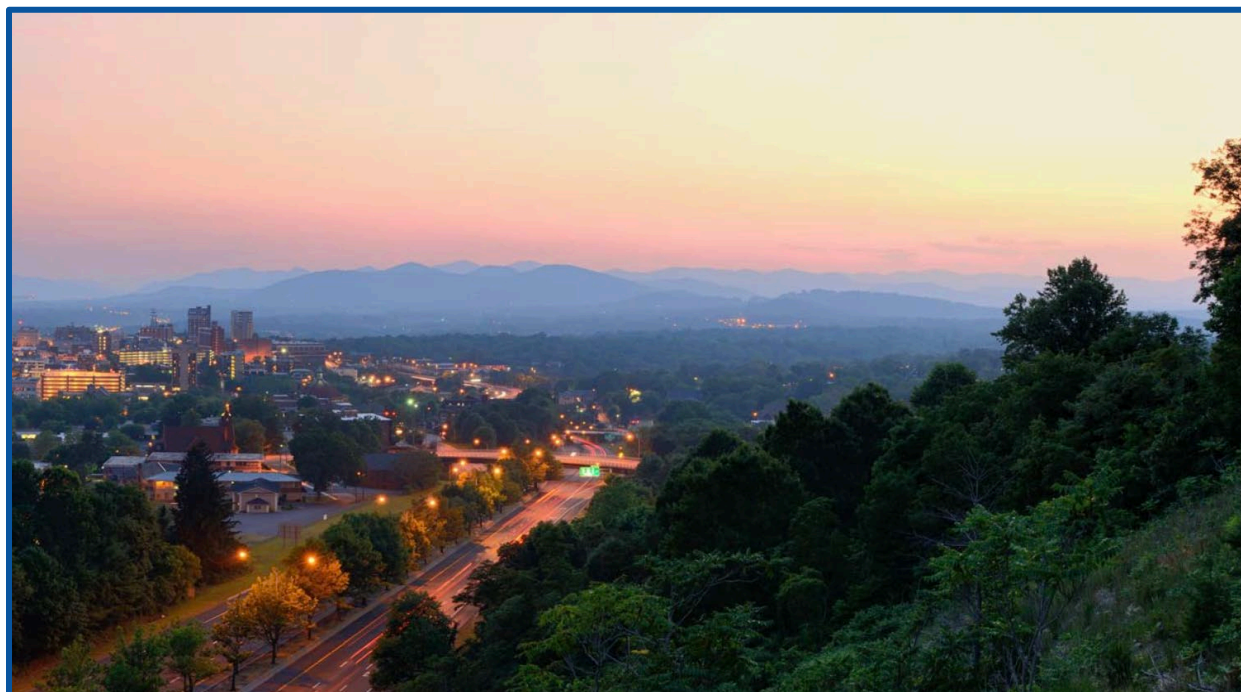

Making Connections for Stronger Businesses and Resilient Communities

Evaluation of ARC Business Development Grants Closed Between 2017–2021

October 2023



Executive Summary

Prepared on behalf of



**Appalachian
Regional
Commission**

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Executive Summary

Appalachia is best thought of as a large, complex quilt spanning thirteen states with a stunning economic diversity that encompasses great wealth as well as enormous need.¹ While the region is rich in culture and natural beauty, the unique landscape results in some communities being remote and isolated. Limited transportation and broadband infrastructure in these areas creates difficult living and working conditions. Through broad investments in the economy over the past several decades, some communities today enjoy an array of modern manufacturing and professional and technical service industries, while others—often those once dependent on mining and heavy industry—continue to struggle with unemployment, talent retention, and job creation. Generally, the region experiences higher levels of poverty, poor health, and limited education than the U.S. on average, although some areas suffer these inequities more than others and in different ways.²

This diverse context for the work of the Appalachian Regional Commission (ARC) to grow economic opportunities in Appalachia creates uniquely challenging conditions that require untraditional and innovative approaches. The 220 ARC business development grants evaluated in this report have stepped up to this challenge by making connections with people and organizations that are committed to creating vibrant futures for the communities they serve, devising new strategies to attract capital into rural areas in need of investment, breaking down barriers to employment, and leveraging technology to increase access to existing and new markets. This report presents the approach and findings of the evaluation of ARC business grants closed between 2017 and 2021,³ examining the impact at the formal close of the grants as well as continued positive outcomes after closeout.

Summary of Findings

After consolidating renewal grants, there were 199 unique projects under examination. At the highest level, the 199 unique projects that closed between 2017 and 2021 served over 80,000 individuals and businesses across all states in the ARC region. In doing so, they:



Helped to establish 1,944 new businesses.



Created or retained 29,352 jobs.



Attracted \$923 million in leveraged private investment.



Made positive improvements to hundreds of Appalachian communities.

¹ Hampton, Leah. 2018. "What you are getting wrong about Appalachia." *Los Angeles Times*, July 18.

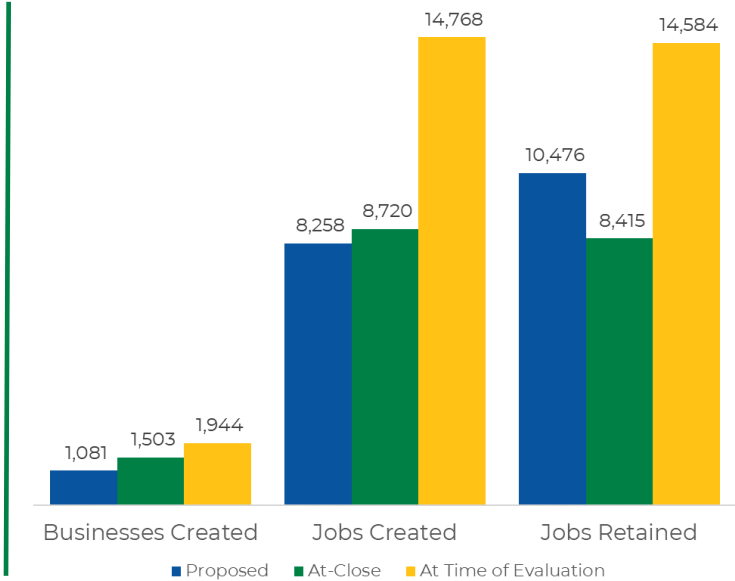
² UAB Institute for Human Rights Blog. 2021. "Human Rights in Appalachia: Socio-economic and health disparities in Appalachia."

³ Grants for Revolving Loan Funds remain open as federal funds are redeployed as loans are repaid.

Looking more granularly at outcomes achieved, these business development grant projects exceeded most of their proposed goals.

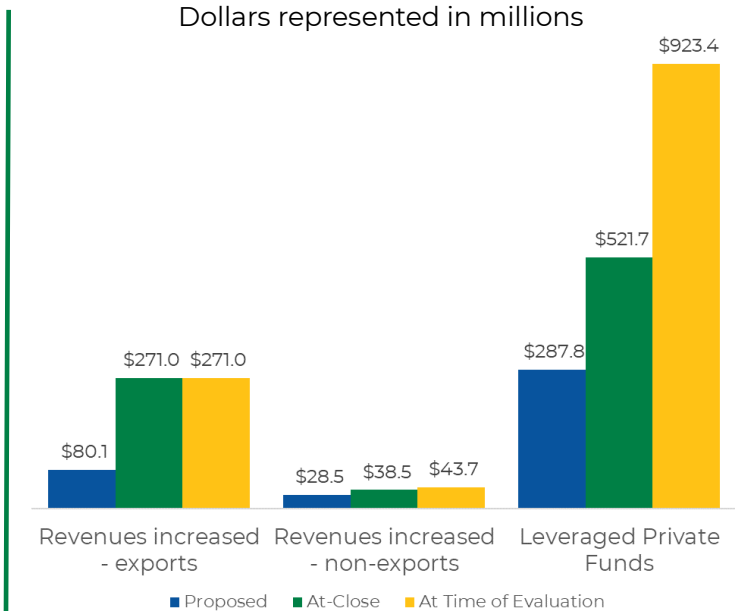
Businesses Created and Jobs Created/Retained

Grantees were successful in creating and retaining jobs, exceeding those proposed goals by 79% and 39%, respectively. Grantees aiming to create new businesses also exceeded their projected goals by 80% by the time of the evaluation.



Increased Revenues and Leveraged Private Investment

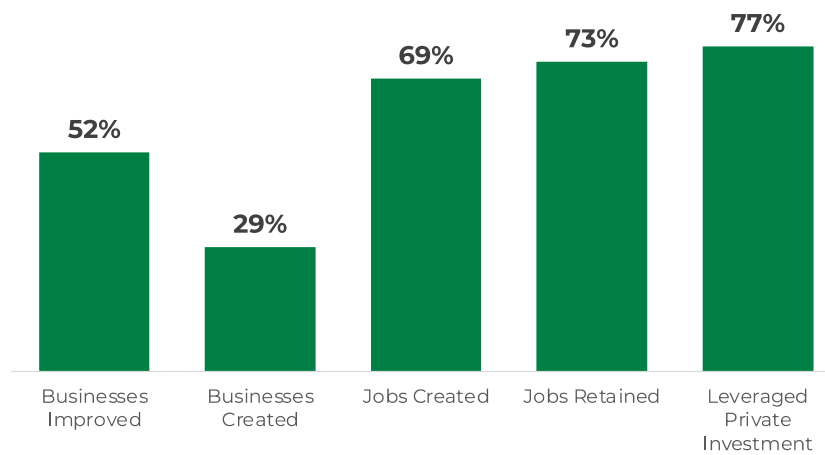
Similarly, grantees exceeded their proposed goals for increasing export revenues and leveraged private investment by 238% and 221%, respectively.



It is important to note that outcome measures, especially businesses created and jobs created/retained, improved significantly when project activities had more time

to realize impact. As demonstrated in the chart below, many performance measures saw some of their greatest growth after the project had formally closed.

Change in Outcome Measures from Project Close to Evaluation



Apart from these tangible outcomes, the ARC grant projects also realized enduring intangible outcomes, which have proved to be important to sustaining the projects after ARC funding ended. Intangible outcomes cited as most important to projects' ongoing success included increased recognition, awareness, and understanding about their business or project; new sources of funding or collaboration; improved quality of life in the community; newfound confidence of entrepreneurs and emerging businesses; and finally, the increased vibrancy and strength of the local entrepreneurial ecosystem, perhaps the most valuable outcome of all. Grantees reported their projects as being drivers of deeper and more impactful partnerships across the entrepreneurial ecosystem and a growing entrepreneurial mindset in the community.

Beneficiary Experience

The ARC grant projects served a wide range of beneficiaries, such as farmers, students, aspiring entrepreneurs, certified diverse business enterprises, angel investment groups, and communities.

Overall, beneficiaries cited several positive impacts from the grants. Over half credited the growth of their existing business or the ability to start a new business to services received through the ARC grant. While beneficiaries described several valuable supports and impacts of the ARC grants—including building and retaining wealth, money saved by being able to access needed services or equipment, and gaining new visibility with their target customer—the most valuable support reported was the facilitation of relationships and networking in their relevant ecosystems.

*"The relationships built through [the ARC grant] have helped to create an entrepreneurial ecosystem that supports new businesses that didn't really exist before."
~ ARC Grant Beneficiary*

Beneficiaries also noted several barriers to their success in their relative ecosystems. Accessing capital, or not understanding the process to access capital, and not having the skills or knowledge that they believed was needed to thrive as an entrepreneur were the top barriers identified. Importantly, several beneficiaries also noted challenges to entering an ecosystem without existing relationships; this is a particular challenge for minority entrepreneurs (including women) in less diverse spaces.

When asked what other services or supports they would like to see in their communities to support them and other small businesses and emerging entrepreneurs, all beneficiaries noted that help in connecting to new networks and facilitating new relationships is the support they need most.

Implementation Experience and Factors of Success

Eighty-five percent of grant projects were reported as being entirely or mostly successful. Importantly, 66% of projects have continued beyond the close of their grant, demonstrating sustainability and continuing impact.

Grantees identified seven implementation practices that most contributed to their success, specifically:

- Build relationships and make local connections.
- Engage partners.
- Be flexible in implementation.
- Track performance.
- Hire and retain project staff.
- Leverage technology and increase digital literacy.
- Work with ARC staff and partners at the local, state, and federal levels.

Build Relationships and Establish Local Connections

Although sometimes difficult to achieve, this practice emerged as potentially the most important success factor for grantees. For some grantees, making connections was critical to being able to identify and recruit the audiences they intended to serve. In spread out and sparsely populated rural communities, making connections is more difficult, so it became a central, intentional component of their work. For others, especially those working in a coalition addressing a broader community goal, building deep and authentic relationships with partners and other stakeholders was essential for better understanding of the needs and assets of the communities they served, connecting with additional resources, and building a collaborative mindset around a common goal.

“The exercise of coming to the same table every month makes people think actively about each other. After a few of these meetings, you just couldn’t afford not to be there.”

~ ARC Grant Partner

Engage Partners

Collaborative partnerships were also viewed as a key ingredient of successful projects, with 80% of grantees reporting that partnerships contributed to their

achievements and positive outcomes. Partners were as diverse as the grantees themselves, including local government agencies, local economic development organizations, CDFIs and banks, universities, area non-profit organizations, farmers, artists, and others.

Benefits to working with partners were significant. In addition to bringing additional skills and resources that expanded the collective's capacity, partnerships were found to help with planning coordination, accessing new funding supports or new programming opportunities, bridging geographies, and raising awareness about an effort.

Be Flexible in Implementation

Being able to pivot and shift course to address new opportunities or unexpected challenges was particularly important for grantees, especially when working in a coalition around a large community goal or developing an innovation.

Hire and Retain Project Staff and Track Performance

Having the organizational capacity to manage the project and effectively utilize partners is key. Within those functions, having a clear understanding of staffing needs and the roles and responsibilities of every member of the project team were essential first steps in securing and retaining the right staff. Similarly, being able to track performance was a significant contributor to project success. Tracking and reporting on a project motivated grantees to stay focused on their goals, distribute funding effectively, and demonstrate success to funders as well as engage additional funders.

Leverage Technology and Increase Digital Literacy

Not surprisingly, grantees made successful use of new technologies or improved existing technologies to reach their markets during the pandemic. While leveraging technology in different ways is an emerging practice that not every community can adopt now, as people become more technology literate and new tech applications are developed, more opportunities will arise to leverage technology to reach project goals.

Engage with ARC

Working with ARC staff emerged as an important success factor. Grantees frequently noted that ARC staff and their partners—those working at the local, state, and federal levels—provided vital support to their project at some stage in implementation.

*“ARC is wonderful. The staff engaged with us throughout the grant process and asked insightful questions that led to better outcomes.”
~ ARC Grantee*

Perhaps most importantly, grantees appreciated the deep understanding ARC staff members had for the challenges and opportunities of rural economic development and their role as champions for that work.

Challenges

Based on survey results, not every grant project was perceived as a success, and even those that were successful encountered challenges in implementation. Beyond the challenging conditions that are often present in rural communities, three issues were cited as posing particular obstacles to project success: lack of organizational capacity, barriers to multi-state efforts, and the impact of COVID.

Not surprisingly, the COVID pandemic was cited by a large majority (79%) of grantees as presenting at least some challenges to successful implementation. Most significant was an increase in demand for their services, especially by funders and investment networks, governmental organizations, and development non-profits. High stress and burnout among staff and staffing shortages were also broadly experienced by grantees. Other challenges included being unable to source materials for projects and to serve the intended audience in face-to-face formats.

However, while it presented significant challenges, COVID also presented unique opportunities. Indeed, 94% of grantees reported that their organization realized at least one positive change, and 71% of grantees noted that they experienced a significant positive change in their work because of COVID. The most significant positive impacts included the improved use of technology, increased collaborations with partners, and innovations in processes.

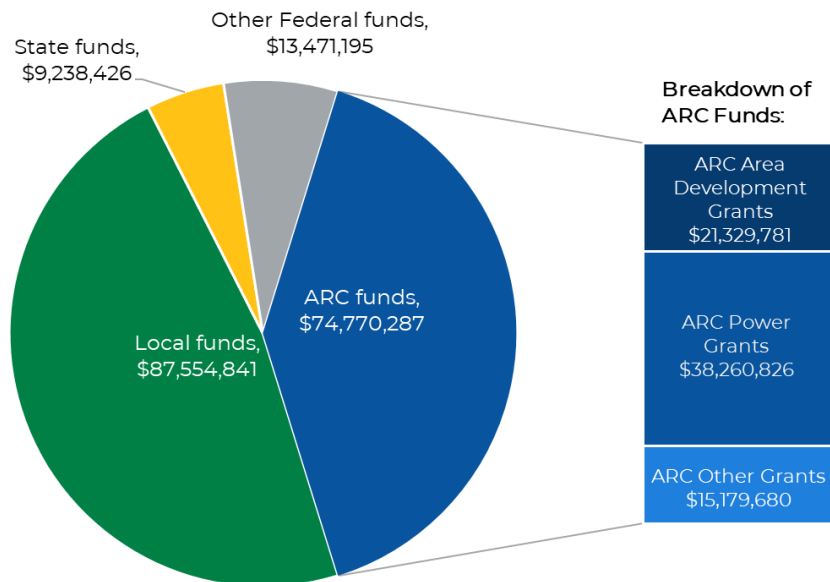
COVID Challenges and Opportunities Experienced by ARC Grantees

COVID Challenges	COVID Opportunities
Increase in demand	Improved use of technology
Staffing shortage	Increased collaboration with partners
Shortage of supplies or inputs	Innovations in processes
Addressing remote work	Stronger connection with community
Decrease in demand	New products or services
Difficulty moving or shipping goods	Improved balance sheet
Reduced salaries / wages	

Funding and Sustainability

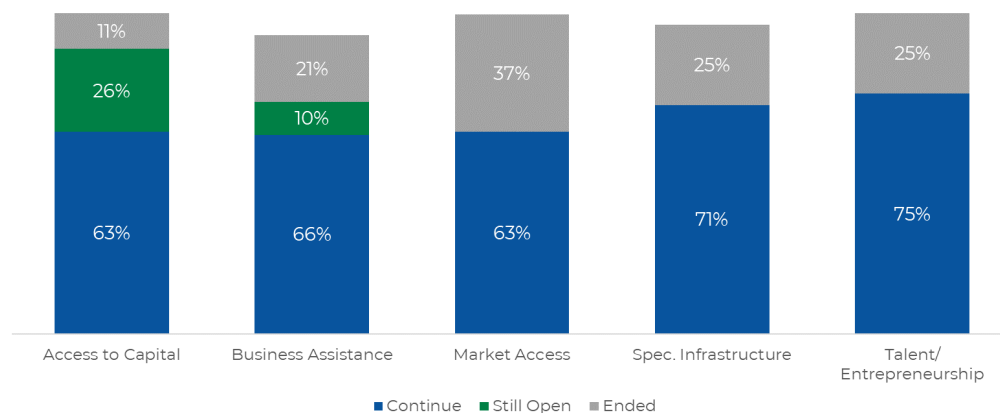
In addition to securing ARC grant funds for their projects, grantees raised matching funds and other funds in support of their efforts. Taken together, these grant projects represent a total investment of \$185 million. ARC's \$74.7 million in grant funds represents 40% of all funding, and funds from local sources, including local government, foundations, and others, represented 47% of the total, as illustrated in the chart on the next page.

Sources and Amounts of Grant Project Funding



The hope was that the products and services established through the grant funds would become sustainable, creating stable resources for businesses and entrepreneurs in their region. This has been largely realized, as 66% of grantees have been able to continue their projects beyond the official close of the grant.

ARC Grant Projects That Have Continued Beyond Official Close⁴



Among grantees whose projects have continued, strategies used to continue their grants include:

⁴ Grants for Revolving Loan Funds remain open as federal funds are redeployed as loans are repaid.

- Securing additional funding, which highlights the importance of tracking project data and reporting on progress as mechanisms for sustaining a project. In some cases, the additional funds came from ARC, although local foundations and state funds also provided ongoing funds.
- Leveraging existing or new partners to continue the work and shifting the grant activities to a partner organization, again demonstrating the value partnerships bring to the projects.
- Generating revenue through the project, which allowed grantees to sustain activities.

Achieving program sustainability is an ongoing challenge, and some grantees struggled more than others to secure funding and/or support to continue their grant project. This is especially the case with grantees that operate programs providing education and training to entrepreneurs and start-up organizations. These grantees encounter two significant difficulties:

- Hard outcome data: While many of these programs have encouraging stories of success, identifying the hard outcome measures that funders often demand is a challenge.
- Lack of organizational capacity to apply for grant funds or engage in grant management: Limited staff is often consumed with recruiting and implementing the program, leaving little time for grant reporting or writing.

Fostering Equity

ARC is committed to leveling the playing field so that all of Appalachia can succeed. When asked how they are working to foster equitable business development, 67% of grantees reported some level of success in serving underserved populations with their grant. However, conversations with grantees uncovered an important lack of clarity about what “fostering equity” means in the business development space. Recognizing this, grantees are eager to learn more about how they can integrate equity approaches into their business development work.

Recommendations

With these business development grants, ARC has invested in projects that have not only achieved their goals but have also introduced several innovations and best practices that promise to have widespread and enduring impact on the communities and populations in the region.

Feedback from grantees indicates that ARC supports (i.e., regional convenings, trainings, webinars, etc.) are on target with the needs of grantees and have provided vital contributions to the successes that grantees have realized. For these reasons, the following recommendations for ARC’s business development grants going forward only build on the excellent work already being done.

Continue to provide ARC trainings and resources in rural economic development.

Two areas emerge as opportunities for ARC to strengthen grantee efforts:

- Help grantees to make connections. Building relationships and making connections emerged as one of the most important factors of success for grantees, but many grantees struggled to do this. ARC conferences are proven effective networking opportunities, and ARC staff members and partners at the local, state, and federal levels have been instrumental in facilitating valuable connections.
- Invite a conversation with grantees about outcome measures to address grantees' concerns and suggestions, including integrating rigorous qualitative measures and extending funding commitments to align with timing of outcomes.

Leverage the ARC Entrepreneurial Ecosystem framework to further build the culture of entrepreneurship in Appalachia.

The ARC Entrepreneurial Ecosystem model proved to be a valuable tool for enhancing grantees' understanding about their role in the ecosystem and encouraging intentionality in connecting and partnering with stakeholders working in other aspects of the framework. Recognizing the value of this tool, ARC can continue to strengthen local ecosystems by raising awareness and encouraging use of the framework.

Explore new ways of addressing business and entrepreneurial capital needs.

Access to capital was identified as a critical gap by grantees and beneficiaries alike. Yet the challenge is more complex than providing more flexible and innovative funding and merits deeper exploration of how to adequately address businesses and entrepreneurs' awareness and understanding of capital sources and strategies. In particular, ARC can work more deeply with grantees, especially those that provide technical assistance to access capital, to dispel myths and misperceptions about accessing equity capital and more adequately prepare entrepreneurs to work with investors. Additionally, continue to provide capacity-building training and resources to CDFI providers to strengthen capacity in that field.

Provide clear guidance on how to foster equity and reduce inequities in ARC communities.

Building on grantees' interest in learning more about fostering equitable practices and addressing systemic barriers encountered by marginalized communities, ARC should leverage its research and learning resources to establish a clear definition for "fostering equity" and make recommendations for activities that grantees can engage in to connect with marginalized communities.