Report to the Region:

Impacts of $1 million on Appalachia's Investment Ecosystem

Introduction

The Appalachian Investment Ecosystem initiative[1] (AIEI) will build on locally led efforts to strengthen the community investment ecosystem across central Appalachia by creating stronger alignment and collaborative action among philanthropic, community development, and community-development finance leaders in the region. A more effective ecosystem should be able to attract and absorb capital in ways that strengthen regional capacity and advance social and economic opportunity that in turn leads to better health and well-being in the long-term.

With this framing, AIEI was launched in 2018. What follows is a report to the region, a way to share what AIEI accomplished - the outcomes – and the lessons learned along the way. It also serves as a platform for suggesting what might be next, a call to action for those in and outside the region who are committed to seeing opportunities across Central Appalachia attract and absorb the capital needed to advance economic, social, and health equity.

[1] Funded by Cassiopeia Foundation, Danville Regional Foundation, Greater Clark Foundation, Robert Wood Johnson Foundation, Thompson Charitable Foundation, and Wells Fargo. A project team – Deb Markley, LOCUS; Andrew Crosson, Invest Appalachia; Stephanie Randolph, Cassiopeia Foundation – provided leadership for this initiative.

AIEI Theory of Change

A team from Equal Measure served as the learning capture partner with the AIEI project team throughout this project and helped to articulate the Theory of Change (TOC).[2] The TOC became the guiding document for the project team to assess how the work AIEI supported on the ground advanced elements of the TOC, and what remained to be done.

In September 2022, the project team held a reflection session with Equal Measure where we recognized that there was inherent value in the TOC as a blueprint for other rural regions that might be considering ways to strengthen the investment ecosystem to achieve more equitable outcomes. Working with Equal Measure, we created **A Blueprint for Strengthening Community Investment Ecosystems**.

Strengthening the Investment Ecosystem

To help us frame our understanding of the investment ecosystem, we aligned AIEI with the Center for Community Investment's (CCI) capital absorption framework.

- **Shared Priorities** – The **Appalachian Ecosystem Journey** describes the history and process that regional partners used to build a shared narrative about a just economic transition in the region and a set of shared goals for achieving that transition. AIEI contributed by working to build a shared "language of investment" across partners in the region. Several AIEI grants – the Investment Framers Action Cohort, the Thriving Downtowns playbook, and the regional funders series – were designed to connect investment ecosystem partners, including those who did not have strong collaborative connections, and give them a common language to use in talking with and not past each other.
- **Improving the Enabling Environment** – AIEI was designed at the outset to strengthen the investment ecosystem, or enabling environment, by

[2] Special thanks to Eve Weiss, Senior Director and Matthew Closter, Senior Consultant, for their work with us on this project. Thanks also to Ebony Easley and Catherine Park, formerly with Equal Measure and part of the initial consulting team.

addressing identified gaps in the system and providing seed capital to begin to close those gaps. Two notable efforts focused on developing Invest Appalachia's collaborative infrastructure and taking steps to build a more diverse network of "investment framers" across the region. Invest Appalachia (IA) was designed to fill the region's need for a social investment fund that would connect regional opportunities, informed by communities, with creative, flexible blended capital that was largely missing from Central Appalachia. AIEI provided resources to enable IA to build guidelines and processes, alongside regional lending partners, to facilitate collaboration, co-lending and investment that aligns with IAs values and those of place-based community stakeholders. Similar to IA, regional stakeholders identified another gap in the ecosystem related to the skills needed to move a project from investment *worthiness* to *readiness*. To respond to this gap, AIEI resources were used to design and deliver the first Appalachian Investment Framers Action Cohort in 2022. The training was successful in building the skills and capacities of a diverse group of 13 community development practitioners, selected from a competitive pool of 44 applicants from across the region, and in positioning some of their projects for investment. A seed grant was provided to assess and improve the framers curriculum and plan for a 2023-2024 cohort. This follow-on grant helped set the stage for a partnership with the Federal Reserve Bank of Richmond to support the next Appalachian cohort and bring the training to other communities in the district.

- **Pipeline of Investable Projects** – In CCI's framework, it is not enough to create the conditions for a well-functioning investment ecosystem, the community or region must also have the ability to create and execute a set of investments or projects. AIEI was not designed as an investment vehicle. However, grants to create the Solar Finance Fund, to embed stakeholder priorities in Invest Appalachia's impact tracking, and the framer training resulted in investable projects, some of which are approaching investment readiness or actively seeking/securing capital.

Outcomes Achieved

Based on the work undertaken as part of this initiative, it is clear that AIEI strengthened the investment ecosystem and built the region's capital absorption capacity, to reference CCI's framework, all of which is especially important as public resources continue to flow into the region. As stewards of a significant outside investment in Central Appalachia, the AIEI Project Team had a responsibility to ask what the return on that investment has been for the region. What difference has AIEI made in the long-term? While regional stakeholders will have the ultimate say in the "stickiness" of the outcomes from AIEI, the following suggest that the grant from RWJF has had an exceptional ROI:

- The region's ecosystem has been strengthened, changing the material conditions on the ground for future opportunities. There is new investment framing capacity, new infrastructure (IA and the Solar Finance Fund), evidence of new collaborations, and the beginning of a shared language to facilitate the development of future projects (supported by the Downtown Playbook and regional funders series). The Downtown Playbook has been shared with groups across the region and deployed as an online Downtown Revitalization Playbook. As mentioned above, the Framers Training is evolving into a partnership with the Richmond Fed.
- While the dollars leveraged over the course of the initiative are significant – 3.5 times the initial grant – additional leverage should be felt over the years beyond this final accounting as projects enhanced through AIEI continue to move through the investment pipeline and capacity built through this work brings new projects into the pipeline. Two examples point to AIEI's leveraged impact. In 2023, Invest Appalachia closed on $20M in investment and deployed $2M in the first quarter of 2023. The Solar Finance Fund leveraged $8.8M in private investment, deployed 4.3 megawatts of solar energy, and yielded $13.6M in energy cost savings across the region.
- However, to simply focus on final outcomes misses an important part of the impact on the region. AIEI helped to demonstrate the benefits of more regional approaches to addressing ecosystem challenges. The people and organizations involved in AIEI funded work are better positioned to tap into funding opportunities, as demonstrated by the Solar Finance Fund's recent partnership with Microsoft and the WV Hub's new Accelerate WV program.
- As important, the generative learning approach taken with AIEI has enabled us to lift up lessons learned for Central Appalachia and other rural regions, especially for those funders interested in taking a place-based approach to supporting the issues they care about.

Lessons Learned

Through a series of reflection sessions with Equal Measure and a learning retreat with the Project Team and Karl Stauber, a number of lessons learned emerged. Some of those lessons were captured by Stauber in *Place-Based Initiatives by National Funders*: *Reflections of a Recovering Place-Based Funder*.[3] Other lessons are described below.

- "Projects" and "activities" are not the only ways to address issues in place. Place-based work also needs to be about systems. In this case, the work was about strengthening the investment ecosystem. The strength and resilience of that ecosystem is what helped the region survive through the pandemic. While AIEI is not responsible for that resilience, the focus at the ecosystem level contributed to the success of the initiative overall.
- Progress on systems change does not happen on a grant timeline – it takes longer. Funders need to provide the time, support, and limited structure needed while also trusting the partners and intermediaries in place to define the ultimate direction for system change work. It often requires an accelerator, something that builds momentum and action. For Invest Appalachia, the opportunity to be part of CCI's Connect Capital cohort provided that acceleration and created the movement that ultimately resulted in the launch of the fund. LOCUS has had success with regional accelerators to help foundations embrace the role of local impact investor. Accelerators can help project or place-based entities justify the consideration of systems-level work that may be beyond their organization's mission. These types of acceleration efforts would benefit from being localized, with support from regional funders.
- AIEI showed the importance of taking a developmental, "grow your own" approach to systems change vs. outsourcing the work to people and organizations that are not rooted in place. Each implementation grant was made to build on local and regional capacity and to consider the long-term sustainability and home for the work beyond the AIEI grant.

[3] A revised version of Stauber's thought piece will be published in a future issue of *The Foundation Review*.

- Investment in places like Central Appalachia is not happening readily because of a lack of "good deals" but because there are capacity gaps in moving those deals from investment worthiness to investment readiness. AIEI showed that addressing the capacity gaps can build a more robust pipeline of investable projects. Funders and investors need to recognize these capacity gaps as opportunities to mitigate risk – supporting the strengthening of the ecosystem becomes a way to mitigate the risk of future investments.
- In historically under-resourced regions – rural and urban – funders should move from an upfront "match" mentality to a "what can this work leverage" approach. Match is viewed as a way for funders to reduce risk by seeing evidence of local buy in. In actuality, match requirements reflect the inequity and power imbalance that exists between funders (public and philanthropic) and practitioners on the ground. The inability to come up with match is more often a reflection of scarcity than it is a lack of local commitment or buy-in. The match requirements act as a gatekeeper to external resources. Measuring the success and impact of work like AIEI by the dollars it leverages requires that funders accept different types of risk and assess the likelihood that the project will deliver on the intended impact. This approach creates a more level, equitable playing field for practitioners.
- The most effective place-based initiatives build on the assets and foundational work in a region rather than trying to reinvent the wheel or impose a vision from outside. The Appalachian Ecosystem Journey was a pivotal outcome for AIEI. It captured the "developmental arc" or high-level history of the region's investment ecosystem and became the starting point for AIEI. It demonstrated in detail how the region had invested in itself and created a home-grown ecosystem. In some ways, it showed that the hardest work to create collaborative networks and a shared vision for regional transformation had been done – and that the region is primed for big, bold efforts going forward. The decision to focus AIEI exclusively on Central Appalachia was informed by the fact that the "hard work" was ahead in southern Appalachia, making it easier to pivot away from a cross-regional approach during COVID. As a tool or guide for other regions, the ecosystem story Illustrates to what practitioners and funders interested in building or strengthening place-based ecosystems should be paying attention.

Leveraging AIEI – What's Next for Regional Funders

How can regional stakeholders leverage what AIEI has instigated for the region? A number of organizations have stepped up to ensure that AIEI's efforts have longer-term impact including Invest Appalachia, the Solar Finance Fund, AFN's Downtown Revitalization Working Group, and the Federal Reserve Bank of Richmond. What is the "call to action" for regional funders?

Action #1. Do your grantmaking with an eye toward investment.

- Support capacity building within the ecosystem (e.g., framers training).
- Support new regionally focused infrastructure functions (e.g., the Solar Finance Fund, Downtown Appalachia).
- Consider pre-development funding opportunities and how they advance your mission (e.g., market study for a downtown cooperative grocery store).
- Allocate a portion of grantmaking toward market development and regional integration related to the investment ecosystem (e.g., make some grant resources available to support work beyond your service area).
- When you fund and support a project, also fund grantees to connect to the broader ecosystem (e.g., dollars to support cross-organization learning, site visits to community projects).

Action #2. Prioritize your own capacity building around new concepts related to investment and understanding your ecosystem partners.

- Push out of your comfort zone – engage new partners with the goal of learning, not becoming an expert.
- Focus on learning how to ask the right questions or to whom you should turn to get those questions answered.
- Include staff and board members in a shared learning agenda.
- Assess how you evaluate risk in your grantmaking. What is your comfort in taking on risk to create long-term impact?

Action #3. Support exploration (emergent learning) and strategic/abstract thinking by your partners.

- Fund your grantees to think big – provide operating support to give them the time and the grace to get them off the grant treadmill.
- Ask them "what's your next big idea that comes out of this grant."
- Support their time to think about systems and what needs to change within those systems to get to the impact they seek.

Action #4. Embrace your expanded ecosystem role.

- Look at your full corpus – 95% of your assets are already invested outside your service area. Those investments may be mission-neutral or mission-contrary, but you are leaving 95% of your assets subject to mostly outsourced investment thinking. Why not invest in the region and in Wall Street?
- Name the barriers to moving in this direction – board willingness? staff skills and capacities? concerns about donors? – and address them through education and exploration of other funders doing this work.
- Create a network of peers going on this journey with you. You will go farther together and can turn to this network for mutual support and sharing. Consider how to leverage networks that have already been built (e.g., AFN, Philanthropy WV, Virginia Funders Network.)
- Leverage the strong ecosystem that exists in the region. There are foundations that are stepping into an expanded ecosystem role and becoming community or regional investors in places with far weaker ecosystems. If they can do it with limited partnerships and support, Central Appalachia's strong ecosystem and numerous partners should provide fertile ground for regional funders to act boldly as well.