BY TIM SABLIK

Warsaw, Va., used grant funding from the Virginia Department of Housing and Community Development and others to transform its downtown and attract a dozen new businesses.

The Philanthropy Gap in Rural America

Philanthropic giving can make a big difference in small towns, if both sides can find each other

Warsaw, Va., is well positioned to welcome visitors to Virginia's Northern Neck, the northernmost of three peninsulas jutting out into the Chesapeake Bay. Travelers from Richmond and parts farther west enter the peninsula via a bridge over the Rappahannock River and quickly find themselves in Warsaw's downtown, where they are greeted by colorful storefronts and charming brick sidewalks. But just a few years ago, they would have seen something very different: abandoned buildings, cracked sidewalks that dated back to the Great Depression, and streets that regularly flooded due to poor stormwater drainage. Most would have elected to continue driving.

"Downtown Warsaw wasn't any sort of destination," says Joseph Quesenberry, Warsaw's town manager. When he took the job in 2016, the town council had already drawn up a plan to revitalize the downtown, both to improve the quality of life for residents and to capitalize on the flow of tourists to the Northern Neck.

"Perception is reality," says Quesenberry. "If you drive through a town with broken sidewalks and boarded up shops, who is going to want to live there? What business is going to invest in that place?"

For a town of less than 2,000 people, however, funding such an ambitious reconstruction purely with local tax revenue would be impossible. They needed help.

IMAGE: COURTESY OF THE TOWN OF WARSAW, VA

UNMET NEEDS

The transformation of the United States from a largely agrarian society to a mostly suburban and urban one over the course of the 20th century is a well-known story. Today, roughly eight out of every 10 Americans live in or around a city. But despite a lower share of people, rural areas account for a disproportionate share of economic need. According to a 2023 report from the Economic Research Service of the U.S. Department of Agriculture (USDA), the United States had 318 persistently poor counties in 2021, meaning they had poverty rates equal to or greater than 20 percent for three decades or more. Nearly 85 percent of those counties were not in metropolitan areas. Another study by FSG, a global nonprofit consulting firm, found that 91 of the 100 most disadvantaged communities in the country are rural.

This concentration of need might be expected to draw the attention of philanthropic organizations. But the movement of people, business, and wealth into cities in the early part of the 20th century has also resulted in American philanthropy becoming increasingly urbanized.

"Philanthropy is a byproduct of wealth accumulation," says Andrew Crosson, CEO of Invest Appalachia, a nonprofit that provides funding and technical assistance to communities in Central Appalachia. "So, inevitably what you see is that the wealthiest places in the country have the most philanthropy."

National philanthropies headquartered in cities have tended to focus their attention on the needs immediately around them. Data on philanthropic giving are scarce, but a 2015 study by John Pender at the USDA's Economic Research Service found that rural places received only about 6 percent to 7 percent of the value of total grants from large philanthropic organizations between 2005 and 2010. This is despite the fact that they account for about 20 percent of the population (or around 25 percent in the case of the Richmond Fed's district). Andrew Dumont, a lead community development analyst at the Federal Reserve's Board of Governors, is working with researchers at USDA Rural Development to update those figures. He says the picture hasn't improved over the last decade.

"Based on our findings, I think it would be fair to say that 7 percent is probably a generous estimate of the share of philanthropy that's landing in rural communities," says Dumont. "Our preliminary research indicates that it's closer to 3 percent."

In the face of insufficient funding from private philanthropy, some rural towns have turned to the public sector. The federal government has a long history of funding nationwide rural development initiatives. For example, the Rural Electrification Administration was created in the 1930s to help oversee and finance the extension of the electrical grid to rural homes and farms. (See "Electrifying Rural America," *Econ Focus*, First Quarter 2020.) According to a 2020 report by Anthony Pipa, a senior fellow at the Brookings Institution and head of the Reimagining Rural Policy initiative, and Natalie Geismar, then of Brookings, there are more than 400 federal programs for economic and community development open to rural localities.

On the surface, this would seem to suggest a healthy level of public support. But these programs are overseen by dozens of different departments and agencies, resulting in a dizzying maze that is difficult for resource-strapped rural communities to navigate. Additionally, most of these programs are not limited to rural participants, meaning that rural applicants must compete against more densely populated urban communities. The criteria for many federal grants often favor communities with greater population density, and many programs require matching funds that may be a struggle for resource-constrained rural towns to raise.

Of the programs aimed exclusively at rural places, Pipa and Geismar found that loans outnumbered grants by a ratio of nearly 15-to-1. Large-scale projects often require multiple funding sources to complete, and grants or subsidies that don't need to be repaid are a key component for jump-starting development projects in economically distressed communities.

"Rural communities are often places where traditional market structures don't work as well," says Pipa. "Public funds and private philanthropic funds play a more important catalytic role in rural places than they might elsewhere."

Thus, in addition to being a source of funds in its own right, philanthropy can be a crucial source of the matching funds that are required by many federal grant programs. Philanthropic organizations can also provide the technical expertise and connections to help rural communities navigate the web of federal programs and complete applications. Given these opportunities, what explains the lack of philanthropic focus outside of cities?

LACK OF CAPACITY

One of the biggest challenges rural communities face when it comes to obtaining outside financing for development projects is a lack of capacity. Few small towns have a large, dedicated staff with expertise in identifying potential funding partners and filling out lengthy grant and loan applications. It's common for rural community leaders to wear many hats. The part-time town mayor might also run a small business during the week and coach little league in the evenings and on the weekends.

"We have an administrative office of three or four people trying to handle grant writing while also running the town," says Warsaw's Quesenberry.

Headwaters Economics, a nonprofit research group focused on community development and land management, developed a rural capacity map to identify places with limited local government staff and expertise, institutional capacity, economic opportunity, and education and engagement. They found that large portions of the country, particularly rural areas, are capacity constrained. According to their most recent data from March 2024, a little more than half of the communities in the Southeast have low capacity. For such communities, grants and loans with lengthy applications and meticulous reporting requirements are effectively out of reach.

"There are some grants that I will never apply for again because they've just been so difficult to work with," says Quesenberry.

Communities that lack the capacity to apply for philanthropic grants or loans can become functionally invisible to those organizations. In a 2021 *Stanford Social Innovation*

Review article, Robert Atkins, Sarah Allred, and Daniel Hart of Rutgers University-Camden examined data from the New Jersey Health Initiative, a statewide grantmaking program of the Robert Wood Johnson Foundation, a leading national philanthropy focused on health equity. The New Jersey Health Initiative received applications for $34 million in grants between 2015 and 2018 and distributed more than $10 million in funding. Atkins, Allred, and Hart assigned the population of New Jersey to one of three groups. Those in the "visible, funded" group lived in areas that successfully applied for grants, while those in the "visible, unfunded" group lived in areas that applied but didn't receive funding. Lastly, the "invisible" group lived in areas that did not apply for grants. The authors found that this last group was most concentrated in economically disadvantaged, low-capacity rural communities in the state. What emerges, then, is a negative feedback loop in which rural places with the greatest need are subject to chronic underinvestment.

"There's a mindset among funders that capacity is low in rural places and the balance sheets are too small, but that's because rural communities are getting fewer resources," says Jen Giovannitti, president of the Claude Worthington Benedum Foundation, a regional philanthropic organization focused on West Virginia and Southwestern Pennsylvania.

Even for philanthropic organizations that see a need in rural places and want to respond, the lack of capacity makes providing such support more difficult. According to a 2021 report from the American Enterprise Institute, a conservative public policy think tank, "Philanthropies typically are not designed to coordinate community activities themselves." National foundations rely on the local institutions and nonprofits in communities to help direct the funds to the areas of greatest need. But in sparsely populated rural areas, those local partners may not exist, or they may be hard to find because they don't look like their urban counterparts.

Some national philanthropies are working to help fill these gaps. For example, the Benedum Foundation has provided ongoing funding to the West Virginia Community Development Hub, which was formed in 2009 to provide technical assistance, coaching, and other resources to help rural communities in West Virginia realize their development projects.

"Benedum has become known for investments in capacity building," says Giovannitti. "It's not the kind of work that most foundations find too exciting, but when you have communities that have been resource-starved for decades, you need to build capacity back up to be in a position of strength to apply for things like larger federal grants. We now have many high-achieving nonprofits in the state that have been able to grow their staff, expand their work, and draw in large federal funding. Having a philanthropic partner to help with initial capacity building is critical for achieving that success."

That said, large philanthropic organizations can face capacity constraints themselves. Reaching out to remote communities and building partnerships with local leaders, or even helping to develop that local infrastructure in the first place, all takes finite time and resources.

"There's a limit on how many communities an organization can visit, how many relationships they can develop," Dumont says. "If a grantmaker has to drive five hours to a community with 30 people to make one grant of $15,000, how many times can you do that before you run out of time and staff bandwidth?"

"There's a bias toward large population centers," agrees Invest Appalachia's Crosson. "If you want to impact the most people with a single program, you can go to one metropolitan area and reach millions of people. To reach that many people in central Appalachia, you've got to cover a lot of miles."

COMMITTING TO A COMMUNITY

Another reason that national nonprofits might be reluctant to invest in rural places is that researchers in recent decades have questioned the effectiveness of place-based development policies. Economists studying initiatives such as enterprise zones, which offer tax incentives to attract employers to designated areas, have found mixed results. Attempting to revive a region's economy by attracting businesses may benefit one community at the expense of another, induce a race to the bottom as towns compete to offer more generous incentives to employers, and generate limited benefits to residents if most of the well-paying new jobs go to workers who move in with the employer.

Still, there are compelling reasons to invest in places. In a February 2024 *Economic Brief*, Richmond Fed Senior Economist and Policy Advisor Santiago Pinto noted that many households have ties to their community and may be unable or unwilling to move when economic conditions deteriorate. Place-based philanthropists engaged with rural communities today argue that their strong ties to place should be viewed as an asset rather than a liability.

"Appalachia is a region where people are strongly rooted to place, which gives them a commitment to the communities where they live," says Crosson.

While past place-based interventions often focused on reviving the local economy by attracting new businesses, today's community developers are taking a more holistic approach. They are interested in strengthening a community's amenities and institutions to make it a more attractive destination for visitors, residents, and businesses rather than focusing only on incentives to employers. (See "Investing in the Great Outdoors," *Econ Focus*, First/Second Quarter 2024.)

"Replacing jobs in a dying coal industry with jobs in a factory is the easiest way to get the same scale of economic development, but we don't see it as durable and we don't see it as necessarily advancing long-term community wealth building," says Crosson. "Our approach is much more focused on slow, steady, bottom-up community-based economic development."

This is another reason some philanthropic organizations may be reluctant to invest heavily in rural places: Reviving a community from the bottom up takes time. Community development practitioners who have called for greater philanthropic engagement in rural places often highlight the need for "patient capital" — a willingness on the part of funders to invest in an area over decades rather than years.

"Patient capital has to be a part of rural development because when you have places where resources have been diminishing for years, the way you overcome that is by having partners who provide very reliable, year-over-year investment," says Benedum's Giovannitti.

She cites the example of the Center for Rural Health Development, a nonprofit that works to improve the health of rural residents in West Virginia. Some of the center's initiatives include expanding access to health care services, strengthening the rural health infrastructure, and recruiting and retaining health care providers, which is a long-standing challenge in rural places. (See "The Rural Nursing Shortage," *Econ Focus*, First Quarter 2022.) The center celebrated its 30th anniversary this year, and Benedum has been a funding partner for nearly that whole time.

"They have scaled their work and achieved really incredible outcomes over the last 30 years," says Giovannitti. "But you need to have somebody who can continually be there for you as you scale and grow, build your staff, and advance your mission."

Using donations from Benedum and others, the Center for Rural Health Development administers programs like the West Virginia Immunization Network, which works with more than 400 members to improve immunization rates across the state, and the West Virginia Rural Health Infrastructure Loan Fund, which makes competitive loans to health care providers in the state. Recipients include Charity Woods, a nurse practitioner in Sutton, W.Va., who used the loan to open Hometown Health Care in Braxton County. (See cover photograph.) For many patients, her practice is the only local option for health services.

In addition to helping address health needs, philanthropies like Benedum provide support to food banks in rural and urban places. (See "Food Banks: Lifelines to Those in Need," *Econ Focus*, Third Quarter 2024.) The Robert Wood Johnson Foundation has invested heavily in addressing rural housing needs. It made a $4 million loan to the Federation of Appalachian Housing Enterprises to fund low-interest second mortgages enabling low-income homebuyers in the Appalachian region to make down payments. And philanthropic organizations provide nonfinancial support to rural communities as well. Sharing connections with other national nonprofits or federal agencies, which are often headquartered in distant cities, can help rural leaders find the right development partners. Philanthropic organizations can also share knowledge and expertise on how to navigate and apply for various grants and loans.

The Richmond Fed has partnered with Invest Appalachia to offer the Community Investment Training program to rural leaders. Participants develop and pitch a project proposal and gain valuable feedback, as well as a $2,000 grant to help get them started. Richmond Fed staff do not participate in the fundraising for grants or the selection of grantees and participants but do assist in the training. (See "Collaborating to Improve Rural Access to Capital," *Econ Focus*, First/Second Quarter 2024.)

COMING TOGETHER

After formulating a plan with the help of a $35,000 grant, Warsaw applied for and received a $1 million grant from the Virginia Department of Housing and Community Development to redevelop its downtown and improve stormwater management. With the help of local business owners, the town completely transformed the facades of the buildings along its main thoroughfare and attracted a dozen new businesses even in the midst of the COVID-19 pandemic. It also acquired and demolished an abandoned shopping center, replacing it with a stormwater pond to mitigate street flooding. The pond sits at the entrance of a woodland park with walking trails that wind past more than 100 tree carvings created by a local artist.

"It took a lot of organizations, a lot of partners, a lot of blood, sweat, and tears, but we're really happy with the results," says Quesenberry. "We now have a downtown with no vacancies, our revenues are way up, and so are our tourism and visitation numbers."

During Quesenberry's eight-year tenure as town manager, Warsaw has averaged $1 million in grant funding each year. The town's current project is to rehabilitate homes throughout the community. In keeping with a holistic approach to place-based development, Quesenberry says that while the downtown revitalization was more focused on businesses, he and the town council didn't want to lose sight of the needs of residents as well. The initial funds for that project also come from a Department of Housing and Community Development grant. Although the town has worked with a mix of federal, state, and philanthropic partners, Quesenberry says that most of the grants it has received over the last eight years have been from state agencies.

"With state programs, you're typically competing with fewer applicants, and there is a larger designated pool of funds," he says.

His advice for philanthropic organizations that want to do more to help rural towns is to get on the ground and start building relationships.

"Start at the town office," he says. "Ask them: What are the day-to-day needs in the locality? How can I help?" **EF**

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