

Serious About Diversity? Measure It.

By Aaron Dorfman

The public has a right to know who's benefiting from philanthropy. Recently, many have begun to question whether or not the American public—especially lower-income communities and communities of color—are benefiting sufficiently from the \$550 billion held in trust by private foundations and other institutional philanthropies.

The privileged tax treatment of foundations under the current IRS code means that American taxpayers are subsidizing foundations' activities, so it's understandable that the public—and their elected officials—want to know if they're getting their money's worth. Who benefits? How is the public good really being served? Is the public benefit worth the tax exemption? A growing number of critics from within and outside the philanthropic sector are asking these questions.

For those who seek to answer these questions, a major problem they encounter is the way information currently is reported by grantmakers, which makes it almost impossible to get a clear picture of who's benefiting from the activities of an individual foundation or to compare one foundation to the next. IRS forms 990 and 990 PF don't require sufficiently relevant information from grantmakers. Although voluntary reporting through the Foundation Center gets us closer to answering those questions, it still falls short of what is needed.

With any rigorous review of the available data, it is clear that lower-income communities and communities of color benefit from institutional philanthropy at rates far lower than one would expect. Nationally, less than 16 percent of grant dollars are classified as intending to benefit economically disadvantaged populations, and less than nine percent to benefit racial or ethnic minorities, a figure that has been declining over time.¹ When confronted with these statistics, some foundation leaders argue

that their grants are not being classified properly and that the complexity of their grantmaking makes it nearly impossible to report on these issues.

This brings us to the controversial AB 624, a bill in the California legislature that would require the state's largest foundations to publicly share diversity data about their boards, staff, grantees and vendors. The bill, however, would not mandate giving to any particular constituency. It passed the California Assembly and is expected to be reviewed in Senate committees beginning in June. Assembly Member Joe Coto introduced the bill, which he hopes will give him the information he needs to assess whether California foundations are meeting the needs of his constituents and other communities of color. The limited data available to him—and the reported experiences of many nonprofits serving communities of color—seem to point to foundations not doing enough. A majority of Coto's colleagues in the Assembly voted in favor of the bill.

The trade associations representing foundations have come out uniformly in opposition to AB 624. The Council on Foundations, Northern California Grantmakers, Southern California Grantmakers and San Diego Grantmakers all have condemned the bill strongly. The conservative Philanthropy Roundtable also is campaigning actively to kill AB 624.

No one should be surprised by this reaction from the trade associations. Interest groups in America traditionally resist any and all attempts at regulation by the government.

The concerns being raised by foundations regarding AB 624 are similar to concerns raised by the banking industry in response to the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). In the 1970s, banks came under increased criticism for their failure to provide enough home mortgage loans to decay-

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ing urban neighborhoods. Like foundations, banks enjoy certain preferential treatment from government. For foundations, it is tax-exemption; for banks, it is federal deposit insurance. Because of this preferential treatment, Congress felt it was important to ensure that all segments of the public were benefiting sufficiently from banking activity.

In response to community concern about neglect of certain neighborhoods by banks, Congress passed the HMDA in 1975, which mandated public reporting of loans by census tract or

zip code.² The intent was to bring sunshine to the question of whether banks were meeting the credit needs of lower-income areas or “redlining” them, as activist groups charged. In 1977, Congress passed the CRA, which laid out an affirmative obligation for banks to meet the credit needs of the communities in which they operate.³ The regulations interpreting the CRA have been revised several times over the past 30 years, allowing them to reflect an evolution of practices and standards in the industry. In 1989, HMDA was revised to also require reporting of race and gender data for all mortgage applications and approvals, allowing the data to provide insight not only about the extent to which lower-income neighborhoods were benefiting from bank activity, but also the extent to which people of different races and genders were benefiting. HMDA data are reported in standardized ways that allow easy aggregation and comparisons among institutions. It is available to the public, and it is used by bank regulators as part of their periodic examinations to determine which CRA rating should be given to a bank: outstanding, satisfactory, needs to improve, or substantial noncompliance.

Not surprisingly, banking industry leaders and their trade associations originally opposed both the HMDA and the CRA. They asserted that their loan decisions were not based on race or neighborhood but on credit-worthiness and the applicant’s ability to repay the loan. They also claimed that the reporting requirements would be overly burdensome.⁴

The data are clear, however, that in the 30 years since the passage of the HMDA and the CRA, bank lending to people of color and to lower-income neighborhoods has



Commuters walk into a tunnel at Los Angeles's Amtrak-Metrolink Union Station Wednesday, Aug. 30 2000 under the mural "City of Dreams/River of History" by artist Richard Wyatt, showing the diversity of California's population.

Photo: AP/Damian Dovarganes

improved without a corresponding increase in foreclosures and defaults. Home ownership is up among all income groups and races, and the gap in home ownership by race is decreasing.⁵ People and organizations differ, of course, in their opinions about the extent to which the HMDA and the CRA contributed to these positive trends.

Grassroots organizations that represent low-income Americans uniformly praise the regulations. In testimony to Congress in February 2008, John Taylor, president and CEO of the National Community Reinvestment Coalition, wrote, “As we celebrate thirty years of the Community Reinvestment Act (CRA), we should reflect on the powerful and proven effects that this law has had on increasing access to capital and credit in low- and moderate-income communities. Looking back, we see a law that has stimulated the flow of billions of dollars each year to lower-income and minority communities to expand homeownership and promote healthy neighborhoods.”⁶

Less predictably, many leaders in the banking industry now publicly praise both the HMDA and the CRA. Many who are ideologically predisposed to oppose regulation acknowledge that the HMDA and the CRA have had positive impact. “It appears that, at least in some instances, the CRA has served as a catalyst, inducing banks to enter underserved markets that they might otherwise have ignored,” said Federal Reserve chairman Ben Bernanke in a 2007 speech. “At its most successful, the CRA may have had a multiplier effect, supplementing its direct impact by stimulating new market-based, profit-driven economic activity in lower-income neighborhoods.”⁷ Bernanke, a conservative economist, previous-

ly served as chairman of President George W. Bush's Council of Economic Advisers.

One thing is clear. With proper doses of sunshine, regulation and community pressure over the past 30 years, banks found a way to make profitable loans while also allowing more Americans to benefit from their industry.

If profit is the bottom line for banks, impact is the bottom line for foundations. Foundations exist for the purpose of having impact on the issues and causes they were founded to address. Will sunshine, regulation and community pressure for diversity have a negative impact on foundations' ability to achieve impact?

Just as banks opposed the HMDA and the CRA by saying that loans are approved based on creditworthiness, many foundation leaders contest AB 624 by asserting that they make grant decisions based on which organizations they believe are likely to be most effective and have maximum impact on the issues important to the foundation, not on race or other demographic considerations.

But grantmakers don't have to choose between being effective or embracing racial equity and diversity. Improving the societal impact of foundations and improv-

For the past decade, foundations have been advancing their ability to measure the impact of their work and that of their grantees. They're getting better at knowing whether or not they're making a difference. They should continue their efforts on this front.

But we also need better data on diversity in philanthropy. Improving diversity will help foundations increase their impact while ensuring that those with the least wealth and opportunity are benefiting sufficiently from their work. But no one can demonstrate progress on this front if grantmaking institutions don't measure and report on key diversity metrics. When the only diversity data that are available show clearly that communities of color are getting shortchanged, elected officials can and should start raising questions.⁹

If foundations are doing more to benefit lower-income communities and communities of color than is reflected by the current data, then they should create better reporting systems so that the data will reflect reality more accurately. The Foundation Center has been commissioned to conduct research in this vein by California foundations opposed to AB 624, and NCRP will study its report with great interest

when it is released. But if the current data are even close to accurate, my guess is that elected leaders who represent poor and marginalized communities will feel the public is not getting their money's worth from the tax subsidies provided to philanthropy.

Grantmakers don't have to choose between being effective or embracing racial equity and diversity.

ing their support for diverse communities need not be mutually exclusive propositions. In fact, there is growing evidence that diversity and effectiveness go hand in hand.

A recent book, *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools and Societies*, by University of Michigan professor Scott E. Page shows convincingly that diverse organizations actually outperform more homogenous ones. "Diverse boards of directors make better decisions, the most innovative companies are diverse," he states in an interview with *The New York Times*.⁸

Foundation leaders who want results should consider seriously Page's research. Grantmakers should embrace both diversity and effectiveness, and they should persistently seek to improve on both fronts. They need to go beyond race, gender and sexual orientation and also include class, to ensure that elites of different races aren't the only voices listened to in philanthropy.

AB 624 has its flaws, but there is no question that foundations should embrace both diversity and effectiveness to ensure maximum public benefit from the valuable and limited resources that are entrusted to them. And no foundation can claim legitimately that it is serious about embracing diversity if it doesn't measure it.

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NOTES

1. NCRP, *Creating a Philanthropic Sector that Is More Responsive to the Needs of Diverse Communities* (comments submitted to the House Committee on Ways and Means, Subcommittee on Oversight, September 25, 2007), http://www.ncrp.org/downloads/Statements/NCRP_Comments_Grantmaker_Responsiveness_to_Diverse_Communities.pdf.
2. For detailed information about the HMDA from the Federal Deposit Insurance Corporation, visit: <http://www.fdic.gov/regulations/>