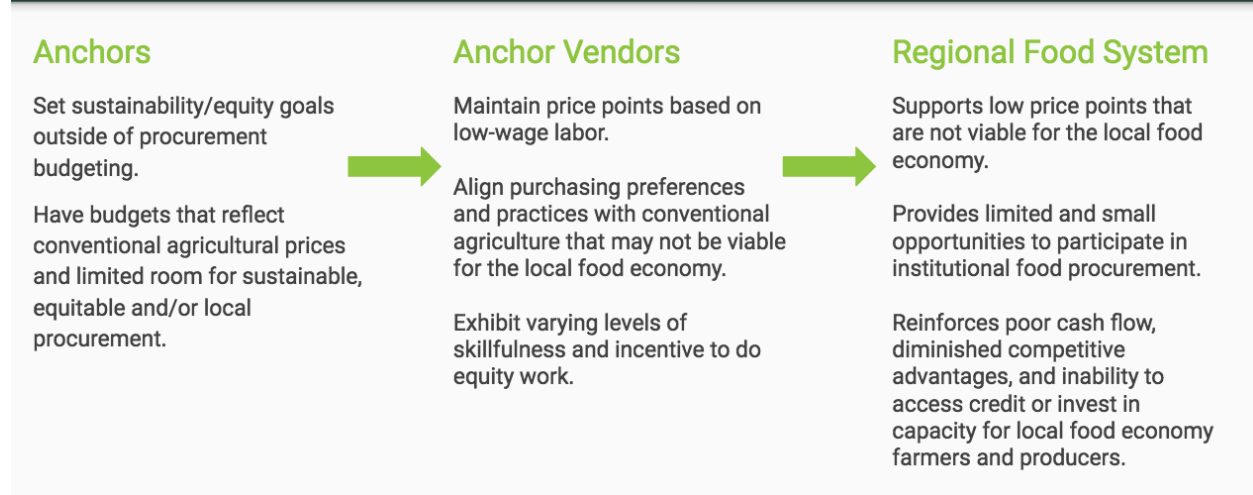
### Criteria

1. Creates transformative change for Black and Brown farmers and producers that redistributes a portion of wealth from institutional purchasing to them and makes it possible for them to transcend short term funding models and/or the charity paradigm.
2. Maximum potential with minimum contingency. Funds should come with minimum contingencies and stakeholders should approach discussions of pricing models and forward agreements with transparency and collaboration.
3. Overcomes current roadblocks. Programs need to meet both farmers and producers and anchors where they are, and engage them to move forward together.

Based on the above, we distilled all the possible approaches to increasing market readiness into three focus areas that we feel will deliver on the criteria above.

### 1. Access to capital and guidance to invest in infrastructure, operations and systems

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31 March 2021

Universally, business and organizations need money to do things, and in many cases they need money before they can make money, in multiple rounds of investment. Particularly in the Bay Area, we see large amounts of money flowing to companies in the form of initial and ongoing investments. These investments provide critical funds for capital expenditures that allow a business to establish infrastructure, build teams of people, develop their market, launch operations, iteratively refine their products and services and continue to grow. Black and Brown business owners traditionally do not have the level of access to capital afforded their White counterparts, and further, farm entrepreneurs have even less access based on their industry.

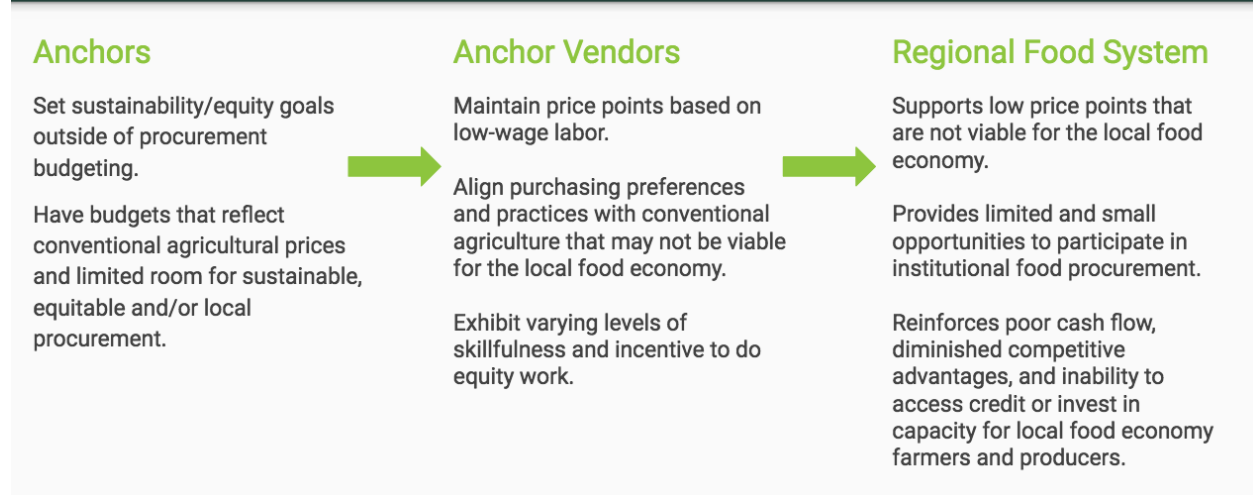
In the context of institutional food markets, there are capacities that all small vendors need in order to gain a foothold in the procurement arena, specifically around the requirements institutions have for the food they source, as well as the scale at which they need it. In order to meet the demand of increased purchasing from institutions, Black and Brown farmers and producers will benefit specifically from the ability to invest capital in the following areas:

- Their ongoing operational capacity to meet legal/compliance, nutrition, packaging, transportation and food safety requirements;
- The technical assistance to initially implement these capacities and funds to verify their ongoing compliance;
- Agreements and technology shared between farmers and local or regional aggregators to support nimble aggregation and distribution.

## 2. Operator and demand-side adjustments

Institutional food production is generally focused on efficiency and scale, which is in part why it utilizes so much value-added processing (VAP). For example, buying pre-cut frozen green beans instead of fresh ones. There are potential gains if Black and Brown farmers and producers have greater access to VAP facilities for their products (see #3), but we also see impact potential for both farmers and the food system as a whole if institutional anchor food operations (or their anchor vendors) can adjust their operations to meet the needs of smaller producers. This could include supporting transportation, providing infrastructure like cold storage, adjusting menus and meal production and having ongoing, candid conversations about how to grow together. We have seen immense value in relationships where larger institutions/organizations are committed to (and have proper training) partnering with up and coming producers.

# The Challenge



31 March 2021

### 3. Access to market partners in the supply chain

In addition to capital to invest in their own infrastructure as outlined in #1, Black and Brown farmers and producers that want to increase participation in institutional food markets need access to relationships and contracts with other businesses in the institutional food supply chain that provide critical linking infrastructure and services such as cold storage, aggregation, distribution and VAP between them and the anchor institutions. Additionally and as a precursor, having the right legal, finance, people and operational structure to meet new demand is paramount in both parties achieving success.

## Programs

### 1. Ramp Fund

#### Who

Supply-side: Farmers, producers, distributors/aggregators

**Total Raise Amount: \$2.6 million**

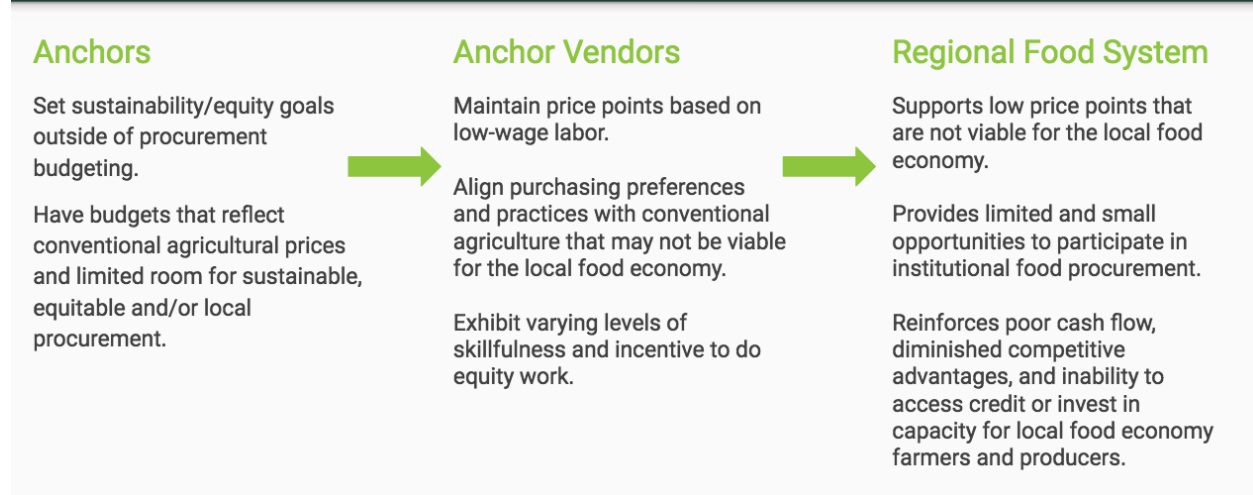
#### What

Money and guidance that supports Black and Brown farmers and producers to invest in capacity and market readiness to meet the demands of the institutional food market, including the following:

- Build kitchens
- Obtain certifications (e.g. organic, USDA certified)
- Acquire land
- Increase food safety infrastructure to meet institutional requirements (FSMA)
- Develop tactics to increase access to markets beyond pricing (e.g. name recognition, branding, distribution)
- Develop additional infrastructure to scale to any capacity, e.g. HR/People, Finance, Legal, Tax
- Capacity building in aggregation hubs, value-added processors, and distributor hubs that reduces friction in the process of onboarding new farmers and producers



# The Challenge



31 March 2021

- A marketplace/hub/coop model of farms and anchors or some sort of centralized system for brokering anchor-farmer and producer relationships. This could mean bolstering an existing local hub, such as Mandela Partners, Dig Deep Farms, FEED Sonoma or Capay Valley Farm Shop.

## How

The fund will exist as a Community Investment Fund with a CDFI (e.g. Community Vision), with Emerald Cities Collaborative facilitating the community voice. The following can make this happen:

- Raise funds to populate the CDFI
- Identify the CDFI partner and set up the fund administratively
- Determine mechanism(s) for sustainability/long term impact
- Identify impact measurement tools
- Develop mentorship/advisory network of Black and Brown farmers and producers to potentially co-design capacity building strategy and offerings
- Direct investment in infrastructure (physical, administrative)
- Direct investment in sales and marketing to increase market access

## Outcomes

- Increase access to and holdings of equity, capital and services for Black and Brown farmers and producers
- Develop business readiness for Black and Brown farmers and producers to meet the food purchasing needs of anchors
- Build up the intermediaries that provide a critical link between smaller farmers and vendors and large anchors to meet institutional requirements (e.g. volume, food safety) in order to increase procurement from Black and Brown farmers and producers

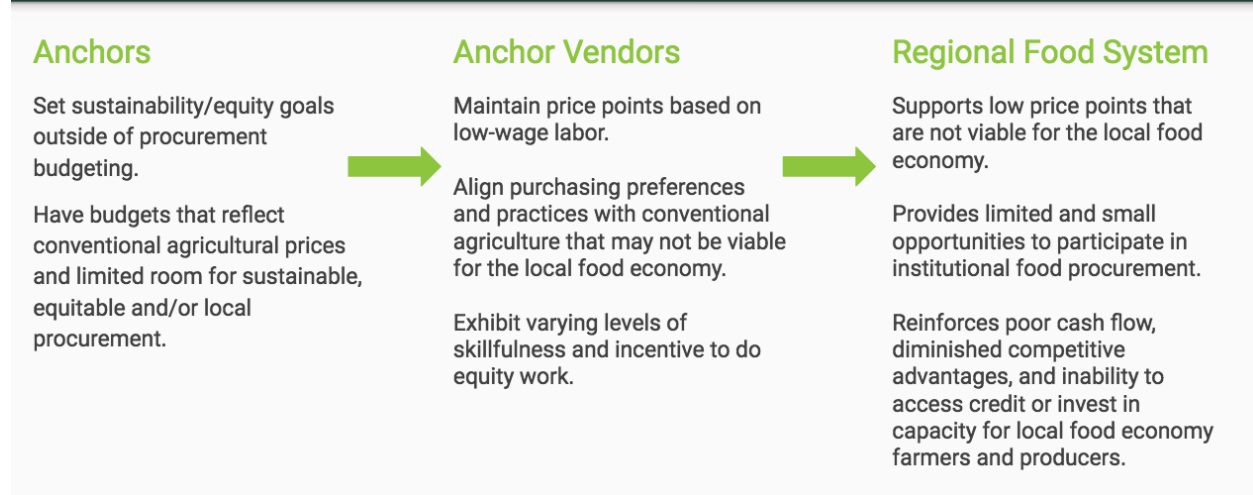
## 2. Pricing Model Agreement

### Who

Supply and demand-side collaboration: Farmers, producers, distributors in collaboration with anchors and anchor vendors



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31 March 2021

**Total Raise Amount: \$1.3 million**

## What

A three-phase collaborative and transparent pricing model and bridge funding for procurement of institutional food from Black and Brown farmers and producers.

Phase 1a. True Cost Pilot

Phase 1b. Bridge Funding

Phase 1b. Procurement Fellows

Phase 2. Pricing Model Development

Phase 3. Pricing Model Steering Group

The key drivers of success in the Pricing Model Agreement are:

1. Transparency between anchors, anchor vendors and Black and Brown farmers and producers
2. Setting goals for spending with local and sustainable Black and Brown farmers and producers *inside* anchor and/or anchor vendor procurement budgets.

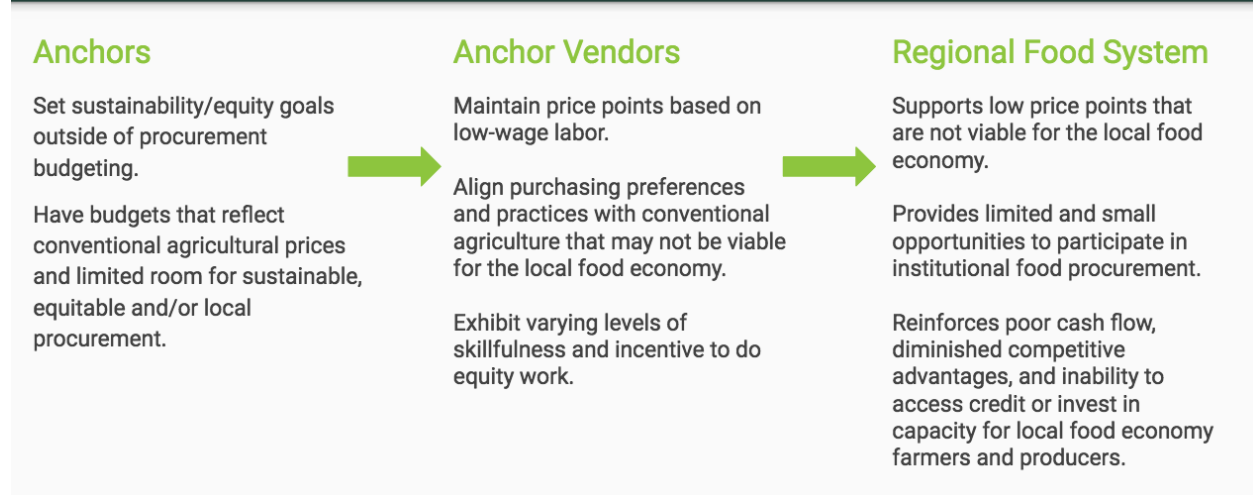
## How

Phase 1a: True Cost Transparency Pilot with an anchor, anchor vendor and a small-scale farmer or producer or aggregator where the stakeholders bring their numbers to the table on the true cost of food and ability/willingness to pay to see what they can work out as a new pricing model. This can build off of ongoing pilot work in order to provide proof of concept to move into the next phase.

Phase 1b: Bridge funding and/or grant dollars that allows anchors to pay farmers and producers more per unit (e.g. per pound or per meal) right away while giving anchors and anchor vendors time to scale their budgets into a higher cost model. This could be externally funded via impact investment or internally through reallocation of existing anchor funds outside their current food budgets (blended capital).

Phase 1b: Procurement Fellows embedded in anchor institutions that champion and drive local, sustainable and equitable purchasing policies, decisions and systems as part of soft infrastructure development inside anchor institutions.

# The Challenge



31 March 2021

Phase 2: Convene a wider network of stakeholders in order to agree on a pricing model that works for multiple stakeholders within the supply chain.

Phase 3: Consistently meet to review, refine and scale the pricing model for long term sustainability.

## Outcomes

- Increase financial sustainability for Black and Brown farmers and producers through better margins and forward agreements
- Increase quality of working conditions and quality of life for end-to-end supply chain
- Increase dollars spent by anchors with Black and Brown farmers and producers through aligned pricing
- Increase margins on individual items/products to reflect true cost
- Increase percentage of total anchor food spend with Black and Brown farmers and producers
- Shared understanding of needs in order to implement, operationalize and scale a new pricing model

## 3. Living Wage Menu

### Who

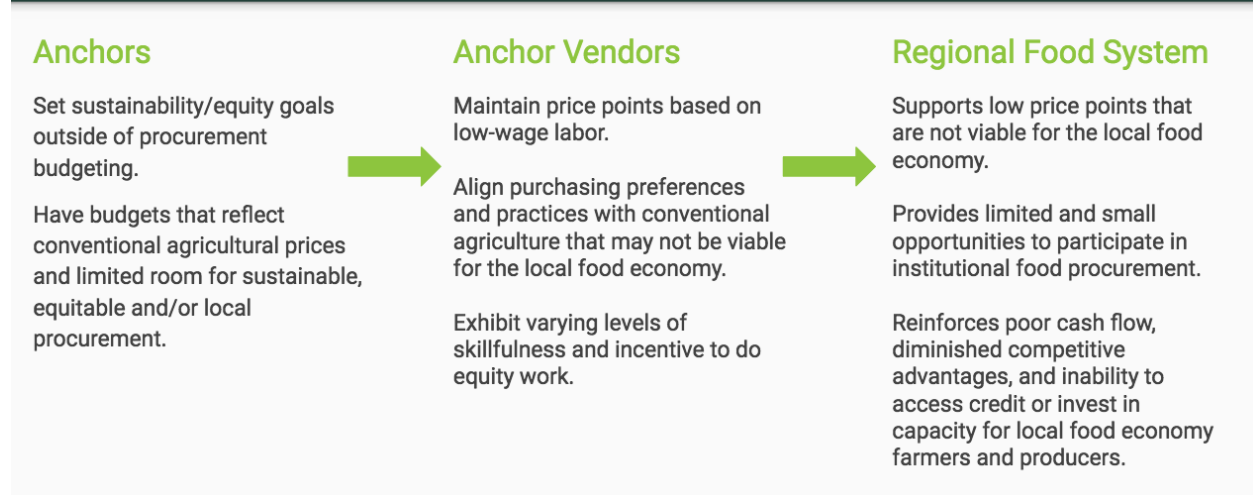
Supply and demand-side collaboration: Farmers, producers, distributors with anchor vendors

**Total Raise Amount: \$450,000**

### What

A forward agreement and bridge funding based on a CSA model for purchase of specific products for institutional food menus.

# The Challenge



31 March 2021

## How

Anchor vendors and farmers and producers collaboratively identify key crops/products, volumes and pricing to be regularly integrated into anchor vendor offerings and anchor food menus. The resulting products and pricing will be included in a forward purchasing agreement for a pilot partnership.

## Outcomes

- Working capital for farmers and producers that also allows anchor vendors to enter into a deeper partner relationship. If anchor vendors have access to capital in advance of purchase and agreeable terms can be set, this could be a win-win for both parties.
- Increased financial health for Black and Brown farmers and producers via increased access to capital from forward agreements

## Program Milestones

The programs will kick off in Year 1 with the Living Wage Menu and groundwork for the Ramp Fund. Years 2-4 will focus intensively on the Pricing Model Agreement and administration of the Ramp Funds, and drive toward two overarching goals: the distribution of \$2.6 million to Black and Brown farmers and producers from the Ramp fund and a 5% shift in total anchor spending with them.

# The Challenge

## Anchors

Set sustainability/equity goals outside of procurement budgeting.

Have budgets that reflect conventional agricultural prices and limited room for sustainable, equitable and/or local procurement.

## Anchor Vendors

Maintain price points based on low-wage labor.

Align purchasing preferences and practices with conventional agriculture that may not be viable for the local food economy.

Exhibit varying levels of skillfulness and incentive to do equity work.

## Regional Food System

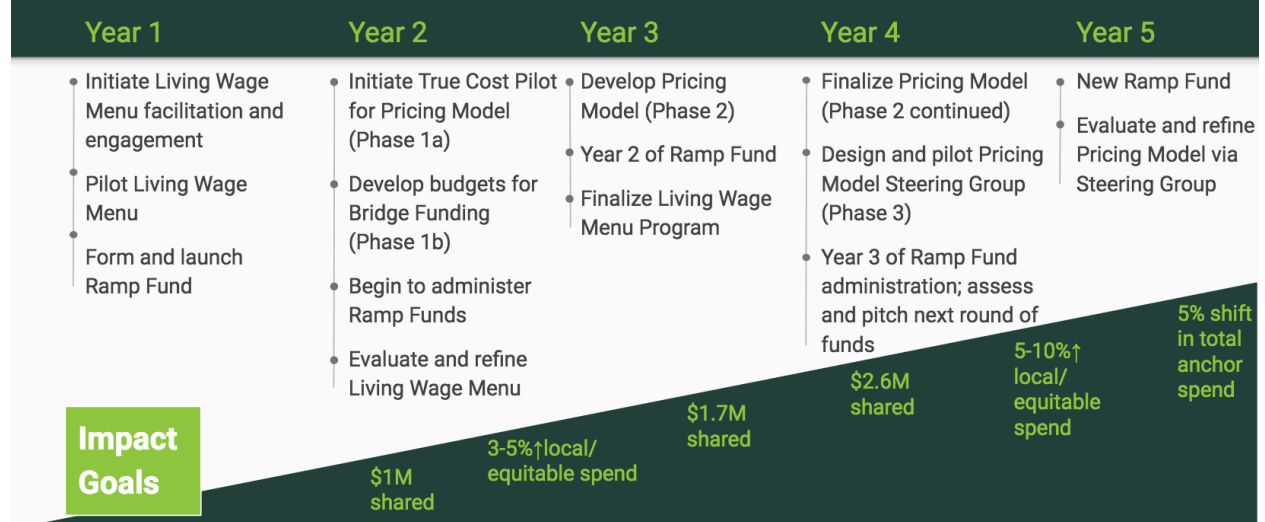
Supports low price points that are not viable for the local food economy.

Provides limited and small opportunities to participate in institutional food procurement.

Reinforces poor cash flow, diminished competitive advantages, and inability to access credit or invest in capacity for local food economy farmers and producers.

31 March 2021

## Milestones



Activities and Impact Goals for each year of programs.

## Impact Metrics

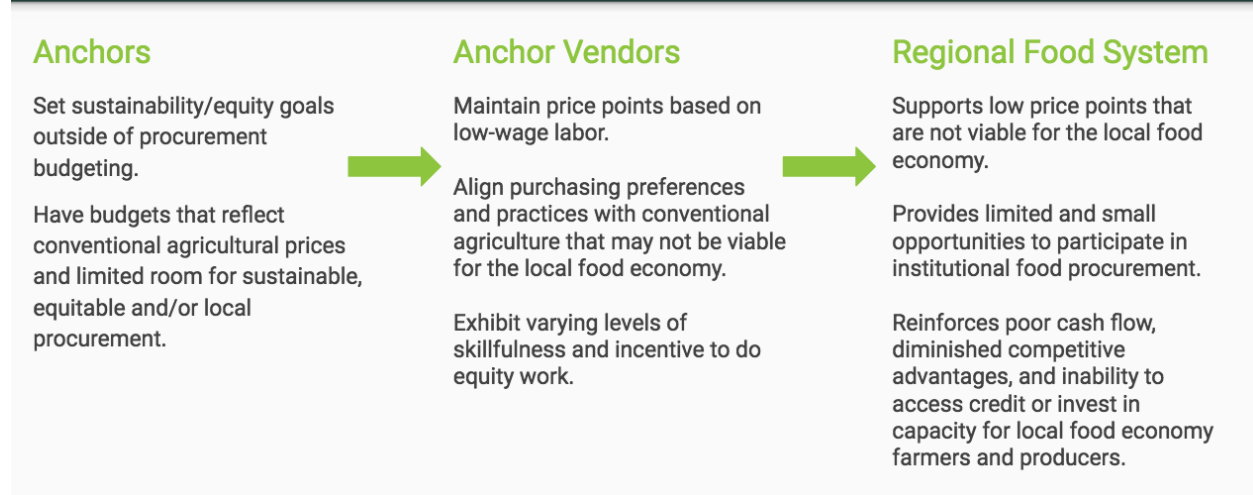
Emerald Cities aims to work with three small-scale Black and Brown farmers and producers on these programs in Years 1-5. The three programs should show progress in the Market Readiness Focus Areas that ramps them into greater participation in institutional food procurement from anchors and anchor vendors.

The following are the key metrics and goals for the three programs:

### Access to capital and guidance to invest in infrastructure, operations and systems

- \$900,000 of forward agreements committed to Black and Brown farmers and producers
- \$2.3M of grants and 345 of guidance hours to Black and Brown producers and farmers

# The Challenge



31 March 2021

- 6 certifications gained by farmers and producers required by the institutional market

## Operator and demand-side adjustments

- 60 of days of Living Wage menus adjusted on anchor side
- 1 Living Wage pilot and an associated \$130,000 in commitments between farmers and producers and anchor vendors

## Access to market partners in the supply chain

- 20 power sharing actions taken by buyers and farmers and producers
- \$900,000 of produce aggregated between farmers and producers for the institutional market

A non-traditional and more qualitative metric, power sharing actions taken by buyers and farmers and producers could include:

- Actions taken by the buyer (ie hiring in a new procurement role, moving budget around to increase equitable spending)
- Actions taken by farmers and producers (revising growing plans, acquire certifications/compliance)

## Impact

The money invested in the Living Wage Menu and Pricing Model Programs shifts \$900,000 of Anchor spending directly to small-scale Black and Brown farmers and producers, and invests an additional \$2.3 million directly into farmers, producers and aggregators over the next four years.

East Bay anchors will spend a projected \$15.6 million on whole sustainable produce in the next 5 years. The Ramp Fund will develop the readiness of small-scale Black and Brown farmers and producers to participate in the institutional food market to meet the goal of shifting at least 5% of the sustainable food procurement spend to be local and equitable as well.

# The Challenge

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31 March 2021

## Lexicon

Anchor

Anchor vendor

Funder

CSA

Local, sustainable and equitable market/local economy (LSE)

Market readiness

Hard infrastructure vs Soft infrastructure

Distributor/aggregator/intermediary

Bridge Funding

Ramp Fund

## Acknowledgements

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