



VALUE CHAIN DEVELOPMENT INITIATIVE

Strengthening Value Chain Coordination in Local and Regional Food Systems

BACKGROUND: USDA's *Know Your Farmer Know Your Food* team is initiating a 2-3 year project to demonstrate the importance of value chain coordination in regions where developing and/or improving local and regional food systems are a community priority.

OPPORTUNITY: Consumer interest in buying local and a societal emphasis on healthier eating are driving communities across the country to explore ways to transform their local and regional food systems. What began as a trend in more affluent coastal communities and university towns it is now finding traction across the country, in urban and rural areas alike, where it might not have been expected ten short years ago. The public wants to eat healthier and increasing numbers of farmers want to grow something other than commodity crops IF they can sell to local markets and be profitable. Moreover, there are clear economic, social, and environmental benefits that accrue to communities shifting to a regional food system.

PROBLEM: The federal government, primarily through USDA, has and will continue to make significant infrastructure investments that enhance food systems. These investments, however, are less likely to reach their full potential if there is not commensurate human capital on the ground ensuring that the array of public and private activities are coordinated in a strategic manner (e.g. production planning, food product aggregation/distribution, supplier/buyer communication, institutional procurement, and continual support of public policy evolution).

PROPOSAL: USDA is funding high capacity organizations that can provide food system value chain coordination services in 7-10 metropolitan regions across the country. USDA is initially committing \$500k and looking for additional Departmental funding by December. We hope that the bulk of external matching commitments can be secured by Dec. 2015.

PHILANTHROPIC ROLE: Private funding will complement USDA funds to support this effort in each of the selected regions. Philanthropic support will enable the initiative to cover a diverse array of metro regions and enable the work to continue in sufficient duration to generate impact. In addition to supporting costs of value chain coordination staff, funders may also support a national coordination organization to enhance peer-to-peer learning and provide targeted technical assistance to value chain coordinators, as well as to carry out monitoring and evaluation functions.

POTENTIAL LOCATIONS: Pilot locations have been selected based on a number of factors, including local capacity, importance to a variety of strategic objectives including alignment with existing Administration initiatives, viability of urban-rural collaboration, opportunity to serve diverse populations, availability of philanthropic resources, etc.

ADMINISTRATIVE: USDA will enter into Cooperative Agreements with organizations chosen to undertake the work. These organizations will in turn identify grant funding to match federal funds. USDA will not be applying for external grant support on behalf of the "Cooperators."

IMPACT OUTCOMES: Public-private partnerships can expect a high return on investment through increased revenue to local producers, discernable job creation along the value chain, and increased access to healthy, affordable food.

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Problem Statement: Interest in local and regional food among grocers, foodservice companies, restaurants and institutions is growing quickly, as is the number of farmers, ranchers and processors interested in selling to these markets. USDA and its Federal, philanthropic, and private sector partners have made considerable investments in food hubs, food processing businesses and distribution networks that are providing the right-scaled “hard” infrastructure. This support has helped chip away at the infrastructure gap for local and regional foods, but gaps still exist in many areas and USDA investment in hard infrastructure will remain important.

That said, as local food systems evolve from direct farm-to-consumer transactions to more sophisticated supply chains with larger-volume buyers, a new need has emerged. The effectiveness and impact of these more complex local food systems and our hard infrastructure investments in them is hampered by a lack of active coordination between supply chain actors. In other words, opportunities to maximize the potential of our hard infrastructure investments are lost when the “soft” infrastructure of food systems – the people who build the relationships and coordinate the activities along food value chains – is missing.

In some cases, physical businesses like food hubs need to be incubated and developed to provide coordination among producers, buyers, and other supply-chain businesses; in that sense, food hubs serve as both soft and hard infrastructure. But in other cases, the relevant hard infrastructure may already exist and it is more of a matter of finding the right person or team of people to connect producers to the right food distributors, processors, and consumers and facilitate the building of these relationships to ensure consistent and reliable flow of local products from farm to plate. For example, [a recent USDA funded report](#) by Oregon State University and Iowa State University found that the primary challenge for expanding local meat production and sales was not a shortage of meat processing facilities, but rather the lack of coordination and communication along the local meat supply chain. Producers did not always understand how to work effectively with meat processors; processors did not always understand the needs of buyers; and no one was there to coordinate among them, reducing market opportunities for all of the businesses in the chain.

Value Chain Coordination Opportunity: Value Chains have emerged as a proven strategy for a new generation of business development, and within food systems work as the most prominent and effective way for coordinating local supply chains. Food value chains differ from typical food supply chains in that they are *intentionally structured to produce both business success and social benefit*. Given this intentionality, it often takes a particular person or team of people to build the initial relationships with supply chain actors and to find a shared set of mission and operational values. These value chain coordinators may play multiple roles in the development of food value chains, including:

- **Matchmaker**—Identify and connect key stakeholders through short-term engagement. This “public interest broker” role is key to development of food value chains because many businesses are stepping outside their normal channels to find new collaborators.
- **Convener/Relationship builder**—Build the necessary relationships across the food value chain by engaging key stakeholders, maintaining communication channels and fostering a trusting environment. Some examples are convening stakeholder meetings, forming working groups, and implementing other forms of longer-term engagement.

- **Technical assistance provider**—Work with food value chain members to build capacity through education and training programs in such areas as sustainable production practices, food safety, marketing/branding, etc.
- **Policy advocate**—Raise policy issues and partner with others to address policies and procurement requirements, such as bidding procedures and preferred-vendor practices that may interfere with the ability of food value chains to access certain marketing channels.
- **Resource prospector**—Identify and pursue resources, such as grants, loans, and services to support value-chain collaborators as they develop their enterprise.
- **Catalyst/Innovator**—As a resource prospector, value chain coordinators can also utilize grants and other external resources to test new business models and thus lower the financial risk of the businesses engaged in the value chain.

Food value chain development is rooted in an asset-based, market-driven approach with a proven track record of strengthening rural-urban economic linkages and creating sustained wealth for rural communities. As such, USDA Rural Development’s mission is well-aligned to implement a pilot project to support value chain development given RD priorities in local/regional food systems and community economic development.

Proposal: Allocate between \$500k-750k from FY2015 budget through cooperative agreements to fund up to 10 value chain coordinators (\$75,000 each over 2 years) in targeted areas with variation in terms of product mix (meat, produce, grains, value-added), markets served, producer types, as well as variation in terms of impact outcomes, e.g., increased revenue to producers, increased access to healthy food, job/business creation. All sites will demonstrate significant potential for rural-urban linkages that can benefit rural producers and businesses. Value chain coordinators will be selected based on past experience, track record of success, existing relationship/ knowledge of chosen project areas and stakeholders, and ability to leverage Federal and other funding.

It is expected that coordinators will be able to leverage at least a 2 to 1 match with other public/private funding. With leveraged funding, total funds for each value chain coordinator would be approximately \$200k to \$300k over 2 to 3 years. Additional public/private funding is being identified to fund a support organization to enhance peer-to-peer learning and provide targeted technical assistance to value chain coordinators, as well as to carry out monitoring and evaluation functions.

The value chain coordinators could be based at Cooperative Development Centers or Agriculture Innovation Centers in order to increase the capacity of the centers to support local food value chains in the future; could work out of or coordinate closely with Cooperative Extension offices; work closely with SBA Small Business Development Centers; and/or be based at nonprofit organizations focused on incubating/training/assisting food and agriculture entrepreneurs.

Project Outcomes/Impact: Based on evidence of previous food value chain interventions, it is expected by the end of the three year project that each food value chain initiative will generate at least \$1 million in gross annual sales, with between 60 to 80 percent of these sales going directly back to producers. The overall project impact of USDA value chain investment should achieve a conservative 5 to 1 return on investment, benefitting hundreds of local producers by yielding between \$5 to 7 million in additional revenue for their farm/ranch operations through new market sales, as well as job creation along the value chain and increased access to healthy food in underserved communities.

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