ECONOMY MATTERS PODCAST SERIES

Following the Money: A Discussion of Community Development

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Charles Davidson: Welcome to another Economy Matters podcast. I'm Charles Davidson, a staff writer with the Atlanta Fed's digital magazine Economy Matters, and today we'll be chatting with Will Lambe and Mels de Zeeuw—Mels, I apologize if I didn't get the pronunciation just right. Mels and Will are with the Atlanta Fed's Community and Economic Development department, and Will and Mels have been instrumental—along with the Philadelphia Fed—in developing a new research tool called "Following the Money." What this tool does is help to track where philanthropic investments that are aimed at community and economic development, where they go, and why they go there, in terms of what types of communities. So, Will, Mels: thanks for being with us today.

Mels de Zeeuw: Sure, thank you.

Will Lambe: Thank you, Charles.

Davidson: To start with, can you guys just lay out the basics of Following the Money—what it is and what it does?

Lambe: The Following the Money project really came out of a research collaboration with Keith Wardrip [at the Philadelphia Fed]. Mels, and I, which was in response to anecdotes that we had been hearing from community development practitioners and local policymakers, that went along these lines: that smaller and more economically distressed communities were at a relative disadvantage when it came to attracting grants for community and economic development from larger foundations. We had been hearing that anecdote for some number of years, and so we decided to put that to the test using data that we were able to pull together from the Foundation Center on grants from the 1,000 largest foundations in the country in any given year.

Davidson: Will, what's important about this? Why are we interested in knowing this kind of information?

Lambe: The importance really comes down to the fact that public dollars for community and economic development have been on a gradual downside for some number of years. Whether you look at funding from the federal government, from state governments, and from local governments, the fact of the matter is that resources to support these kinds of initiatives in communities have become much more minimal from the public sector.
So foundation grants really can be that “first-in” money. The “first-in capital” is the term of art that we use that refers to the type of money that allows local practitioners to test new ideas and try new ways of improving communities.

Davidson: Right. So “first-in”—I would assume that means oftentimes other investment follows these kinds of grants?

Lambe: That’s exactly right.

Davidson: Right. Well, Mels, let me throw one your way. When we talk about community and economic development purposes/programs, can you talk a little bit about what we mean?

de Zeeuw: Sure. We examined a pretty large array of grants that have to do with improving the physical capacity of a place, the human capital of a place, and grants that flow to serve low-income communities across metro areas in the country. We examined about 330,000 grants. We wanted to make sure that they fit this definition; so, for instance, grants that we included flow to areas like housing development—going to support low-income housing construction after hurricane Katrina—or to urban developments, homeless services, homeless shelters, food banks…so a pretty broad array of services and activities that we looked at. But that ultimately had the purpose [that] it serves low-income communities where it boosts the physical or human capital of a metro area, of a place.

Davidson: So, Mels, what do we know about how communities use the resources they’re receiving from the foundations?

de Zeeuw: We went through a pretty painstaking process to fill the grants that we analyzed within certain buckets. So, for instance, the relevant grants, we designated as education, or core community economic developments, human services, health. And we made that part of the tool and put that online for everyone to see. So if a community wants to see, well, where is this grant money flowing? What purposes is it flowing towards in my community? They can use that tool to look that up and to compare themselves with other communities.

Davidson: Well, let’s get to it, then. What were some of the main findings from the research so far?

de Zeeuw: We found some interesting things that partly supported the anecdotes that drove our research. For instance, we found that larger-sized areas, larger-sized places are in fact at an advantage in attracting capital grant money from large foundations, so it kind of proved what we suspected. And the effect gets bigger as areas get larger, so smaller-sized areas are at a disadvantage.

Now something that surprised us, and we thought was really interesting, is that more economically disadvantaged communities, or poorer communities, in fact received on average greater per capita grant investments from large foundations. We looked at the data and we found that for every 1 percent increase in the poverty rate in a community, a community will receive about 7 percent greater per capita grant money. So that was pretty interesting.

I think another interesting finding was the effect of the local nonprofit infrastructure in a place—that actually turned out to be pretty important. So we found that as the density of the local nonprofit sector increases, an area will receive more per capita grant money; and that provides kind of a lever for local areas to maybe make themselves more attractive to large foundation grants.

Davidson: So the more local foundations, the more general philanthropic activity [that] goes on, the better your chances of attracting philanthropic dollars from outside also?

de Zeeuw: Yes, it appears the more local nonprofit activity, the better your chances.

Davidson: Will, you mentioned that these grants sometimes… I don’t know, maybe they don’t substitute for public funding per se, but essentially that’s one of the reasons why we’re interested in this. Can we talk a little bit further about that? What are some of the implications of that?

Lambe: There is evidence in the literature that grant money from foundations substitutes for public money in places where public resources are increasingly limited. But since money tends to be quite fungible when it comes to these sorts of purposes, it’s a tough question to really answer in a statistical sense. But I will say that what we’re interested in with this work is helping communities understand what assets and resources they might align more clearly to make themselves more competitive for grant money from larger foundations. We know that philanthropic foundations that are interested in improving community and economic development outcomes want to invest their resources in the places where the problems are the worst, or where the innovations to solve those problems seem the most promising. But we also know that in those places, it’s not always clear exactly how you can put money to work.

So this body of work is meant to help start conversations in communities; in some ways, possibly conversations with some competitive momentum behind them, where communities can look at themselves, look at their neighbors and their peers, see where they might be either leading or lagging compared to their peers, and then think about what they have under their control that they can really put to work to attract more of these critical subsidies from outside of the market.

Davidson: So this information is intended to be put to use—it’s not to just sit and gather dust, right?

Lambe: Right. The body of work really is several different things: we’ve written a research paper which will be published in the Foundation Review Journal, the forthcoming issue of that journal. We’ve created a tool which is available on our website, which allows people to manipulate the data based on where they are, and where they want to compare themselves to. And then we’ve also created an infographic, which highlights some of these larger findings that Mels has mentioned.

Davidson: Can we talk a little bit about particular cities or areas in the Southeast and a little bit about what you guys learned?

de Zeeuw: We found pretty significant variation in grant money flowing just within the Southeast. So for instance, you have an area like New Orleans that’s been pretty successful at attracting investments from large foundations. We looked over the entire study period, which is 2008 through 2013, and per capita New Orleans received about $145 in such investments. And if you compare that to other areas within the Southeast—for example, Hattiesburg...
Mississippi], or smaller places like Warner Robins, Georgia—they received less than a dollar per capita. So there's really pretty significant variation.

Davidson: How much money are we talking about in total here? I know we looked at the 1,000 largest foundations, so obviously there are others out there. But, what kind of dollar volumes in total are we looking at?

de Zeeuw: Over the entire study period, we examined about $15 billion worth of grants, which is a subset of a much larger pool of foundation money that's out there, and an even larger pool of charitable giving that's out there. So it's a subset of it, but I still think it gives an interesting picture of how these large foundations send their money out.

Davidson: Right. Maybe, Will, this would be one for you: To what degree was this a real pioneering effort? I'm sure other work has been done in this area, but were we kind of cutting edge with this?

Lambe: Like most academic research, [ours] builds on a body of research that goes back some time. But this was, as far as we can tell, the first effort to take these flows of grant capital for community and economic development purposes and try to understand where they go at the metro level.

Let me speak to that methodological issue really quickly, too, Charles, because I think it's important. We've gotten some questions from community leaders that go along the lines of, "Can you tell us, specifically, what kinds of resources are coming into my neighborhood, or my block, or even my city?" And the issue with that, as it relates to this data, is that grants from foundations land in nonprofit organizations that might be based in one particular place. And most of the time, those resources are deployed locally—but not always. Some of the time those resources are deployed on a regional or statewide basis, and some of the time those resources are then deployed on a national basis, based on whatever sorts of circumstances or mission the organization receiving the grant is guided by.

So we had to make a number of assumptions along the way about where these resources go once they land in the recipient. And what we found in our efforts to make the best methodological decision was that the metro area was, for us, the best unit of analysis, given a set of assumptions about where money actually gets spent once it lands in the nonprofit recipient's bank account, if you will.

Davidson: This idea that public funding for these types of programs continues to dwindle. Is it a fairly safe assumption that that's going to continue, and that philanthropic funding therefore will play an even more important role in the future than it does now?

Lambe: You can look at it from a "glass half full/glass half empty" [perspective], like public money is going away and so we're scrambling to find ways to fill the gap. I actually like to think of it from the other side of the equation: there are new and different types of investors coming into our substantive space—community and economic development—that historically haven't been interested in investing in community and economic development. So whereas in the past, for example, the sources of capital that are available to develop a low-income housing/tax credit housing project in a particular city might include some federal tax credits, some state tax credits, and a loan from a bank that's CRA [Community Reinvestment Act]-motivated.

Now we see the capital sources available to those types of projects to include philanthropic program-related investments, or debt from philanthropies; high net worth individuals in communities that are just willing to lend to these types of projects because they want to see good things happen with their investments, and any number of other sorts of investors who are supplying capital to community and economic development, that historically haven't.

And so I think that it is true that public resources are more limited and, personally, I can't see a horizon where that's likely to change, although, anything is possible. But I do see more and more investors, broadly defined, interested in this space.

Davidson: Mels, Will—thanks so much for your time today; that was really interesting. And I think there's an URL, if I'm not mistaken, where folks can go and check this out for themselves, right?

de Zeeuw: That's right: frbatlanta.org/followingthemoney.

Davidson: Thanks for listening, and please come back next month; our monthly Economy Matters podcast will feature one of the Atlanta Fed's economists, Federico Mandelman, and some interesting research he has done on offshoring and immigration and how that affects U.S. wages. Thanks a lot.

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