The Time is Now
How Fahe Unleashes Appalachia’s Potential
INTRODUCTION:

The time is ripe to invest in Fahe, an Appalachian organization with a unique collaborative model that leads a Network of local community-based organizations, all working together to uplift the region. Appalachia is now at a crucial juncture in its history, with new opportunities to capitalize on its growth. Fahe is at the center of unleashing Appalachia’s potential and eliminating persistent poverty for good.

Appalachia is a 205,000-square-mile region that follows the spine of the Appalachian Mountains and, today, faces a disproportionate amount of poverty. Historically, Appalachia’s economy has focused on extractive industries, especially mining and coal, but due to recent economic shifts, many of the mining jobs are gone and are not likely to come back. Appalachia faces complex and deeply entrenched challenges beyond the loss of coal, but they are far from insurmountable. Recent decades have shown promising developments in the region – the poverty rate has been cut almost in half – and there are economic sectors with great potential. This gives reasons for hope.

Key to continued growth in Appalachia is the support provided by backbone organizations, which coordinate the efforts of the myriad of organizations working across Appalachia to ensure they are all moving toward a common goal. Fahe is a unique and critical backbone organization in Appalachia that has worked hand-in-hand for almost 40 years with its Network of community-based partners. Together, Fahe and its Network empower the people and communities of Appalachia with the resources, opportunities, and tools needed to build a better life. Fahe has supported its Network by providing expertise in finance, collaboration, innovation, advocacy, and communication to craft long-lasting solutions for the needs of Appalachia. Since 1980, Fahe has invested $703.5M generating $1.4B in finance. This investment was channeled through Fahe’s Members and community-based partners, directly changing the lives of over 450K people. Independent of one-another, Fahe’s partners are doing wonders for their communities, but together, with the coordinating support of Fahe, they become an even greater force that is driving towards a better future for Appalachia.

Over the next three years, Fahe will build upon its track record of success and unleash Appalachia’s potential by increasing its contribution to the region’s momentum and expanding its focus to leadership, housing, education, health and well-being, and economic opportunity. In order to provide these services, Fahe is raising $8.5M to cover its backbone organization costs between FY19-21. This $8.5M investment will allow Fahe to continue increasing the population it serves through its Members and Network of community-based partners, and will translate to ~$1B of investment in the region over the projected three-year period.

By the end of this paper, you will have a thorough understanding of the both the opportunities and issues that Appalachia faces today, why backbone organizations are well-positioned to tackle complex issues and take advantage of opportunity, how Fahe uniquely plays a backbone organization role in Appalachia, and the capital Fahe needs to increase its impact in the region. The change we want to see in Appalachia will not occur overnight, but with adequate resources, Fahe is equipped to play a leading role in moving the needle towards unleashing Appalachia’s full potential.
CURRENT STATE IN APPALACHIA

Appalachia’s greatest strength is its people – American history, as we know it today, was built on the backs of Appalachians, who literally provided the fuel that drove America’s growth. As economic tides have shifted, there is a perception that Appalachia is unwilling to move forward into a new American economy. This perception was pervasive throughout the 2016 Presidential campaign and highlighted by the rhetoric that focused on bringing coal jobs back to the region. Fundamentally, however, this perception is wrong; Appalachians are not unwilling to move forward, but rather feel as if they have been left behind. Viewed through this lens, the results of the Presidential election in Appalachia were not the affirmation of one party over another, but a regional referendum on both parties’ inability to address Appalachia’s challenges. Appalachia’s people, its human capital, are its greatest strength, but they need support – easier access to healthcare, access to safe housing, investment in education, jobs to replace the ones leaving the region, and more. Supporting and reinforcing Appalachian human capital will open the doors to building the rest of the core building blocks necessary to develop an economy Appalachians can live with today, while they work towards the economy they want in the future.

In recent decades, investments have been made in Appalachia across many of the assets necessary for development, and these investments have created opportunities for the region across a variety of sectors. Fahe has been instrumental to this development and is looked upon as a trusted leader and service provider throughout the region. Yet, despite these developments, the region continues to lag behind the rest of the nation in terms of its economy and key development indicators. Appalachia has relied on extraction-based industries to drive its economy, but job opportunities in mining and its related trades are declining due to the changing landscape of U.S. energy production. This has hurt Appalachia, a region that was already struggling with a disproportionate and crippling rate of persistent poverty. As the region attempts to pivot away from the extraction industries, it lacks many of the core building blocks necessary to develop a vibrant economy. Even with all these challenges, the healthcare, local food, tourism, energy, and manufacturing sectors are all demonstrating promise, particularly in rural and underserved areas.

Reinforcing and building on core building blocks in a coordinated and holistic manner will be critical to further unlocking these promising sectors, which, as illustrated below, are all ready for investment:
It is of the upmost importance that these building blocks and promising sectors are approached in a coordinated fashion because only together will they establish a vibrant ecosystem. The following examples highlight that interdependence:

> If people are unhealthy then they will be more likely to struggle to attend school regularly and complete their education. If they do not complete a post-secondary degree, then it will be challenging to compete for a better paying job in an advanced sector. Without the income from that job they may struggle to afford a home that will create a healthier environment.

> Without a strong entrepreneurial ecosystem, a ‘mom-and-pop’ shop will not know how to access the financial capital and expertise that they need to drive sales of their local food product. Without these sales, the producers and the region could lose out on potential growth of agriculture and food tourism driven by their product.

While this overview of Appalachia’s current state will address some of these building blocks and promising sectors somewhat distinctly, the framing should be considered, as in the examples above, as part of a holistic representation of what is happening in the region today.

**Health**

The Appalachia Regional Commission’s 2016-2020 Strategic Plan highlights that, “The health status of the Appalachia’s residents is also closely tied to the region’s economic health. A healthy community has increased prospects for business development, civic entrepreneurship, and quality of life.” At a surface level one might think that Appalachia has much of the infrastructure necessary for a healthy community — for instance, it has a greater level of hospitals (2.76 / 100K people) and federally qualified health centers (5.8 / 100K people) when compared to the nation at large. However, access to these facilities is often challenging due to the size of the region, cost of services, and the population’s socioeconomic status. If one has to choose between paying to keep the lights on and paying for medical care, it can feel like being stuck between a rock and a hard place. Exacerbating the difficulties of access to care, the region’s historic economic driver, coal mining, predisposes Appalachians to poor health due to occupational hazards including on the job accidents and “respiratory damage through the high levels of dust and other chemical particulates present in deep coal mining facilities. Some of the disorders caused by these particulates include COPD, coal worker’s pneumoconiosis (CWP, also known as black lung), and progressive massive fibrosis.” Even if one does not work directly in the mine, but simply lives nearby, research suggests it can have a negative impact on your health due to the increased level of dust in the air and pollution, which can be toxic in high concentrations. For these reasons, it’s not surprising to see that the percentage of adults reporting fair or poor health in Appalachia is much higher than the

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2 https://www.policymap.com/
4 http://www.kyenvironmentalfoundation.org/coal-mining-health-risks.html
population broadly. In fact, “the mortality rate in Appalachia is 27% higher than the national average, and the region has disproportionately higher rates of cancer, diabetes, substance abuse, and obesity.”

In addition to these challenges, Appalachia is at the center of one of the worst opioid epidemics in American history. “Overdoses, fueled by opioids, are the leading cause of death for Americans under 50 years old — killing roughly 64,000 people [in 2016], more than guns or car accidents, and doing so at a pace faster than the H.I.V. epidemic did at its peak.” The epidemic has hit Appalachia especially hard:

In 2015, there were 5,594 overdose deaths in Appalachia – a drug-related death rate 65% higher than the rest of the nation. Sixty-nine percent of these deaths were caused by opioids. An overwhelming majority of these deaths throughout Appalachia were individuals between the ages of 25 and 44, people who were in their prime working years. These troubling statistics make it clear that the opioid crisis is not only destroying lives, it has created a significant challenge to workforce expansion and economic development throughout Appalachia.

The state of health in Appalachia is a major concern because, as mentioned earlier, it impacts people’s ability to retain a job, go to school, and live a productive life, all of which affects the economy and the prospects of the region. It is worth reinforcing that health status, perhaps more than any other building block, is not a standalone issue – it is impacted by the strength of the health care workforce, and various social determinants of health (i.e. access to housing, education, socioeconomic status, access to care, and more). But the inadequacy of current healthcare resources actually means that there are many opportunities for investment in this sector. Healthcare is already a strong driver of employment in the region and, given the demand, it is well positioned to continue to grow. The aging population creates a need for senior homes and the opioid epidemic requires investment in rehabilitation facilities. While the quality of housing, which will be discussed later on, has improved in recent decades, much of it is still sub-standard when compared to the rest of the nation. This creates a demand for the construction and repair of the affordable housing stock in the region. “There is a growing demand for innovative health-care delivery systems that can reach geographically isolated rural communities. These needs will in turn create opportunities for comprehensive approaches to improving public health and wellness that combine educational campaigns, wellness infrastructure, and proactive local policies to encourage healthier living.” Altogether this sets the stage for broad investment in the healthcare sector, which will have far-reaching impact on the health of the economy and people of Appalachia. As part of its FY17-21 Strategic Plan, Fahe has laid out its intention to increase its already active role in health and social services by leveraging its Network and facilitating multi-sector collaborations to provide person-centered solutions for vulnerable people.

**Housing**

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9 [https://www.arc.gov/assets/research_reports/EntrepreneurialAppalachiaCaseStudiesinEvolvingEconomicSectors.pdf](https://www.arc.gov/assets/research_reports/EntrepreneurialAppalachiaCaseStudiesinEvolvingEconomicSectors.pdf)
In many ways the housing market in Appalachia is broken – housing stocks are low, there are few banks and locally-based mortgage lenders willing to lend to low-income people, there are virtually no housing inspectors or enforcement of housing codes, and there is an appraisal gap between the cost to build and the value of a home, which disincentivizes developers. The housing stock that you will see in Appalachia is “largely comprised of homes in small towns and isolated mountain valleys far away from major interstate highways and metropolitan areas.”

The houses tend to sit on land that has often been owned by families for generations and the homes themselves are generally fairly modest – over 55% of homes in Appalachia are valued at less than $100K. This creates a challenge for Appalachians because building or repairing their homes can cost more than the house itself is worth. As a result, housing does not necessarily translate directly into assets in the way that it does in more urban markets.

Manufactured houses are a common sight in Central Appalachia making up 20.7% of the housing stock, which is significantly higher than the rest of the country. This form of housing is popular because the homes are relatively affordable; however, unless the home is built with foundations and in a particular way, it depreciates quickly and, again, does not translate into an asset-building mechanism for low-income people. Compounding this problem is the targeting of the manufactured housing market by high-interest, predatory loans.

The rental market has its own challenges – availability is low and prices are high, placing a cost-burden on renters and especially young people. Furthermore, as jobs tend to migrate towards cities, the lack of housing stock can create a transportation divide between affordable housing and jobs. This forces people to commute long distances from areas where they can afford to live to where their jobs are located. Unfortunately, “many people in rural mountain communities are quietly facing this dilemma: They can live in substandard housing or leave Appalachian life behind.”

Fortunately, there are more and more nonprofit housing organizations in the region that are banding together and coordinating their efforts – with the support of organizations like Fahe – to create innovative and responsive solutions to address Appalachia’s housing needs. Many Appalachians do not have the credit or the collateral to purchase the housing that they need and so these organizations have created solutions that include low-interest mortgage loans, such as USDA 502 Direct, USDA 502 Guaranteed, VA, FHA, Conventional, Refinancing, and more. These organizations are able to creatively leverage private, public, and philanthropic funding to support the delivery of homes. For instance, Fahe’s packaging partnership with USDA has produced $150M in investment activity and helped its 1,000th rural family achieve homeownership with a mortgage they can afford. Beyond just providing capital, these organizations also provide education to ensure that their constituents understand their options and are able to tackle the housing challenges facing their community.

Human Capital

Human capital is developed over time and its development depends on critical inputs including a healthy population, access to education, and workforce development opportunities. Appalachia lags behind the nation in all these key categories; however, there is a foundation of assets in the region from which to

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build a long-term strategy for the development of Appalachians. Investment in human capital is just as critical for the region, if not more so, than investing in opportunities with immediate financial returns.

“In 2014, the unemployment rate for the US was 6.2% and the Appalachian region was [only slightly higher] at 6.5%.”12 That being said, if you look at the per capita income of Appalachians ~$30K against the national rate ~$46K, Appalachians earn significantly less. Improving access to education and workforce development programs, alongside other economic interventions, will be critical in bridging this income divide. Over recent decades the number of Appalachians with at least a bachelor’s degree has tripled to 21.3%; however, this still lags behind the national rate of 28.5%.13 This is a critical statistic because, as mentioned above, it is also a gauge of potential earnings. Across the nation the median earning for a population of 25 years or older with a high school degree (or equivalent) was just $28K, while the median with a bachelor’s degree was ~$50K.14 Central Appalachia has an opportunity to leverage its 200+ educational anchor assets – 4-year colleges / universities and community colleges – to continue to address this divide. These institutions can play an important role in propelling the area into shared prosperity, through workforce development programs, social procurement that supports small businesses, and simply creating a density of population that can ignite economic and community activity.

Education is critical to the region because, in many instances, the missing link in Appalachia is the people or human capital expertise necessary to piece together ideas, connect these ideas to resources, and deliver. It is undeniable that there is and always has been a steady outmigration from Appalachia by those in search of new opportunities. Presently Eastern KY and Southwest VA are seeing heavy levels of negative net migration; however, there are hotspots of population growth throughout the region and particularly steady growth across northern TN.15 Furthermore, “common assumptions about rural brain drain may be incorrect, according to research published in the American Educational Research Journal.”16 The study found that high-achieving students are not necessarily more likely to leave than others and are, in fact, more likely to return and bring with them the skills and experience they gained outside the region. It is important that Appalachia capitalizes on this trend and develops a plan for the future that actively inspires this ‘rural return’ by providing the opportunity for returning Appalachians to set down new roots and build a prosperous future.

Fahe has committed to investing in Appalachian human capital by making leadership development core to its work. Many Appalachian residents do not have the perspective or faith in their own ability to create a different future for themselves or their families. They may want to improve economic security, build trust, foster hope, and align resources to effect change that benefits the region’s residents and communities, but do not know where to start. Fahe builds Appalachians belief in themselves through trainings, access to financial resources, supporting collaborative and innovative approaches, and helping the articulation of solutions for the unique problems faced by local communities. By prioritizing the

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12 https://fahe.org/appalachian-poverty/
13 https://www.arc.gov/assets/research_reports/AppalachiaThenAndNowCompiledReports.pdf
14 https://missioninvestors.org/sites/default/files/resources/Philanthropy%20as%20the%20South%27s%20Passing%20Gear.pdf
15 http://netmigration.wisc.edu/
16 http://www.dailyyonder.com/rural-student-brain-gain/2014/08/12/7492/
development of local human capital, Fahe is helping to build up the leadership that will drive Appalachia towards a brighter and more prosperous future.

Infrastructure

Appalachia has made significant investments in infrastructure in recent decades and they have “helped reduce the Region’s isolation, spur economic activity, and improve public health and safety.” The Appalachian Regional Commission (ARC) alone has put billions of dollars into broadband, transportation, including the Appalachian Development Highway System, and water and wastewater systems. These investments, in addition to improvements in housing stock and almost universal access to electricity and indoor plumbing, have brought Appalachia forward leaps and bounds. That is not to say that there is not more work to be done and an ongoing need for investment and maintenance of these facilities. One of the critical challenges to building infrastructure in Appalachia is the low density of the population, which makes the cost of infrastructure per person extremely high. This problem is exacerbated by the low-income levels of this population, which lead to a low tax base. Many municipalities simply cannot afford to pay for the infrastructure they so badly need.

ARC has highlighted five infrastructure objectives as part of its strategic plan: 1) Broadband and other telecommunications infrastructure 2) Ensuring adequate community infrastructure to implement community and economic development objectives 3) Supporting construction and reuse of business-development sites and public facilities 4) Completing the Appalachian Development Highway System and constructing local access 5) Investing in intermodal transportation planning and infrastructure. Fahe has been a key partner to ARC and has facilitated infrastructure improvements through innovative financing and providing support for local community-based partners that otherwise would not be able to execute demanding infrastructure projects. Continued investment in infrastructure is necessary to create the foundation necessary for Appalachia to propel itself forward into the future.

Financial Capital

To understand the current landscape of capital in Appalachia holistically, one must consider philanthropic, public, and private capital sources.

Private capital, defined as investments from private sector such as banks and venture capital, is very limited in Appalachia, which perpetuates a lack of business start-up activity and slows economic growth. Venture capital is minimal and what little does exist is concentrated in larger metropolitan areas (less than 2% of VC funds are in rural counties). The lack of venture capital is because high-growth companies do not tend to pop up in Appalachia and if they do, they migrate to urban areas, where investors are typically based. As a result, startups are left to rely on limited regional friends and family money to bootstrap their businesses. Much more prevalent in Appalachia are small businesses; however, the capital to support these business owners is also lacking. Due to poor credit, many small business owners do not qualify for loans and turn to credit cards, which have less desirable loan terms and conditions. Many lenders and investors cite the weak unit economics of operating in the vast geographic spread of

17 https://www.arc.gov/assets/research_reports/AccessToCapitalAndCreditInAppalachia-July2013.pdf
rural Appalachia as a critical challenge. While many see this gap as the role that banks should be filling through the Community Reinvestment Act (CRA), the reality is that this investment is largely focused in urban areas within Appalachia (e.g. Charleston, Knoxville, etc.) and is targeted to housing, not small business and economic development. Small business loan activity provides a helpful proxy for the level and concentration of enterprise finance activity in Appalachia. In 2010, 15.3 SBA 7a loans were issued per 10,000 small businesses in Appalachia as compared with 21.9 loans per 10,000 small businesses in the nation.

Public sector organizations have numerous ways of providing financial capital where private capital falls short. There is a wide range of direct programs, funding opportunities, matching funds, guarantees, and more offered through government agencies in support of rural development such as the USDA, EDA, EPA, DOE, SBA, ARC, DOL, Fannie Mae, Freddie Mac, FHFA, CDFI Fund, and more. The ARC POWER initiative is a leading regional example that has had significant impact and successfully leveraged a range of resources to assist communities and workers that have been affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries. “To date, ARC has awarded $94 million through the POWER Initiative to help coal-impacted communities in 250 Appalachian counties diversify and grow their economies. These 114 investments are projected to create or retain almost 8,800 jobs, leverage an additional $210 million in investment, and prepare thousands of workers and students with globally competitive skills and opportunities.”

Despite the level of persistent poverty in Appalachia there has been significant underinvestment by philanthropy in the region. Eight percent of the US population lives in Appalachia, and nineteen percent of counties of persistent poverty are in Central Appalachia – however, only three percent of philanthropic grant dollars serving the United States have gone to Appalachia since 2006. When one looks at the national data that shows “the average real value per person . . . provided by large foundations to organizations based in non-metro counties from 2005 to 2010, it was only about $88 per person—less than half the average provided to organizations in metro counties.” Anecdotally we know that this philanthropic divide between urban and rural areas only grows when focused on rural Appalachia. That being said, a number of national foundations are exploring new ways to make impact with philanthropy in rural areas, including recent commitments to impact investing. Furthermore, some of these foundations have funded organizations in Appalachia in the past, which may create opportunities for future funding. Overall, the lack of investment in Appalachia suggests an opportunity for philanthropy to step up and play a more prominent role in the region’s path towards progress. Along these lines, Fahe has already managed to develop relationships with a number of national philanthropies that have been intrigued by Fahe’s outsized impact on the region and its model for rural development. Fahe is actively developing these relationships and developing new ones to drive additional resources to Appalachia.

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18 https://www.arc.gov/funding/POWER.asp
19 https://maps.foundationcenter.org/
Entrepreneurial Ecosystem

In addition to direct capital investments, many enterprises require support in developing their business models, accessing value chains and customers, and preparing to raise capital. These supports often take the form of technical assistance providers, capacity builders, and other ecosystem players, which as a whole we call the entrepreneurial ecosystem. This ecosystem plays an invaluable role in helping enterprises unlock their potential. Central Appalachia has a volume of small business support assets more or less comparable to the national average – small business development centers (SBDCs), business incubators, and community development financial institutions (CDFIs) – yet there is need for additional investment in the ecosystem as these facilities have varying capacities and are often difficult to access, which makes per capita data less robust. Fahe is a key support mechanism that bolsters the entrepreneurial ecosystem by providing access to financial capital and expert human capital otherwise lacking in the region. Frankly, many local businesses and communities do not know where to start when considering a new endeavor and so they turn to Fahe for the advice that they need to succeed. Fahe is also constantly innovating its own platforms and advocating for the necessary resources to help Appalachian entrepreneurs thrive.

Promising Sectors for Investment

As has been noted, Appalachia’s economy has historically been driven by extraction-based industries; however, these industries and their jobs are leaving the region. One key to combatting this change and the very real economic challenges it brings is to diversify the region’s economy and make it less reliant on the fortunes of one sector. ARC has identified clear opportunities for investment and growth in the region that will diversify the region’s economic base:

Supporting entrepreneurship and business development in targeted sectors that have growth potential and that build on local and regional assets provides the greatest opportunity for building a strong Appalachian economy. These businesses also offer better job opportunities for Appalachia’s workers. Targeted sectors can include manufacturing, diversified energy, tourism, local food systems, and health care, as well as other sectors with growth potential.

It is again worth noting that while these sectors might be considered independent, the growth of one often depends on the growth of the others making them interdependent. For example, growth in manufacturing relies on a healthy workforce, and investments in local food can contribute to the region’s tourism appeal.

Economic diversification and growth in Appalachia will rely on investment in the building blocks and sectors highlighted above; most importantly human capital. That is not to say that every region across Appalachia has the same needs or that a uniform approach can be broadly applied across the region. Each community in Appalachia is unique and needs a tailored version of the building blocks to be applied situationally based on the local strengths and weaknesses. Fahe’s local connections and knowledge across sectors positions it ideally to support the application of solutions through a coordinated
community-based strategy with Appalachia’s people at the center. Only then will the needle move, creating real change and hope for the region.

BACKBONE SUPPORT

Given this crucial moment in Appalachia, it is critical that available resources are well organized to capitalize on the opportunities at hand. This coordination will lead to greater collective impact, which “occurs when organizations from different sectors agree to solve a specific social problem using a common agenda, aligning their efforts, and using common measures of success.”\(^{21}\) Collective impact through coordination is not a given. In fact, quite the opposite: this coordination takes dedicated time and effort. When there is a lack of resources to manage the coordination of collective impact, the consequences can be dire:

Creating and managing collective impact requires a separate organization and staff with a very specific set of skills to serve as the backbone for the entire initiative. Coordination takes time, and none of the participating organizations has any to spare. The expectation that collaboration can occur without a supporting infrastructure is one of the most frequent reasons why it fails.\(^{22}\)

In order to ensure that Appalachia’s varying and broad efforts are aligned, effective, and, where possible, accelerated, it is critical that organizations in the region play this coordinating role. These organizations should ideally have a birds-eye view of the region, with expertise in tackling poverty as well as economic and community development broadly. This coordinating body is commonly known as a ‘backbone organization’, which SparkPolicy defines as\(^{23}\):

The entity or entities charged with coordinating the various efforts of partner organizations and ensuring everyone is moving together toward a common goal. Many organizations do great work within the standard core activities of a backbone, such as convening partners, facilitating critical dialogues, communicating across the partner network, etc. [However,] truly catalytic backbone organizations working with complex systems-change initiatives, including collective impact work, are able to move their partners to think and act in innovative and strategic ways. Catalytic backbones take the collaboration from planning to doing.

While SparkPolicy’s definition is a helpful place to start, it leaves room for interpretation and the practical reality is that the focus of backbones can vary depending on the backbone organization’s genesis, organizational structure, topical focus, and more. That being said, there are key commonalities that tie them together. FSG has highlighted the following six pillars that exemplify the function of a backbone organization\(^{24}\):

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\(^{21}\) [https://theconnectbmore.com/collective-impact/](https://theconnectbmore.com/collective-impact/)
\(^{22}\) [https://ssir.org/articles/entry/collective_impact](https://ssir.org/articles/entry/collective_impact)
> **Guiding vision and strategy:** [Works] to provide data, prioritize opportunities for action, and adapt to changing context and systems in the overall vision and strategy of the effort
> **Supporting aligned activities:** Facilitates dialogue between partners, provides direct support for . . . meetings as needed, and generally helps to coordinate the actions across the effort
> **Establishing shared measurement practices:** Manages data collection among partners and supports the use of data for learning and evaluation of the effort
> **Cultivating community engagement and ownership:** [Seeks] to build an inclusive effort that authentically engages and fosters ownership within the community over the long term
> **Advancing policy:** Plays a role supporting a policy agenda that impacts large systems and institutions in support of the effort’s overall goal
> **Mobilizing resources:** Plays a key role in developing resources for the initiative’s sustainability, including fundraising for the backbone itself and . . . can also coordinate or support the fundraising efforts of members of the collective impact initiative

These six functional pillars do not necessarily have to be executed all at once, or even in a specific order. Rather, backbone organizations should focus on the pillars that reflect the needs of their community and partner organizations.

On top of this functional variability, there are different organizational structures through which a backbone organization can be executed; each has advantages and disadvantages.25 A funder-based initiative is led by an entity that has the financial clout to get the ball rolling and convene relevant parties. The challenge with this structure is that funders will often have their own agenda, which is not always aligned with that of the community. Another potential structure is to set up an entirely new nonprofit creating a clean slate; however, any new organization requires funding and needs to develop a relationship with their local community. An existing nonprofit can leverage their fundraising capacity and local relationships, and yet they may be distracted by their active portfolio of commitments. Government agencies can act as a backbone and tap into their often-significant budgets and infrastructure; however, their funding is not guaranteed, and they can be burdened by bureaucratic systems. Multiple organizations can band together or elect a multi-stakeholder steering committee, which can establish broad buy-in for the initiative, but can also lead to decision paralysis due to competing agendas. When considering these different structures, and deciding how to organize a backbone organization, it is important to first and foremost keep in mind the needs of the community and then the assets that are already in place.

Since backbone organizations can vary in terms of function and structure, it naturally follows that their budget and staffing can also vary. That being said, one cross-cutting commonality that appears across all of the literature on backbone organizations is that they need to have dedicated staff capacity in order to be effective. This staff should be separate and distinct from other organizational activities, but that does not mean that the organization needs to be overly burdened with staff – backbones can and should run leanly in order to maximize impact and funding. This is especially important because backbones generally need to raise the funds for their activities, which can create the impression that they are competing for funds with the very partners and communities that they are meant to support. It is essential that the

backbone organization raises only the funds it needs, while also not taking away funding opportunities from its partners.

Beyond all these functional and organizational characteristics, what perhaps most defines a backbone organization is the relationship it has with its partners and local community. “Backbone organizations must sustain a delicate balance between the strong leadership needed to keep all parties together and the invisible “behind the scenes” role that lets the other stakeholders own the initiative’s success.”26 This balance is difficult to strike because backbone organizations need to be able to both listen and respond to the needs of their community, while at the same time leading and encouraging the community to move in a direction that will fulfill its long-term vision. Recognizing this dichotomy and being able to manage it carefully and thoughtfully requires an organization that is rooted in, and understands, its community.

**FAHE’S ROLE AS A BACKBONE ORGANIZATION**

Fahe is a Member owned organization which emphasizes local community engagement and ownership. Its Board of Directors exemplifies this commitment by filling its seats with a rotating collection of leaders from Fahe’s Network of community-based partners. Those same partner’s Boards are filled by local stakeholders and recipients of the partner’s services, which creates a direct channel back up to Fahe. This quite literal connection to the people on the ground in the community is an illustration of 

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26 [https://ssir.org/articles/entry/channeling_change_making_collective_impact_work](https://ssir.org/articles/entry/channeling_change_making_collective_impact_work)
how Fahe builds the credibility and trust it needs to support its Network on a local level and be a leader for them on a regional and national level.

Fahe’s relationship with its Network is such that at times Fahe is pulled by its Network towards a particular objective, while in other instances Fahe pushes its Network towards a shared vision. The ability to manage this push-pull tension is one of the core reasons why Fahe is so well suited to be a backbone organization in Appalachia.

Fahe has wrestled with this tension since its founding in 1980, when the original six Members established Fahe to support a broader Network of community-based housing organizations and partners in Appalachia. Over time Fahe grew – in 1995 Fahe became a certified CDFI and by 2003 Fahe and its now 30+ Members were producing over 2,000 units of housing annually, impacting thousands of people across the region. The Network and production continued to grow and by 2017 Fahe and its 50+ Members increased their annual impact to provide service to 80,000 people annually.

Over the course of this growth Fahe realized that it needed to take a multi-sector approach in Appalachia in order to eliminate persistent poverty in the region. In fact, many of Fahe’s Members were already providing a much broader array of services to their communities. Fahe recognized that for the talented leaders within its Network to succeed in this broader effort they would need a more expansive stable of expertise and capital. Fahe’s model relies on the notion that if you supply talented leaders with expertise and capital you will build their capacity to create change. This ‘Theory of Capacity’ embodies and reinforces the idea that Fahe as a backbone organization should not develop the region by itself, but rather encourage and empower talented leaders to establish and execute upon their own vision of Appalachia. This ethos led to Fahe broadening its strategic orientation to leverage its expertise in finance, collaboration, innovation, advocacy, and communication to support a wider focus on leadership, housing, education, health and social services, and economic opportunity. Fahe’s origin story is important because it revolves around Fahe’s focus on and coordination of its Network – in other words, it revolves around Fahe’s role as a backbone organization.

Fahe’s broadened strategic orientation has led it to establish an Opioid Recovery Taskforce as part of its work on health. As discussed earlier, the opioid epidemic has hit Appalachia especially hard and the health of Appalachians is inextricably tied to the well-being of the region as a whole. Fahe has leveraged a small ARC POWER grant to support a taskforce to engage a range of stakeholders – political leaders from both sides of the aisle, healthcare experts, the construction industry, drug policy experts, and employment programs. At first glance this may seem like an unusual collection of players and it might be unclear why Fahe is the right organization to lead it, but Fahe’s strength as a backbone in the region and its expertise in collaboration is exactly what allows it to recognize the need for and coordination of this multi-stakeholder group. Political support coupled with policy expertise is necessary to highlight the urgency of the opioid epidemic and drive supportive funding, healthcare expertise is required for the treatment of addiction, the construction industry can support the building of recovery and rehabilitation centers, and employment programs can help create second-chance job opportunities for recovering

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27 https://books.google.com/books?id=VG9rtDwAAQBAJ&pg=PA159&ots=D48OqLb0MG&dq=fahe%20kentucky%20history&pg=PA160#v=onepage&q=fahe%20kentucky%20history&f=false
individuals. Together this group’s objective is to identify and develop a value chain to support revenue generation to make recovery models sustainable and coordinate recovery efforts in eastern Kentucky. Fahe’s reputation is what brought this group together and Fahe’s ability to coordinate their efforts, as a backbone organization, is leading to change that will help address this pressing issue in Appalachia.

Fahe’s Network is comprised of a diverse collection of community-based partners striving towards one vision, ending persistent poverty in Appalachia, but they are working towards it in different ways, and in different contexts. While on the surface this diversity might appear to be a challenge, Fahe embraces and even fosters it to be truly representative of the region. Appalachia is often referred to as a homogenous place with one singular voice, but that is an oversimplification of the expansive 205,000 square mile region and its needs. For example, while Kentucky is supportive of its growing renewable energy sector, just across the border in West Virginia the politics, policies, and regulations are such that advocacy is needed even to get the renewable energy industry off the ground. That being said, this diversity in Fahe’s direct connection to its Members on the ground allows it to have these nuanced perspectives on community-level needs throughout Appalachia. One of the ways Fahe solicits these perspectives is by coordinating regularly occurring state-level caucus meetings, which provide a broader view into the issues that Members are facing on a state-level. In addition, Fahe hosts bi-annual meetings with representation from across the Network. This community-level approach, with multiple and regular Member touchpoints, allows Fahe to expose its Members to opportunities, encourage peer-to-peer learning, and help develop partnerships, for example:

Through the NeighborWorks America program, Fahe learned about a program called the W. Vermont HEAT Squad that provides grassroots outreach, low-cost audits, hands-on customer service, constructions services, and affordable financing to make it easier for homeowners to implement energy efficiency projects. Fahe’s staff physically went to W. Vermont to learn more about the program and then supported a Fahe Member, Housing Development Alliance, to pilot the program in Perry County, Kentucky. Since the original 2015 pilot, word has spread and two additional Members, COAP, Inc. and Homes, Inc., are now part of the Appalachia HEAT Squad. Today the Appalachia HEAT Squad serves nine counties in Kentucky and has supported the submission of an application for expansion into E. Tennessee.

Fahe not only leverages its Network and expertise to develop connections between Members locally, but it also has the reputation and clout to contribute to and lead discussions on a national scale. Fahe’s ability to advocate for policies and agendas regarding development in rural America is a critical asset to its Network of community-based partners, who might otherwise not be able to access this national stage. For instance, Fahe was instrumental in leading the pilot for the 502 Direct Packaging Program that serves low-income households located in rural communities. This program was such a success that Fahe was able to advocate for its implementation nationally:

In 2009, Fahe led a group of regional intermediaries to establish a pilot program with USDA Rural Development in which they created a nonprofit loan packaging system that significantly


29[https://www.appalachiaheatsquad.org/about/](https://www.appalachiaheatsquad.org/about/)
improved the delivery of 502 mortgages for rural families across the nation. This innovative public / private partnership and pilot became a permanent program in May 2016. Fahe currently works with 60+ packagers in 18 states. As of December 2017, Fahe’s Packaging Network has successfully delivered loans totaling $150M to 1,191 families.\textsuperscript{30}

Now that this program is spreading nationally, it not only helps families access federal funds, but it also generates revenue through fees for the nonprofits that are implementing it. Creating innovative ways to access and mobilize resources is another core value-add that Fahe is able to bring to the table as a backbone organization.

At a time when government funds are increasingly unreliable, especially for smaller organizations, every dollar truly counts. Fahe is able to access and bring financial resources to bear through federal programs, like the ARC POWER Initiative, state programs, and national philanthropy, such as the UpLift America, that otherwise might not be available to its Members. It is important to note that the philanthropic funds that Fahe accesses intentionally come from outside the region because they do not want to create competition with their own Members, who always get first rights to local funds. Fahe is also able to fill the gap left by other capital providers, who are not present in Appalachia because the value chain that should translate the “need” on the ground into “demand” in the market is broken. Participants in the delivery of goods and services in Appalachia (e.g. mortgages; homebuyer education) are not “rewarded” with financial returns, and in fact, often have to subsidize their own participation in the process to have a presence in the region. Fahe has been able to tackle this problem by providing the flexibility to adjust their tactics and strategy to meet the needs of each unique Member, family, and community – there is no single model to solving the challenges faced by Fahe’s Members and the communities they serve. One such solution is Fahe’s ability to aggregate loans from Members and sell them to the National Federation of Community Development Credit Unions. This model enables local nonprofits to earn a fee for service on the original loan, while simultaneously building the capacity of the local nonprofits.

Beyond financial resources and capital, Fahe is also a source of human capital, which is a significant missing link in Appalachia, as discussed in the current state overview. Many local organizations do not have the scale to hire specialized expertise in-house and so Fahe’s ability to provide that support is a valuable asset across the region. Members and non-members alike rely on Fahe’s Strategic Programs team to help them navigate challenges, cultivate innovations, and take concepts from pilot to production. For example, Woodlands Community Lenders, a WV-based Fahe Member, participated in Fahe’s Bootcamp, which provided training and technical assistance on effective engagement and utilization of the CDFI Fund. Through this support they were able to provide a low-interest loan to Richard Thomas, a former coal miner, who had been laid off, and was trying to start his own business hauling lumber. Despite having a letter of intent from 84 Lumber and significant collateral, local banks deemed Richard too high-risk and turned him down for the loan needed to purchase the trucks. Fortunately, Richard was referred to Woodlands Community Lenders, and within a few short weeks, Richard was approved for his loan and his new life began. “It was great to work with a company that wants to see you working and

\textsuperscript{30} Transforming Rural Communities Through Collaboration and Innovation
encourages you to succeed,” said Richard. “They believe in helping young entrepreneurs achieve their dreams and that support is needed if the area is going to flourish.”

Fahe is not only thinking about the current state of Appalachia’s human capital, but it is also looking to the future by supporting the next generation of Appalachian leaders. Over the summer of 2017, Fahe piloted the CHEF internship program, funded by Rural LISC, which connects hand-picked student-interns, from regional universities, with hand-picked Member organizations. This program created a valuable learning experience, mentorship, and networking opportunities for the interns, while also providing Member organization with a talented and energizing resource.

As Fahe thinks about the future, it must also consider the other organizations and players in Appalachia. One of the unique aspects of Appalachia is that the organizations that would likely be considered Fahe’s competition in other regions are the very organizations that Fahe considers its partners. The reality is that there is too much work to be done by too few hands to allow for competition in Appalachia. Fahe’s multi-state, multi-sector perspective puts it in a unique position to develop partnerships across Appalachia:

The ability to partner opens new opportunities. These deep and often long-standing relationships with partner organization only increases Fahe’s ability to coordinate and align activities in the region in order to fulfill the role of a backbone organization.

NEEDS AND OPPORTUNITIES IN THE PATH FORWARD:

Fahe’s role as a backbone organization is vital to the ongoing development of Appalachia and thus it is critical that Fahe has access to the resources that it needs to keep its engine running. In determining the resources that Fahe needs to fulfill this role, it is worth highlighting that Fahe is different than many other backbone organizations because it plays this role on a regional level, instead of on a community level. As mentioned earlier, Appalachia covers a vast geographic expanse, with a myriad of regional nuances and challenges, and so Fahe has to be an especially efficient organization to effectively deliver support widely without becoming cost-heavy.

Keeping this in mind, Fahe’s success and growth have led to increasing people costs in order to support its growing Network and broadening range of services. Salaries and benefits have on average grown at a ~13% compound annual growth rate between FY16-18 from $2.8M to $3.6M, while other expenses have grown more conservatively. In order to project expenses for the next three years a 13% growth rate has been applied to salaries and benefits and a more conservative 5% growth rate has been applied to non-personnel costs. Based on these projection methodologies, Fahe’s total expense base is expected to grow at a ~9.5% compounded annual growth rate between FY16 and FY21. This represents significant growth in Fahe’s expenses, but more importantly it represents an incredible boost to the human-capital and capacity of Appalachia.

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Fahe’s staff all provide support for Fahe’s services as a backbone organization; however, some are doing so in a direct manner, while others are doing so more indirectly. This is a somewhat complex and controversial point because the activities that Fahe staff undertake that are not focused on backbone support are still related to supporting Fahe’s vision to eliminate persistent poverty in Appalachia. For instance, the loan servicing and JustChoice Lending programs that Fahe supports outside Appalachia provide critical revenue to pay for Fahe’s backbone services within Appalachia. With that nuance in mind, it becomes challenging to pick out a group within Fahe that does not directly or at least indirectly provide some support for community-based partners: Member Services, Strategic Programs, Advocacy, and Communication with support from the Executive Team. That being said, a conservative estimate would suggest that 60% of all staff time is directly dedicated to supporting backbone services. Based on that assumption and the projected people costs for the next three years, there is a need for $8.5M to support Fahe’s backbone services: FY19 $2.45M, FY20 $2.75M, and FY21 $3.1M.

Fahe is raising $8.5M to cover the cost of providing backbone services throughout Appalachia between FY19-21. This $8.5M investment will allow Fahe to continue increasing the population it serves, through its Members and Network of community-based partners, and will translate to ~$1B of investment in the region over the projected three-year period.

The reality is that today Fahe is under-resourced for the task at hand. Presently, Fahe relies on funding that comes in smaller, somewhat piecemeal chunks, but to achieve its vision of eliminating persistent poverty in Appalachia, Fahe needs transformative, longer-term funding that will allow it to execute its role as a backbone in a more impactful way. This type of support would, for instance, allow Fahe to invest more deeply in helping its partners establish shared measurement practices across the Network that truly demonstrate their deep impact. It could be reinvested into the Development and Communications team to elevate Fahe’s profile nationally and raise more funds for Fahe and its partners. More tangibly this growth in capacity is projected to take Fahe from 80,000 people served annually to

![Fahe: Operating Expenses & Service Impact](image-url)
over 115,000. This growth will, in turn, open additional doors for funding and impact, creating a snowball effect that will drive the Appalachian region forward.

Fahe is positioned better than ever to pursue this goal – only 4 or 5 years ago Fahe was largely focused on sustainability, while today Fahe is 70% self-sufficient. As a backbone organization, it is critical that Fahe maintains this high level of self-sufficiency in order to ensure that its Members and communities have access to reliable and predictable resources.³² To reach its new fundraising targets, Fahe is focusing on expanding partnerships, reaching out to initiative-based funders and medium-to-large scale funders that are players on a national scale.

CONCLUSION:

Fahe’s role as a backbone organization in Appalachia is truly vital to the region. Appalachia today is struggling with a disproportionate level of persistent poverty and is lagging behind the nation in numerous key development indicators. Yet, despite these challenges, there are opportunities for growth across numerous sectors and recent investment has begun to develop the core building blocks necessary to move towards a better future. This has created a hopeful moment for the development of Appalachia; however, more investment is necessary, especially in Appalachian human capital, to truly unlock the region’s potential moving forward. Fahe is uniquely positioned, as a backbone organization, to support, coordinate, and lead this investment and development through its Network of community-based partners that provide a direct connection to the voices of local communities. Fahe not only advocates for those voices on a local level, but it does so nationally as well. Fahe has helped build a narrative of hope and change in Appalachia, while tangibly making a difference today. It is worth recognizing that this work will not be accomplished overnight – Fahe is working to build an economy that Appalachians can live with today, until they can build the one they want in the future. By raising $8.5M of transformative backbone support funding for the next three years, Fahe will be able to invest in its people, its Network, and through them their communities, who together will unleash Appalachia’s potential and achieve their mission: eliminating persistent poverty in Appalachia.

³² Fahe 2017 Impact Report