# FROM CAPITAL- TO COMMUNITY-FIRST MINDSET IN IMPACT INVESTING

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FAIR FOOD NETWORK

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# INTRODUCTION

Wealth inequality in America is extreme. Despite good intentions by impact investors and a range of creative strategies, capital is still not reaching everyone equally, especially in communities of color, with dangerous implications for the future of our society and planet. As investors continue to navigate the many disparities exacerbated by the COVID crisis and increasingly by extreme climate events, business as usual simply isn't enough. Impact investors need new approaches more deeply rooted in the communities where capital is not flowing.

A subset of impact investors is seeking bold change. Underlying their thinking, which includes deep commitments to racial justice, is a shift from a capital-first mindset, which has historically shaped impact investing practices, to a community-first mindset. This change is grounded in the fact that capital is an expression of relational, structural, and personal power. Though often invisible, these power dynamics are root causes of wealth gaps. And power won't shift unless we change how we invest.

A community-first mindset is becoming central to the impact investing strategies of Fair Food Network. Fair Food Network and other community-first investors are working to re-design catalytic capital tools with new consciousness of the role that power has played in perpetuating and worsening inequities. At Fair Food Network, this consciousness is unfolding both through its own investments as well as its efforts fostering two place-based investing collectives, **Michigan Good Food Fund** and the **Camden Food Fund**, which are coordinating local stakeholders and institutional balance sheets to advance community-identified priorities. These are not success stories but work-in-progress journeys built around community-first values and learnings from the work of many other impact investing colleagues. Fair Food Network's journeys are two-fold, designing the structure for new place-based community-first funds, and also unpacking and redesigning how power flows in its existing funds towards community-first values.

As Fair Food and other community-first investors seek to remake the investing process, their practices are going further than business-as-usual to elevate new insights and, ultimately, new norms that could accelerate our collective journey towards justice.

# UNDERSTANDING THE CAPITAL-FIRST MINDSET

At its simplest, capital-first thinking can be understood as a focus on dollars & transactions over people & relationships. It stems from the belief that capital systems are objective and rational, rather than a collection of **subjective and at times irrational choices** made by a relatively small portion of the population with outsized influence and control of wealth. It prioritizes protection of, and profit to, the capital holder.

In a capital-first mindset, this power inequity can go unnoticed. Yet the wealth gap has and continues to be shaped by decisions, made by a select few, that determine who has access to capital and who doesn't. And impact capital, despite good intentions, has not been immune to this capital-first mindset.

Many standards that can drive impact investment decisions still favor those who already have wealth. This includes requiring collateral (a form of wealth), credit scores (which penalize people who live in places without nearby banks), or reductive character references. Such biased standards end up driving who and what impact investors look for or "see" as viable investments.

In addition, when investors focus on dollars and transactions over people and relationships, investees may end up being forced to fit pre-determined capital products that saddle them with inappropriate debt or equity, rather than having access to products designed to further their vision, agency and success.

Finally, in the focus on dollars & transactions, relationships between investees and investors can become limited to the investment term. This reinforces short-term thinking that often emphasizes financial returns over social impact and hinders both longer-term partnerships and visibility into longer-term outcomes — both positive and negative. The end result is that impact investments may extract from the very communities they intend to benefit or **fail to line up** with what people who should be benefiting say they need — if they are even asked.

In response to such challenges, a growing number of impact investors are looking to center relationships and people, especially those closest to experience — rather than people closest to capital. One of their important tools in moving this commitment forward is catalytic capital.

# REFRAMING CATALYTIC TOOLS WITH A COMMUNITY-FIRST MINDSET

Catalytic capital has long been a tool of impact investors seeking catalytic change. The concept of catalytic capital — named by **MacArthur Foundation** and interrelated with the idea of **blended capital** — is a way to describe impact investments that may carry unusual terms, like greater financial risk, lower financial returns, or longer time frames, to prioritize impact returns that likely wouldn't have otherwise occurred without them.

For example, catalytic capital can provide a path for an organization that doesn't fit standardized financing to meet those standards. It can also attract third-party investment that wouldn't have otherwise supported impact-focused **projects or funds**. **Tideline**, **Environmental Defense Fund**, the **GIIN**, and others have mapped a wide variety of tools that apply this way of thinking, such as guarantees, first-loss capital, grants, or patient or below-market loans that "blend" with traditional products that were not likely to have come to the table without it.

All of these forms of catalytic capital are meant to spark, accelerate, or deepen impact. Yet investment committees, regulations and other pressures can tilt even the most impact-minded investors towards capital-first practices, and many admired lenders have noted these tensions. For example, **Enterprise Community Partners**, **IFF**, and others have shared that many Community Development Financial Institutions (CDFIs) use standards that limit impact, such as risk- and appraisal-based pricing, high fees, or potentially extractive collateral requirements. Such standards prioritize those with pre-existing wealth – thereby maintaining or deepening wealth inequity.

Reframing catalytic capital with a community-first lens invites us to notice where our standards work against our intentions. It also shows us how important people, relationships, and non-financial resources also are in catalyzing success that wouldn't have otherwise occurred.

Moving from a capital to a community-first orientation manifests for investors in many ways, but three stand out: evaluating relationships and power, redefining who is seen as investable, and changing how investors work together, especially in place-based efforts. Together, these strategies hold the potential for broader systems change.

# 1. Evaluating Power and Relationships

In their efforts to put community first, many impact investors are exploring how to shift power from asset owners to the people and communities where the capital will be invested. Their actions span a wide spectrum, from changing investment staff or committee composition, to creating space for community stakeholders to set portfolio goals or make individual investment decisions. Many efforts focus their work in defined ecosystems — such as place — to assess change and carry accountability.

For example, organizations like **REAL People's Fund** or the place-based collectives that Fair Food is fostering are building processes that invite local stakeholders to collectively develop priorities and policies that will drive investment decisions that affect their communities.

Others, like **Boston Ujima Project** or **Black Farmer Fund**— which Fair Food Network is supporting during its pilot phase— pass control of capital decisions to advisors from the community who bring lived experiences aligned with those they intend to support. **Kataly Foundation** and Fair Food Network also make direct catalytic capital investments into businesses owned or led by people who are rooted in their communities, including co-ops and neighborhood businesses. Still others like **Cienega Capital**, **RSF Social Finance** and **Buen Vivir Fund** of Thousand Currents are centering investees by developing democratic processes for making investment policy decisions or working side by side with investees to set their investment terms.

Each of these innovations offer different models for how investors are shifting power. Along the way, investors are questioning norms and clarifying what “community members” and “lived experience” mean. Shifting power takes real relationships, self-reflection and time.

# 2. Redefining Who Is Seen as Investable

Another way community-first orientation manifests is by reshaping how investment decisions are made, what support is provided, and ultimately who is seen as investable.

At its simplest, community-first investors act like friends and family: Like Runway, Co-Op Capital, or Fair Food Network, they're looking past standardized assessments and focusing instead on providing catalytic support to people.

Community-first investors also don't expect entrepreneurs to go it alone. They are often partners in navigating complex, opaque capital-first systems. And where they themselves may not have resources, they'll think about who does, draw on community wisdom, or foster additional connections.

In the diligence process, these investors get to know who the candidates are — instead of relying as heavily on pre-existing wealth, cookie-cutter standards, or shovel-readiness that can exclude people with extraordinary potential. In deploying capital, investors may work to design products around investees' needs — rather than letting the product act as another gatekeeper. And instead of letting the investment period define the length of relationships, investors try to work with entrepreneurs over the long-term — before and after investments are made and beyond exits.

Community-first investors recognize the importance of non-financial resources as they work to meet entrepreneurs where they are. For example, an investee not yet ready for financing may receive business coaching, mentorship, fiscal sponsorship, or other stepping stones to prosperity. Financing may also be paired with similar pre- and/or post- business assistance. Given follow-on capital is especially scarce for entrepreneurs of color, these investors think about relationships long-term and give upfront consideration to follow-on capital that can be responsive to investee growth. Doing all of these things with deeper awareness of power in relationships opens space for people who ordinarily don't make it past the first gates in the investing process to get a better chance at building wealth. They are "seen" — before investment and through the diligence process. And they keep on being seen after the investments are made, as investors work to be sources of support, not extraction. In pursuit of impact, catalytic capital can choose to put people, rather than investors, first.

## 3. Shifting How Investors Work Together

Collaboration among investors is common, particularly when it comes to catalytic capital, which can act as the secret ingredient that brings together a deal involving multiple investors with different types of capital. But how can investors go further beyond occasional relationships or general networking to maximize the use of catalytic capital in ecosystems where people have historically faced barriers to wealth creation? And within a community-first frame, how can investors maximize non-financial resources like social networks and business expertise so that these, too, are coordinated levers for wealth building?

These kinds of questions are shaping collaborations that seek to knit the unique capabilities and resources of individual groups under a shared vision. Through these initiatives, communities and multiple investors are working together to expose resources that are missing and needed — whether it is collateral, grants, or non-financial resources like business advice or networking. When adequately aligned, they can coordinate and integrate resources so that potential investees aren't turned away because one individual investor doesn't have the full resources they need.

Multi-investor collaborations and deep community engagement require design and facilitation. Centering community-articulated priorities and coordinating on deal discovery and pipeline, credit enhancement tools, and evaluation of impact goes beyond business as usual but is critical to making investing more about community outcomes and less about individual investor balance sheets and returns.

When traditional investors are in relationship with other investors and they know the financial and non-financial resources available and how they work, they might think twice before rejecting a potential investee that doesn't fit their criteria. Instead, they can reach out to a catalytic investor to fill a gap. While these actions might not immediately change any one organization's investing standards, it does change how traditional investors "see" and direct capital to potential investees within an ecosystem. Ultimately, it may also result in stronger, more lasting relationships across all participants.

As collaborative investments occur among partners who shift power, pool data, and prioritize the relationship in setting standards, the field can build the evidence to collectively re-examine perceptions of "risk". In this way, collaboration — which Fair Food Network is trying to realize in its work with the Michigan Good Food Fund (MGFF) and also in nascent place-based funds in Hawai'i and New Jersey — holds the potential to reorient larger systems to be in direct conversation with communities that impact capital is meant to serve.

# COMMUNITY-FIRST INVESTING IN ACTION

What does this community-first orientation look like in action? We offer two case studies: one from Fair Food Network's work as an investor and another from its experience as a facilitator of place-based investment collectives.

## Case Study - North Flint Food Market: Catalytic Family for Community-Driven Change

After the Flint water crisis in 2014, the last two major grocery stores on the city's north side shut their doors, leaving residents without access to healthy food at the moment it was needed most. Pastor Reginald Flynn, a Flint native who returned to the city 13 years prior to minister at the Foss Avenue Baptist Church, wasn't surprised. Nor was he going to beg them to come back. Instead, spurred by residents, the **North Flint Reinvestment Corporation**, a place-based nonprofit led by Pastor Flynn, began exploring how to open a new grocery store — one that was owned by and for the community it was meant to serve.

Given its history of investment in the city as well as its leadership role in the Michigan Good Food Fund, Fair Food Network was introduced to Pastor Flynn and his vision in 2016 and quickly recognized the potential impact of Flynn's plan: The grocery store would not just be an outlet of much needed healthy food, but a job creator and anchor in a broader vision of community-first development where residents set the vision and remain engaged every step along the way. As a co-op, the store would also move North Flint toward food sovereignty and self-determination in the face of decades of divestment.

Fair Food Network was invited into the project to help support the co-op's success and to provide expertise in starting up and running a grocery store. A member of Fair Food Network's investment committee became an embedded thought partner and collaborator with Pastor Flynn for more than five years. From tackling the financial plan to broadening connections and ultimately coordinating a complex capital stack, Fair Food Network worked to unlock a mix of technical consultants and capital resources for Pastor Flynn and the community's ambitious project.

The journey has not been without financial and bureaucratic hurdles. Yet after six years, North Flint Reinvestment Corporation raised over $7 million in grants, loans, and New Markets Tax Credits equity. When a financing gap emerged to help cover last mile transaction costs, Fair Food Network was able to step in and provide a no questions $100,000 bridge loan. The longstanding relationship with Pastor Flynn and deep understanding of the co-op's business model made it possible for Fair Food Network to move quickly and offer deeply flexible terms with little security requirement.

The loan was paid back in full within six months, and the **North Flint Food Market** broke ground **in August 2021**, revitalizing a long-vacant and obsolete building. Of the Market's 900 member-owners, 95% are Black and 80% live in North Flint. In addition, the capital stack also included more than $200,000 raised by the community itself.

Fair Food Network continues to be a ready partner to the North Flint Food Market grand opening and beyond. By centering the potential impact of Pastor Flynn's plan and the vision set by the North Flint community, the appropriate financial and non-financial resources could be curated and put to work. North Flint will soon have a new grocery store, an incredible return for any impact investor.

## Case Study - Michigan and Camden, New Jersey: Catalyzing Capital Systems that Redistribute Power

Fair Food Network is an active participant in shifting how local investors and other partners work together as it steps in to manage the **Michigan Good Food Fund** and to help support the design of a new investing collective, the **Camden Food Fund**.

Both efforts are collectives of multiple investors and non-capital partners. The Michigan initiative is changing direction after six years of initial collaboration to more closely orient products, services and partners around community-designated priorities. The Camden Food Fund — focused on the city of Camden, New Jersey — is re-imagining place-based coordination from scratch.

What unites both initiatives is a rooting in place and a commitment to investments that align with the vision, values, priorities, and entrepreneurialism of residents and other local stakeholders. In Michigan, Fair Food Network facilitated the development of a community-led, statewide Stakeholder Board to redefine the initiative's mission and priorities. New and existing partners are being assembled to deliver on these objectives with desired offerings – all to achieve the intended impact. In Camden, a similar process is commencing with neighborhood-based community engagement that result in the formation of a community governing board. Under the leadership of the **Community Foundation of South Jersey**, the fund is rooted in participatory philanthropy, which is centered around shifting decision-making power to those most affected by investment decisions.

In both initiatives, community boards, with a majority of members from the communities the initiatives are seeking to serve, will determine each Fund's investment priorities and help with pipeline. Community board members will reflect community leaders from neighborhood associations, nonprofits, entrepreneurs, and capital and technical assistance providers.

The board's investment priorities will shape what investments look like — including the kinds of financial and non-financial assets needed — as well as who receives them, by geography, gender, and race. The priorities will also structure how stakeholders work together and provide a framework for evaluation and therefore a feedback loop for accountability of the funds to each community.

These priorities will be living documents that will guide the collective activities of both capital providers and technical assistance partners. The aim is to be responsive to each place, including local dynamics, resources, and goals. Resources for entrepreneurs may come from across the network of partners, so centralized administrative management will be important for partners to stay in tight coordination and advance the common work of evaluation, reporting, marketing, and stakeholder board.

New products may be developed and new resource providers may be brought into the collaborative to diversify the types of capital, including catalytic capital, as needs are identified by the community. This is already playing out in the Michigan Good Food Fund. Over recent years, the initiative has added more CDFI and credit union partners to serve a wider range of deal sizes, and Fair Food Network has introduced new credit enhancement tools like guaranties, cash collateral, and rent or mortgage reserves, to unlock capital from the lending partners. There are also plans for a shared loan loss reserve fund for capital providers in Michigan. By complementing the capital resources of others, the initiative increases coordination between investors and fills a critical gap enabling investments that may have otherwise been deemed infeasible or too risky.

# LEARNING BY DOING

Applying a community-first mindset is not without challenges and unanswered questions at Fair Food Network. For example, what defines "place" and who represents "community" in each effort? What if community investment policies set goals that can't be matched by resources or fundraising? Do capital and other resource providers see value in collaborating and in interrogating power and systemic racism? And how do costs change when making investments in this way? There will be missteps and lessons learned along the way, but the greater risk to communities and impact is to keep business as usual.

We keep local food businesses at the center of our work, knowing that they create a foundation for health, wealth, and environmental stewardship.

Join us in supporting local entrepreneurs as engines for change.

**FairFoodNetwork.org**