

Building Rural Wealth through a Value Chain Approach

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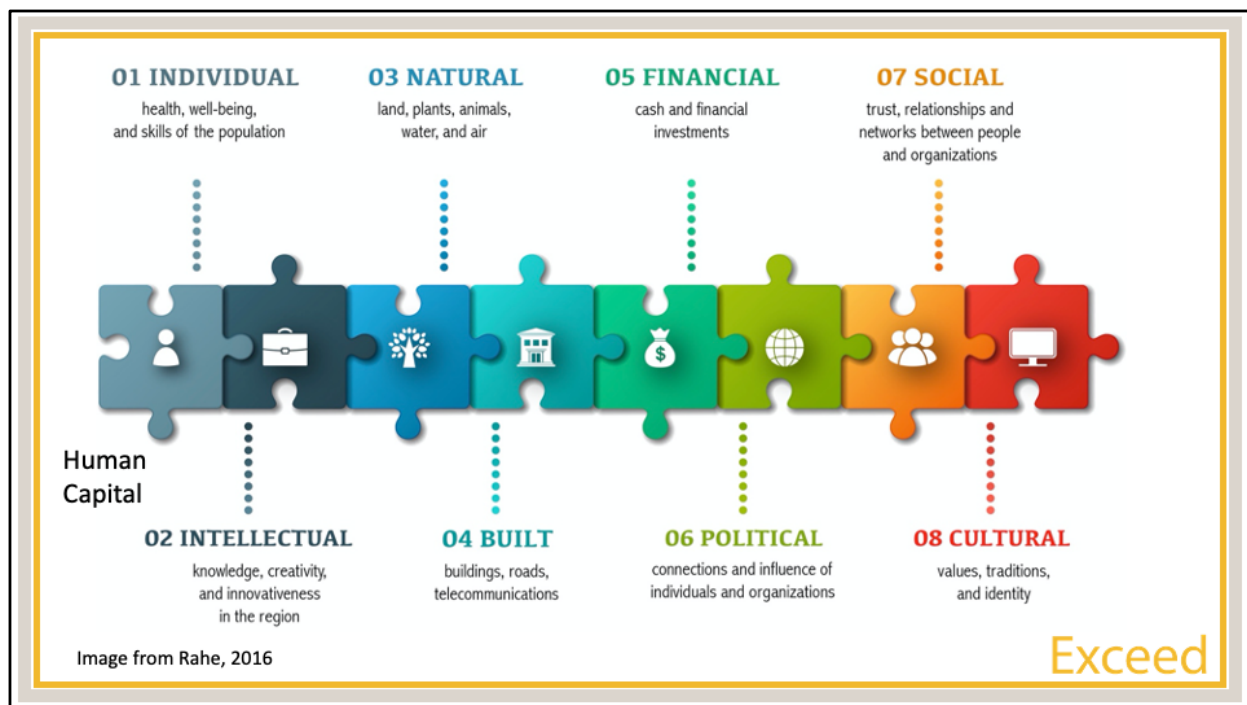
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Today I will provide a very brief overview of WealthWorks as a way to implement a rural wealth creation approach. WealthWorks is a national program created in the Eastern US from 5 years of on the ground work in high poverty rural communities. We began using this program in Oregon in 2013.

This is an important distinction – rural wealth creation is bigger than just WealthWorks – the program I will be talking about today. I think that this work is different enough that it merits a description before I go into the methods that inform this work, findings from our different value chains, limitations and future research and lessons learned on how to integrate this into outreach and engagement efforts.



Let me explain what I mean when I say forms of wealth or capitals or assets. WealthWorks builds upon asset based community development – it makes one change by renaming human capital as individual capital = here we mean the health, well-being, and skills of the population and distinguishing this from Intellectual capital – which is the knowledge creativity and innovativeness in the region. Financial capital is important and included, but this approach also emphasizes the importance of natural, built, political, social and cultural capital as both resources for development and a framework to evaluate outcomes.

I will return to these capitals when I describe the observed changes in the seafood value chain.

WealthWorks as a systems approach



Images and language adapted from Wealthworks.org **Exceed**

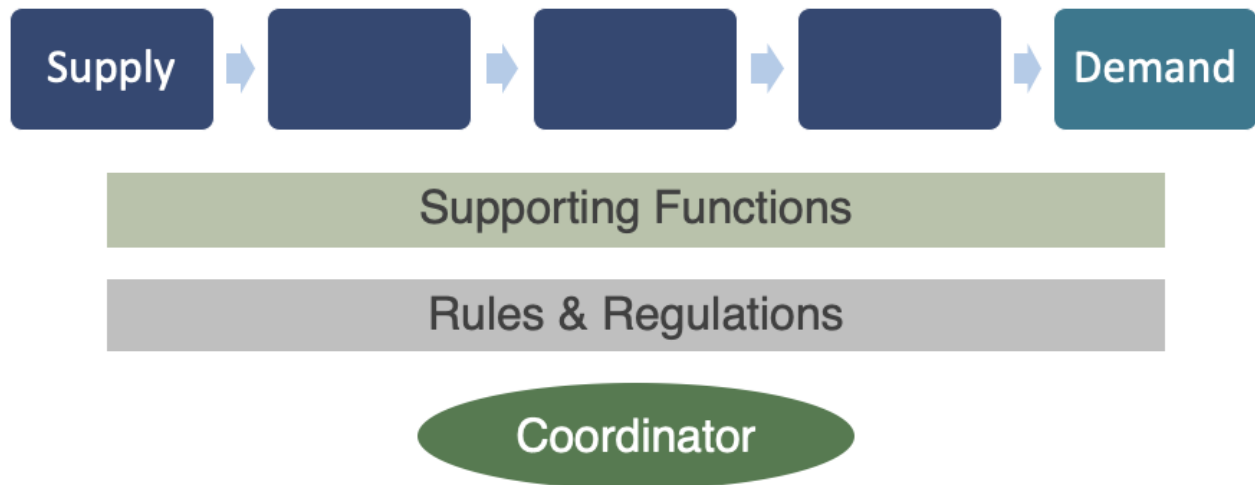
WealthWorks is a systems approach to development and builds upon several existing bodies of work – including elements from both community development and economic development.

WealthWorks is guided by three goals that provide intentionality and organizing concepts. They are: building multiple forms of wealth that create household and community benefits, increasing local ownership and control of assets so that wealth stays in the region, and targeting interventions that both utilize and build the knowledge, talent and ability of the entire community.

It uses an asset-based approach that is rooted in local people and communities, and it aims to build wealth broadly and equitably. This is its community development focus. These 3 goals are the **Why** to use the WealthWorks approach

WealthWorks Value Chain

Shared Goals & Values



The “how” it looks in practice, is its economic development side, WealthWorks engages a wide group of stakeholders to develop the linkages between local assets and markets, with a value chain.

A WealthWorks Value Chain is focused on the set of steps to get a product from its original form to the customer, ***and to do so in a deliberate way that builds value for communities by expanding local ownership, equity, and building multiple forms of wealth.***

This shared set of goals and values the group is trying to support will guide their efforts to identify market demand, select partners, and develop market opportunities. The coordinator role is a distinguishing feature of WealthWorks. This person or organization holds the big picture and guides the work.

The non-profit RDI and I work to build the capacity of coordinators and provide additional access to technical assistance and business development services.

The Process is Iterative



Not a series of steps to success, but an iterative process that reacts to changes in the socio-economic system. Short terms wins are important to keep people engaged but deeper system wide change happens through prolonged focus and intention to truly embed the systems approach into development.

Oregon's WealthWorks Northwest

How can the rural wealth creation framework target business development services in ways that build multiple forms of wealth?

- Grants were made between August and December in 2016 to 7 businesses in 4 value chains: 2 seafood, juniper wood, and local food production

Data:

- Business applications which required a business plan
- Interviews with coordinators and business owners 6 months after \$
- Informal conversations with fishermen (Summer 2017)
- Follow-up interviews with business owners 18-24 months after \$ (Fall 2018)

Ultimately focus on forms of wealth built by the grantee business and their immediate set of suppliers.

In Oregon we used a comprehensive program, partnered with local economic development groups to identify shared goals, coached their efforts, and eventually made direct investments in local businesses to support the broader value chain. And I want to focus on these investments and the resulting wealth that was created to talk about the role of a systems approach.

With that brief overview of rural wealth creation through WealthWorks, how can this framework be used to target business development services in ways that build multiple forms of wealth?

These results draw from applications which included a business plan in order to receive technical assistance or funding. Most technical assistance and all funding was provided between August and December of 2016 to 7 businesses in 4 value chains. We interviewed coordinator and business owners six months after they received funds to see how they had used the funds and what changes they observed. Conversations to gather feedback and input from a group of fishermen in the Summer of 2017.

Follow-up interviews with business owners 18-24 months after they received the funds (Fall 2018).

Comparing impacts, documenting changes in business attitudes, continued growth, and future plans.

Ultimately we work to isolate the wealth built from our direct intervention with the targeted business and focus on that business's knowledge of additional wealth built by their immediate set of suppliers.

Grant Selection Criteria

Value chain gap: The potential to address an identified gap in the value chain that unlocks opportunities for other businesses and individuals in the value chain.

Wealth Creation: The potential to contribute to regional wealth creation.

Potential for Scale: The potential for scaling up in the long term to include a large number of people and businesses.

Improved Livelihoods: Create and expand livelihoods for people who are struggling economically.

Business viability: Business plans for each investment should show demand for the product, identify and address risks, and present a realistic financial model.

Leverage: The investment should be matched or leverage other funds or resources.

We used these 6 selection criteria to identify businesses - this embodies the WealthWorks principles and asks for the business to demonstrate viability and how it addresses a gap for the entire value chain.

I will return to this as I discuss the results – our goal from this work was to document impacts from a pilot and learn how to improve targeting business resources. I intentionally avoid calculating a return on investment – and have incomplete data to do so.

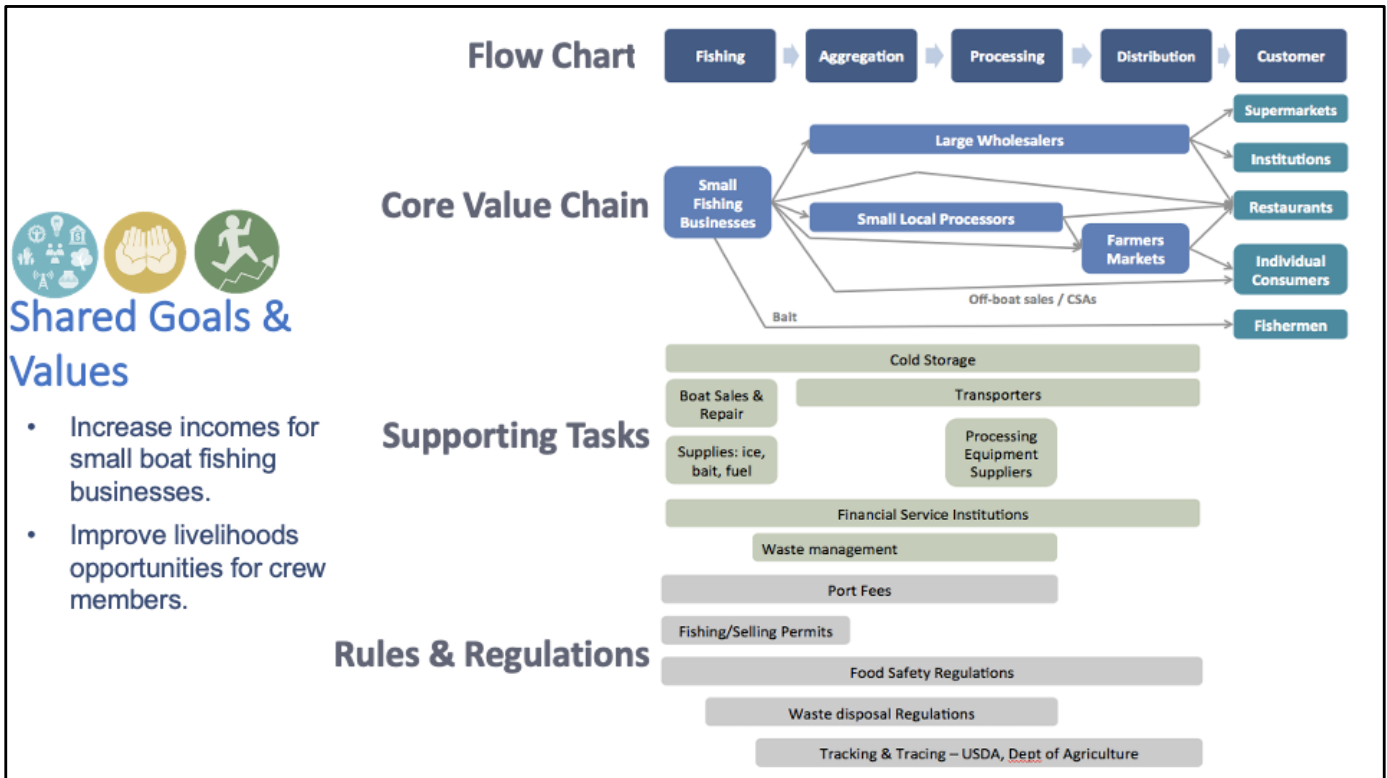


Photos from OSU Extension and Experiment Station Communications (EESC) and fishpeople

Now I want to talk about our seafood value chain.

Fishing is a culturally important industry in Oregon, especially small boat fishermen like you see here. These vessels carry 1-3 crew. This is a hard industry to thrive in on a small scale – fishing is highly regulated for sustainability – permits are expensive, widespread consolidation – especially among buyers.

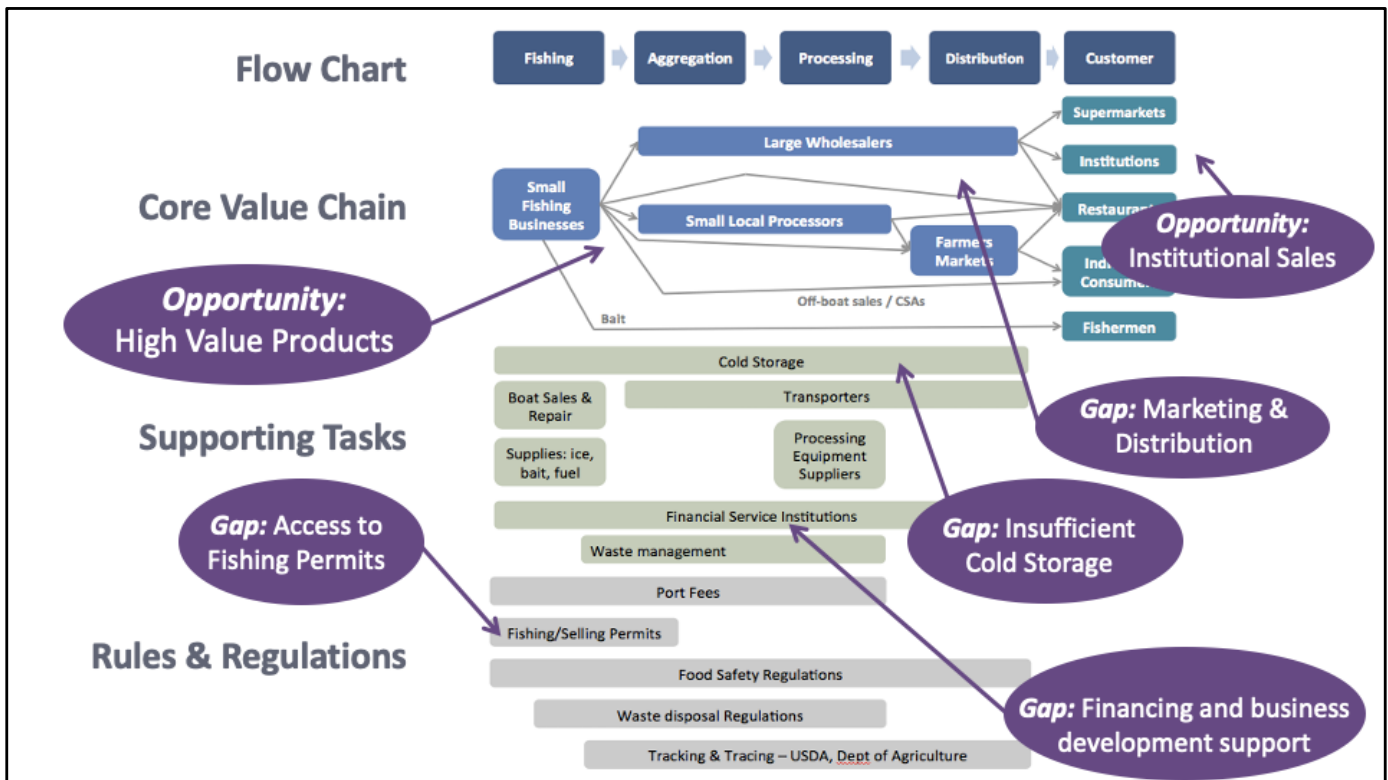
However, similar to broader local food efforts there is a desire among consumers to connect to the fishermen and support sustainable harvest – this is the opportunity. There are ongoing efforts to encourage direct sales, similar to community supported agriculture, we have community supported fisheries in Oregon – you buy a share of fish for the year. And other efforts to create and market regionally branded and a range of other value added seafood products. For example – one of the buyers in this region is the company fishpeople – This portable soup contains pink shrimp and crab in a convenient high protein meal.



There are a lot of ongoing efforts in this area – how did we approach the work?

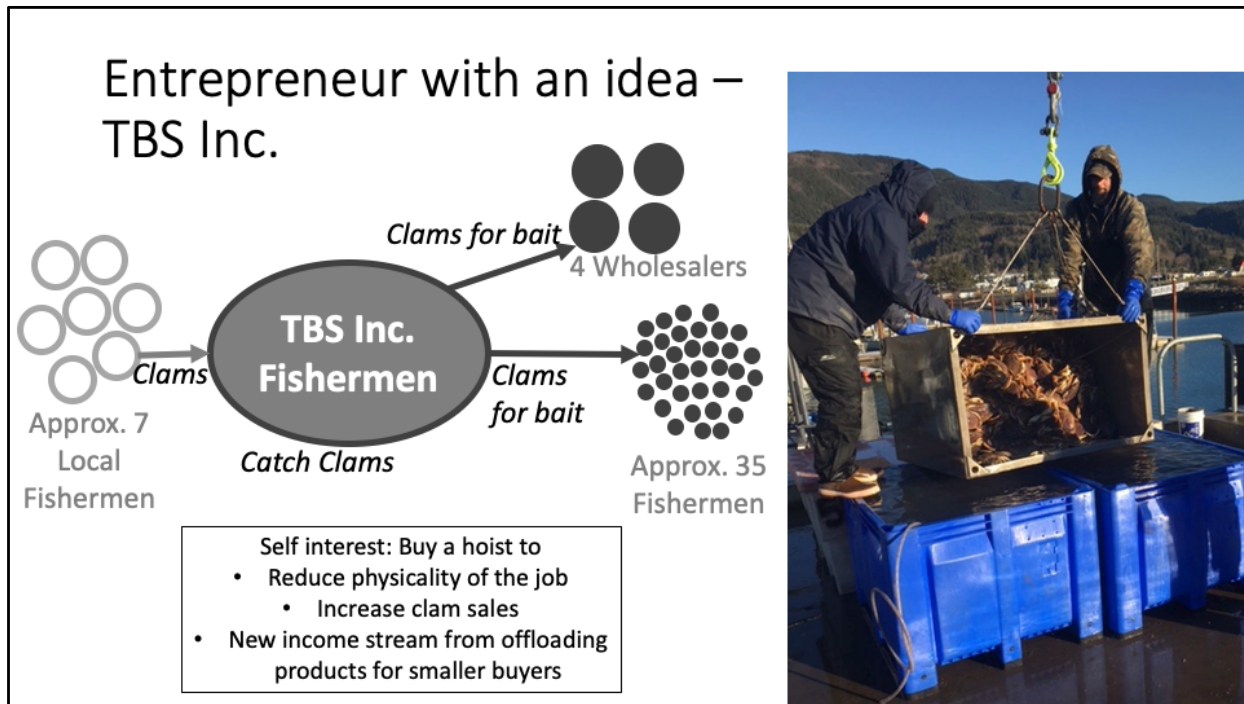
Our goals were focused on increasing incomes for small boat fishermen and improving livelihoods for crew – these are people trying to break into the industry they lack capital, this is a hard way of life. We wanted to understand the existing value chains at two of the smaller ports along the Oregon Coast – here I am focusing on one of these ports.

This is the map we helped the coordinator create of the existing value chain.



Stakeholder engagement with businesses and organizations throughout the value chain learned more about markets and identified several gaps and opportunities.

The group chose to focus on expanding access to high value products – increasing the portion of catch that went outside of large wholesalers to other buyers.



Mapping the value chain led us to an entrepreneur, TBS Inc. who already had an idea for improving his business – buying a hoist.

Why a hoist?

Self-interest:

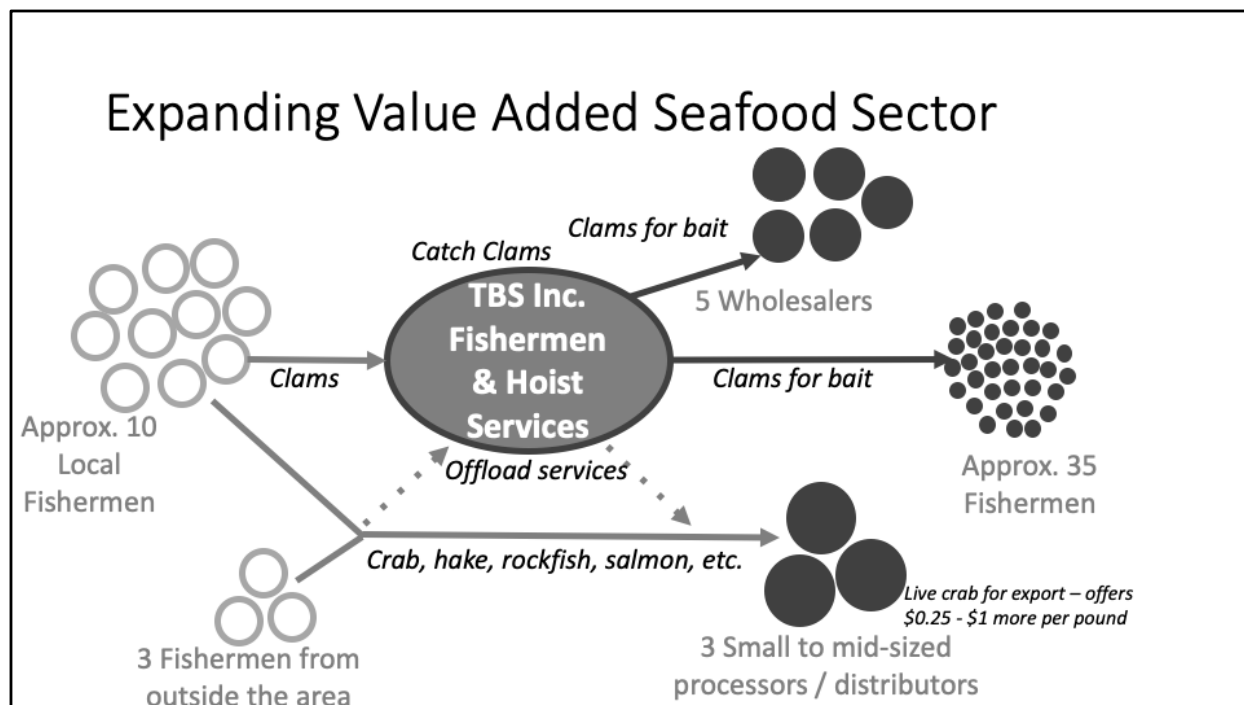
Offloading 300,000 lbs of clams by hand – hard on the owners and crew. Wanted to buy a hoist to reduce the physical strain and grow the business. Also buying clams from other local fishermen and selling them to larger buyers – providing a market for the smaller vessels they wouldn't otherwise access.

The current hoists at the Port are owned by large consolidated seafood buyers. The status quo means as a fishermen coming into port you need to agree to work with the buyer in order to unload your vessel. All product went to just a few buyers.

TBS was aware of this broader constraint, and had talked to smaller buyers who said that having access to a hoist – which they could not afford independently – would allow them to increase their purchases from fishermen and grow their business. These buyers typically offer higher prices for the catch they purchase and provide

healthy competition for the large consolidated buyer – a hoist would increase their ability to buy catch.

The hoist meets both TBS's self interest and the common interest (expanding access to buyers) – that would support growth among the value chain and importantly improve incomes of small boat fishermen and crew.



TBS was founded by 4th generation fishermen and they picked up the concepts and bought into the overarching WealthWorks goals immediately, our support for the hoist strengthened their own confidence in their new business idea.

Providing a hoist has grown TBS's business directly AND provided a new source of income from landing fees – by offloading catch from fishermen. Now fishermen have the ability to choose a buyer independent of that buyer's ability to offload product.

One of these buyers is in the live crab market – and offers higher prices to fishermen. In the first season TBS offload crabs for fishermen who made an additional \$45,000 on their catch when they sold to the new buyer. This provided proof of concept for TBS that they could play an essential role in the value chain as an unbiased service provider for fishermen.

Providing hoist services now provides more revenue for TBS than clamming.

So that describes how targeting one business has changed the broader value chain.

Now I want to talk about the broader wealth building effects we have documented from the installation of the hoist.

- One distinction is that a RWC approach shifts the conversation from counting jobs to focusing on what wealth each job builds.

Capital built for TBS:

The hoist itself is a new form of built capital.

The hoist has built individual/human capital: Which has reduced the physical labor of TBS crew and other crew. More people know how to operate a hoist,

Intellectual capital: TBS has changed their business plan from primarily clamming to service provider.

Social capital: TBS now has relationships with a range of non-clam buyers, and stronger ties with the Fishermen who trust TBS to charge a fair price independent of buyer prices.

Financial Capital: The business is actively reinvesting profits into additional build capital, and we know that the hoist brought in more additional income than it cost in the first year.

The fishermen who pay TBS to offload catch:

Having access to more buyers in the port means local fishermen are spending less time traveling to larger ports to access buyers/better prices and spending more nights at home with their family. This was an unexpected outcome and it was really moving to hear fishermen talk about how important this is to them. This builds their individual capital and bonding social capital within their families. These fishermen have also built stronger social capital with TBS and have made connections to more buyers and on a more equitable basis.

We know that fishermen are also directly benefiting from higher crab prices. Having a differentiated market: cooked/live has prevented buyer shutdowns when the cooked market becomes saturated.

Ongoing coordination efforts are an important part of this work. Just last month – we were able to help TBS Inc. meet whole clam buyers in Portland with product. Which puts his business and a few other fishermen a step closer to accessing another higher value, seafood market.

WealthWorks Criteria & Contribution

Value chain gap: TBS used hoist as envisioned. Market responded, more buyers and for crab – documented higher prices.

Wealth Creation: Hard to summarize – but encouraging.

Potential for Scale: Dependent on consumer preferences – seafood is challenging. Catch is limited by permits but more boats can participate – spread to other ports in Oregon.

Improved Livelihoods: Additional income is reaching target population (small boat fishermen and crew), more work remains.

Business viability: TBS has reorganized its business plan to be an aggregator and service provider opening up access to higher value markets for fishermen at the Port.

Leverage: Year 1 invested \$20,000 and TBS - \$15,000. Year 2: Bank loan \$150,000; TBS \$60,000.

Offering technical assistance and grants elevated the importance of the sector to the EDD, it sped up the expansion of TBS by at least 1-2 years, created solidarity around shared goals by publicly naming them and intentionally prioritizing them.

This is, we believe, our strongest example of building wealth through a value chain.

I want to emphasize that the gap we were trying to address with the hoist in the value chain was designed to build wealth without further intervention. We are not trying to convince buyers to purchase from small boat low income fishermen – they already have quality product they just needed access. Key – was the entrepreneur's self-interest being so directly aligned with the common interest. TBS was waiting until they had enough profits to buy the hoist outright and were weighing this business investment against other business investments focused on how do we grow our business. They were embedded in the value chain– and they were entrepreneurial enough to come up with a new business idea.

Now they are reinvesting profits and have taken out business loans for a business expansion to add cold storage space – which would allow fishermen to aggregate product and store product through gluts that drive down prices. TBS is still waiting for additional profits to purchase an ice maker and other equipment.

Our contribution was to elevate the importance of value added seafood for the regional economic development district, we sped up expansion of TBS by at least 1-2

years according to the owners which sped up wealth building throughout the chain.

We created solidarity and increased awareness around the shared goals. And yet, there is more work to be done to support asset ownership by crew members, and to grow and strengthen the value added seafood sector.

We provided \$20,000 hoist, they payed \$15,000 for engineering, site design, installation.

I want to reinforce that point by stressing that we saw greater wealth being built when we targeted businesses that addressed value chain gaps that immediately grew that business and its suppliers building multiple forms of wealth for multiple people.

I want to use our two other investments in the seafood value chain to emphasize some differences. These investments occurred for businesses in a different port but we had the same target population and goals: increase incomes and improve livelihoods for small boat fishermen.

The first investment was similar to the hoist – it was an established business – they caught fish and they sold seafood products. They wanted live tanks in order to aggregate product. The business has grown but very slowly – they have not tried to pursue new markets – and they are in a remote part of the state farther from urban areas than TBS. The owner also has a desire to go slower, he has operated on extremely thin profit margins for awhile.

The second investment was an attempt to root an emerging value chain for a high value seafood product (dulse that tastes like bacon) in this rural region – export product but it grows quickly in large tanks – initial capital investment but less than a

boat and permits. We invested in one fisherman who had specialty seafood marketing experience – and he has now scaled up but it doesn't require a lot of labor. So to improve livelihoods we need more fishermen or crew to buy tanks and start growing – which is not going to happen. Production is increasing in other parts of the state.

So what started as a an effort to improve strategic planning and to integrate community and economic development has advanced to the need to understand more about entrepreneurs. Why are some business owners more motivated to expand their business than others?

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All of our businesses are growing, but not as fast as TBS, and they are generating less wealth creation and improved livelihoods, Why?

Refinements:

- Existing connections with low income producers who would benefit from growth
- We made long term investments and evaluated in the short term
- Market matters

Reflecting on our grant selection criteria – as we examined wealth building creation we had a couple of observations:

1. First, it was critical that the investment made in the value chain gap directly unlocked an expansion of multiple business. This means that the business needed to have existing connections with low income producers who could automatically benefit from their growth. This also meant that the two investments we made to improve the efficiency of businesses had a much smaller or zero effect on their growth – and their ability to spread wealth throughout the value chain.
 1. Investments that were more innovative – by creating a new product or service for a business with suppliers had more impact.
2. Second, WealthWorks emphasizes market driven approaches – so that investments by the public can be solidified and reinforced through market mechanisms. When YellowWood and others were developing the program, The Ford Foundation funded years of interventions and investments to realign community assets towards market demand – this required substantial market research and it took reducing barriers to market, etc. So focusing on a short term – mostly one time intervention – a business grant – of course the degree of wealth building was dependent on how well markets were developed and accessible.

1. We invested in some new ideas and some emerging value chains – and we tried to root this development in rural Oregon economies. Not all business owners are equally invested in growth and they face different constraints throughout the value chain. Investing in the potential to scale – implies different degrees of innovation and risk and market development. We funded projects on a range of development and yet our impacts are directly related to how precisely the investment allowed the business to scale.
1. Market demand and access to markets vary widely across value chains and regions. Part of our effort in this program was to have an impact in remote rural regions – the value chains that emerged lacked robust markets. Fundamentals of economic development.

Efforts in Missouri

- Patty Cantrell with WCMCAA and New Growth
 - Regional food system and Public health focused transportation
- Rickie Maples with Ozark Vitality
- Elaine Rippey with Midwest Assistance Program, Rural Community Assistance Partnership



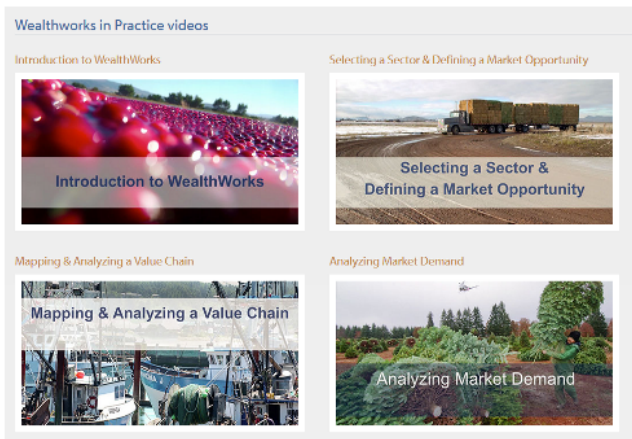
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This is part of a national effort, this is what I know about ongoing efforts in Missouri.

Engaging Small Businesses in Rural Economic Development: Seven Guidelines for Success

1. Focus on businesses' self-interest.
2. Uncover shared interest and common interest.
3. Identify strong leadership.
4. Involve small businesses in problem solving.
5. Be results oriented.
6. Engage businesses respectfully.
7. Introduce concepts as needed and gradually.



<https://extension2.missouri.edu/dm3008>

<https://www.wealthworks.org/>

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Here are other online resources I have created. The wealthworks.org website is hosted by the Aspen Institute and contains a lot of examples and additional materials.

Comments, questions?

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<https://tinyurl.com/MUExceed>

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Household Spending Indicator

https://extensiondata.missouri.edu/pro/exceed/docs/MissouriEconomy_COVID-19_18May2020.pdf

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Household Spending Declined Substantially

- Missouri spending was down 17% from January to April
- Spending declined before COVID-19 fears led to public closures or stay-at-home orders

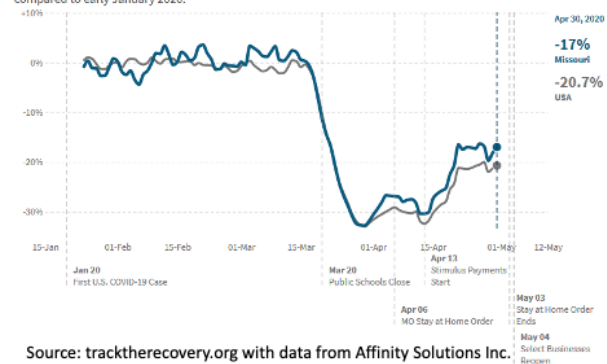
Why Does This Matter?

Household Spending Drives the U.S. Economy

Personal consumption expenditures account for almost **70% of the U.S. economy**, and as a result consumer spending patterns drive job creation and household income.

Household Spending from January - April 2020

In **Missouri**, as of April 30 2020, total spending by all consumers decreased by **17%** compared to early January 2020.



Source: tracktherecovery.org with data from Affinity Solutions Inc.

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Spending Differs Across Various Sectors

- Grocery spending is up 23% and mask losses in other sectors
- COVID-19 safety concerns and the a decline in household income could slow the rebound of spending once stores reopen for business

Know the Source

Credit and Debit Card Spending Data

Affinity Solutions, Inc. provides these data, which are based on cardholder location and spending, averaged over 7 days. Percent change is from January 2020 and is seasonally adjusted based on spending the same week in 2019. This is not a complete set of purchases but closely reflects national consumer spending data.

Percent Change in MO Consumer Spending by Category

From January 2020 to April 30, 2020

Expense Type	Percent Change
Total	-17%
Grocery	+23%
Apparel & General Merch.	-24%
Restaurants & Hotels	-55%
Health Care	-47%
Transportation	-70%
Arts, Entertainment & Rec.	-74%

Source: Affinity Solutions Inc. data from tracktherecovery.org

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