

ACCELERATING
IMPACT
PROJECT

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Financing the Evolving Role of the Value Chain Coordinator

Guiding Questions, Participant Insights



TELLUS INSTITUTE, BOSTON

WEALTHWORKS INITIATIVE
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THE WEALTHWORKS INITIATIVE

This initiative (formerly Wealth Creation in Rural Communities), funded by the Ford Foundation, is a seven-year multi-stakeholder initiative to articulate and test a new systems approach to rural development. WealthWorks is an approach that brings together and connects a community's assets to meet market demand in ways that build livelihoods that last. The initiative has produced various other reports, which can be found at <http://www.yellowwood.org/wealthcreation.aspx>. Also see www.WealthWorks.org.

ACCELERATING IMPACT PROJECT

As part of WealthWorks, the Accelerating Impact project is aimed at articulating the role of finance in supporting WealthWorks value chains in rural areas. Over two years, this project of the Tellus Institute has worked with ten projects on the ground in Central Appalachia and the Deep South, doing assessments of financing needs and assisting projects in advancing toward their financing goals.

The goal of this report is to advance the initiative's broad aim of creating a comprehensive framework of community investing, ownership, and wealth control models that enhance the social, ecological, and economic well-being of rural areas.

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Tellus Institute
11 Arlington St.
Boston, MA 02116
Phone 617-266-5400.

Project Director Marjorie Kelly
Project Staff Joshua Humphreys
Christi Electris

Project Advisors

Elizabeth Boggs-Davidson, Inter-American Development Bank
W. Robert deJongh, Red Mantra Group
Rebecca Dunn, Cooperative Fund of New England
Marten Jenkins, Natural Capital Investment Fund
Jessica Norwood, Emerging ChangeMakers Network
Shanna Ratner, Yellow Wood Associates

Author

Marjorie Kelly, as the author of this report, was a fellow with the [Tellus Institute](http://www.TellusInstitute.org), a 35-year-old nonprofit research and consulting organization in Boston. She works nationally on issues of community development in communities of need, specializing in enterprise and financial design for the common good. She co-founded Corporation 20/20, a multi-stakeholder initiative to envision and advocate new designs for enterprises and capital markets that integrate social and environmental mission alongside financial aims. Kelly is author of the new book, [Owning Our Future: The Emerging Ownership Revolution](http://www.OwningOurFuture.com), released 2012 by Berrett-Koehler, as well as author of *The Divine Right of Capital* (San Francisco: Berrett-Koehler, 2001), named one of *Library Journal's* ten best business books of the year. Kelly also co-founded Business Ethics magazine and for 20 years served as president and publisher. She was an adviser to the Wealth Creation in Rural Communities project of the Ford Foundation for several years. Beginning December 2013, Kelly has taken a position as Senior Fellow and Director of Consultancy Services at The Democracy Collaborative. She can be reached there at MKelly@DemocracyCollaborative.org.

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How can we think about financing value chains in a life cycle framework? Exploring this question has been the charge of the Accelerating Impact project of Tellus Institute. In the course of this work, it has become clear that the question of financing the *value chain coordinator* role is different from the question of financing various enterprises and organizations within a value chain. We have prepared a series of WealthWorks guidebooks on financing value chain enterprises. Yet key questions about the coordinator role remain:

- How does the value chain coordinator role evolve over time, and how does this evolution affect financing options?
- When coordinators begin with significant foundation financing, how do they transition away from that over time, and what do they transition to?
- Does the coordinator role last forever?
- If not, does it disappear – or transform into something else?

There are no simple answers to these questions, for the coordinator role can evolve in different ways. Rather than attempting to offer answers, we offer here instead a series of guiding questions and key themes to explore.

On the final page of this report, we offer a set of questions as a tool for value chain coordinators in transition.

1. The evolving role of value chain coordinator:

The problem of financing value chain coordinators over time begins with understanding the position of coordinator. The value chain coordinator must: 1) identify the various roles of the coordinator; 2) analyze which of these roles might, with a different business model, become self-sustaining or profitable; 3) determine which of these roles will always require subsidy, either from the value chain partners or philanthropic donors.

In addition, coordinators need to understand how these roles evolve over time. During the *exploration phase*, the coordinator acts primarily as a catalyst/convener – introducing the concept of the wealth-creation value chain, convening potential partners, and researching market opportunities.

As the project moves into *implementation*, the coordinator is engaged in constructing the value chain – filling the gaps identified in the chain and bringing members together around mutual business. The third stage is one of *managing and sustaining* the value chain over time.

In these second and third stages, the value chain coordinator often must choose whether to be an external coordinator, or to embed as a transactional partner in the value chain (by, for instance, operating a food aggregation hub).

Based on a focus group of different players in food industry value chains – convened recently by Thomas Lyons, Barbara Wyckoff, and Ty Hammond – successful value chain coordinators play a number of roles. Chief among them:

- **Holder of values** – intentionally including low-income individuals, for example, and focusing on shared ownership.
- **Connector** – bringing together resources, gathering members around mutual business.
- **Researcher and big picture holder** – helping others see the whole system, knowing where the gaps are and how to fill them, contributing to knowledge building.
- **Leader/innovator** – encouraging experimentation, acting as steward, being leader of the system.
- **Communicator** – internally mediating disputes and keeping value chain players up to date, externally promoting the value chain to the larger society.

With an understanding of the various roles involved in being a value chain coordinator – and how these change over time – coordinators are in position to begin analyzing their financing situation.

Working with Barbara Wyckoff at the WealthWorks Cross-Regional Convening (CRC) in Berea, KY, September 11, 2013, a discussion was led among participants about the challenges of financing. Based on that discussion, and other observations in the field, there are recurring themes coordinators confront as they attempt to answer the questions of financing.

2. Understanding the various options coordinators face over time:

In the WealthWorks community, different groups represent different models at different points in time, in the life cycle of the value chain coordinator:

1. **Searching for a business model:** Emerging ChangeMakers at the CRC gathering spoke about being in this position. They are working to build various interventions in the value chain of financing an emerging local food system – including small loans to farmers through a local revolving loan fund; helping create a Slow Money-type group of high net-worth individuals interested in financing emerging food businesses; and working as a partner with other organizations in bringing the Healthy Food Financing Initiative to Alabama. As it engages in this vital work, ECN is also confronting the question – how can it earn revenue from



Jessica Norwood of Emerging ChangeMakers Network

this work over time? As Jessica Norwood said, “It’s like you’re flying an airplane that you’re in the process of building. We’re still in seed stage. How do we draw revenue from the loans we’re encouraging?”

2. **Enterprise building:** MACED has created and spun off projects numerous times in its life, and plans to do the same with How\$martKY, its value chain project to create on-bill financing for energy conservation work in housing. The project began as 100 percent grant funded. MACED believes that soon it will be about half self-financed, by the various players in the value chain. Ultimately, they think it will be 100 percent self-supporting, and it will be spun off as a stand-alone entity. Whether that entity will be a for-profit, non-profit, or cooperative has not yet been determined.



Kevin Rowe of WoodRight

Another example of a value chain enterprise being spun off by coordinators is WoodRight, the green wood products brokering business being launched by Rural Action and Appalachian Sustainable Development. The aim is that WoodRight will become a successful, stand-alone, profitable business – serving a key role in value chain coordination in an ongoing way. WoodRight as broker will connect wood products manufacturers with buyers such as architects and builders. Other value chain coordination roles will continue to be played by ASD and Rural Action.

In the spin-off model, the coordinator is playing the role of enterprise-builder. Another example of this in action is alt.Consulting in Arkansas, which is helping to create biorefineries, which will be key nodes in a green energy value chain and will be owned by others.

Not every value chain coordinator will play the role of enterprise-builder, because as one attendee commented, it requires business skills and deep knowledge about a sector. But enterprise-building is more likely to attract investment than other approaches. As that same person commented, “Other roles are harder to monetize.”

- 3. Embedding as a permanent value chain player:** Appalachian Harvest at Appalachian Sustainable Development (ASD) is a food aggregation and processing hub that has taken this approach. Given the challenges of farming in the mountainous Appalachian region, and the distances between farms and wholesale buyers, a food hub in such a situation may never be in a position to be profitable. It may always require subsidy. But can that subsidy be reduced to a manageable level? Kathlyn Terry of ASD reported that a recent survey of 16 food hubs found that the average annual subsidy was 7 percent of operating costs. She said Appalachian Harvest operated with a 10 percent subsidy. Having such a benchmark available was useful to her, and helped her see that reaching profitability might not be the right goal. As another person commented, “subsidizing 7 percent is very different from subsidizing 70 percent.”
- 4. Being a hybrid on an ongoing basis:** Here a good example is the Federation of Appalachian Housing Enterprises, which is a network of affordable housing developers and a CDFI (community development financial institution). They process \$150 million in mortgages every year, and are currently constructing a value chain to test a new green affordable mortgage product. When FAHE subsidizes its work, it does so consciously, as part of its business model. It is not aiming to become profitable, because doing so would

require it to charge interest rates that would defeat its goal of creating affordable housing. CDFIs are widely recognized as hybrid organizations. That is, they represent a coherent model with a particular design and relatively standard ways of operating. Other approaches – like food hubs – may be in the process of becoming an identifiable hybrid, which could help bring coherence and perhaps standardization to their business model.

One participant commented that they’ve come to realize they are always involved in multiple phases of development at once, playing multiple roles.

“People are often looking for exit strategies. Instead of thinking ‘exit,’ we should think ‘embedded.’ If we believe our own PR, then why aren’t we willing to be embedded and invested? This work is not something we’re walking away from in the next few years, but something we’ll live out for the next 10 years.”

Some projects are in seed stage, others are further developed. The question of value chain life cycle is an ever-evolving one for them.

3. To embed or not to embed:

Whether or not a value chain coordinator aims to create a business (as WoodRight is becoming), or to operate as a hybrid (as FAHE is doing), it faces the question of whether to become **permanently embedded** in the value chain it is creating. You can launch a project, then spin it off to stand on its own, as MACED has done in the past. Or your organization can stay permanently a part of the value chain – permanently playing a coordinating role in its sector, as Appalachian Harvest does.

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“What’s the lifecycle of a coordinator?” another person asked. “If it doesn’t become an enterprise in the value chain, what happens to the coordinator role? It seems that as the coordinator moves into construction/implementation, they become part of the value chain.” Barbara Wyckoff commented about this: “Yes, this has been critical for many because it builds trust and credibility, and it shows they have skin in the game.”

4. Becoming a business – or becoming more business-like:

One seasoned CDFI manager commented that as an organization or a project becomes older, it becomes less fresh and attractive to foundations. That means it likely will attract less foundation funding, and would be wise to develop more **earned-income streams of revenue**. Value chain coordinators that begin with 100 percent



Ines Polonius of alt.Consulting

philanthropic subsidy may find it difficult to continue this funding approach indefinitely. They may need to become more business-like. That means focusing more on earned revenue, less on philanthropic donations.

Ines Polonius of alt.Consulting

reported that her organization – a nonprofit consulting firm that also operates a CDFI loan fund – periodically undertakes a **“profit inventory.”** What are they doing, or what could they be doing, that could be profitable for them?

One challenge of pursuing the most profitable work is that it may pull you away from your primary mission.

The trick is finding the right balance of attracting income with spending reasonable amounts of staff time – or identifying the profitable work that also serves mission.

Organizations may find they have one or two lines of work that can be “cash cows” for the rest of the operation – bringing in revenue that can subsidize other, less profitable work.

One challenge of pursuing the most profitable work is that it may pull you away from your primary mission. Some organizations, for example, take on consulting as a way to make money. But then they find they must spend large amounts of time fulfilling those consulting contracts. The trick is finding the right balance of attracting income with spending reasonable amounts of staff time – or identifying the profitable work that also serves mission.

A related issue that arose in discussion was “how to value what we’re providing.” Jim King of FAHE talked about all the work they had done in creating the intellectual capital of a new way to issue green, affordable mortgages: bringing together the value chain to identify where it was broken; working with and training appraisers; developing a program to train homeowners in proper use of energy-efficiency elements of their homes; and more. “In the past we would have just let the private sector run off with this and make money from it,” he said. But they have been working with their attorney to trademark and

license the process, calling it the Power Saver Mortgage. They plan to license it nationwide, as a revenue-generator for FAHE.

Another nonprofit manager commented that for more than 25 years, they had been identifying gaps, filing them, and then turning the result over to someone else. “Now we need to turn these into social enterprises,” he said.

In seeking to become more business-like, a key metric to keep in mind is the **self-sufficiency ratio**: This is the percentage of operating costs that an organization can cover with earned revenue. It is derived by taking earned income and dividing it by total operating expense. At Natural Capital Investment Fund, for example, the self-sufficiency ratio is 50 percent (if they take out the pass-through grants they make). “We would like it to be 70 percent,” said Rick Larson.

Appalachian Harvest – which is subsidizing 10 percent of operations – can in this formulation be described as 90 percent self-sufficient. It may be that self-sufficiency is related to the size of an organization. This can be seen, for example, with CDFIs, which become on average more self-sufficient as asset size increases.

CDFI Self-Sufficiency Rises with Asset Size

Asset Size	Self-Sufficiency Ratio
Under \$500,000	11%
\$1 - \$5 million	39%
\$5 - \$10 million	54%
\$50 - \$100 million	90%
Over \$100 million	85%

Source: Based on 2009 data from Carsey Institute Report, supplied by Marsha Krassner.

5. Finding other philanthropic donors:

“What is the role community foundations are playing in value chains?” one participant commented. “I know that we’re trying to get away from grants, but if community foundations can see themselves as integral to a value chain, is

that part of the model we’re developing? Could it be?”

It’s an important question. Deb Markley commented: “Many community foundations are beginning to think of themselves as investors in a set of impacts, rather than as simply grant makers. This puts us in good position to approach community foundations and say, ‘we’re creating impacts you care about. Can you invest in this role in the value chain?’”

Being 100 percent profitable is not necessarily the right goal, if your organization is serving a critical need in a difficult area. Value chain coordinators should not be afraid to state this forthrightly.

Critical to making that pitch will be articulating why ongoing subsidy is a necessary part of the particular value chain being coordinated. Being 100 percent profitable is not necessarily the right goal, if your organization is serving a critical need in a difficult area. Value chain coordinators should not be afraid to state this forthrightly. Having common metrics across a class of value chain coordinators – like CDFIs or food hubs – might also help. For example, being able to discuss your self-sufficiency ratio, and how it compares to your industry sector, might be powerful. Being business-like in your pitch is particularly important, if you’re talking to funders like community foundations who want to see themselves as investing.

In addition to community foundations, another potentially overlooked source of philanthropic donation is the **long-term individual donor**. Michelle Decker of Rural Action (co-founding organization behind WoodRight) said at the Cross-Regional Convening that she is interested in exploring how her organization can more systematically cultivate long-term donors, and

begin converting some to investors in Rural Action enterprises. She explained that she already has a large base of such donors, and that a number have come forward to ask how they could invest.

If such a strategy were to succeed, it might point to an **emerging ecosystem of philanthropy and investment** that could itself have a life cycle for organizations. For example, perhaps a wide variety of early-stage, small-scale donors could be cultivated through on-line crowdfunding platforms or other methods. The best of these donors could be upgraded into long-term individual donors. Long-term donors could in select cases then be transformed into investors in a business like WoodRight. There may be potential here for developing and articulating a systems approach to cultivating donors/investors that could be replicable across value chains.

6. The power of working together:

As one attendee commented: “Many of us are figuring out how to replicate our work, but we don’t seem to know how to package it, perhaps within our own sub-regions or communities. That’s the power of WealthWorks as a brand – for us to explore what it means to be part of the wealth-building advocate peer network. We’re all doing that.”

Shanna Ratner echoed this, asking, “**How can the WealthWorks brand make all these projects more profitable and investable?**” What are the ways that the WealthWorks community can itself accelerate the financing work of all the value chains within it? That is a core concept of this approach – that working collaboratively is more powerful than working alone. What shape such collaboration might take is still unfolding.

Developing an ecosystem, life cycle approach to financing, like that proposed by Michelle Decker – which could be systematically taught to multiple value chains – is one example of possible collaboration. Such a system could work hand in hand with the evolving role of the value chain

coordinator. For example, many coordinators begin with philanthropic funding (though the role of coordinator is not always played by a nonprofit; there are also for-profit coordinators). As the project grows, as the value chain is built, and as an associated network of players becomes engaged, the possibility for cultivating individual donors grows. As the value chain matures – and as some coordinator roles evolve into businesses – the potential for converting key donors into investors emerges as a possibility.

Another possible concept that might be taking shape in the WealthWorks community is the notion of a self-sufficiency ratio, which might be transferable from CDFIs to other emerging hybrids. What are the other ratios and metrics that might be relevant for the value chain coordinator role you are developing? Developing this kind of intellectual capital, as a group, could be a key aspect of becoming more businesslike – and hence more financially sustainable.

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Similarly, the notion of systematically monetizing what we are creating – like FAHE’s Power Saver Mortgage being turned into a revenue-producer – this too is an important lesson that might apply to different sectors.

Another issue that is cross-cutting is how to make the case for ongoing philanthropic support of the coordinator role. As one group put it, “We realized the coordinator role is essential to the success of the network. How do you find funding to sustain a role that sustains such important

work?” That same group asked, “What would happen if that coordinator role didn’t exist?” Answering this question and articulating it to funders could be key to attracting support.

If value chain coordinators can clearly identify the different roles they play, understand how these evolve over time, and analyze which can be spun off as for-profit enterprises, this will help them identify the roles that necessarily require subsidy. These subsidized roles can then be analyzed for appropriate self-sufficiency targets – perhaps aiming to move to higher levels of self-sufficiency. As one person commented, there might be certain earned-income streams that could be cultivated – like a cooperative charging its members for services.

In searching for how to finance the roles that require subsidy, coordinators may find that **effectively telling foundations the story of value chain impact** could be a critical part of the solution. One example of this is a memo the Tellus Institute team was asked to draft, to help encourage a foundation to take on a loan guarantee for a \$100,000 line of credit from MACED to WoodRight. In that memo, we crafted language to help explain how this loan guarantee was a lynch pin that could help an entire value chain thrive, and we spoke about the use of loan guarantees in other value chains. We wrote, in part:

There is a pivotal role for loan guarantees in unlocking entire value chains. We are all learning how to finance value chains, which is different from financing individual businesses. A simple working capital loan to WoodRight can help unlock activity all along the entire sustainable wood value chain – from architects to manufacturers to growers; that simple loan can itself be unlocked with a loan guarantee. It’s a small lynch pin that can anchor an entire value chain and unleash activity all along it. The same is true with the

affordable housing green mortgage value chain. A simple guarantee of mortgages could anchor lending that could unlock the entire value chain – from home owners to builders to appraisers to lenders – in a pilot project that itself could be replicated nationwide, with possible reverberations across multiple mortgage portfolios for years to come. Again, a simple lynch pin could enable a broad swath of beneficial activity, perhaps permanently changing the mortgage business.

Helping to position the details of our work inside a larger landscape of impact could be critical to convincing funders to support the ongoing work of value chain coordinators.

Of course, language alone is not enough. Each value chain coordinator will need a variety of approaches to secure the resources needed to support their roles in the value chain as long as required. As a few value chains begin to develop the whole panoply of answers needed to solve their financing challenges, common lessons will likely emerge. A key role of the WealthWorks community will be collecting, sharing and spreading these lessons.

Given these various themes – understanding the various options coordinators face; whether to embed or not; becoming more business-like; cultivating other philanthropic donors; and the power of working together – one can draw a series of questions that value chain coordinators might ponder.

On the following page we offer a beginning set of these questions, as a guide for coordinators trying to understand their evolving role and the challenge of financing it.

7. Questions for value chain coordinators on their evolving role

1) Related specifically to the value chain you are coordinating:

Should the coordinator role in your value chain last forever? If not, what is your strategy to get out?

Do you plan, instead, to stay permanently embedded? What are the pros and cons for you of embedding in your value chain?

If you are embedded as a transactional partner, are you also serving other coordinating functions that require financial support?

If the coordinator role is a permanent need in your value chain, can you clearly articulate why?

Can you describe, in a paragraph, the broad, catalytic impact of your value chain, the coordinator role, and how funding makes all that work possible?

Is your model of value chain coordination potentially emerging as a new hybrid? Can you articulate this model for your industry?

What is the ecosystem of philanthropy and investment that can best support your work? How do you plan to evolve that ecosystem?

2) Related to your organization as a whole:

Can some of your work as a coordinator evolve into a business? Are there parts that cannot?

How can you move from being a catalyst/convener to being a business, or more business-like?

Should you undertake a “profit inventory”?

Are you giving away services now that have real value? How could you monetize these?

What is your self-sufficiency ratio? What would you like it to be?

Does your organization have the skills and deep sector knowledge to be an “enterprise builder”? Could you hire or acquire these skills?