

# CONCEPT PAPER

## Leveraging the Food Economy for a More Equitable Durham

Durham, North Carolina is a diverse and growing city with great resources. Its growth, however, is imbalanced: 16% of city residents live in poverty, and people of color are disproportionately represented in this group. The racial wealth gap in Durham is consistent with national statistics and emerges from centuries of policies and practices impacted by systemic racism. Unless strategic action is taken, the racial wealth gap will continue to perpetuate and compound into the future. The City of Durham has an opportunity to build the infrastructure for a future in which every resident can thrive. To that end, the City is planning for economic development that targets equity and racial justice. To expand the impact of existing plans, some programming should focus on food. Equitably developing businesses along the food chain will improve outcomes in food security, nutrition, cultural place-making, and employment. Programs to implement equitable food-oriented development must strategically provide access to capital and technical assistance. By incorporating food systems into existing development plans, Durham can better access the abundance of potential that lies within its underserved communities.

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## Analysis: Durham, North Carolina

### A Growing City

Durham, North Carolina has grown and changed significantly in recent decades. Between 2000 and 2010, Durham grew by 22%, making it the state's second fastest growing city (City of Durham, 2020). The population growth has been accompanied by economic growth. In the last 20 years, Durham has hosted one million new visitors and invested \$1.7 billion towards the creation of new businesses and office spaces. Located within one of the top agriculture states in the nation, Durham enjoys proximity to many farms and food producers. A variety of private and public universities enrich the city with cultural, educational, and informational resources. They provide a steady stream of visitors and entertainment. With this diverse portfolio of assets, Durham has tremendous potential for continued development.

### The Racial Wealth Gap

The rising prosperity is not experienced evenly throughout the city. About 16% of residents live below the poverty line (DataUSA, 2020). Of this group, 39.5% are African American, 28.6% are white, and 19.6% are Latinx American. These percentages indicate that people of color disproportionately experience poverty. African Americans in Durham have a 1 in 5 chance of living in poverty, Latinx Americans have a 1 in 3 chance, while white Americans have less than a 1 in 10 chance. The disparity in wealth along racial lines is reflective of national trends. In the United States, the median net wealth of a white household is \$110,000 greater than a household of color (Turner, 2018). This difference impacts people's abilities to start businesses, accrue property, and build wealth.

The racial wealth gap can be traced over national, regional, and local histories. Centuries of withheld wages due to enslavement, denial of opportunities and services under segregation, and institutional deprivation of capital all factor into creating the systemic inequity that presents between communities of color and their white counterparts. Aspiring entrepreneurs of color continue to face resource-related barriers that their white peers typically do not. With less start-up capital available among friends and family, less property for collateral, and less cash flow from the community, entrepreneurs of color are often perceived by traditional financial institutions to carry higher risk. Consequently, 40% of black business owners report being discouraged from completing loan applications in comparison to 14% of whites (Simms, 2017). Many black entrepreneurs then utilize credit cards in order to access capital for their businesses, which results in 30% higher interest rates than their white counterparts pay for funds (Cooper, 2018). The racial wealth gap therefore perpetuates itself through the starting, scaling, and maintaining of businesses.

### Need for Equitable Development

For Durham to become a city in which all residents have equitable access to prosperity, strategic infrastructural investments must be made. The City is planning to launch a series of interventions and programs tailored to the needs of historically disadvantaged communities to promote sustainable growth (Urban Investment Strategies Center, 2019). To expand its impact, planning should incorporate elements tailored to spurring food-oriented business development. Food-oriented development encompasses activities across the food chain that include food production, aggregation, processing, distribution, consumption, and waste management. Developing equitable businesses along the food chain has the potential to address several issues facing low-income communities. This development can support improved health outcomes, food security, cultural and place-based pride, employment opportunity, and environmental conditions. The food sector is an inclusive one, offering employment opportunity appropriate to workers of varied ages and skillsets. It can draw upon preexisting community knowledge rather than expend vast resources importing new knowledge. Lastly, demand for innovative local food is on the rise as consumer preferences trend towards valuing authenticity, quality, and unique flavor (National Restaurant Association, 2020). Investing in equitable food-oriented development will capitalize upon these trends to benefit the entire city of Durham.



# Recommendations

## Implement Equitable Food-Oriented Development

Equitable Food-Oriented Development (EFOD) was recently codified into an approach by a collaborative of community organizations and financial institutions as an effective framework for fostering development in under-resourced communities (EFOD Collaborative, 2019). The EFOD Collaborative focuses on businesses that grow, process, distribute, and prepare food. Their approach operates along five criteria: projects must put equity and justice first, be place-based, use market-based business strategies, be community-led, and have community ownership of decisions. The EFOD collaborative emphasizes that local community members must be the drivers of the enterprise's decision-making so that it reflects the place and people it serves. Enterprises must be place-based, emerging from the unique assets and resources of the local community. They must utilize market-based strategies so that they are designed to become self-sustaining. These criteria differentiate EFOD enterprises from other forms of food-oriented development in low-income communities, such as outsider-owned franchises, charitable food banks, and advocacy nonprofits. To ignite and sustain economies in under-resourced areas, development must be generated in, by, and with community members.

To support EFOD as defined by the collaborative, institutions can offer resources that strategically bridge existing gaps. These resources can be grouped into two categories: capital and technical assistance. Skillful delivery of these resources would interface between institutions and community in ways that are capable of responding to unique community needs.

## Provide Access to Capital

When starting a business, a budding entrepreneur typically turns to friends and family to gather seed funding. In low-income communities, this funding is far more difficult to obtain. The racial wealth gap increases the likelihood that entrepreneurs of color will have difficulty obtaining seed funding from friends and family. To overcome this barrier, entrepreneurs of color must find other avenues for capital. Consequently, they launch businesses at slower rates and at smaller scales than their white counterparts (Fairlie et al., 2016). A recent study found that entrepreneurs of color felt distrustful of lending institutions because they perceived a disconnect between their financial needs and the lenders' products and procedures (Gaston, 2019). The entrepreneurs reported that loans were available to them only after they could prove the success of their businesses—after the point at which they most needed the capital. For this reason, the entrepreneurs accessed the capital they needed through informal lending institutions like PayPal, Kabbage, Square, and Kiva instead.

The research findings illustrate that EFOD businesses often have funding needs that go unmet by financial institutions. Traditional financial products that utilize a risk-reward metric fail to meet the businesses' timing and flexibility needs. EFOD funding needs vary over the life of the business and the available assets of the business leader. New EFOD businesses often need start-up capital in the form of grants, donations, or patient low-interest debt. As the business grows, it needs patient, flexible debt and equity. Once the business has established a stable cash flow, it is finally ready for more traditional forms of capital (Moraghan et al., 2017). For a financial institution to adequately serve these businesses, it must be capable of providing tailored products and services across the spectrum of businesses' developmental needs.

## Utilize Community Development Financial Institutions

Community Development Financial Institutions (CDFI) play a powerful role in delivering equitable business development. They are mission-driven financial institutions that collect funding from public and private sources that they then invest in community development. CDFIs can take the form of banks, credit unions, loan funds, or venture capital providers (CDFIFund, n.d.). Rather than utilize the traditional two-dimensional risk-reward metric to evaluate investments, CDFIs often use a three-dimensional metric of risk, reward, and impact (Moraghan et al., 2017). They provide and manage capital through grants, flexible capital (a combination of low-cost debt and grants) and traditional debt. CDFIs partner with governments, universities, economic and community development councils, and advocacy groups to conduct local outreach and identify potential projects. Through these partnerships, CDFIs are able to provide a variety of programs and supports to encourage business development and successful debt repayment from their clients.

CDFIs are uniquely suited to developing an EFOD seed fund from which to draw grants and flexible capital. There is a growing field of impact investment funds that specifically target food systems including the TomKat Foundation, Radicle Impact, RSF's Food System Fund, and Arabella Advisors' Good Food program. When considering a fund at the state or local level, a robust model is the Michigan Good Food Fund (MGFF). The Fund was started with a \$3 million federal grant from the Healthy Food Financing Initiative (HFFI) awarded to the CDFI Capital Impact Partners in 2013 (Michigan Good Food Fund, n.d.). Capital Impact Partners then contributed their own funding and secured additional private investment from foundations and corporations to officially launch MGFF in 2015. The MGFF is a collaboration of partnerships committed to advancing racial and social equity by developing businesses along the regional food supply chain. Capital Impact Partners is the fund manager, the W.K. Kellogg Foundation is the lead supporter and investor, the Fair Food Network leads outreach and communications, and Michigan State University's Center for Regional Food Systems leads business assistance and development. Through this broad collaboration, the MGFF has invested over \$12 million to support 300 businesses and 600 jobs. This model is a useful tool to guide the creation of a similar fund in North Carolina or Durham.

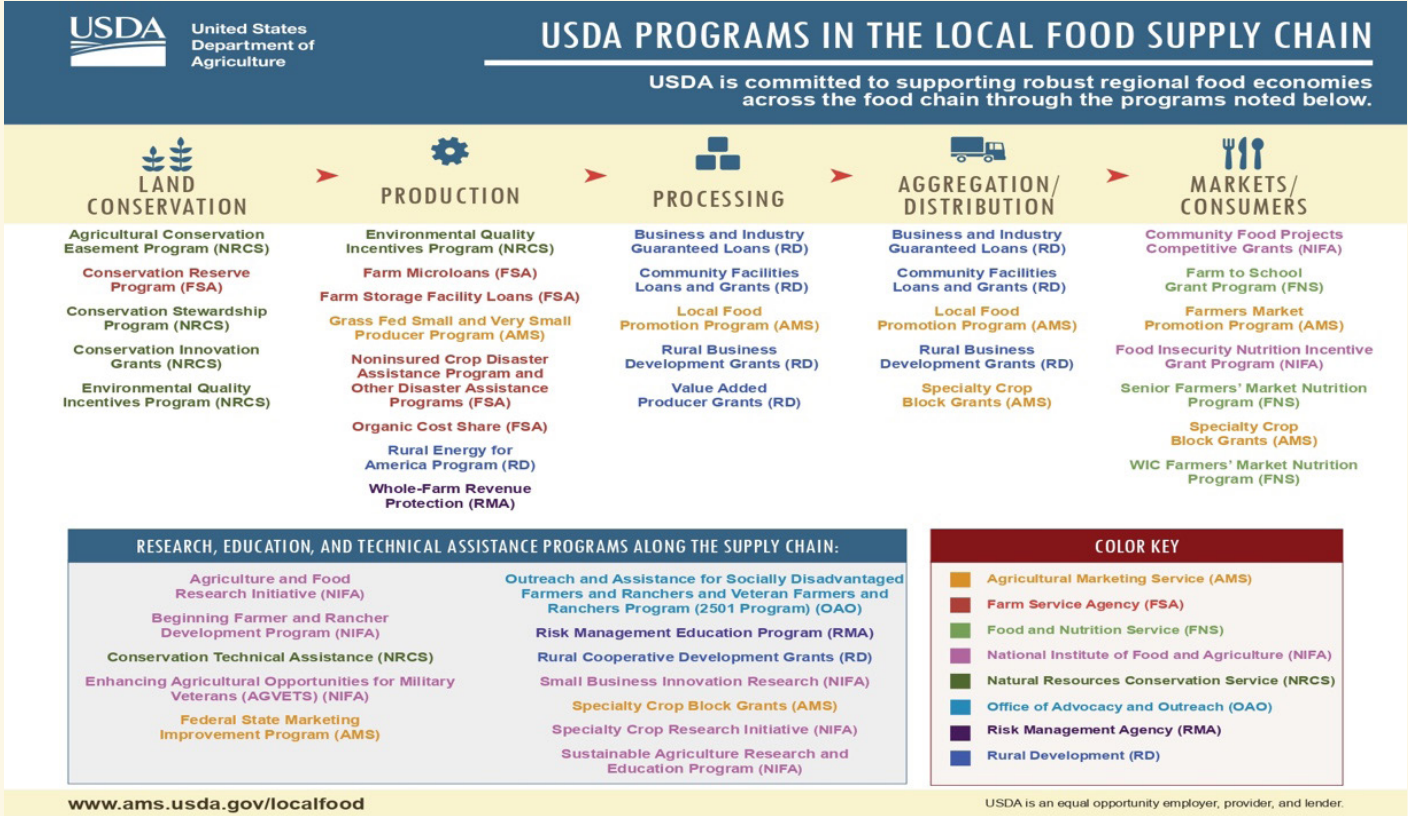




Leverage Federal Programs and Contracts

Federal programs can be useful sources of capital to ignite business development. These grants can provide capital directly to businesses, increase consumer purchasing power, or offer procurement opportunities and contracts. There are many federal initiatives that could be utilized towards EFOD in Durham that align with the City’s goals of improving health outcomes, revitalizing communities, and promoting environmental sustainability. The United States Department of Agriculture (USDA) Environmental Protection Agency (EPA), Health and Human Services (HHS), and Small Business Administration (SBA) all have potentially relevant opportunities. Figure 1 is a map of USDA funding opportunities across the food chain. HFFI, the grant that launched the MGFF, is a fund out of the USDA Rural Development program in collaboration with Reinvestment Fund (a CDFI) to provide grants to improve healthy food access in underserved communities. The Local Food Local Places program, a collaboration between the EPA and the USDA, supports community-driven efforts to protect environmental resources by bolstering local food systems. The funding can be used to create grocery stores, markets, and food hubs that sell local produce. The USDA also offers grants that equip businesses to accept SNAP benefits as payment, and to incentivize produce purchasing. Finally, the US SBA 7(a) Program, US SBA 504 program, USDA Business and Industry Loan Program, USDA Intermediary Relending Program, US Department of Health and Human Services, and Community Economic Development Grants all have potential relevance as well. Similar to the MGFF, these grants could contribute a large amount of low-cost capital towards a Food Fund.

Figure 1: USDA Programs in the Local Food Supply Chain



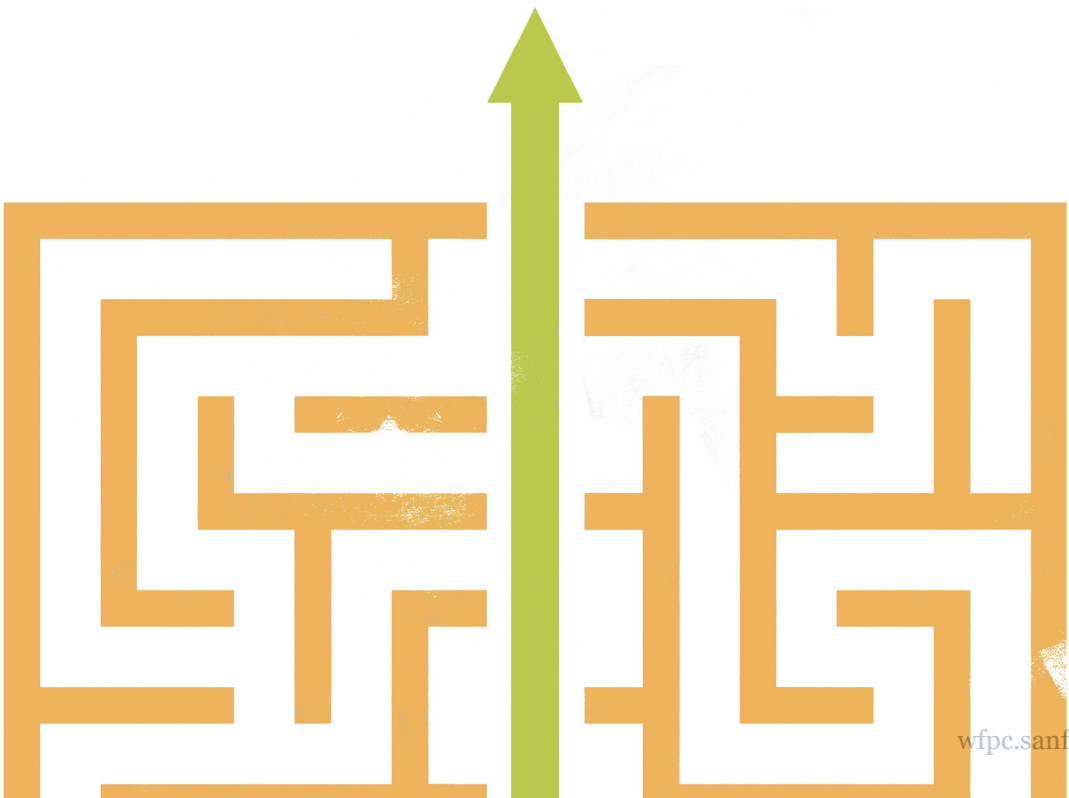
Source: U.S. Department of Agriculture, Agricultural Marketing Service

Provide Technical Assistance

Along with access to capital, the second component to implementing EFOD is providing technical assistance. Community organizations are critical partners in this work due to their local expertise. For example, Frogtown Farms is a community organization in Minnesota that established a farmers market after converting a local park into a community garden (Frogtown Farms, n.d.). In Texas, La Mujer Obrera organizes entrepreneurial, cultural, and food-oriented programming to provide enrichment as well as training to their community members (La Mujer Obrera, n.d.). In Massachusetts, Nuestras Raices operates 14 community gardens, school programs, local farmers markets and CSAs, and hosts an annual harvest festival (Nuestras Raices, 2017). Community organizations such as these are critical partners in EFOD work. They are valuable resources to conducting outreach, serving as pipelines to tap the talent in the community. Community organizations are best equipped to bridge their community members with institutional resources through communications, training, consulting, and events.

After identifying community leadership, the City could then provide the informational resources that entrepreneurs need to succeed. The MGFF’s approach is to offer one-on-one consulting and workshops that draw upon their partnerships’ expertise. Consultants provide individualized support to entrepreneurs around planning, financial management, food safety compliance, marketing, packaging, and operations. Workshops are tailored to different sectors and business phases. MGFF also offers a networking service, facilitating connections between entrepreneurs and other professionals through referrals. They deliver support responsively and proactively to ensure that the business is set up to succeed.

In addition to the individual level, technical assistance can be delivered for groups. Business competitions, incubators, and accelerators are programs that can be used to grow businesses (Benson, 2017). Business competitions provide a rapid, intensive opportunity for entrepreneurs to develop their pitches and compete for seed capital. For example, the South Carolina Community Loan Fund runs a ten-week entrepreneurial training program that culminates in a live pitch to a panel of judges and an award of \$20,000 in seed capital (South Carolina Community Loan Fund, 2020). Incubators offer sites for entrepreneurs to use shared equipment, enabling them to focus on developing their products and business plans without investing precious resources in equipment. Accelerators are short term opportunities over several months that focus on product and business plan development through the provision of mentoring, workshops and networking. Accelerators typically accept a cohort of entrepreneurs who then move through the program together. Business competitions, incubators, and accelerators are methods to provide programmatic support to businesses so that they can progress to the next phase of development.





# Conclusion

As Durham prepares to build infrastructure for inclusive and equitable development, it can target food systems for greater impact. Using the EFOD criteria in planning will support the generation of community-owned and led businesses that reflect the unique culture of Durham. The City can create mechanisms for EFOD by providing access to capital and technical assistance. Effective capital will leverage both private and public funds to build a seed fund. Managed by CDFIs, these funds could provide patient, flexible capital that meets the needs of growing businesses. In addition, the City could provide technical assistance that is proactive and responsive. It can utilize local partnerships to provide high quality one-on-one consulting, workshops, competitions, incubators, and accelerators. Through an EFOD-aligned initiative, Durham could take intentional action to address the entrenched racial wealth gap and serve as a leader for other cities nationwide. Realizing the under-tapped potential in communities of color would make Durham into a prosperous, culturally rich city in which all residents can thrive.

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## WORLD FOOD POLICY CENTER

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### About the WFPC

The World Food Policy Center is a research, education, and convening organization within Duke University's Sanford School of Public Policy. Its mission is to advance connected and inclusive food system policy and practice in support of equity and resilience of local and global food systems. WFPC work centers on economic development through food justice; root causes and narratives of racial inequity in the food system; moving aid from charity to capacity building; governance in support of equity in power and benefit; local food system analysis; and public health and nutrition. The conclusions and recommendations of any World Food Policy publication are solely those of its author(s), and do not reflect the views of the Duke University or its other scholars.

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