Sweet Charity: Foundations as a Source for Community and Economic Development

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Moderator: *Welcome to the Federal Reserve Bank of Atlanta's Economic Development podcast series. I'm Odetta MacLeish-White with the Federal Reserve Bank of Atlanta. Today we're talking with Douglas W. Nelson, president and CEO of the Annie E. Casey Foundation. The Annie E. Casey Foundation was founded in 1948, and its primary mission is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families.*

Doug Nelson stepped into the role of president of Annie E. Casey in 1990 and has guided the foundation from a moderately sized institution to one of the nation's most influential and respected large foundations. After twenty years at the helm, Mr. Nelson is retiring from Annie E. Casey, and he has joined us today to reflect on the role philanthropy can and should play in economic development efforts.

Doug, thank you for joining me today.

Doug Nelson: It's my pleasure.

Moderator: *So, Doug, the Annie E. Casey Foundation is well known for its use of data to develop public policy recommendations as well as its own programming, which is a reputation that you helped to envision and pursue. So why did you take your organization in this direction?*

Nelson: Measurement and reliance on data to make decisions is in our bones, and that's due in large part to the fact that we are the legacy institution of the founder of the United Parcel Service [UPS], Jim Casey. Jim believed that if you measure everything, you would find the path to efficiency and to effectiveness, improvement, and profitability. Turns out that I came to the foundation's attention because of my own history as a manager of social services; I was also convinced that understanding what results you were having in people's lives or in system improvement was the key to getting political support for public-sector change. So we had a common commitment. One of the first projects I was able to bring to scale for Annie Casey was the KIDS COUNT project, which is an effort to measure how kids and families are doing in every state in the hopes of making states and localities and ultimately the country as a whole more accountable for improving outcomes for disadvantaged children.

I've got to say after twenty years, when I look back on it, I really believe it [measuring] does a lot of things for a nonprofit. It makes it clearer about your goals, it makes you morally accountable—in other words, you have be able to *prove* that you're using your privilege as a tax-exempt foundation to make a difference in the world. It's allowed us to manage our own programs better. And I think that it forces you to confront questions of fairness and equality in this country, because if you look at data closely and look at how kids are faring in this country, you discover that kids' opportunities are too variable, families' opportunities are too variable. If we are going to be the America all of us want to be, we have to address those disparities in what happens to our children.

Â **Moderator:** *Doug, this podcast series focuses on economic development, which generally means policies and programs that promote job creation or workforce development and capital investments in communities. And, on the surface, foundations that focus on programs which support children and families may not be perceived as economic development engines or drivers. In your opinion, is there a relationship between the work of foundations and economic development?*

Nelson: We found out that the kids who we were concerned most about are more likely than other kids to have unsuccessful childhoods and unsuccessful transitions to adulthood. More than that, we found out that kids in low-income families were most likely to fail if they lived in communities, or regions, or neighborhoods that were places of concentrated poverty, were places that had suffered disinvestment and decline for periods of years. And there was such a strong correlation between the economic well-being of children's parents and their own success in life and an even stronger correlation between failure and growing up in a poor community that we couldn't honestly say to ourselves, "We're trying as hard as we can to find a way to increase the successful outcomes for disadvantaged kids," without confronting the fact that we had to learn something about how you restore economic opportunity and full participation in the economy to young parents who were raising children—raise *them* out of poverty—and how you do that in communities that have long been disinvested and left behind. So, fifteen years ago, we concluded that without understanding how you create economic success and stability for families, we simply weren't going to make a dent in the number of kids being left behind.

About half of all our resources now go into trying to identify the most promising ways of investing in low-income families to increase their capacity to earn, to acquire assets, to gain financial literacy and make good economic judgments, and to pass on higher aspirations and greater readiness to their own children.

Â **Moderator:** *And what do you think are the unique assets that a foundation brings into an effort like that?*

Nelson: I think there are some signature attributes of foundations that we're only just now beginning to realize are critical to social change and social justice in the country. One is, unlike the private sector or the political sector, we can afford to be very patient. We don't have to look for next year's election returns or next quarter's financial returns, and therefore can take risks—whether it's through our grant-making or through the use of our endowments as social investments—to explore and experiment with investments and interventions that try to increase the human capital of low-income families or increase the opportunities and investability of low-income neighborhoods.

A story that I tell lots of people about Annie Casey's involvement in economic development is there's a neighborhood here in our hometown of Baltimore that was the least successful neighborhood in the city of Baltimore. There were no jobs, there were no new houses, there was no investment in infrastructure, and the reason was that for the private sector this was a community that was too risky to imagine getting a return. And what I found the Casey Foundation could do is to go to the private sector and say, "Please lend money to these community development organizations that are trying to revitalize that neighborhood. We will guarantee half of the loans you make." And almost immediately, that neighborhood went from being an uninvestable neighborhood to an equally safe investment as a growing suburban neighborhood. This ability of foundations to use [their] credit-worthiness really frees up a tremendous ability of our markets, of our for-profit investment resources, which are enormous compared to philanthropic resources.

So, I think the ability to take risks, the ability to be patient, [and] the responsibility in a way to experiment are all attributes of the philanthropic sector that can make it a catalyst for much larger change on behalf of our mission.

Â Moderator: *So, Doug, in times of economic recession, foundations confront funding challenges just as the need for services increases. Based on your experience, how might foundations balance supporting economic development programs while providing for programs that meet more immediate needs?*

Nelson: We have sort of upped our emphasis and our advocacy and support for safety-net programs that, as our communities and our families that we care about experience heightened unemployment, we're trying to improve access [to] and improve the adequacy of things like food stamps and children's health programs and access to Medicaid and unemployment compensation. [Increasing our support for these programs becomes] a way in which foundations and non-profits need to assist in protecting and shielding the populations—and, in some cases, children—from the worst consequences of this economic downturn. At the same time, we have to not walk away from the longer-term vision that we have of creating stronger, more investable communities and thinking longer term about not just the safety net, but [also] how do we continue to educate and train and place young parents into employment situations in which they can earn their way to self-sufficiency and economic stability and to the capacity to pass on middle-class aspirations and security to their own children.

One of the terrible things about the recession, of course, has been the foreclosure crisis. On the other hand, it's created an opportunity for Casey and the nonprofit sector to acquire homes at low cost, to put people to work rehabbing and maintaining those homes, and to creating quality rental and homeownership options a year or two from now for folks [for whom], a year-and-a-half ago during the housing boom, [it] was beyond their ability to afford or to get involved in. So there are opportunities that are embedded in these crises, learning opportunities, experiment opportunities, and simply initiative opportunities that don't exist in a more prosperous environment, and I think we've got a responsibility to leverage that on behalf of our missions.

Moderator: *Another side effect of difficult economic times may be a tendency for foundations to stay within traditional or more conservative roles. How would you respond to that?*

Nelson: My view is that one of the responsibilities of people who manage endowments is to have a long-term view, and to also recognize that the philanthropic sector needs to think of itself counter-cyclically. We actually are most critical, both as finders of new solutions as well as safety-net supporters during times of crisis. One of the fairly controversial things that Annie Casey did—controversial in the sense [that] I'm not sure where we're going to end up in terms of the ultimate wisdom of this—but because we had a big balance sheet even though our endowment was down, we went and borrowed money to sustain our spending level in order to protect our endowment assets for the day when the markets would come back and restore themselves. It was a way of making a little bit more practical and affordable our ability to maintain high levels of spending in tough times without depleting too quickly or too deeply our base endowment and positioning us to rebound when times are better. I think the larger point is, however you do it, there is a special responsibility for those institutions that are committed to vulnerable populations to not find themselves at their weakest when they're needed most.

Moderator: *As someone who has enjoyed a long leadership tenure in the realm of philanthropy, what do you think is the future of foundations in community and economic development?*

Nelson: I'd like to think that we've learned an immense amount about that question. When I look back on it, I see the future of the philanthropic sector in the area of economic and community development to be more positive than it was twenty years ago, much more likely to be effective, and I think that it's because of four or five things that we've learned in the last two decades.

One is learning how to measure return on investment. We've become much more sophisticated about thinking of our grant-making and our use of our endowment as investments that ought to have some kind of social or economic return.

We've also learned to collaborate. [In] the philanthropic sector, when I first got hired, everybody had their own niche, their own brand, their own enterprise. That's been overcome, I think, by an increasing tendency to work together as foundations to create collaborative mechanisms. There's a group that we've belonged to for a long time called "Living Cities." It's made up of the sixteen largest foundations that do community development in America, as well as a handful of banks and financial institutions that also do lots of community lending. We all work together as one. We pool our resources; we pool our ability to give credit in order to bring things to scale. And I think that's becoming the wave of the future—the creation of these affinity or collective efforts on the part of philanthropy.

Also, this whole business of social investing: Twenty years ago there were one or two foundations in the United States that thought of using loans and endowments as part of the tools [they] use to try to bring about [their] social mission or to serve people, in addition to grant-making. Well, Casey's part of a sixty-foundation collaborative called "More for Mission," which is promoting the increased use of social investing by foundations everywhere. As foundations learn how to use their endowments as investors, as lenders, as guarantors, they're going to be positioned to be much bigger players in the economic development area.

And, finally, this role that I talked about a little bit before: you know, we can be a catalyst or a risk-reducer for the private sectors. And I think across the board the sector is recognizing that a partnership between philanthropy and the market sector is a potentially powerful tool for accelerating positive change in this country, and my hunch is that we're on the cusp of realizing that potential. So I think the next twenty years [are] going to see an altogether different role for philanthropy that makes making grants to nonprofits still important, but not the characteristic way we think about how foundations make a difference for the populations and places they care about.

Moderator: *Doug, thank you very much for speaking with us today, and the best of luck to you with your next adventure.*

Nelson: Well, it was my pleasure. I think these are the critical questions facing the sector, and it was a privilege to talk to you.

Moderator: *This concludes our podcast. We've been speaking with Douglas W. Nelson, president and CEO of the Annie E. Casey Foundation. For more podcasts on this topic and others, visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please email podcast@frbatlanta.org, and thanks for listening.*

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