INVESTING IN APPALACHIA

How Collaboration and Capital Are Building a More Resilient Region

By Alena Klimas

SONYA COMES IS a grandmother and a longtime resident of eastern Kentucky who never imagined owning her own home. She was divorced and renting a family member's house when she learned about the Hope Building program. Run by the Housing Development Alliance (HDA), a nonprofit affordable housing developer in her area, Hope builds affordable homes and provides construction training for people in recovery.

Today, Comes is a homeowner who "couldn't be happier" with her house, which sits on land in Perry County, Kentucky, that has been transformed from an abandoned trailer park into a growing rural neighborhood outside of Hazard, the county seat. "I believe the Hope project has affected the community in a great way," she adds.

Launched in 2019, Hope Building is part of a broader effort by HDA to fix the broken local housing market in the four-county area it serves. Over the years, HDA has grown with support from key partners including Fahe, a regional community development financial institution (CDFI) with a focus on affordable housing; Mountain Association, a CDFI focused on Appalachian Kentucky; the Appalachian Impact Fund of the Foundation for Appalachian Kentucky; and the Appalachian Regional Commission (ARC), a state-federal economic development partnership created in the 1960s. Now HDA is poised to expand the Hope program, proving the viability of the model while addressing critical needs related to housing availability, workforce development, and substance abuse recovery. But the organization needs to line up flexible, creatively secured loan capital to supplement its existing funding. If all goes according to plan, a new venture called Invest Appalachia will help HDA do just that.

A regional social investment fund that grew out of a series of convenings with funders, researchers, entrepreneurs, and others in 2016 and 2017, Invest Appalachia is designed to help fill critical investment gaps in Central Appalachia. In places like Perry County, where the median household income is $33,640, it intends to provide the kind of flexible, forgiving investments and blended capital that larger funders aren't always able or willing to make, by partnering with regional networks and attracting new impact capital primarily from outside the region.

The creation of an enabling environment for capital in Perry County, which has become something of a hub of community development, is no accident, says Sara Morgan, chief investment officer of Fahe and treasurer of the board of Invest Appalachia: "Good financing comes at the end of a long trajectory of work and planning."

Perry County hasn't always been an obvious target for investors—then again, neither has most of Appalachia. The cross-sector projects and innovative capital stacks springing up around the region have been informed by the experience of regional community development actors and networks during the past three decades. Together, they have worked to establish a new investment ecosystem in Central Appalachia, one committed to the long-term vision of building an inclusive, sustainable economy after decades of disinvestment in this region and its people.

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Credits (top to bottom): Rural Action (1), Housing Development Alliance (2), Foundation for Appalachian Kentucky (3, 4), Invest Appalachia (5). Background map: FrankRamspott via iStock.

The Roots of Resilience

Appalachia reaches from southern New York into Mississippi and Alabama, largely following the contours of the mountain range that gives the region its name. Central Appalachia is the heart of the region, comprising sections of southeastern Ohio, eastern Kentucky, West Virginia, southwestern Virginia, eastern Tennessee, and western North Carolina. Significant swaths of its culture and economy have long been tied to the rise and fall of the coal industry.

In 1964, when President Johnson declared a national War on Poverty, Appalachia was the campaign's poster child, providing the backdrop for press footage of the "poverty tours" he undertook to drive home his message. Johnson wasn't the first president to recognize and attempt to address the major economic disparities between Appalachian states and their neighbors, but he formalized investments in solutions ranging from housing to hot lunches with the creation of ARC in 1965. ARC was tasked with overseeing the economic development of 423 counties across 13 mountainous states.

Lady Bird Johnson (center) visits a family in a rural area near Jackson, Kentucky, in 1964 as part of the "poverty tours" designed to garner support for President Johnson's War on Poverty. Credit: Lyndon Baines Johnson Presidential Library and Museum via National Archives.

Since then, ARC has made 28,000 targeted investments and invested more than $4.5 billion. That funding has been matched by over $10 billion in other federal, state, and local funding. Those investments have made a significant difference on the ground, supporting projects like the Hope Building program, but the commission cannot singlehandedly support the region, nor was it designed to.

With the collapse of major industries—coal, manufacturing, and natural gas—throughout the last three decades, Appalachians left with only remnants of extractive economies had no choice but to build internally to survive, restarting local economies nearly from scratch. The retreat of major industry coincided with the disappearance of community banks; more than 80 percent exited the market, mostly merging with larger banks. Reduction in local bank ownership, from 80 percent to 20 percent in rural areas, has led to larger government institutions, like ARC and the U.S. Department of Agriculture (USDA), working with CDFIs to fill the gaps (Edelman 2015).

Even when funding has been available, it hasn't always been clear what to fund. In Appalachia, supply chain issues and investment logic devoid of social considerations have long hurt the people who live there. Since there are no buyers for high-end, healthy products, for instance, the local markets won't sell any. There is no profitable consumer base for broadband, so why invest the time and resources into bringing it to rural, mountainous areas? This type of market calculation has long left the region in a vicious cycle of vulnerability.

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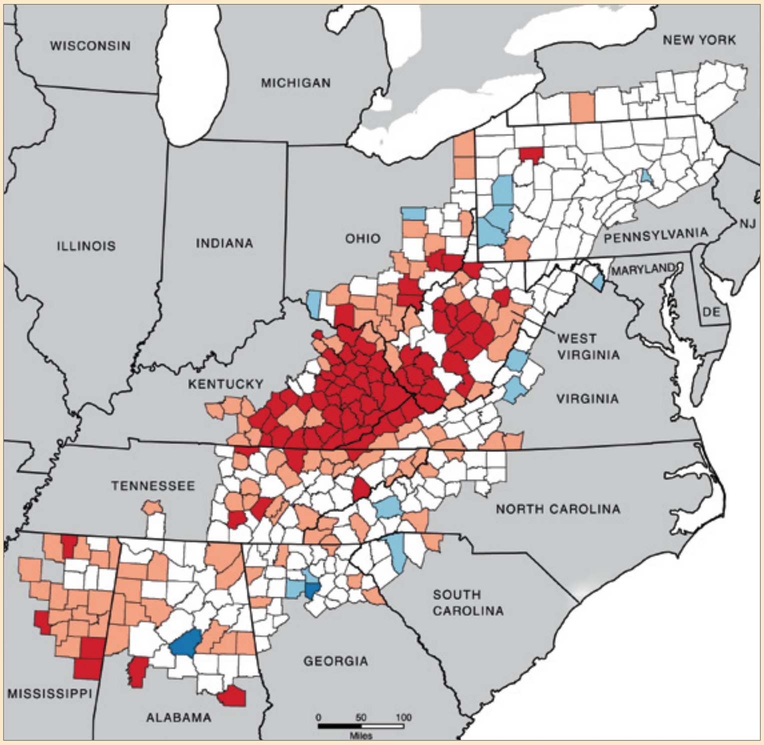

REBUILDING A REGION

County Economic Levels

- **Distressed** (78)
- **At-Risk** (104)
- **Transitional** (223)
- **Competitive** (13)
- **Attainment** (2)

Central Appalachia is the most economically distressed part of the broader region. Credit: Appalachian Regional Commission, June 2020. Effective October 1, 2020, through September 30, 2021. Data sources: Unemployment data: U.S. Bureau of Labor Statistics, LAUS, 2016–2018. Income data: U.S. Bureau of Economic Analysis, REIS, 2018. Poverty Data: U.S. Census Bureau, American Community Survey, 2014–2018.

Andrew Crosson, founding CEO of Invest Appalachia, points to the region's reputation as a "risky" place for investment and the lack of capital as "the end product of a series of decisions that investors, policy makers, and economic forces have made that result in those communities being disinvested." Current efforts in the region, he says, "are making up for generations of lack of wealth-building opportunity, which will require more credit enhancements [and] more technical assistance . . . market-rate capital won't solve the issue of broken or underdeveloped markets on its own."

In the 1990s, a group of regional nonprofits created the Central Appalachian Network (CAN) to develop common analysis, scale projects across the states, and work together on longstanding issues. Initially focused on the region's food systems, the network expanded its scope to address a broader array of community development strategies, including clean energy, tourism, workforce development, and waste reduction. Twenty years after the creation of that network, the philanthropic community followed suit. The direct effects of the 2008 financial crisis meant funder investments were down, dipping as much as 10.5 percent nationally during the peak of the Great Recession (Schlegel 2020). In Appalachia, funders began to collaborate more closely, cofund where possible, and share analysis to help shield the region from these economic impacts. Informal gatherings led to the formation of the Appalachia Funders Network (AFN), which aligned its investment efforts with CAN and its priorities.

Crosson began working with CAN and the budding AFN in 2012. With support from the Ford Foundation, ARC, and the USDA, CAN managed a collaborative initiative with several regional nonprofits to create a robust local and regional food system. Over time, this regional alignment illustrated the impact of high-level collaboration: In 2018, nearly $3 million in value chain investments contributed to around $20 million in annual revenue and 1,608 jobs for local farms and food businesses.

But after nearly a decade of collaboration between funders and practitioners, both networks realized that traditional philanthropy and government grants could not address the scale of Appalachia's economic obstacles. Community lenders and the Federal Reserve banks were becoming increasingly involved in the funders network and working to develop a pipeline of investment-ready deals. Fahe alone claimed a "cumulative impact of over a billion dollars . . . serving more than 616,694 people," and other CDFIs were working hard to provide loans and financial advisory services to businesses and nonprofits. But the Central Appalachian region needed more investment capital, and new types of capital, to achieve the scale of revitalization needed.

This recognition sparked the years of stakeholder conversations that led to the creation of Invest Appalachia. That groundwork included participating in the Connect Capital program run by the Center for Community Investment at the Lincoln Institute (CCI), which set up the organization to be adaptable to regional needs and nationally competitive in fundraising (see sidebar). That experience was critical to Invest Appalachia's design, Crosson says, and helped secure the $2.5 million ARC POWER grant that provided initial seed capital and operating funds. Due to the deep network organizing and collaboration that had been occurring in the region, Invest Appalachia had investment-worthy projects to pitch as it began the hard work of raising the flexible capital it needs to start making an impact on the ground.

With a focus on the role of capital and the ability of individuals, businesses, and communities to access that capital, Invest Appalachia is "taking the pieces that work well and supercharging them, helping them reach further into underserved communities and helping the existing dollars go further," Crosson said.

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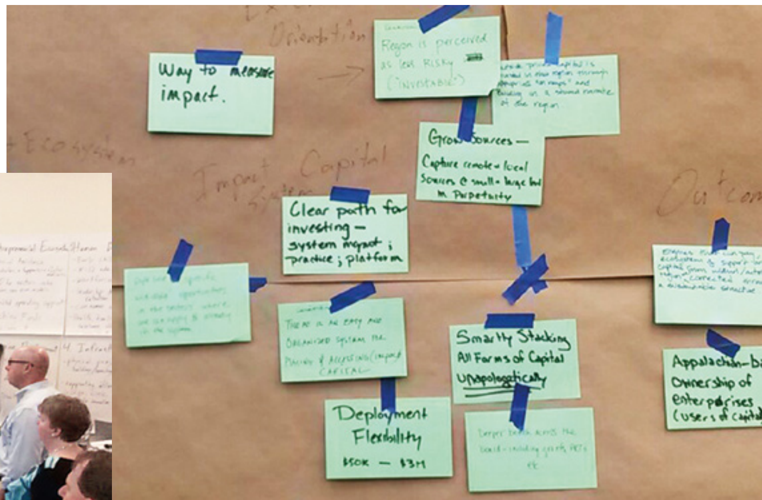
In 2016, the Appalachia Funders Network convened a group of funders, CDFIs, community development practitioners, and other regional stakeholders in Charleston, West Virginia, to develop a shared vision for a regional community investment system. The event yielded a shared analysis of gaps and bottlenecks in the system, and established the core values and elements of a new entity that would become Invest Appalachia. Credit: Courtesy of Invest Appalachia.



INVEST APPALACHIA AND CONNECT CAPITAL

In 2018, the Center for Community Investment at the Lincoln Institute (CCI) launched Connect Capital to help communities attract and deploy capital at scale to address their needs. The first cohort consisted of six teams, including a group of community development practitioners and other leaders from Central Appalachia. That team included Sara Morgan, chief investment officer of Fahe; Deb Markley, vice president of Locus Impact Investing; Andrew Crosson, who would become the founding CEO of Invest Appalachia; and several other CDFI and philanthropic leaders.

Connect Capital provided training in CCI's capital absorption framework—a set of organizing principles that helps groups identify shared priorities, create a pipeline of investable projects, and strengthen the enabling environment of policies and practices that makes investment possible. Morgan, Markley, and Crosson said the training on pipeline development—an approach that encourages moving away from a model of scarcity and competition for resources toward a collaborative model—was critical for the region, and for the development of Invest Appalachia. Participating in Connect Capital catalyzed the launch of the new entity and equipped it with the tools to succeed.

As a multistate investment group tackling issues like economic development, the Central Appalachia team was unlike other participants, says Omar Carrillo Tinajero, director of innovation and learning at CCI, who ran the Connect Capital program. Tinajero was impressed with the team's dedication to democratic decision making and to creating a partnership built on trust, he says, noting that the capacity communities need to be ready to absorb capital flows from the strength of relationships. Struck by how expansive the investment pipelines had to be, CCI supported the team as they identified the large-scale deals that now make up the majority of Invest Appalachia's planned first round of investments.

To learn more about CCI and its current programs, visit www.centerforcommunityinvestment.org.

Andrew Crosson, founding CEO of Invest Appalachia (front left), rafting on West Virginia's New River with regional community development colleagues. Some of Invest Appalachia's investments will help local businesses and communities benefit from the region's booming outdoor recreation tourism industry. Credit: Courtesy of Central Appalachian Network.

Capital Ideas

Invest Appalachia launched with four major sectoral priorities: clean energy, creative placemaking, community health, and food and agriculture. These priorities were identified through a multiyear collaborative research and design phase involving a variety of regional stakeholders, including members of CAN and AFN, CDFIs, public agencies, and community development groups. The fund's investment strategy will be guided by a board of 14 diverse stakeholders, and a Community Advisory Council and Investment Committee will oversee the deployment of funds, drive sector priorities, and define and measure goals and impact.

The Hope Building program, which has provided a path to affordable homeownership for Sonya Comes and others, offers an example of how Invest Appalachia would add to capital stacks across the region in the area of community health. A potential investment in Hope could leverage millions in total investment from the Housing Development Alliance, ARC, Fahe, and the Appalachian Impact Fund housed at the Foundation for Appalachian Kentucky. Invest Appalachia can support existing investors by helping to meet the need for flexible and subordinate loan capital in these types of innovative investments, "de-risking" partially secured debt through credit enhancements like loan loss reserves. This would make it possible for HDA to create more jobs, build more homes, and leverage more financing.

Morgan, who noted that Fahe has invested in HDA for over 20 years, sees affordable housing as "a driver for economic recovery" and hopes Invest Appalachia can access resources that can bring this project, and others like it, to scale.

Invest Appalachia aims to play this kind of role in projects ranging from downtown revitalization to solar energy installations (see sidebar page 31). Crosson is currently conducting a capital drive with the backing of Richmond, Virginia-based Locus Impact Investing, the fund's investment manager, and says the fund is on track to close its first round of capital raise by the end of the second quarter in 2022. The total target for the Invest Appalachia Fund, an LLC affiliate managed by the nonprofit, is $40 million by early 2023, which will be invested over a seven-year period. This repayable investment will be complemented by a catalytic capital pool of philanthropic funds that will support inclusive pipeline development and help investment-worthy projects become investment-ready.

The catalytic capital pool will provide flexible, grant-like funds that help projects seeking investment to address capacity, collateral, or risk issues that are preventing them from accessing repayable capital. As Crosson wrote in a recent *Nonprofit Quarterly* article, "Without credit enhancements, subsidies, and other flexible non-extractive capital to accelerate and de-risk projects, large-scale investment will not reach the underserved residents of low-wealth places like Appalachia" (Crosson 2021). Meanwhile, the Invest Appalachia Fund, LLC, will be a source of repayable investment in the form of large, flexible loans deployed alongside and in support of other regional investment partners like CDFIs. This fund intentionally takes on more risk than most lenders, in order to leverage capital into difficult-to-invest projects. Due to its blended structure, it will be able to absorb this risk and still return capital and concessionary (below-market) returns to investors.

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The Hope Building program provides workforce training for people in recovery and builds homes for local communities in the four-county area of Kentucky served by the Housing Development Alliance. Credit: Shannon D. Gabbard, Hope Building program director.

Downtown revitalization efforts in Hazard, Kentucky, and other communities in Central Appalachia are helping the region build a more sustainable, inclusive economy. Credit: Courtesy of Perry County, Kentucky, Chamber of Commerce.

Crosson says Locus Impact Investing was a natural fit to serve as the fund's investment manager, because of its track record in creative financing and its roots in the region. Deb Markley, VP of Locus, has been working in the region for more than three decades. Markley characterized Invest Appalachia as an "essential, trusted partner" and said she believes Crosson has the right kinds of networks and trust to overcome the challenges inherent in a resource-scarce rural region, where new or ambitious community development efforts sometimes encounter historically informed skepticism or resistance.

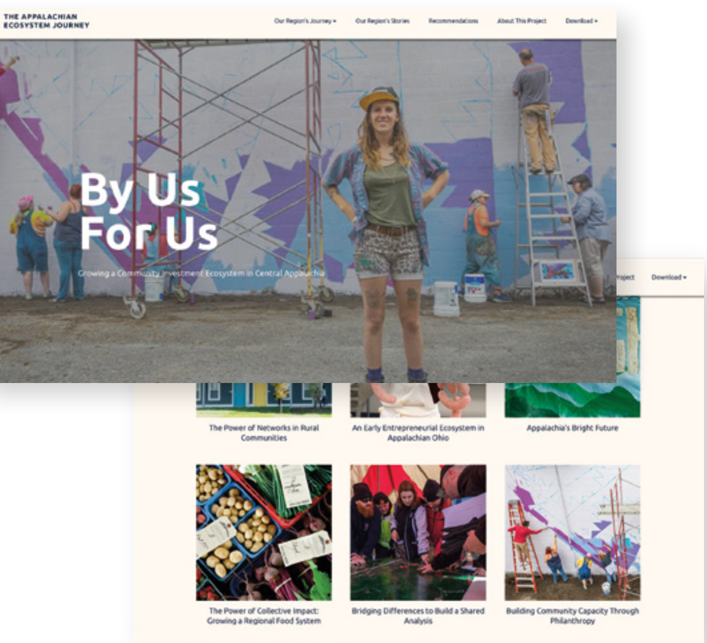
"For too long, Appalachia has been defined by what it lacks," Markley wrote in an article on the Locus website (Markley 2021). "By lifting up investment opportunities and supporting locally rooted practitioners and financial institutions, Invest Appalachia is reflecting a new narrative about the region to outside investors—presenting Central Appalachia as a place of opportunity and vision. As an innovator in the community capital space, Invest Appalachia is proof positive that rural regions can and do nurture creativity and provide lessons for other parts of the country."

Raising over $50 million in capital is no small task, but many regional stakeholders are hopeful that Invest Appalachia will succeed on the national stage. The fund is pitching a message of opportunity to investors and national foundations rather than reinforcing and uplifting stereotypical images of Appalachian poverty. As a result, Invest Appalachia is beginning to attract investors ready to make a long-term commitment to transform the region.

A Culture of Collaboration

National investors are consistently surprised at the diversity of projects and level of collaboration and trust among Appalachian lenders, Crosson says. They wonder how a persistently poor, economically marginalized, chronically underinvested region has built a community investment ecosystem with the capacity to absorb and deploy catalytic capital for transformative change. They've asked some version of that question so much, in fact, that the Appalachian Investment Ecosystem Initiative (AIEI), a coalition that includes Invest Appalachia, Locus, Fahe, regional CDFI partner Community Capital, and others, created an online resource called "By Us For Us: The Appalachian Ecosystem Journey" to chronicle the region's movement and capacity building and to highlight regional success stories (AIEI 2021).

Coauthored by former Mary Reynolds Babcock Foundation Deputy Director Sandra Mikush, this regional chronicle is designed to provide context and recommendations for funders as they seek to support under-resourced communities. It also provides a potential roadmap for other rural areas where regional networks and partnerships are coalescing, such as the Delta and rural Texas.



While stakeholders in Central Appalachia have made significant progress in building a thriving, functional investment ecosystem, they still face obstacles to long-term economic success. Policy makers in many Appalachian states tend to favor tax cuts for corporations—a stance likely to attract more parasitic boom-and-bust industries—rather than seeking to make deep investments in and create incentives for local businesses. And that demeaning national narrative about the region's people lingers: that they are uninvestable, and unwilling or unable to work hard to change their situations. Invest Appalachia's messages to national investors and planned investments in the longtime work of communities will help combat these narratives and, in concert with many partners, pave the way for reimagining what is possible for the region.

In *Decolonizing Wealth*, author and social justice philanthropy advocate Edgar Villanueva describes the need to fight a separation worldview and cultivate integration in order to achieve balance (Villanueva 2018). That philosophy is guiding the effort to build a more inclusive, sustainable, and resilient economy in Central Appalachia. "If we are going to turn the needle on Appalachia, we need to work together," said Morgan of Fahe. "It is my hope that Invest Appalachia will raise resources that we are not able to access because it is a new type of vehicle, and I know Invest Appalachia will bring consistent capital that will help us develop a pipeline of deals to coinvest on. The resources will go further together."

Alena Klimas specializes in philanthropic engagement and writes about economic development and culture in Appalachia. She has collaborated with many organizations and initiatives in the region through her past work with the Appalachia Funders Network and Rural Support Partners, a mission-based management consulting firm. Klimas grew up in West Virginia and currently lives in Asheville, North Carolina.

Building a more robust local and regional food system is a priority for funders and practitioners in Central Appalachia. Credit: Rural Action.

FROM SOLAR POWER TO SMALL FARMS: PRIORITY PROJECTS

Invest Appalachia will focus on four key areas of investment:

Clean Energy, including renewable energy, energy efficiency, clean manufacturing, abandoned mine land reclamation, energy democracy, and green buildings. Emerging priorities include a partnership with the Appalachian Solar Finance Fund, leveraging $1.5 million in SFF grants to provide over $500,000 in credit enhancements and $8 million in repayable financing for medium-scale solar development in the region.

Community Health, including health care, housing, education and childcare, built environment, and behavioral health. Likely opportunities include affordable housing projects like HDA's Hope Building, as well as flexible financing to help get community health facilities up and running to provide substance abuse recovery, primary care, and more. Many of these projects are capital-intensive, requiring loan amounts in the millions for construction and working capital.

Creative Placemaking, including downtown revitalization, commercial real estate, public spaces, tourism and recreation, and arts and culture. Early priorities include leveraging investment for renovations and real estate projects that can anchor downtown revitalizations, as well as local infrastructure to help businesses capitalize on the rapidly expanding outdoor recreation tourism industry. Brick-and-mortar projects require a blend of capital, including subordinated loans of up to $2 million that Invest Appalachia is positioned to make.

Food and Agriculture, including local food systems, small farms, healthy food access, nontimber forest products, and farmland conservation. Potential projects include support for food hubs and intermediaries in need of flexible working capital or infrastructure financing in the $200,000 to $1 million range, as well as subsidized loan funds to support beginning and disadvantaged farmers.

Learn more at www.investappalachia.org.

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