

RESPONDING IN CRISIS

An Early Analysis of Foundations' Grantmaking
During the Economic Crisis



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EXECUTIVE SUMMARY

Responding in Crisis is the first, formal analysis of the supplemental grantmaking activity of foundations in response to the current economic crisis. We find that foundations have — quietly, expertly, and quickly — supported American individuals, families, and communities in need. These conclusions are impressive, but hardly surprising given foundations' response to past disasters, such as 9-11 and Hurricanes Katrina and Rita.

The economic crisis began in the housing market, with increasing numbers of homeowners falling into delinquency or losing their homes to foreclosure. Economic distress soon spread to the employment market.

Foundations can, and do, step in during critical times like these — with grants to support programs that teach families to address their financial challenges, provide options for improving individuals' economic situations, and retrain workers to succeed in the new economy. Our study examines whether foundations' flexibility and speed in providing support for vital services provided a needed complement to governments' response.

Using simple metrics to examine the scale and responsiveness of private grantmaking, we find:

- Throughout the economic crisis, foundations sent more grants to those states experiencing relatively more severe mortgage delinquency problems.
- Private grant money also flowed to states with relatively high unemployment rates, especially in the later part of the crisis, as unemployment became a larger economic problem.

A further multivariate analysis of the data is broadly sup-

portive of the responsiveness of foundations to altering the mix of their activity and resources to the pressures created by the economic crisis.

The study concludes that government was not the only responder to the economic crisis; foundations responded in a targeted and timely manner, with grants appropriately directed toward communities with the most need. Moreover, foundations acted at a time when their own financial resources were under distress from the very same crisis. Thus, relative to their reduced resources, foundations' record is even more exemplary.

It should be noted that the data used for this study represents a limited sample of total foundation giving during the economic crisis.

		2008		2009		2010		Pooled Total		Year by Year	
		Amount	Grants	Amount	Grants	Amount	Grants	Amount	Grants	Amount	Grants
Mortgage Delinquency	High	\$63,300,000	791	\$296,000,000	1157	\$3,176,100	151	\$353,000,000	2284	\$362,476,100	2099
	Low	\$93,000,000	194	\$16,900,000	352	\$1,088,113	33	\$120,000,000	394	\$110,990,212	579
Unemployment	High	\$29,900,000	422	\$200,000,000	803	\$3,697,413	153	\$303,000,000	1303	\$233,597,413	1378
	Low	\$126,000,000	563	\$112,000,000	706	\$566,800	31	\$170,000,000	1375	\$238,566,800	1300

1. INTRODUCTION

Every foundation is unique. But woven through the fabric of America is their common commitment to using private philanthropy to develop knowledge, nurture individuals, strengthen institutions, improve public policy, and provide information. So it comes as no surprise that, when America struggles — as it has during the recent housing, financial, and economic crises — foundations respond — strongly, quickly, and effectively.

Numerous previous studies affirm the foundations' solid track record in responding to other crises. In the aftermath of the 2005 Gulf Coast hurricanes, foundations issued more than 4,400 grants totaling over \$850 million.ⁱ Between the 9/11 attacks and September 2004, over 700 foundations made \$360 million in grants, according to a Foundation Center research report.ⁱⁱ

Less is known, however, about private philanthropy's efforts to address the exceptional challenges posed by the ongoing economic emergency. While the government's relief programs have received extensive publicity, *Responding in Crisis* is the first, formal analysis of specifically designated grantmaking activity of foundations in response to the current economic crisis. Its findings are based on scrutiny of individual grants, as well as a formal, quantitative analysis of a limited sample of grants for the years 2008 to 2010, obtained from the Foundation Center.

The results of the study demonstrate that the efforts of foundations are significant — especially in light of the blow to their financial resources dealt by the very crisis to which they are responding.ⁱⁱⁱ The Foundation Center's 2010 edition of *Foundation Growth and Giving Estimates* highlighted that, even though foundations lost a record 17 percent of their assets in 2008, they only cut their giving to nonprofits by 8.4 percent in 2009.^{iv}

In addition, the foundations' response has been timely and flexible; early action focused on housing, but as the crisis spread more broadly, aid followed, shifting to general economic relief.

It is important to note that, because of the limitations of the data from the Foundation Center, this analysis does not include those activities that foundations conduct themselves rather than fund through grants. Such details would only bolster the conclusion that foundations have responded effectively to the economic crisis, as the Kauffman Foundation's extensive investment in entrepreneurship programs demonstrates (see page 11: *Foundation Response: Beyond Grantmaking*).

Also not captured by this analysis are those ongoing grants for other related critical services — education, day care, food pantries, domestic violence intervention, and mental health care, among others — that are part of the safety net on which individuals and families impacted by the economic crisis rely. In some cases, foundations increased their giving in these areas in response to the economic crisis. Indeed, the list of grants used in this study is truly a sampling of the estimated \$89.7 billion in total grantmaking by foundations in 2008 and 2009, and the \$43 billion in predicted giving for 2010.^v

The study also only captures those grants that were coded by the grantmakers as being directly related to the economic crisis. We know that the limitations of coding results in an understating of the actual number of grants made. It is also worth pointing out that the Foundation Center's database of grants only reflects about fifty percent of the total dollar amount of foundations' grantmaking. For example, beginning in late 2008 through April 2010, the Foundation for The Carolinas in conjunction with community donors raised and redistributed over \$7 million to human service agencies experiencing a spike in need as a result of the economic crisis. The grants issued from these two annual Critical Needs Response Funds were not included in the data set, yet represent a significant investment in Charlotte-area nonprofits focused on helping the needy.

2. REVIEW OF PAST STUDIES ON FOUNDATIONS

Papers on past crises, such as 9-11 and hurricanes Katrina and Rita, have produced similar findings to this study. According to the Center on Philanthropy at Indiana University and the Foundation Center, private and community foundations overwhelmingly took a “broad, multi-purpose, long-term approach” to the crisis of September 11. The Foundation Center’s data indicates that donors gave quickly and to a broad range of activities without prompting from the Federal Emergency Management Agency (FEMA).^{vi, vii}

In a study conducted just a few months into the Katrina recovery effort, the Reilly Center for Media & Public Affairs at Louisiana State University found that Louisiana residents viewed these sorts of private donations as particularly effective. Louisiana residents were “considerably more favorable of the efforts of faith based organizations and nonprofits, including community foundations and the Red Cross” than governments’ responses. When asked, on a scale of one to ten, to indicate the effectiveness of groups involved in the relief efforts, residents rated nonprofits of various sorts with a 7.5 mean rating, versus the federal government at 5.1 and both New Orleans and Louisiana State governments at 4.6.^{viii}

In their 2008 report, *Best Practices in Disaster Grantmaking*, the New York Regional Association of Grantmakers suggests several reasons why foundations operating in times of crisis may have earned these favorable reviews:

- Foundations can leverage existing relationships in the local community, and can work through philanthropic peers in affected areas;
- Foundations are willing to take risks and fund small or nascent nonprofit organizations, partner with other funders, and proactively offer support to affected communities without prior solicitation; and
- Foundations are flexible, and can also look outside their traditional funding guidelines when facing extraordinary circumstances.^{ix}

Russell Sobel and Peter Leeson also looked at the aftermath of Hurricane Katrina; they identified the knowledge that is necessary to respond effectively to that sort of crisis and the failure of centralized government to generate and disseminate that knowledge. Sobel and Leeson point out

that private actors — both for-profit companies and nonprofits — have more incentive to understand and react. “Even private nonprofit organizations have a strong incentive to identify disasters quickly.”^x

Further, Stephanie Haeffele-Balch and Virgil Storr from the Mercatus Center at George Mason University showed that after Katrina, communities that relied on decentralized, private relief recovered more quickly and completely than those that relied on government aid. Haeffele-Balch and Storr came to their conclusion after conducting about 300 interviews with victims and community leaders in New Orleans and about 100 surveys and interviews with displaced residents in Texas.^{xi}

The findings of Haeffele-Balch and Storr are supported by the work of Emily Chamlee-Wright and Storr. They conclude that “real and lasting recovery and redevelopment is attainable” when post-disaster communities are helped by “private individuals and community stakeholders including individual business owners, non-profits, religious organizations, and neighborhood organizations,” or decentralized organizations.^{xii}

3. Background on the Economic Crisis

As the current economic crisis unfolded, problems started in the housing market, where they took two forms. Some borrowers found themselves with pure cash-flow problems — monthly payments that either rose sharply or were too much to carry for a sustained period. Others saw their property values drop sharply to the point that the mortgage obligations exceeded the market value of their property — the homeowners were “underwater.” In both instances, families fell increasingly behind in their payments, leading to foreclosure.

As the crisis deepened, the stresses spread more broadly across the economic landscape. Credit problems manifested outside the mortgage market in the form of credit card delinquencies, student loan stresses, and broader consumer credit shortfalls.

In the end, these problems were compounded by widespread job loss. Since the peak of employment in December 2007, over 8 million Americans have lost their jobs.^{xiii} Unemployment rose to more than 10 percent, and it remains at a high 9.7% at the time of publication.^{xiv} Broader measures of labor market distress, including reduced work hours and discouraged workers, indicate nearly one in every five Americans is suffering in this crisis.

4. The Response

What can foundations do to ameliorate the damage caused by the downturn? To begin, they can provide families with better information about their financial challenges and how to address them. In 2008, the John D. and Catherine T. MacArthur Foundation, headquartered in Chicago, Ill., did just that, announcing a \$68 million initiative, comprised of multiple grants, to help residents facing foreclosure in the Chicago area (see side bar).

Foundations can also provide families with advice and support as they explore options for improving their economic situations, including job retraining programs. Several foundations in the data-set offered such programs, including the Rhode Island Foundation (see page 7).

Similarly, the Charles Steward Mott Foundation, based in Flint, Michigan, provided a \$750,000 grant to a local nonprofit organization to help support their education and workforce training programs based in southeast Michigan, headquarters of the beleaguered U.S. auto industry (see page 8).

5. Evaluating the Response

A full cost-benefit analysis is beyond the scope of this study as it would require comprehensive information about the activities of foundations, the outcomes of those interventions, *and* similar comprehensive information on alternatives, particularly at the federal, state and local government levels. Data of this sort are not yet available. Rather, this study undertakes a less sweeping, but valuable, evaluation by analyzing a sample of grants which foundations reported as having made specifically in response to the economic crisis. In particular, we examine how quickly foundations shifted their grantmaking in response to changing economic conditions. Government policy is notoriously slow to be adopted and implemented. Do foundations, then, offer a timely complement to government actions?

6. A Look at the Numbers

The heart of the quantitative analysis is a sample of grants for the years 2008 to 2010, obtained from the Foundation Center, which maintains the most comprehensive database of foundations' grantmaking activities. The data provides information on the amount, activity, and target audience of each grant.

THE FORECLOSURE CRISIS: Strategic Intervention by The MacArthur Foundation

In October 2008, 3 months after the U.S. government nationalized government-sponsored mortgage finance companies Fannie Mae and Freddie Mac, the John D. and Catherine T. MacArthur Foundation of Chicago, IL announced it would commit \$68 million in grants to address the foreclosure crisis in Chicago. Illinois had a mortgage delinquency rate of 4.3% in 2008, placing it among the states hit the hardest by the foreclosure crisis. The grant from the MacArthur Foundation was the largest response to date to the crisis by a private foundation and would leverage more than \$500 million in capital to assist an estimated 10,000 homeowners. The initiative provided capital for direct services to homeowners as well as research and technical assistance. As foreclosures increased, so did the caseloads of three organizations receiving funding:

The Spanish Coalition for Housing works extensively with Latino families in the Chicago area. Many Coalition clients are not fluent in English and face barriers in understanding mortgage financing. One of the Coalition's key focus areas includes assisting families facing foreclosure, counseling them one-on-one to find a solution to their home mortgage issue. The Coalition hosts workshops and community events to help prevent families from becoming victims of mortgage scams by educating them about illegal or illegitimate practices. Ophelia Navarro, Executive Director of the Spanish Coalition for Housing says, "Our research shows that approximately 60% of our clients can avoid foreclosure if they approach us for help shortly after they become delinquent."

For the past 40 years, the **Legal Assistance Foundation of Metropolitan Chicago** has provided low-income and disadvantaged Chicago residents with quality legal assistance free of charge, focusing on domestic violence, employment and elder law and home ownership. Testifying before Congress in April 2010, Daniel Lindsey, Supervising Director of the foundation's Homeownership Preservation Project, noted that the work they do is particularly critical at in the current environment because the "unfair mortgage lending-predatory lending-irresponsible sub-prime lending-call it what you will...is where the crisis began." The foundation offers free legal advice and representation for mortgage-related cases, particularly in cases of mortgage delinquency, where the

Continued on next page...

tenant may have been deceived by the lender, a potential victim of predatory lending, a defendant in a mortgage foreclosure lawsuit or a tenant who unknowingly transferred his or her title in an effort to receive financial assistance.

The Greater Southwest Development Corporation (GSDC) is dedicated to revitalizing Southwest Chicago's residential, commercial, institutional and industrial sectors. Since the late 1990s, GSDC has focused many of its efforts on predatory lending and mortgage issues. As the crisis unfolded, GSDC opened up the Southwest REACH Center to directly assist families struggling with their mortgages. Along with other Chicago area organizations, GSDC created the Keep Our Homes campaign, designed to help individual families stave off foreclosure and to help find an answer to the broader foreclosure crisis in Chicago. The campaign has undertaken an innovative approach to help individual borrowers by obtaining from Bank of America a list of delinquent borrowers, who are then contacted by other homeowners in the community, many of whom are worried about their own property values. This grassroots outreach puts borrowers at more ease, knowing they're dealing with a fellow community member and not a bank. In the first week alone, the Southwest REACH Center received 16 new applications for loan modifications compared to only 56 sent to the bank by the Center during the previous 18 months.

audience of each grant.

These 2,672 grants totaled \$472 million. Recipients were located in nearly every state — a total of 47 states are represented. The average grant size was \$176,608, and they ranged from \$500 to \$5 million.

The data identifies the location of the granting foundation and the recipient by city and state. In addition to the dollar amount and duration of the grant, information is provided on the grant's supported activities, populations targeted for assistance, and the type of recipient for each grant.

We augmented the grant data with information on the recipient states, including population (from the U.S. Census Bureau), annual unemployment rates (from the Bureau of Labor Statistics), and annual average mortgage delinquency rates (from Moody's.com).

Before turning to an analysis of the data, two important caveats are in order. First, as noted above, the sample of

grants cannot be interpreted as a representative sample of all the activity in the United States. In this sense, the analysis is meant to be illustrative and suggestive, but is not a definitive account of the entire foundation response to the economic crisis.

Second, though ample anecdotal evidence credits grants with numerous positive results, the data available now does not permit us to link the grant activity to specific, measurable outcomes such as mortgage modification, credit balance reductions, job searches, or employment. Accordingly, it is beyond the scope of our inquiry to assess the efficiency of the response either in absolute terms or relative to other economic responders.

7. The Landscape

It is useful to review briefly the economic landscape on which foundations launched their response. Figures 1 to 3 display the severity of mortgage delinquencies across the United States. Specifically, Figure 1 divides the states in 2007 into two groups: (a) those with an overall delinquency rate above 3 percent, and (b) those with a rate below 3 percent. States depicted in a lighter color are in the lower 50 percentile of mortgage delinquency, and States in the darker color are in the upper 50 percentile of mortgage delinquencies.

The relative severity of the crisis can be seen across the states. However, as the crisis deepened, Figures 2 and 3 show that overall delinquency rates rose across the United States, and that, by 2009, problems were especially severe in the coastal states (as well as Michigan and Illinois). It is also noteworthy that the median delinquency rate for states grew from 3.0% in 2007 to 3.9% in 2008 to 5.5% in 2009.

Similarly, Figures 4 to 6 use the same technique to document the evolution of unemployment across states and over the period of the crisis. Overall, unemployment rose sharply, so that the midpoint of the states' experience rose from 5.1 percent in 2007 to 5.8 percent in 2008 and finally to 8 percent in 2009.

ASSISTANCE TO THE UNEMPLOYED: Rhode Island Foundation

The economic collapse created a massive increase in unemployment across the nation and left countless communities with drastic job losses. In 2009, Rhode Island's unemployment rate was among the worst in the country. With greater than 11% unemployment, jobs training and placement was a particular need in the state. Understanding the magnitude of this issue, the Rhode Island Foundation gave at least two grants in 2009 that focused on this particular area:

Newport Skills Alliance

The NSA targets Newport County and helps train and prepare its residents in skilled careers that lacked qualified candidates.

Through the program, participants are taught the possibilities of various fields, trained in specific areas of interest, and connected to employers. NSA director Liz Lombard says the goal of the program is, "to assist Newport County residents with obtaining job readiness skills, literacy, employment and educational advancement to climb the ladder of success." When enrolled in the program, participants receive childcare, transportation, and housing assistance to alleviate some of the most common barriers to the unemployed.

To date, the program has successfully graduated 49 individuals into new, previously unattainable fields. Most graduates have entered into either long term care as nurse's assistants, or hospitality ventures such as caring for senior citizens. Plans to expand NSA into customer service fields such as banking and human resources are currently being developed. In addition to these areas of skilled labor, the NSA plans to expand their community base into surrounding areas to include East Providence and Bristol County.

Amos House

Concentrating mainly on those Rhode Islanders who are homeless, the Amos House provides social services, permanent and transitional housing, and literacy classes to those in need. In addition to serving up to 800 guests a day, AH developed job-training courses to further meet the growing needs of those in the greater Newport area. The grant from the Rhode Island Foundation went to a job-training program that the House implemented through its job development program. To earn revenue to cover staff costs, Amos House began a social enterprise

program cooking and catering meals for local events and business meetings. Not only does this provide Amos House

with increased cash flow, it allows for the opportunity to teach specialized skills and job-training programs through an in-house micro business, More Than a Meal Catering. The program, called Amos House Works, began in 2004 in the fledgling years of the job-training program, but has surged since the economic crises created a need for more jobs. More than a Meal allows their trainees hands-on experience in various food settings such as their restaurant and catering businesses.

As of fall 2009, More Than a Meal delivers almost 1,000 meals a day for 7 different schools, and the ACE program has graduated more than 290 participants in five years. Furthermore, these ACE graduates have expanded the catering service to summer camps, weddings, bar mitzvahs, and many other private functions. Based on this success, Amos House has begun preparations to expand the jobs training program to include a community café and a house renovation service, all employing Amos House participants.

8. A Preliminary Analysis of Grantmaking

In Table 1, we construct some simple metrics of the scale and responsiveness of private grantmaking by examining how overall activities shift in response to the economic crisis. Specifically, consider the first section that focuses on mortgage delinquencies. In 2009, 1157 grants were made to recipients in states with higher than average delinquency rates in the previous year (the darker-colored states in Figure 1). In contrast, many fewer grants — only 352 — were made to entities in the states with lower delinquency rates. In 2009, almost 95% of grant money went to states with higher delinquency rates (\$296 million versus \$16.9 million); in the sample of early 2010 grants, more than 75% of funds went to the states with the highest delinquency rates (\$3.2 million versus \$1.1 million).^{xv}

In short, there is strong evidence that foundation grantmaking was quickly and effectively targeted on the emerging problem areas. The Kresge Foundation and the Skillman Foundation's support for the Detroit Office of Foreclosure Prevention and Response is a powerful example (see page 9).

ASSISTANCE TO THE UNEMPLOYED: Charles Stewart Mott Foundation

The Charles Stewart Mott Foundation has focused on addressing the challenges of a declining manufacturing economy in southeast Michigan, headquarters of the beleaguered U.S. auto industry and an area which has been hit hardest by the financial crisis. Mott grants address issues of community revitalization, economic development and poverty. Responding to the high levels of unemployment and the acute need for career training, the foundation made a \$750,000 grant to **Focus: HOPE** to provide a comprehensive array of workforce training, education, social support, and childcare services in Detroit.

Since their modest beginnings 42 years ago, Focus: HOPE has grown to become a nationally renowned civil and human rights organization. Through HOPE's career training programs, thousands of talented men and women have established careers that pay sustainable wages. Graduates have broken the race and gender barriers in the machinist trades and have helped diversify the workforce in the information technology and engineering areas. HOPE's workforce development programs are assisting underrepresented minorities and recently unemployed gain access to jobs in prime areas of the economy, helping many in Detroit get back on their feet.

Beginning with overall education, HOPE trains job-seekers in computer literacy as a necessary skill for competing in the 21st century job market. After this "fast-track" program, participants are free to choose from industry specific training areas, such as engineering, technology, and manufacturing. One of HOPE's training programs, Information Technologies Center (ITC), has graduated 1,200 students into careers as computer technicians and network administrators. Industry partners include Cisco, Microsoft and the Computer Technology Industry Association. HOPE expanded its career training programs in 2009 and 2010 to include training in the weatherization and health care fields. Future workers are taught how to make homes and businesses more energy efficient, while the health care training program prepares students to become Patient Care Technicians and Certified Nursing Assistants. HOPE also employs a robust job placement program for students, offering resume preparation, internship assistance, mock interviews, and a "clothes closet" for professional attire for interviews.

As the economic crisis evolved, rising unemployment followed closely behind the falling housing market. Thus, in looking at the second panel of Table 1, it is perhaps unsurprising that in 2008 more grants (563) and resources (\$126 million) flowed to states with relatively low unemployment rates the previous year (see Figure 4) than to those states with higher unemployment rates (422 grants worth \$29.9 million). However, looking across the remaining columns of the table, one can see that joblessness emerged as a greater economic scourge and foundations devoted more activity — 803 grants versus 706 grants in 2009 and 153 versus 31 in 2010 — to the states suffering from higher unemployment. This is reflected in the overall resources as well. In 2009, \$200 million (versus \$112 million) was poured into the states harder hit by unemployment, while in 2010 those states received \$3.6 million (versus \$567 thousand).

The Sierra Health Foundation was one group supporting initiatives in a high unemployment state, in their case, California. There they funded a job retraining program for women trapped in a cycle of disadvantage (see page 10).

The final two panels of Table 1 contain the data for two additional indicators. Panel three shows the pattern of grant activity and resources when states are broken into three roughly equal groups on the basis of population. One would expect that sheer size would matter in determining the amount and dollar value of activity. Looking at the data, this expectation is with one exception: the least populous states received more total grant dollars (\$120 million) than did the medium-populated states (\$43.7 million).

9. Multivariate Analysis

We continued our investigation with a statistical investigation of the determinants of foundation economic assistance grantmaking. Specifically, we build on the discussion above and posit that the number of grants and the dollar value of resources were simultaneously determined by a series of factors:

- Population. As noted above, sheer population scale evidently increases the scale of response. One would expect a positive relation between population and grant activity and resources.
- The mortgage delinquency rate. If foundations are nimble and responsive, one would expect a positive relationship, with that relationship more pronounced earlier in the crisis (e.g., 2008) than later.

THE FORECLOSURE CRISIS: Strategic Intervention by the Detroit Office of Foreclosure Prevention and Response

The foreclosure crisis that came to a peak in 2008 left many communities reeling — but none more so than Detroit. Of the nation's 100 largest metro areas, Detroit claimed the top spot for foreclosures. This urgency sparked intervention from Michigan's foundation community, which created the Detroit Office of Foreclosure Prevention and Response to analyze and coordinate a strategic solution to the city's crisis.

According to data from the Foundation Center, grants to support the Office included \$750,000 from the **Kresge Foundation**, \$175,000 from the **Skillman Foundation** and \$50,000 from the **McGregor fund**.

The Office of Foreclosure Prevention and Response is designed to take a strategic approach to the crisis, collect and analyze data and distill this information into the most effective action plan available. It combines the best resources from the city of Detroit, local financial institutions, nonprofit organizations, government agencies and other key stakeholders to form a comprehensive public/private response to the crisis.

Notes Kresge Foundation President and CEO, Rip Rapson, this type of strategic and comprehensive approach is what distinguishes the foundation's activities from other philanthropic efforts. "Philanthropy, I think, has been in a little bit of a loss about what to do about foreclosures. What's so frustrating is that no one seems to have identified the one or two things that will make this situation better. I believe this new effort will help make a difference in many people's lives."

The Office plays an important role in curbing the foreclosure crisis in Detroit. As the coordinating office for public and private response to the foreclosure crisis, the Office hopes to determine what services would be most helpful for those families who are currently facing foreclosure issues, thereby making a significant impact upon the foreclosure rates in Detroit.

The creation of this Office highlights the special role that foundations can play in supporting strategic responses to broad crises. By forming a coordinating office, the foundations worked together to ensure that the responses by the community to the foreclosure crisis would be meaningful and effective.

- The unemployment rate. As with the delinquency rate, one would expect that, if foundations were responsive to the crisis, there will be a positive relationship between the unemployment rate and the number or dollar value of grants. Because economic distress spread more broadly as the crisis evolved, one would expect this result to be stronger in later years.
- Local knowledge. We expect that grants in which both the grantor and recipient are in the same state to be infused with greater knowledge and incentivize a stronger response. Thus, the impact of either delinquency rates or unemployment will be greater in those circumstances.

To formalize our test of foundation economic responsiveness, we posit the relationships take the form:

$$\ln(G) = b_0 + b_1 \ln(P) + b_2(D) + b_3(U) + b_4(S) + b_5(DxS) + b_6 \ln(UxS) + e$$

where G is the measure of grant activity (total number or total dollars of grants), P is the population, D is the mortgage delinquency rate, U is the unemployment rate, and S equals 1 if a grant is from a foundation to a recipient in the same state and 0 otherwise. The residual term, e, captures unobserved determinants of grants and $\ln(x)$ denotes the natural logarithm of the variable x. Note that we expect the responsiveness parameters b_1 , b_2 , b_3 , b_5 , and b_6 to be positive. If foundations are unresponsive and ineffective at targeting, these parameters would be zero.

The results of using multivariate regression techniques to estimate the relationships using our data are shown in Table 2.^{xvi} Although specific parameter estimates vary, the results are broadly supportive of the responsiveness of foundations to altering the mix of their activity and resources to the pressures created by the economic crisis. As expected from the analysis of Table 1, population is an important determinant of activity. For example, a 10 percent increase in the size of the population raises grant activity by 5.5 percent and grant dollars by 1.9 percent.

Similarly, greater unemployment is nearly uniformly associated with more economic-response grant activity, the outlier being the response in 2010. Overall, an increase in unemployment of 5 percentage points — roughly the scale of the crisis — leads to a 1.5 percent increase in the number of grants, and a 2 percent increase in the dollars, of activity. A more mixed picture is presented by the examination of the combination of being in the same state and high unemployment, as the estimated response parameters do not display a clear pattern of the expected higher activity.

ASSISTANCE TO THE UNEMPLOYED: Sierra Health Foundation

There is little doubt that California is one of the states facing the largest financial troubles due to the fallout from the economic crisis. With a mortgage delinquency rate of 10% and unemployment rates great than 11%, these economic indicators placed California among the hardest hit states in the nation. The Sierra Health Foundation chose to focus their crisis relief efforts on job training issues by offering a grant to an organization called Women's Empowerment (WE), that works to help women who are trapped in a cycle of disadvantage. Whether they are homeless, unemployed, underemployed, or in an abusive relationship, WE seeks to provide women with the necessary tools to break the mold and improve their lives. The Sierra Health Foundation offered WE a \$50,000 grant to fund job training. WE employees teach money management, positive workplace traits, communication skills, credit counseling and computer training. They also offer the necessary skills and outlets to acquire a GED or re-entry to college or junior college. The job training program, coupled with the other areas including support, health, and empowerment, serve the goal of offering well-rounded guidance for women to succeed. 80% of program graduates have secured housing and 80% have secured employment or enrolled in school.

The response to mortgage delinquency shows a strong association with greater crisis-response, but a strong association with additional resources only when combined with being in the same state. Thus, for example, a 3 percentage point rise in the delinquency rate would raise grant dollars by 0.6 percent in 2009.

These results, the first formal analysis of the magnitude and resources devoted to foundations' response to the economic crisis, raise questions for future researchers. As additional data become available, it will be of interest to fine-tune our understanding of the determinants of the response. And it will be of value to investigate additional questions, such as the speed of response within years, the duration of the responses, and the degree to which these differ across varying types of recipient organizations.

10. Summary

This paper is an initial investigation into a response of foundations in the United States to the current economic crisis. It is based on scrutiny of individual grants, as well as a formal, quantitative analysis of a large sample of grantmaking activity.

The preliminary economic analysis of the data on foundations' response to the economic crisis, though limited, is encouraging. Foundations reacted quickly to the beginning of the crisis, targeting aid to areas experiencing the worst collapse of the housing market. As the crisis spread to the employment market, foundations again answered, sending grants where unemployment was the highest.

The most important finding — one that is consistent with past studies of foundation grantmaking in times of disaster — is that the government was not the only institution to react to the economic crisis; foundations responded in a targeted and timely manner, with grants appropriately directed toward communities with the most need. Moreover, foundations acted at a time when their own financial resources were under distress from the very same crisis. Thus, relative to their reduced resources, the foundations' record is even more exemplary.

IN FOCUS: Beyond Grantmaking

Nationally recognized for their work on education and entrepreneurial issues, the Ewing Marion Kauffman Foundation, headquartered in Kansas City, MO, has long supported programs and efforts aimed at encouraging entrepreneurship. Their extensive research in this area has shown that new and young companies are often the job creators in our economy. In 2007, for instance, fledgling companies (1-5 years old) accounted for nearly two-thirds of job creation in the United States. According to the U.S. Census Bureau, firms less than five years old were responsible for all net job growth from 1980 to 2005.

For this reason, the Kauffman Foundation has continued to promote entrepreneurship during the financial crisis. As job creators, entrepreneurs help a struggling economy rebound. Their research has also shown that more than half of the companies on the Fortune 500 list were created during a recession or bear market. Two of the foundation's own existing programs, the Urban Entrepreneur Partnership (UEP) and the FastTrac LaunchPad initiative have been amplified to provide a robust response to the financial crisis.

Urban Entrepreneur Partnership (UEP)

The Kauffman Foundation's Urban Entrepreneur Partnership program is a nonprofit created and supported by the Foundation that also receives funding additional funding from other private and public sources. The program was created in 2005 to advance minority entrepreneurship in traditionally underserved urban-core neighborhoods, through one-on-one assistance and education. Initially launched in Kansas City, the program expanded to New Orleans and Baton Rouge after the devastating Hurricanes Katrina and Rita. Since 2005, the Kauffman Foundation has invested \$7 million into the UEP and over 1,000 clients have completed the program. Participating businesses have seen a whopping 24 percent increase in profitability after completing the UEP program.

In 2009, Kauffman expanded the program to include the city of Detroit, whose economy was ravaged not only from the mortgage crisis, but also because of its reliance on the failing auto industry. A local collaboration, the New Economy Initiative for Southeast Michigan, consisting of 10 Michigan foundations is providing funding for this expansion. In Detroit specifically, the UEP will help minority-owned auto supply companies diversify their products, essentially transforming their plants to produce goods in

fast-growing industries such as health care, the military, aerospace and alternative energy. The Kauffman Foundation is bringing programming development, staffing, materials and expertise to the initiative. The program is expected to save 5,000 to 15,000 Michigan jobs.

FastTrac LaunchPad

In 1993, the Kauffman Foundation became a major investor in the FastTrac program, and purchased the program in 1997. FastTrac is a suite of courses that provides hands-on, intensive instruction to help entrepreneurs hone the skills needed to start, manage and grow a successful business. Two key cities that have benefitted from this program are New York City and Detroit.

New York

As a result of the economic downturn, the Kauffman Foundation, in partnership with the Deluxe Corporation Foundation and New York City, launched the FastTrac LaunchPad initiative, which was designed to help individuals affected by current economic conditions build rewarding businesses, in a shorter time frame than the traditional FastTrac courses – and all completely free of cost to New Yorkers.

Only one year out, the program has had great successes. 823 people have enrolled as of March 2010, with 673 entrepreneurs and business owners graduating— an 82% graduation rate. One such graduate, Amy DeGiulio, of Sugar Flower Shop, runs her NYC cake boutique to create masterpiece cakes for weddings and other occasions by using the highest-quality local and sustainable ingredients. She came to FastTrac with an idea for extending her product line to expand into a new market. At FastTrac, through the ongoing support of the facilitators and fellow entrepreneurs, she worked through pricing structure, growth margin percentages, and other financial tools. Just 3 months after completing FastTrac, her new products were in Dean & DeLuca (D&D) stores and other retail markets. The Center worked with her to understand her business needs and connected her with a lawyer offering pro-bono services to review her contract with D&D and answer questions about a potential partnership. Furthermore, she revised and further developed her business plan after she completed the FastTrac program. FastTrac and NYC Business Solutions helped her grow her business in an economy where many such businesses are faltering and closing.

Detroit

As an additional compliment to the UEP program in Detroit, the New Economy Initiative for Southeast Michigan also included funding for a FastTrac program for that city. This program will be offered both to individuals who have lost their jobs, as well as those of low and moderate incomes who are planning on starting or expanding a small business. Through TechTown, a business incubator at Wayne State University, FastTrac in Detroit has provided services to over 700 individuals since 2009. It is expected that 800 individuals will enter the Detroit FastTrac program annually, creating 400 new start-ups per year over three years.

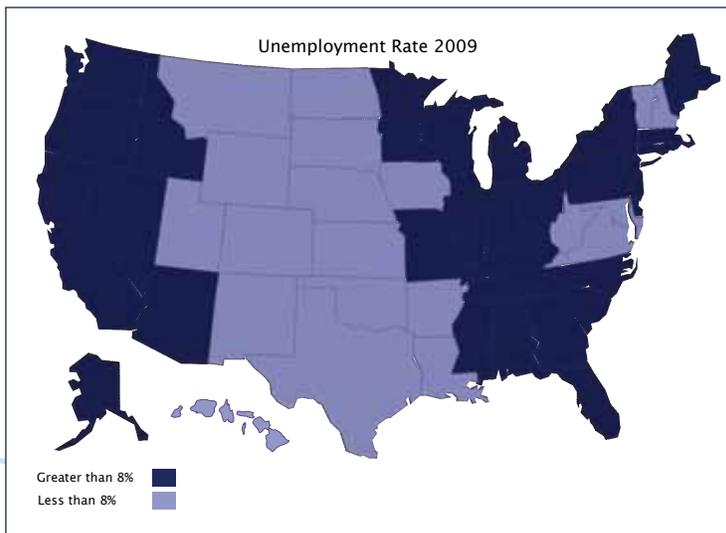
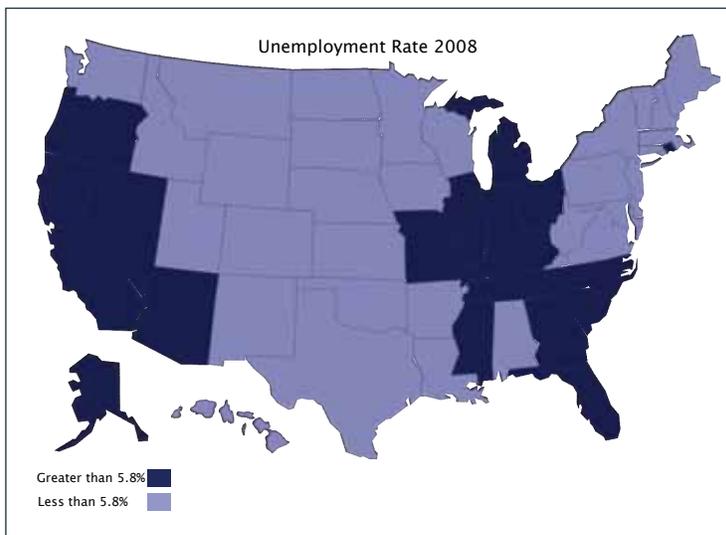
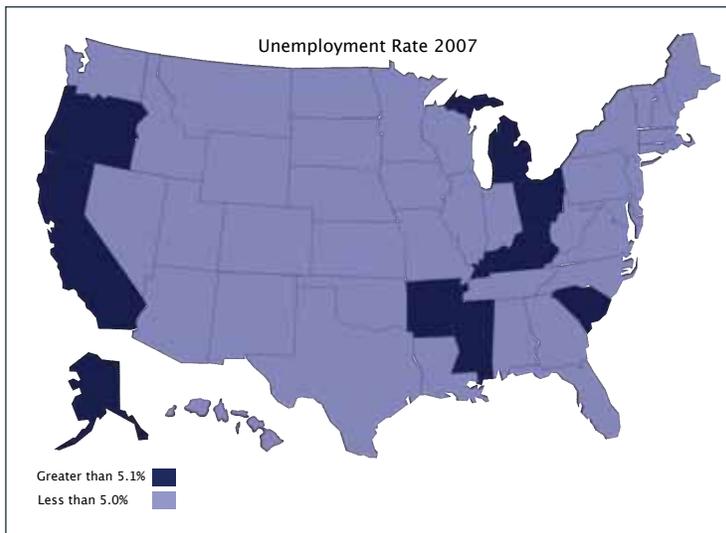
Table 1

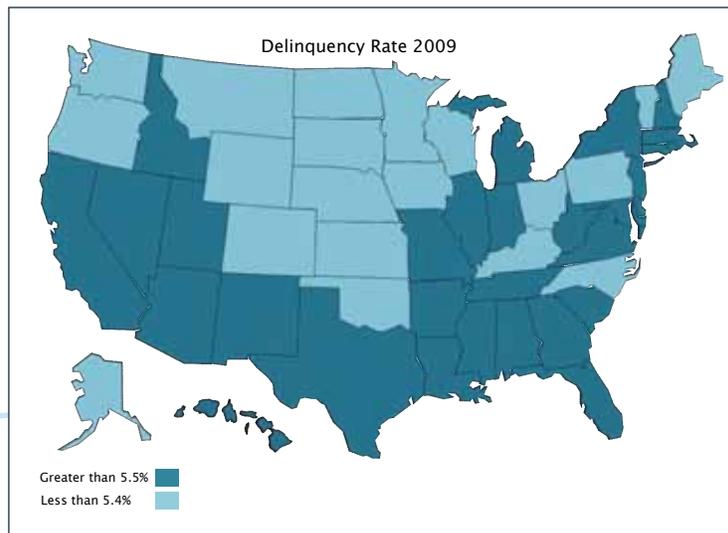
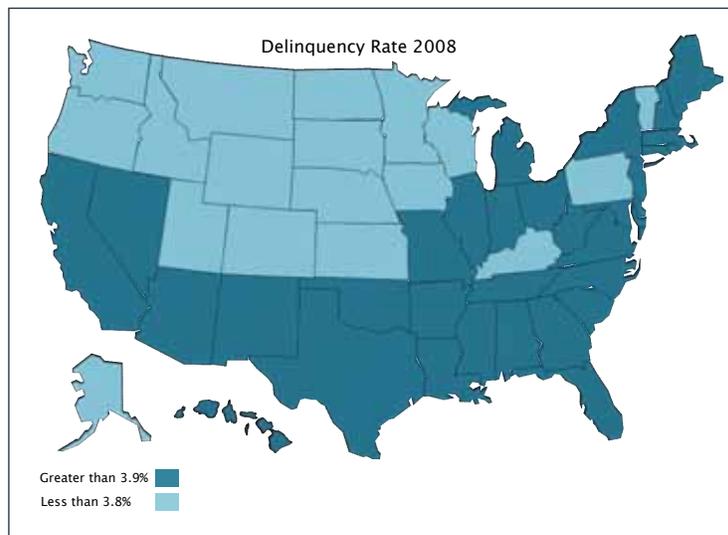
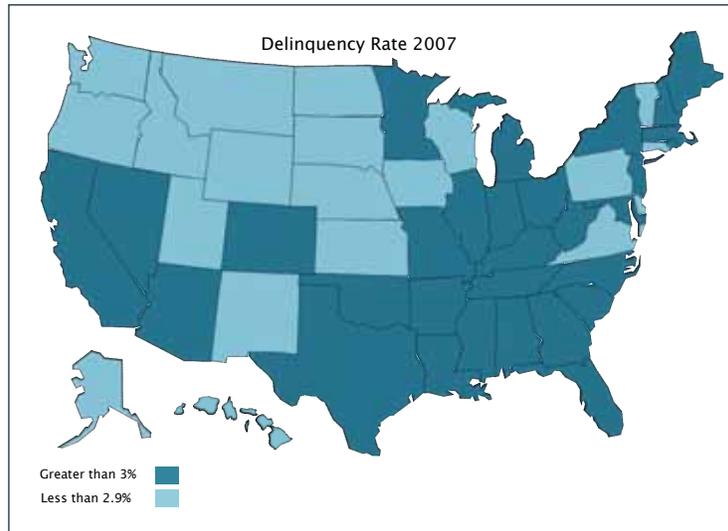
		2008		2009		2010		Pooled Total		Year by Year	
		Amount	Grants	Amount	Grants	Amount	Grants	Amount	Grants	Amount	Grants
Mortgage Delinquency	High	\$63,300,000	791	\$296,000,000	1157	\$3,176,100	151	\$353,000,000	2284	\$362,476,100	2099
	Low	\$93,000,000	194	\$16,900,000	352	\$1,088,113	33	\$120,000,000	394	\$110,990,212	579
Unemployment	High	\$29,900,000	422	\$200,000,000	803	\$3,697,413	153	\$303,000,000	1303	\$233,597,413	1378
	Low	\$126,000,000	563	\$112,000,000	706	\$566,800	31	\$170,000,000	1375	\$238,566,800	1300
Population	Large	\$133,000,000	689	\$174,000,000	900	\$2,763,800	129	\$309,000,000	1718		
	Med.	\$16,700,000	245	\$25,800,000	426	\$1,228,413	37	\$43,700,000	708		
	Small	\$6,693,126	51	\$113,000,000	183	\$272,000	18	\$120,000,000	252		
In State	Yes	\$81,200,000	710	\$156,000,000	1182	\$3,237,613	100	\$240,000,000	1992		
	No	\$75,100,000	275	\$157,000,000	327	\$1,026,600	84	\$233,000,000	686		

*The column titled "Pooled Total" takes the midpoint of the entire sample over all three years, while the column titled "Year by Year" total is the sum of high and low numbers of each year's midpoint.

Table 2
Multivariate Analysis of Economic Response Grantmaking

	NUMBER OF GRANTS				DOLLAR VALUE OF GRANTS			
	Pooled	2008	2009	2010	Pooled	2008	2009	2010
Constant	-4.73 (0.279)	-4.18 (0.614)	-4.04 (0.373)	-2.11 (0.887)	7.79 (0.540)	2.60 (1.34)	8.52 (0.720)	7.84 (0.802)
Population	0.553 (0.0168)	0.444 (0.03421)	0.390 (0.0229)	0.422 (0.0567)	0.191 (0.0325)	0.349 (0.0745)	0.0716 (0.0443)	0.215 (0.0512)
Same State	0.933 (0.139)	1.45 (0.426)	0.866 (0.258)	-1.41 (0.667)	-1.59 (0.269)	2.89 (0.931)	-1.99 (0.498)	-8.23 (0.0603)
Unemployment	0.0298 (0.0241)	0.296 (0.0561)	0.175 (0.0347)	-0.133 (0.0434)	0.0406 (0.0467)	0.322 (0.123)	0.294 (0.0669)	-0.208 (0.0393)
Delinquency	0.00921 (0.0195)	0.0243 (0.0663)	0.238 (0.0356)	0.0779 (0.0220)	-0.157 (0.0378)	0.222 (0.145)	-0.140 (0.0685)	-0.0427 (0.0199)
Same State x Unemployment	-0.101 (0.0279)	-0.123 (0.0685)	-0.122 (0.0394)	0.0241 (0.0644)	0.0412 (0.0540)	-0.652 (0.150)	-0.0703 (0.0762)	0.950 (0.0582)
Same State x Delinquency	0.00921 (0.0225)	-0.0473 (0.0881)	0.074 (0.0384)	-0.0302 (0.0285)	0.0161 (0.0435)	-0.199 (0.193)	0.314 (0.0762)	-0.0195 (0.0258)





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- ^{xv} The basic patterns are similar if one uses contemporaneous delinquency and grantmaking data; i.e., uses the 2008 grants and delinquency. "Lagging" the delinquency data by one year acknowledges the need for time to respond and also permits the use of the data for grants arriving in 2010 in our analysis.
- ^{xvi} Complete regression results are available upon request.

