



“Stuck Situations” in the Philanthropic Divide: The Need for Nonprofit Capacity

U.S. Senate Finance Committee Chairman Max Baucus and the Council on Foundations have brought national attention and focus to the philanthropic challenges and long-term, systemic under-funding of rural America. The conference held in Missoula, Montana, in August, 2007, showcased excellent projects in rural America that have been supported by some of the most thoughtful foundations in the country. Field trips organized by the Montana Community Foundation exposed attendees to exciting programs and projects being conducted by terrific local nonprofits. Many attendees left the conference energized to learn more and possibly fund the vital new work they had seen; others talked about exploring with philanthropic colleagues whether these programs could be replicated in the rural areas tied to their mission’s focus.

There was also genuine frustration among a number of conference attendees. Lurking in the wings was the crucial question: Why does so little foundation money make its way to rural America? On the first day of the conference, Aaron Dorfman, executive director of the National Committee for Responsive Philanthropy, highlighted findings from Rachael Swierzewski’s report published by NCRP, *Rural Philanthropy: Building Dialogue From Within*. Dorfman noted that “inadequate organizational capacity” is one of the key barriers NCRP identified that constrains grants to rural nonprofits by regional and national foundations.

One of the sessions on the last day addressed how to build philanthropy for rural America, and much attention was given to the Intergenerational Transfer of Wealth. Participants pointed to the vital role that local community foundations can play in helping capture a portion of the wealth transfer as a community-focused philanthropic legacy for generations to come. Frustration surfaced once again, this time over the poignant reality that many areas in rural America lack adequate philanthropic infrastructure to engage and assist rural residents regarding the Transfer of Wealth and the possibility of leaving a philanthropic legacy.

Disparities in Funding for Rural and Urban Areas

Building institutional infrastructure in rural America that can guide and nurture the development of philanthropy and nonprofits is a core strategy for both building local philanthropy and attracting a more equitable share of the nation's annual foundation grantmaking. States vary with respect to their resources and capacity to build such infrastructure, which led my organization, the Montana-based Big Sky Institute for the Advancement of Nonprofits (BSI), to undertake research to document and articulate these disparities. BSI's findings documented long-term systemic under-funding of a number of low-population rural states, a phenomenon BSI refers to as the "Philanthropic Divide."

The Philanthropic Divide is a complex phenomenon of limited philanthropic and non-profit sector resources and infrastructure that places nonprofits in the 10 Divide states at a competitive disadvantage with their counterparts in other states. For most of the last 15 years, the 10 Philanthropic Divide states have been Alaska, Montana, Wyoming, North Dakota, South Dakota, Mississippi, West Virginia, New Hampshire, Vermont and Maine.¹ BSI has documented not only significant disparities in in-state foundation assets, but also in in-state per capita grantmaking. Limited foundation assets and low per capita grantmaking have been the lightning rod to draw attention to these states, whose operating conditions for nonprofits represent the extreme manifestation of the challenges and barriers facing rural America more generally.

In particular, the term "Philanthropic Divide" has been used to focus on the rapidly increasing gap in in-state foundation assets between those states with the least and those with the most. According to data published in 1990 by the Foundation Center, the 10 states with the least amount of foundation assets had an average of \$63 million per state. The 10 states with the most assets had an average of almost \$9.26 billion per state. The asset gap, comparing averages of the bottom 10 states with the top 10 states, was \$9.2 billion. According to data published in 2007 by the Foundation Center, the average amount of assets among the bottom 10 states had increased to \$757 million per state, while the top 10 states averaged \$36.8 billion per state. The Philanthropic Divide asset gap had nearly *quadrupled* to \$36.1 billion.

When BSI first published its data regarding the Philanthropic Divide, some foundation staff scoffed at the numbers, alleging that there were so few people in these states that very few assets were needed to satisfy the funding needs of these states' nonprofits.

¹ Data published in 2007 by the Foundation Center indicate that Wyoming and Maine have pushed their way out of the bottom ten, being replaced by New Mexico and Idaho. BSI is currently engaged in research activities that will develop a more comprehensive and definitive set of philanthropic metrics and associated indicators regarding Philanthropic Divide designation. It is anticipated that when the research is completed, the number of states receiving Philanthropic Divide designation will be greater than ten.

However, when BSI examined figures for per capita grantmaking among these states, we once again found significant disparities, which grew over time. Data published by the Foundation Center in 2007 pegged *per capita grantmaking* for the 10 states with the least assets at \$34, compared to a national average of \$117, and \$171 per capita for the states with the most assets. Comparing averages among the bottom 10 states to the top 10 states showed a per capita grantmaking gap of \$73 according to 2000 figures, with that gap increasing to \$137 seven years later.

The paucity of foundation resources in the Philanthropic Divide states is critically important to the question of how infrastructure can be built to assist in the development of philanthropic and nonprofit capacity for these rural states. In Montana, for example, the great majority of the in-state foundations are small and unstaffed. Most grantmaking is at the \$10,000 level or less. Relatively few grants are made in the \$50,000 to \$100,000 range, and grants over \$100,000 are scarce at best. The building of nonprofit and philanthropic infrastructure has generally been the domain of foundations that can make large grants ranging from \$100,000 to \$250,000 and greater. This led BSI to examine grantmaking by the Top 50 Foundation Grantmakers to each of the 10 Divide states during the years 2000 through 2004. These preliminary findings were both illuminating and disturbing.

Grantmaking to the 10 Philanthropic Divide states by the 50 Top Foundation grantmakers (by giving) to each state increased from a total of \$205.9 million in 2000 to \$320.9 million in 2004. Most of this growth, however, came from in-state foundations. The in-state foundations that made the Top 50 in their respective states in 2000 granted a total of \$22.5 million that year; this increased to \$122.6 million in 2004. Top 50 grantmaking to the Divide states from national foundations was \$103.7 million in 2000. By 2004, however, the national foundation total had declined to \$96 million. More importantly, the percentage of total Top 50 grant dollars from national foundations to the Philanthropic Divide states declined precipitously from a very significant 50.4 percent in 2000 to 29.9 percent in 2004.

Work Underway to Build Infrastructure to Strengthen Rural Philanthropy and Nonprofits

The Philanthropic Divide states have not sat by idly, awaiting a reversal in national foundation grantmaking trends, to figure out how to build infrastructure that can strengthen philanthropy and nonprofits. Some brief examples:

- In Alaska, nonprofit and philanthropic leaders worked together to found the Foraker Group, which is currently a multi-million dollar management support organization providing consulting, training and management support services to nonprofits of all sizes throughout this vast state with many remote and isolated communities.
- West Virginia established the West Virginia Grantmakers Association with a full-time Executive Director to serve and help strengthen the state's growing ranks of family foundations, as well as a consortium of 26 local community foundations.
- In New Hampshire, a consortium of in-state funders pooled resources to underwrite a multi-year nonprofit capacity building initiative, in which the state's nonprofit association, the New Hampshire Center for Nonprofits, has ramped up and emerged with an extremely robust program of professional development and Board training opportunities for nonprofits all over the state.

In Montana, special attention has been given to organizing and incubating diverse partnerships in order to coalesce resources and leadership to underwrite infrastructure development. Two illustrative examples are: the Montana Nonprofit Organizational Effectiveness Grantmaking Program and the Indian Philanthropy and Nonprofit Group Initiative.

BSI has partnered with a growing collaboration of in-state foundations to develop the Montana Nonprofit Organizational Effectiveness Grantmaking Program. Currently, if a nonprofit decides it wants to strengthen its capacity—whether it be through developing a strategic plan, improving its financial management systems, diversifying its funding or conducting board development activities—there are no statewide grantmaking programs to which nonprofits can turn for support to hire a consultant.

In addition to seed funding from the W.K. Kellogg Foundation for the OEG Program, seven Montana foundations have provided funds for this initiative, and several others are exploring participation this year. Program partners worked in collaboration with BSI and several national consultants to design the Montana OEG Program, which is

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being launched with a budget between \$150,000 and \$200,000. Following six months of program development work during the first half of 2008, the OEG Program will begin making grants for organizational assessments, as well as grants to support organizational development projects. Current plans call for three years of demonstration activities, followed by evaluation and assessment to determine how to continue the program on a sustainable basis.

Senator Baucus' interest in growing philanthropy for Montana and the rest of rural America is strongly mirrored by the interests of the state's governor, Brian Schweitzer. Governor Schweitzer hosted a Conversation on Endowments and Philanthropy in November of 2006 that generated keen interest in building philanthropy for Indian Country in Montana. Governor Schweitzer has appointed more Native Americans to his cabinet than any other governor in Montana's history. He supported his economic development specialist for the seven Indian reservations in Montana and the Coordinator of Indian Affairs to work with the Governor's Task Force on Endowments and Philanthropy and BSI to develop an initiative to build philanthropic resources and nonprofit development assistance for Indian-led nonprofits on the reservations and urban-based Indian communities. At present, this effort is known as the Indian Philanthropy and Nonprofit Group Initiative.

At its heart, the IPNG Initiative has brought together leadership from Indian Country, state government, in-state foundations and nonprofit sector infrastructure organizations to develop a long-term collaboration. A 24-member working group has begun sharing information to develop common understandings regarding nonprofit needs in Indian Country, the availability of resources within the state, new and emerging programs and projects that potentially could be tailored to assist nonprofits in Indian Country, and trends/new opportunities within regional and national funding circles. When this initial work to build shared understandings is completed, the working group will establish priorities and plans for building philanthropy and nonprofit resources for Indian Country. BSI is providing fiscal sponsorship, as well as incubation services, during this initial development stage.

In both of these examples, Montanans have taken “stuck situations” and created new strategies to get them “unstuck.” All too often, infrastructure development in a Philanthropic Divide state like Montana has appeared far too daunting in complexity and cost for individual foundations to become involved. Historically, the localized focus of so many of the state’s grantmakers, the lack of a statewide grantmakers association, and the overall problem of geographic isolation have constrained funders from getting their arms around these infrastructure development needs. Efforts by Philanthropy Northwest, the Governor’s Task Force on Endowments and Philanthropy, the Montana Nonprofit Association, BSI and others have helped establish a new chapter in building diverse partnerships and better resourced collaborations. These promising efforts also present new opportunities for regional and national foundations to partner with in-state organizations where there is a confluence of interest in developing infrastructure that can help build philanthropy and nonprofit capacity.

Despite the overall positive tone and constructive direction of the rural philanthropy conference in Missoula, those of us living and working in rural states are still asking the important question: Why are so few national and regional foundation dollars making their way to rural areas? With promising and successful efforts like those described in this essay, and many more that also could be highlighted, rural and national foundations need to recognize that the old excuses are no longer valid. Terrific organizations doing fabulous work stand ready to partner with interested funders.

Michael Schechtman is Executive Director of Big Sky Institute for the Advancement of Nonprofits in Helena, Montana.