THE KRESGE FOUNDATION

Expanding opportunities in America's cities

Speech by Rip Rapson:

Philanthropy at a Crossroads

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Thank you for that kind introduction. It is a great pleasure to be in such exquisite surroundings at the invitation of an organization that has done a superb job of elevating the important role and best practices of the Maine nonprofit sector.

In the spirit of full disclosure, I must tell you that my very positive impressions of Maine are largely shaped by perhaps the most remarkable board chair any foundation executive could have, Elaine Rosen. I am delighted you referred to her in your introduction. I am indebted to Maine for sharing her with Kresge.

Elaine is a tireless booster of everything that is Maine. Its glorious coastline and fascinating fishing heritage. Its strong nonprofit sector. Its visionary corporate leadership, exemplified by Elaine's great friend Leon Gorman and the rest of the crew at L.L. Bean. Its high-quality higher education system. Its outstanding cultural organizations. I've had the opportunity to witness all these phenomena firsthand, and they are every bit as impressive as Elaine describes.

I realize, however, that these great strengths are accompanied by challenges of the first order. An economy shifting from the long-established extraction industries to a more diversified blend of nature tourism, green technology and light manufacturing. State budget shortfalls that disproportionately and cruelly impact low-income people. Housing cycles that often elevate prices beyond many Mainers' means, threatening all too many residents' ability to stay in their homes. Influxes of new immigrants who enrich and enliven the traditional white culture, but introduce new dynamics and tensions into rural and small-town life.
I'm not sure how much of what I have to say this morning can help with any of these challenges, but I want to offer some observations about the path I believe philanthropy has to travel if it is to be relevant to them.

Introduction

One of the great philosophers of the 20th century remarked many years ago: "More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other, to total extinction. Let us pray we have the wisdom to choose correctly."[1] Woody Allen couldn't know when he said that in 1986 how true it would be today.

An ozone layer decomposing and glaciers retreating. Income polarization jeopardizing the basic tenets of opportunity at the heart of this nation's democratic heritage. Entire neighborhoods built up layer by layer over decades now devastated by the insidious effects of a mortgage crisis precipitated by greed and overreach. Health care in this nation of abundance erratically delivered and ostensibly beyond the bounds of meaningful reform.

Grim, to be sure. But, of course, there is an alternative to Allen's apocalyptic paths. It is an alternative premised on hope, high intentions and a sense of strategic purpose.

It is, nevertheless, an alternative, not a certainty. So Allen is right – we are at a crossroads. I would submit, moreover, that as it relates to philanthropy, it is not a single crossroads, but many. I want this morning to talk about three.

The first involves choices individual foundations must make about the degree of strategic intention they will bring to their grantmaking.

The second describes the choices we are making at Kresge about how we will work in the future.
And the third is a set of choices associated with the practice of strategic philanthropy, specifically those related to the revitalization of our urban and rural economies.

I'll talk about each in turn.

I. The First Crossroads: Towards a Strategic Philanthropy

The great educator and philanthropoid Paul Ylvisaker characterized foundations as society's "passing gear" – organizations uniquely suited to propel society beyond its fixed and safe positions toward enduring long-term social change.[2]

Both the foundations I have headed – McKnight and Kresge – have wrestled with the tension zone between grantmaking that is primarily responsive charity and activities that aspire to be more strategic. Both institutions, together with the field of philanthropy generally, have come to recognize that purely charitable grantmaking can only go so far in changing the fundamental social and political dynamics that shape our citizens' day-to-day quality of life and their long-term trajectories of opportunity. One has no choice but to step onto the larger stage of public policy, civic relationships and economic systems in order to shatter calcified patterns of injustice.[3]

And yet working this strategic way is still the exception among private foundations. It shouldn't be. Four reasons come to mind.[4]

First, private philanthropy has the ability to view things whole.

It's so easy to become focused on a particular grant or immediate need that we sometimes forget the enormous privilege accorded private foundations to take a holistic, long-term view, to stitch together threads that seem distinct and unrelated.

And because our assets secure our survival, we can cultivate the kind of dispassionate intelligence that permits us to go deeply into an issue over a long period of time, methodically confronting seemingly insurmountable challenges, making a difference in ways large and small.

Private foundations in the early 20th century cut their teeth on research, supporting scientific and academic inquiry that pioneered new ways of thinking, generated new institutions and raised novel questions.[5] Although a number of foundations have kept that tradition alive, private philanthropy needs to recommit itself to the value of creating and disseminating the kind of knowledge that bears on our deepest problems. Foundations are, after all, uniquely suited to encourage the kind of research that can explore the bold and the profound, the unconventional and the unpopular – the kind that can pay dividends far beyond the life cycle of a grant period or even beyond a grant's subject matter.[6]

The second quality of philanthropy that permits it to be strategic is its flexibility to employ a wide range of tools.

At root, we in philanthropy make grants. But we can put our reputational equity on the line in any number of other ways as well. We can *convene* people as a way of forging relationships, promoting joint inquiry and fostering concerted action. We can pursue *strategic communications* to strengthen public understanding of, and engagement in, the work of grantees. We can underwrite *networks* that amplify impact through the unified efforts of nonprofit organizations working in common purpose. We can *invest directly* in social enterprise through program-related investments, loan guarantees and other forms of financial leverage.

Employing these tools enables philanthropy to support organizations like many of yours that are working on the front lines of human need and social challenge. It also tries to influence the context within which that work is being done. You have to have both. At the end of the day, policy has little legitimacy if it is divorced from efforts to improve the bedrock conditions of people living day to day.

The third reason private philanthropy can play this more strategic role is its freedom to take risks.

Private philanthropy – free as we are from re-election cycles, quarterly profit reports and appropriations from others – has the independence to take reasoned chances. Again, the nature of the foundation dictates the relative appetite for risk.

I chair the Council on Foundation's Ylvisaker Award Committee, which annually recognizes one foundation for outstanding public policy efforts. Some of our most striking awards have been to very small foundations that took risks that might seem small to the Rockefeller Foundation, but were terrifying for their own boards and staff – risks that paid dividends of enormous importance to a province in Canada struggling with immigration reform, or a small town in rural Minnesota seeking to promote sustainable timber practices.

We need brave, bold philanthropic organizations of all sizes that are willing to canvass the risk spectrum. Large private foundations such as Kresge have an obligation to embrace not just the modest risk entailed in individual grants, but the larger, dicier bets that promise true innovation and transformation. Philanthropy acting as society's social venture capital.

The final reason philanthropy can exercise strategic influence is its historical commitment to investing in underrepresented people and causes.

Philanthropy is consummately democratic. There is not a nook or cranny of social activity it doesn't reach. Preparing young children for school and supporting the ability of people to die with dignity. Promoting wind farms in North Dakota and encouraging the cultivation of neglected crop varieties in South America.

Commissioning avant-garde musical works and supporting the preservation of medieval theological manuscripts.

That this list could go on virtually without end is the ultimate index of the vibrancy of the philanthropic ecosystem. Causes in every direction supported in ways large and small.

There is, however, a piece of that ecology that has had disproportionate import to society's view of philanthropy and to philanthropy's view of itself. That is philanthropy's commitment to helping those in need by supporting organizations that serve as our society's moral thermostats – organizations that flip into the on-position in the presence of suffering, injustice or callous behavior.[7]

This corner of the ecosystem is so terribly important because these organizations – and the people they serve – have so very few resources to help them. This has always been the case, of course, but it is getting worse. The symptoms are all too familiar: a widening economic divide, a deteriorating urban public education system, a flight of capital from poor cities and rural areas and many more. And, if we are honest, we also know some of the causes: the subordination of an ethic of investing in the common good to an obsession with minimizing tax payments, the dismantling of structures of mutual assistance built up over generations in pursuit of a grandiose faith in the free market to work where it simply doesn't, the adherence to policies and practices that perpetuate from generation to generation the economic marginalization of large groups of people.

The effects are not just felt in the here and now. They instead become long-term, intractable impediments to a full-opportunity society, corroding our broader civic culture.

Foundations like mine have to be the maintenance crew for those of you whose missions and daily operations serve as ballast against these trends. We need to give you direct support in all the forms you need it – operating support, program support, working capital. But we also need to do what is so often impossible for you as you try to meet payroll and keep your doors open – that is, to promote broader social change, to seek reform in those systems that give rise to economic disadvantage and social need in the first place.
When we aggregate these four qualities – viewing things whole, using multiple tools, taking risk and investing in heightened opportunity – it becomes clear not only that strategic philanthropy is possible, but that it exists in a mutually reinforcing dynamic with responsive philanthropy. Corporate foundations seeking the convergence between market positioning and very useful grants. Individuals and small family foundations searching out areas of passion on which to focus their generosity. Community foundations

chipping away at issues central to local identity and quality of life. Venture philanthropists adding their business acumen to select nonprofits.

Let me turn in the second section of my remarks to a discussion of how these dynamics have created a crossroads for The Kresge Foundation.

II. The Second Crossroads: The Kresge Foundation

As most of you know, Kresge has long adhered to a single tool: the capital challenge grant. We have assumed that providing a challenge grant to increase individual giving to a nonprofit organization's capital campaign is the best way to promote an organization's capacity and contribute to a community's health. In the process, we have made thousands of grants that are undeniably beneficial, helping worthwhile projects get to the finish line with a more robust group of donors and a more committed staff and board of directors.

But we have increasingly come to understand that using this single tool is a bit like using a screwdriver to build a house – it's a pretty limiting exercise. You can accomplish a whole lot more if you pick up a hammer, some nails and maybe even a saw as well.

We also prided ourselves on being "neutral," not making judgments about an organization's mission, strategies or resilience, but instead focusing solely on its fundraising rigor. We entrusted the value judgments to the community of donors – if that community backed a project with its discretionary dollars, that was reason enough for us to support it.

The world of fundraising and advancement has, however, changed dramatically in the last 20 years, to say nothing of the last 10. The Kresge capital-challenge model is now routinely taught at advancement seminars. Individual donors have turned fundraising practices inside out. Development departments are huge, sophisticated and clever.

Kresge's assumptions and practices accordingly have the feel of an eight-track cassette player in an iPod era. If Kresge is interested in community impact, therefore, we'll have to look more deeply at what an organization seeks to accomplish and how. Seen in this light, ignoring the values on which an organization is based or the context in which it operates no longer qualifies as a neutral act, but instead, truth be told, as an act of irresponsibility.

Hence our organization's crossroads. We find ourselves asking how we can elevate the importance of an organization's mission, strategies and resilience in our grantmaking decisions and what it will take for us to contribute more meaningfully to an organization's long-term sustainability.

It seems absurdly simple, but our first step has been to apply a set of values to the requests we receive and the ideas we search out.

Asking whether an organization's work expands opportunities for low-income people to improve their quality of life and to participate more fully in the economic mainstream. Looking for community impact beyond a discrete project. Expecting a project to redirect the trajectory of the organization. Rewarding organizations that utilize new and innovative approaches to address stubbornly resistant problems. Emphasizing the adoption of sustainable building practices, environmental stewardship, historic preservation and sound land-use planning. And others.

The results have expanded profoundly upon our traditional grantmaking. We are still making capital challenge grants. But the organizations to which we are making them possess a very different profile – sometimes smaller, sometimes less far along in their campaign, sometimes not as secure in their financial sophistication. And the values have underscored, moreover, that a capital challenge grant is not always the form of capital an organization needs most.

The second step we've taken is to identify fields of work in which we believe we can make a difference.

We risk becoming a mile wide and an inch deep if all we do is apply a new set of values to the proposals that come over our transom. It again seems so simple, but we have decided that we need to focus, preferably on issues that will reverberate through the lives of our children and grandchildren. Improving health outcomes for low-income people. Reigniting investment in Detroit. Mitigating and adapting to the effects of climate change.

Some of this focus will follow from more deliberately applying our facilities-capital program, but much of it will not. We'll instead have to resort to the broader array of tools I described earlier – pursuing public communications strategies, supporting advocacy, convening parties in pursuit of shared interest, underwriting research to create a solid base for policy change. Taking the kinds of risks that promise a return commensurate with the magnitude of the challenge.

The third step we have taken is to embrace a broader spectrum of responses to nonprofit capital needs.

The search for ways to promote the long-term sustainability of nonprofit work is driving organized philanthropy to explore new forms of giving and investing. It has become a topic of intense discussion at Kresge and across the country between funders and the nonprofit organizations they support.[8] A number of examples suggest the breadth of this conversation.

The Edna McConnell Clark Foundation is testing an early "capital aggregation" initiative in which it provides very large pools of working capital to three nationally recognized, multistate youth-serving nonprofits before those organizations set out on their growth strategy. Clark has worked with each of these organizations over several years to craft business development plans that can take programs to scale and be sustained.

Google recently announced that it would launch a new form of social investing by reserving 1 percent of its profit and equity to "make the world a better place," translating into $175 million in grants and investments over the next three years.[9]

The Case Foundation, established by the founder of AOL, has joined with Facebook and Parade Magazine to blend internet communications savvy, corporate-cause marketing and social objectives to create simultaneous, yearlong challenges to promote nonprofit causes, foster new networks of supporters and raise funds for thousands of organizations.

The Heron Foundation has creatively utilized program-related investments – loans that are paid back at below-market rates – to encourage a greater discipline among its grantees about generating the kind of revenues that will enable the loans to be repaid.

Each of these approaches shares a commitment to contributing in innovative ways to an organization's capacity for growth and long-term stability. At Kresge, we're focusing on five broad strategies:

- Recalibrating our facilities-capital grantmaking by applying our values more strategically, as I've just noted,
- Providing support for early-stage business planning,
- Evaluating the need for working or growth capital,
- Developing program-related investments and
- Assessing the benefits of operating support.

This approach draws Kresge into a different kind of conversation with, and relationship to, nonprofits. It involves a heightened recognition that our funding needs to support programmatic innovation, leadership development, operational resilience and financial sustainability. It acknowledges that an organization's business plan, not the Kresge gift chart, should shape the nature and magnitude of our support. It gives rise to a longer-term view, a realization that nonprofits can thrive if provided with the kind of patient capital that permits an organization to blossom over time.

Let me use our evolving relationship with Preble Street in Portland to illustrate.

A number of years ago, Kresge made a capital-challenge grant that helped Preble establish and cultivate a donor base, something that was essential to establishing community credibility and completing their building campaign.

In the intervening years, Preble's programs evolved, giving rise to a reputation for evidence-based, sustainable solutions to homelessness that now serve as a model for others. But while its programs expanded exponentially, its staffing structure remained stagnant, with funding for management and support systems actually declining over time. We accordingly just a few months ago gave them a five-year growth-capital grant that will help them jump-start a new business model based on improved management practices, clear financial and programmatic benchmarks and expanded staff support.

The kind of analysis we undertook with Preble Street draws Kresge more closely into what our program-related investment consultant, Lisa Richter, calls a "credit mentality." A gentler term might be an "investment mentality." But whatever the term, it presupposes a more rigorous assessment of how an organization is positioned to use capital infusions.

It would be understandable if nonprofit organizations bristled at this attitude as intrusive and presumptuous. One could certainly argue that this kind of philanthropic attitude asks far too much of nonprofits – an unrealistic, unnecessary and even mean-spirited impulse in this time of recessionary economic stress.
I have a great deal of sympathy for that perspective. Foundations aren't banks and shouldn't pretend they need to be. But at Kresge, we have come to understand that there are advantages to foundations thinking more like investors.

For example, program-related investments – whether loan guarantees, repayable below-market loans, deposits in credit intermediaries nor any number of other devices – expand the types of financing available to nonprofits.

In the best of times, nonprofits' access to traditional sources of financing is limited – even with CRA requirements, banks' underwriting standards and expectations of return make nonprofit activity a tough sell. And in the current environment, forget about it.

A foundation's assessment of risk and return is a completely different proposition. We don't need to realize "market" returns of 8, 10 or 12 percent – in fact, the IRS doesn't permit us to lend with that expectation in mind. We can structure terms to match the realities of the transaction – so, for example, if an organization such as a startup community health clinic won't realize revenues for the first couple of years, we don't need to see repayments start until year three. And if it is helpful for a foundation to provide the credit enhancements or guarantees that enable others to make a loan, that is just fine – we have deep pockets that make those kinds of gestures a relatively safe bet for all concerned.

Another advantage to this investment mentality is that devices such as program-related investments can expand the giving potential of foundations.

Most foundations insist on a clear separation between the program and investment functions – with the investment committee arguing it should be unfettered by such messy and distracting concepts like social investing so it can have the freedom to generate the highest possible returns for the program side to work with. Fair enough.

But there are a handful of foundations that have broken down that wall by asking how the entire body of a foundation's assets can advance the issues the foundation cares about. Termed "mission-related investing," this might include placing social screens on investments, engaging in shareholder advocacy and investing directly in market-rate projects that are consistent with mission.

For the foundations that have moved into this territory, the question of impact is no longer limited to the 5 percent of assets that are paid out each year in grants, but instead expands to the other 95 percent of a foundation's corpus – a powerful idea that is picking up adherents.

And yet another advantage of the investment mentality is the opportunity to help position a nonprofit more firmly for long-term growth and sustainability.

If we take a lesson from the subprime mortgage crisis, the lender should not be separated from the home-loan risk. So, too, in our line of work. For a foundation to invest in a nonprofit's capital structure – whether business planning, working capital or a PRI – a depth of fiscal and organizational analysis is required that draws the two parties more closely together. It is less drive-by grantmaking than it is mutually reinforcing commitment around aligned purpose.[10]

This is particularly true when different forms of investment are coupled. For example, at our board meeting two weeks ago, the Kresge trustees not only approved our first program-related investments, but also joined them with operating grants, program grants and growth-capital grants. The trustees recognized that a program grant to expand services – or a working-capital grant to augment staffing – may be necessary to generate the kind of revenues that will enable an organization to pay back a program-related investment.

III. The Third Crossroads: Reinvesting in Emblematic American Places

So we've established that philanthropy can aspire to be strategic, and that Kresge seeks to pivot around that aspiration. It still remains to be seen what that means in practice. I'll turn to that question in this third and final section of my remarks.

I'll use as my point of departure one of those consummately "wicked problems"[11] with which philanthropy has wrestled for quite some time and in which it has enjoyed decidedly mixed results – the renewal of America's cities and rural areas.

Our staff at Kresge recently spent a day discussing why philanthropy has seemed to have made so little progress in the rebuilding of New Orleans despite rushing in with the highest of intentions to assemble a $70 million investment pool. There were lots of plausible answers. The public sector's utter failure to structure timely, appropriate and effective relief in the storm's immediate aftermath, preventing real progress from getting a footing. The failure of vision and courage among political leaders. The overwhelming complexity of creating community-support systems in the absence of a robust pre-existing nonprofit infrastructure. The paucity of political and moral will to face down issues of race and poverty. And many more.

Yogi Berra once observed, "Even Napoleon had his Watergate." Now I'm not exactly sure what that means, but I think it has some bearing on this issue.

That is because the question nobody seems inclined to ask is whether this is a task philanthropy is up to. Not just in New Orleans, but in Detroit, in rural America and in other struggling communities. The answer to this question could not be more important. And, it returns us to the aspirations and efficacy of strategic philanthropy.

Every day, in communities around the nation, philanthropy helps nonprofits improve the daily lives of millions of individuals. But are we changing the underlying forces that push and tug and drag on those individuals? Unless we can identify and influence the long-term leverage points for enormously complex and intricately interrelated public, private and civic systems, we are kidding ourselves that we are being strategic.

Philanthropy has certainly enjoyed success in countless individual projects – the long and impressive track record of LISC, Enterprise and other community development institutions is testimony to that. We've enjoyed success in individual neighborhoods – I think, for example, of the extraordinary work the Casey Foundation has undertaken to link residents of East Baltimore to the job growth and economic dividends that have attended the expansion of Johns Hopkins University. We've made progress in cohorts of neighborhoods – the work of the MacArthur Foundation and LISC in 13 inner-ring Chicago neighborhoods comes to mind. And we have a handful of good models of rural economic development – the six Initiative Foundations in outstate Minnesota are particularly notable.

But taking on entire cities? Another matter altogether. At that scale, we begin to implicate a very different kind of politics, a very different interplay of sectors, a very different set of market dynamics.

Here, then, is the crossroads in practice. How can philanthropy expand on its deep and admirable focus on particular strands of the urban and rural fabric to create a more whole-cloth approach to the future health, growth and stability of cities? I want to return to the qualities of strategic philanthropy I described earlier to suggest four key mile-markers to meaningful progress.

The first way we can make progress is by working comprehensively.

Philanthropy's tendency to approach challenges atomistically works at cross-purposes with the necessity of understanding the interrelationship among the building blocks of community well-being. A national funder's programs to expand low-income residents' access to affordable, high-quality community health care has to be connected to LISC's programs to ensure the availability of affordable housing, which has to be linked to the city's job-training programs, which has to be tied into school-reform efforts, which has to be integrated with a community foundation's work to build meaningful citizen engagement.

Somebody has to stack up all these elements, reinforce the points of alignment and marshal resources in support of it – a good job description for the public sector. The problem is that in too many cities and towns in America, the public sector no longer has the capacity to do it. Too few resources, too little vision, too limited a skill set.

Let me be clear that we simply cannot do without an able, committed public sector, no matter its shortcomings. In even the worst of cases, we cannot relinquish our expectation that public priorities will be set through informed public spending, reasoned public policy and respectful, responsive public institutions.

The problem is that when these functions are significantly compromised, the basic calculus falls apart and people start believing that government really doesn't have a role to play. It doesn't help matters that in the eyes of many citizens, budgets are being balanced through short-term gimmickry, thoughtful discourse is being strangled by partisan bickering and substantive action is being dwarfed by opportunistic gesture politics.

Foundations have no choice but to step forward. We cannot substitute for the public sector. But we can, by deeply committing to a place over a long period of time, help identify an aspirational horizon line and invest selectively in those activities that keep a community's collective vision and voice focused on it. We can provide the glue that helps people orient their activities to that horizon line. We can provide catalytic investments to move the municipal enterprise forward.

Let me cite a single example.

Responding to the business community's concerns that the Twin Cities region in Minnesota was becoming complacent about its ability to compete with other metropolitan regions, the McKnight Foundation brought together the CEOs of the region's three dozen largest employers to create the "Itasca Project," an effort to identify how business could remove impediments to regional economic progress. Itasca immediately formed six working groups staffed by outside consultants and key personnel from the nonprofit and philanthropic community.

The impact has been dramatic. Itasca quickly ironed out a new working relationship between the University of Minnesota and the private sector to share research. Its members built a private-public-nonprofit transportation coalition that helped convince the Minnesota Legislature of the value of a multiyear, multimillion-dollar commitment to improve the state's transportation system. It launched a campaign to call public and business attention to the growing economic disparities between the region's majority white population and its communities of color. And it threw its weight behind an early childhood development agenda.

A second way we can make progress is by deploying our arsenal of tools more creatively.

I haven't been in a conversation about community development in five years that doesn't ultimately talk about what a poor job community workers and philanthropy do in communicating progress. This should be dead-center within philanthropy's sweet spot. We ought to be able to convey success stories and build broader public awareness about the efficacy of certain strategies. We can take our cues from the Knight Foundation, which is experimenting with truly radical ideas about how new technologies can be drawn into the service of community change and revitalization.

Philanthropy can also create intermediaries. That is what the Rockefeller Foundation, together with many others, has done in New Orleans. These organizations can connect closely to community activities while bridging to national networks that can contribute expertise, dollars and boots on the ground.

Philanthropy can convene. Not just call a meeting, but develop working hypotheses about what needs to be done and broker honest conversations that use those hypotheses to build a critical path of action. This is what we are doing in Detroit with something called the Detroit Neighborhood Forum, which gathers all the local banks, foundations, LISC and key city departments to determine how, for example, we can create a coordinated, well-managed and accountable approach to improving the life circumstances of neighborhood residents.

And philanthropy can build networks. The term synergy may be overused, but its magic is still potent. When organizations working toward a common purpose join forces in networks, their impact isn't just increased, it's exponentially increased – far surpassing what all of them could have achieved separately. The

Kellogg Foundation's Rural People, Rural Policy Initiative is a good example – a multiyear effort to create and nurture a half-dozen rural networks to advocate for policies that improve the lives of rural people and the vitality of rural life.

The third way in which we can make progress is by aggressively taking risks.

The places we're talking about are not high on the list of investible priorities for the private sector. And it is that withdrawal of private capital from cities and rural communities that contributes to the void philanthropy seeks to fill.

But markets are, at the end of the day, too powerful to work around, and foundations can be countercyclical only so long. We need to get smarter about how to bring the markets back to the places we care about.

One way is by helping change the empirical basis for private-sector decision-making. For example, underwriting efforts such as Social Compact, which compiles consumer data demonstrating that robust spending and viable markets exist in those very places national commercial chains have relegated to convenience-store economies.

Another way of enticing markets is to contribute to the creation and maintenance of the public spaces that are increasingly sliding off the public sector's budget plate and that set the stage for, and enhance, private investment. Project for Public Spaces in New York has written:

> "It is the public spaces – squares, parks, streets, markets and public buildings – that define people's experience in any city. It is in these destinations where we most authentically experience a city, where we feel most connected to something larger and where we participate most directly in the creation and preservation of culture. Inevitably, these public spaces shape the stories we tell about cities; they reflect the character and personality of a city's people; and they determine a city's ultimate creativity and resilience."[12]

Kresge recognized this when it took a big risk and put the first $50 million on the table for the creation of a new downtown RiverWalk along the Detroit River. It has proven to be a sound and catalytic bet.

And a further way of enticing markets is by priming the pump of development projects through direct investments. I spoke earlier about the growing philanthropic interest in program-related investments. We have only begun to explore how those gestures can contribute to a broader economic development agenda. One such example is the Kalamazoo (Mich.) Community Foundation, which recently provided a $2 million program-related investment to the local economic development entity to complete the financing of a technology research park. This new park will support scientists laid off by Pfizer pharmaceutical company who are seeking to start their own businesses in biotech and the life sciences.[13]

And, finally, we can make progress in these tough geographies by keeping the equity agenda front and center.

The discussion about investments is a useful reminder of the temptation for philanthropy to think of itself as a nonprofit bank – focusing on markets, spurring new economic relationships, immersing itself in the "deal." That's fine and good, provided that philanthropy doesn't lose its moral moorings. Indeed, the touchstone of everything philanthropy aspires to do in disinvested areas is the expansion of opportunity for low-income people.

If philanthropy is doing anything right in New Orleans – and I believe, despite the question I opened this section with, it is doing a great deal right – it is just that. The Rockefeller Foundation, in concert with Ed Blakely at the Office of Recovery and Angela Blackwell at PolicyLink, has invested heavily in efforts to give citizens voice in the decisions that will shape their future. Multiple foundations have contributed to a housing fund within the Greater New Orleans Foundation to accelerate efforts to get residents back into affordable, safe shelter. The Casey Foundation is creating a philanthropic pool of grant and PRI dollars to support a project by Richard Barron of McCormick Barron to replace decrepit public housing with a high-quality mixed-income, mixed-use development.

We have a similar situation in Detroit. About six months ago, Ford, Kellogg, Knight, Mott, Kresge and five local foundations created a $100 million fund to invest in the economic reinvention of Detroit. It is not at all clear how we will balance the impulse to attract high-wage, high-technology businesses to the greater Detroit region with the need to create clearer pathways for low-income people to enter the region's economic mainstream. We are, however, using the consortium to stretch the thinking of each of the members, hoping that our collective intelligence, experiences and networks will help us crack this code.

These questions bear on your circumstance in Maine as well. Between the years 2000 and 2005, your state saw the largest percentage increase in rural child poverty of any state in the nation, with 22 percent of rural Maine children under 18 living in poverty. Building out a two-tier economy is a real possibility. But that would be the wrong choice. Philanthropy needs to help this state to choose a very different set of options.

Conclusion

Let me close by drawing the attention back to you in this audience. I believe we are on the frontiers of a new era – politically, economically and socially. There is no question in my mind that the nonprofit sector is powerfully shaping what that new era will look like.

Whether it will be based on impulses of compassion and service or constructs of narrow self-interest. Whether it will usher rhythms of equity, fair play and opportunity or fall back on the halting steps of differential treatment and privilege for the few. Whether it will look toward enlightened stewardship of the public commons or fuel a feverish rush to commercialize our shared heritage.

How you would answer each of these questions could not be clearer from your work. Yours is the work that gives people the tools they need to cultivate hope and to preserve and attain their dreams.

In remarks as applicable to your work today as they were to Britain almost a century ago, Winston Churchill observed: "Every day you may make progress. Every step may be fruitful. Yet there will stretch out before you an ever-lengthening, ever-ascending, ever-improving path. You know you will never get to the end of the journey. But this, so far from discouraging, only adds to the joy and glory of the climb."[14]

You are the drivers of this community's future. My interest lies in making sure you have far-sighted, flexible and effective partners in the world of philanthropy to help you on this journey. I believe our path is clear: look at things whole, creatively employ a spectrum of tools, embrace risk and advance low-income opportunity. Whether we summon the political will and exercise the strategic skill set it will take to be successful remains to be seen. But to be anything other than an optimist under the circumstances strikes me as a remarkably unproductive use of time.

Thank you and best wishes for a productive conference.

[1] Woody Allen, *Side Effects* (1986).
[2] *See* Paul Ylvisaker, "The Spirit of Philanthropy," Address to the 38th Annual Conference of the Council on Foundations," Atlanta, March 1987, reprinted in Virginia M. Esposito, ed., *Conscience & Community: The Legacy of Paul Ylvisaker* 346 (Peter Lang: 1999).
[3] *See* Edward Skloot, "Is Distinguished Philanthropy Still Possible?" in *Beyond the Money: Reflections on Philanthropy, the Nonprofit Sector, and Civic Life*, pp. 36-37 (Surdna Foundation: 2007).
[4] In selecting these four qualities, I've relied heavily on the brilliant thinking of Paul Ylvisaker. *See* Paul Ylvisaker, "The Spirit of Philanthropy," Address to the 38th Annual Conference of the Council on Foundations," Atlanta, March 1987, reprinted in Virginia M. Esposito, ed., *Conscience & Community: The Legacy of Paul Ylvisaker* 346 (Peter Lang: 1999).
[5] See Barry Karl and Alice Karl, "Foundations and the Government," in Clotfelter and Ehrlich, *op cit*., p. 58; Ed Skloot, "Moving from Satisfaction to Significance," *op cit*., pp. 6-9.
[6] Foundation funding can, moreover, serve as a counterweight to the leveling influences of political and commercial markets that seek the quick turnaround, tangible payoffs and formulaic outcomes of self-interested research. See Gerald Edelman, "Profits and Prophecy: Partial View of American Science Near the Millennium," in Knowlton and Zeckhauser, *op cit*., pp. 223-48 (Cambridge, MA: Ballinger Publishing, 1986). Foundations can also create knowledge repositories and dissemination channels that are extraordinary in their reach and depth. And yet, we have to do a far better job. Ed Skloot writes, for example: "[Most] philanthropy operates in isolation. Knowledge and information are compiled and tucked away. ... We must build hubs of an open network that constantly grows and nurtures its members." Edward Skloot, "Is Distinguished Philanthropy Possible?" in Edward Skloot, *op. cit*., p. 40.
[7] The metaphor is that of Paul Ylvisaker. Paul Ylvisaker, *op. cit.*
[8] A decade ago, three authors of an article in the Harvard Business Review stated: "In the process of making a grant, foundations often overlook the organizational issues that could make or break the nonprofit. ... [N]o one is investing in nonprofit capacity." Christine W. Letts, William Ryan, and Allen Grossman, "Virtuous Capital: What Foundations Can Learn From Venture Capitalists," Harvard Business Review, March-April 1997). That scenario has changed dramatically.
[9] "Google's Searches Now Include Ways to Make a Better World," Harriet Rubin, The New York Times, Jan. 18, 2008. Google has sought out opportunities in which the power of a global information technology empire can most add value. It has put in place five initiatives: development of renewable energy that is cheaper than coal, acceleration of the commercialization of plug-in vehicles, detection and prevention of new communicable diseases as well as development of early warning systems, improvement of public services by empowering citizens, policymakers and communities through increased access to information and the increase of availability of risk capital to small and midsize businesses in the developing world.
[10] Ed Skloot, the former president of the Surdna Foundation and one of the earliest proponents of the need for foundations to support the capitalization of nonprofits, recently observed: "Big payoffs are more likely to come when deep collaboration occurs." This kind of investment ethic requires exactly that kind of deep collaboration and promises exactly that kind of big payoff. Ed Skloot, "Hindsight, Foresight and a Little Bit of Insight on the Smart Growth Road," opening keynote at the Funders' Network for Smart Growth and Livable Communities (Baltimore, March 19, 2007).
[11] The term of John Kao, *Innovation Nation* (New York: Free Press, 2007).
[12] "It Takes Great Places to Create Great Cities," Project for Public Spaces website, www.pps.org/infor/newsletter/march2008.
[13] Discussed in Steven Godeke, with Doug Bauer, *Philanthropy's New Passing Gear: Mission-Related Investing*, p. 67 (Rockefeller Philanthropy Advisors, 2008).
[14] Winston Churchill, unsourced, quoted in *Wikiquote.*