

# Creating a Philanthropic Sector that is More Responsive to the Needs of Diverse Communities

*Comments to the House Committee on Ways and Means, Subcommittee on Oversight from the National Committee for Responsive Philanthropy*

September 25, 2007

Today's news is inundated with stories of social and economic hardships that low- and middle-class Americans face, from the disheartening state of the country's health care and public education systems, to the increasing disparity between the have's and have not's. In the midst of this all, many of the estimated 1.8 million<sup>1</sup> tax-exempt organizations—including foundations, public charities and other 501(c) groups—seek to meet the needs of the country's diverse populations and change those systems that seem programmed to perpetuate these problems.

For over 30 years, the National Committee for Responsive Philanthropy (NCRP) has been at the forefront of efforts to ensure that private foundations and other grantmaking institutions more effectively serve the country's diverse communities. NCRP has also been a leading voice for foundation accountability and for effective and socially responsive grantmaking practices. Our comments

will focus on how well the nation's grantmakers are serving diverse communities.

Although foundation funding is miniscule compared to the amount the U.S. government has at its disposal to provide social services, many nonprofits serving diverse communities depend on this non-governmental source of support for survival. It is because of this unique and invaluable role that all Americans should all be concerned about how U.S. foundations are measuring up to the challenge of serving diverse constituencies.

While there are many notable exceptions, private foundations and other grantmaking institutions are not doing as much as they could or should to serve diverse communities. Specifically, foundation grantmaking for ethnic minorities, indigent populations and rural areas is either steadily declining or is not growing at the same rate as overall philanthropic giving. In addition, only a relatively few minority-led nonprofits are able to access foundation grant dollars. These claims will be substantiated in detail later in these comments.

The limitations in available data make it difficult to draw a complete picture of how well foundations are serving indigent and marginalized communities. The Foundation Center is the only organization aggregating information about foundations grantmaking. Regrettably, their most current data only covers grants of \$10,000 or more from approximately 1,100 larger foundations of the 105,219<sup>2</sup> private foundations nationwide. Because of the relatively small sample, as well as the large size of the total grantmaking of those foundations surveyed, the numbers from the Foundation Center data do not present a comprehensive review of how well all foundations respond to the needs of low-income communities. Nonetheless, by supplementing the information from the Foundation Center and those from other organizations that are trying to fill the information gap, we have a snapshot of grantmaking trends that allow us to raise important questions about the role tax-exempt foundations play in addressing the needs of diverse communities.

## GRANTMAKING FOR ETHNIC/RACIAL MINORITIES

According to Foundation Center data, grantmaking for minorities has declined as a proportion of large foundation grants between 1998 and 2005 (the last year for which sur-

## DO FOUNDATIONS SERVE THE NEEDS OF DIVERSE COMMUNITIES?

- > Foundation grantmaking for ethnic minorities is low and is not growing at the same rate as overall giving.
- > Grantmaking targeted specifically to indigent populations is steadily declining as a proportion of total foundation grantmaking.
- > Foundations do not provide grants to rural nonprofits at the same level as urban nonprofits despite the clear need for philanthropic support.
- > Relatively few minority-led nonprofits are able to access foundation grant dollars.
- > Foundation funding is dwarfed by government spending and should not be thought of as a legitimate substitute for meeting the needs of diverse communities.

vey data is available).<sup>3</sup> In 1998, 9.9 percent of grants from foundations surveyed were designated for ethnic or racial minorities. After dropping to 7.4 percent in 2004, in 2005 the survey found that 8.2 percent of grants went to programs targeting racial and ethnic minorities. While grantmaking dollars on the whole increased nearly 70 percent from 1998 to 2005 (from \$9.7 billion to \$16.4 billion), grants designated specifically for African American populations declined dramatically from \$367,067,000 or 3.8 percent of grants awarded in 1998 to \$315,458,000 or 1.9 percent in 2005.<sup>4</sup>

Additionally, many people believe that the racial/ethnic makeup of a nonprofit organization's leadership and staff has considerable impact on the effectiveness of its programs and on its ability to effectively serve minority communities. There is very limited data, however, on foundation giving to minority-led nonprofits. In 2006, the California-based Greenlining Institute issued a report on grantmaking that covered 24 national independent foundations and ten California foundations. The report analyzed 13,566 grants and found that 14.7 percent of the grant dollars went to minority-led organizations. However, when one unusually large \$535 million grant from the Bill and Melinda Gates Foundation to the United Negro College Fund is excluded, only 3.6 percent of the grant dollars in the study went to minority-led organizations.<sup>5</sup>

While the methodology of the Greenlining study has been subject to some controversy, the general reaction of many within philanthropy has been that the study, while flawed in terms of exact numbers, raises important issues that are reflective of the reality that few minority-led nonprofits are receiving significant grant support. The study results prompted the California legislature to introduce a bill requiring foundations with more than \$250 million in assets to report on the racial and ethnic makeup of the leadership (board and staff) of the groups receiving their funds, as well as the racial and ethnic makeup of any vendors and consultants hired by the foundations.

#### GRANTMAKING FOR THE ECONOMICALLY DISADVANTAGED IN THE U.S.

A recent article in the *New York Times* noted that, "A common perception of philanthropy is that one of its central purposes is to alleviate the suffering of society's least fortunate and therefore promote greater equality, taking some of the burden off government."<sup>6</sup> The numbers, however, tell a different story.

The proportion of foundation grant dollars targeted to economically disadvantaged populations dropped from a high of 20.3 percent in 2004 to 15.7 percent the following year. A closer look at the numbers also shows that international health programs benefited most from this

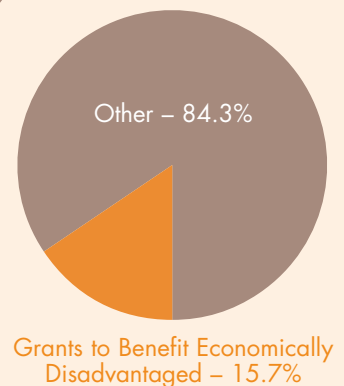
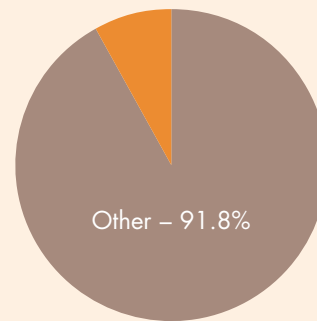
largesse. In 2004, more than half of the \$1.3 billion awarded to programs targeting the economically disadvantaged went to the Vaccine Fund (now GAVI Alliance), a D.C.-based global initiative to bring immunizations to developing countries. The two next-largest recipients of grants in this category were also international health organizations. International health is certainly an important field for philanthropic investment, but the inclusion of international giving in the above figures means that giving for domestic economically disadvantaged populations is significantly lower than these percentages suggest.

The Foundation Center data on funding for community development and employment programs also show decline in foundation support. Between 2004 and 2005, grantmaking to community improvement and development dropped 20 percent, from \$684 million or 4.4 percent of total foundation grant dollars to \$567 million or 3.5 percent.<sup>7</sup> In terms of traditional community development initiatives, foundations are gradually reducing their support.

In addition to community development, various categories of human service funding are slowly dwindling, particularly grantmaking for employment, such as job training, placement and workforce development. Between 2001 and 2005, funding for employment programs dropped 22.5 percent, from 0.9 percent of total

#### FOUNDATION GRANTMAKING FOR MARGINALIZED COMMUNITIES

Grants to Benefit Ethnic Minorities – 8.2%



grant dollars or \$147,846,000, to a mere 0.7 percent or \$114,357,000 in 2005.<sup>8</sup>

### GRANTMAKING FOR RURAL COMMUNITIES

Foundation Center data indicates that the majority of the funding categorized as benefiting economically disadvantaged populations goes to urban organizations that have nationally focused programs. Little data exists on funding for rural social services and anti-poverty organizations. There is no doubt, however, that there is clear need for a considerable increase in philanthropic support for rural areas. In 2003, 14.2 percent of those living in rural America lived below the federal poverty level, compared with 12.5 percent of the entire U.S. population.<sup>9</sup> According to the Rural Poverty Research Center, 88 percent of persistently poor counties are nonmetro; and 18 percent of nonmetro counties are persistently poor, compared to only 4% of metro counties.<sup>10</sup>

So far, a majority of the country's grantmaking institutions have not answered the calls for help from rural nonprofits. Organizations serving rural communities lag behind their urban counterparts in terms of access to philanthropic resources. The Big Sky Institute in a recent study found the 10 states that have the least amount in foundation assets—1.5 percent in total—are states considered to be largely rural, such as North and South Dakota, Montana and Mississippi.

The National Committee for Responsive Philanthropy recently released the report *Rural Philanthropy: Building Dialogue From Within*, which provides concrete recommendations on the steps that grantmakers can take to increase support for rural organizations. NCRP's recommendations include the increase in flexible, multi-year grants to build human and organizational resources, and the strategic use of intermediaries and funding collaboratives.<sup>11</sup>

In 2006, Sen. Max Baucus (D-Mont.) challenged the country's grantmaking institutions to double their support for rural communities within five years. Only time will tell if the philanthropic community will step up to the challenge.

### FOUNDATION GRANTMAKING NOT A SUBSTITUTE FOR GOVERNMENT SPENDING

Government spending dwarfs foundation funding. The nation's grantmaking foundations gave away a total of 36.4 billion dollars in 2005,<sup>12</sup> an amount equal to significantly less than one percent of total government spending at all levels in that year.<sup>13</sup> When considering how best to meet the needs of diverse constituencies, lawmakers should not think of foundation funding as a legitimate substitute for government spending.

Even so, foundations can and should be expected to do more to support racial and ethnic minorities and econom-

ically disadvantaged groups. Foundations have a unique role to play in supporting those communities. Given their relative freedom under the tax code, foundations can provide support to lift up marginalized communities in ways that government cannot. They can support civic engagement, community organizing and policy advocacy activities that help communities of color and low-income communities participate fully in the democratic process and advocate on their own behalf. Sadly, foundation support for these kinds of activities is much lower than one would expect, given the autonomy foundations enjoy.

A recent report classified this type of giving as "social justice grantmaking." The report showed foundations gave \$1.76 billion for social justice causes in 2002. In the period between 1998 and 2002, social justice giving grew by 53.4 percent. However, this impressive number is overshadowed by the fact that total giving rose by 64 percent during the same period, causing the percentage of foundation giving that was earmarked for social justice grants to drop to 11.8 percent.<sup>14</sup>

### CONCLUSIONS

Last week, Forbes released the Forbes 400. For the first time in 25 years, the cut-off amount for inclusion on the list was at \$1.3 billion, \$300 million more than in 2006. The net worth of all 400 billionaires in the list was \$1.54 trillion, up \$290 billion from last year.<sup>15</sup> This is another manifestation of how the nation's wealthiest are controlling more of the country's income at a time when sharp personal tax cuts under the current administration means these ultra-rich are giving less to government.

Many of these billionaires and other Americans across the economic spectrum donate portions of their wealth to various charitable causes, including private foundations, which then become trustees of those tax exempt dollars. How much do these foundations spend their philanthropic dollars for the public good? Is their grantmaking responsive to the needs of the country's diverse communities?

Sadly, while there are notable exceptions, the numbers show that foundations generally fail to provide significant support for low-income communities, communities of color and other marginalized groups:

- > Foundation grantmaking for ethnic minorities is low and is not growing at the same rate as overall giving.
- > Grantmaking targeted specifically to indigent populations is steadily declining as a proportion of total foundation grantmaking.
- > Foundations do not provide grants to rural nonprofits at the same level as urban nonprofits despite the clear need for philanthropic support.

- > Relatively few minority-led nonprofits are able to access foundation grant dollars.
- > Foundation funding is dwarfed by government spending and should not be thought of as a legitimate substitute for meeting the needs of diverse communities.

NCRP is encouraged that the Subcommittee on Oversight is taking these very important issues seriously. We look forward to an ongoing dialogue about how the nation's grant-making institutions can better serve the needs of people and communities who need it the most.

#### NOTES

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