THE KRESGE FOUNDATION

Expanding opportunities in America's cities

Speech by Rip Rapson:

Recalibration in the Face of Uncertainty

December 13, 2017

Address for the opening plenary, "Pathways out of Poverty," at the NeighborWorks Training Institute Symposium held in Washington, D.C.

Thank you for such a gracious introduction Jeff (Bryson).

What a surreal, unsettling time to be gathered in this city. We sit just a mile from a conference committee that is, as we speak, stripping from our tax code tools that undergird the capital flows and deal structures on which virtually everyone in this room depends in seeking to address poverty and opportunity among low-income people.

Unlike past tax code revisions, this one doesn't contain incentives for the public or private sectors to get more creative about how to fill capital gaps, or for the exploration of capital innovation, or for the attraction of new partners into the mix of community development. Instead, it is slash and burn, pure and simple. A slash and burn, moreover, that is an unequivocal invitation to the decimation of federal discretionary programs that help build strong, vital local communities and that strengthen the ability of low-income people to climb the ladder of social and economic mobility.

It is a naked, highly focused, precisely engineered dismantling of the essential underpinnings of a civil society based in compassion, mutual caring and respect for the common good.

I'm not the best person to try to handicap just how difficult the landscape of community development finance will be in the next few years. And neither am I the best person to suggest how your organizations can most effectively cope and recalibrate in the face of such volatility, uncertainty, chaos and ambiguity. But I take comfort in knowing that the symposium's program is filled with people who are richly equipped to do both things.

That brings to mind a story about the late, great jazz drummer Art Blakey. It seems Blakey is driving the back roads of Louisiana to a performance, and he gets stuck behind a funeral procession. He can't get by until the service is over. So, he gets out of his car and saunters over. Eventually the preacher asks if anyone has anything to say about the deceased. Nothing, just awkward silence. So, Blakey jumps in and says, "Well, if no one wants to speak about the departed, I'd like to say a few words about jazz."

So, let me talk a bit about what I know, which is philanthropy. I'll divide my remarks into three parts:

1. A description of the evolution of Kresge's approach to social capital.
2. Three principles that have defined how we use that capital to create broader, more accessible pathways to

economic opportunity.
3. Some observations about the directions we might take in the years ahead.

I. The Evolution of Kresge's Approach to Social Capital

Let me start with some thoughts about the evolution of Kresge's use of capital in pursuit of low-income opportunity.

The Kresge Foundation I joined a decade ago was defined by one tool – the capital challenge grant, which helped nonprofits complete capital campaigns for building projects. We believed that the inflection point of a bricks-and-mortar campaign would serve as leverage to precipitate high levels of individual giving that would in turn enhance an institution's long-term stability and capacity.

It was a remarkable legacy, one we are proud of to this day. Not only did we assist thousands of compassionate and effective organizations in getting important building projects to the finish line, but we also acquired an admirable set of competencies in deploying capital for the public good.

It was clear to me, however – and to the Kresge board – that the ever-more challenging economic and social environment, coupled with an infusion of donors interested in seeing buildings with their names on them get built, crystalized the need to take a fresh look at the Kresge approach. We concluded that our future path should lie less with furnishing more capital to construct more buildings, and more with creating a broader spectrum of tools that could take aim at the most pressing issues of our time – whether income polarization, concentrated poverty, climate change or health disparities.

We accordingly began reconstructing the foundation topically, assessing field-by-field how we might expand opportunity structures in America's cities. We landed on six programs, which we believed collectively constituted bedrock conditions necessary to inclusive community growth and to family economic and social well-being:

1. Contributing to the renewal of Detroit, our hometown, and the nation's emblematic post-industrial city.
2. Seeking reduction in health disparities through attacking the social determinants of poor health outcomes.
3. Augmenting the capacity of communities of color to shape how cities mitigate and adapt to the effects of climate change that disproportionately fall on low-income people.
4. Fortifying community-based human service organizations that seek to help clients achieve economic and social mobility.
5. Improving rates of postsecondary access and success among low-income and nontraditional students.
6. Elevating the role that arts and culture play in community identity and revitalization.

That necessitated, in turn, retooling how we worked.

- We had to embrace a higher tolerance for risk.
- We needed to acknowledge the extent to which all these disciplines – economic development, public health, environmental stewardship, human services, education, arts and culture – are inextricably interwoven, with no clear articulation of where one ends and another begins.
- We needed to be open to cooperating more closely with public sector systems and private sector capital.
- And we recognized that we had to fill our toolbox with a far broader spectrum of tools. So, let me use the second portion of my remarks to zero in on that.

II. Three Principles Guiding Kresge's Social Investments

As Kresge has refined its use of social capital in promoting racial equity and urban opportunity, three overarching principles have defined our work.

1. Adopting a Problem-First Frame

The first principle is that the nature of the problem has to dictate the configuration of the response.

One of philanthropy's most unyielding institutional defaults is the assumption that a grant is always the right tool to address a challenge. Now, a grant may well be the correct answer in certain circumstances. But it may not be the entire answer, or even a very good answer. It may instead be the case that including a social investment in the mix – whether a loan, a guarantee, an equity investment, a deposit, or a pay-for-performance investment – can help penetrate a problem-set in ways that grants alone could not.

The members of this audience understand the reasons for that better than anyone:

- Social investments can make larger amounts of capital available and extend that capital out over a longer term.
- They can peel away the top layer of risk in a transaction, creating the on-ramp for market-rate capital to enter a deal.
- They can create closer adjacencies with investors beyond our conventional networks.
- They can signal to financial institutions, fellow philanthropists, the public sector and other nonprofits that a project is investment-worthy, carving out new grooves for conventional money to flow into under-invested places.
- They can encourage nonprofits to think more creatively and ambitiously about how capital can help them expand or transform.

Increasingly, therefore, we've come to the view that we should first identify the underlying drivers of a problem and then reverse-engineer a suite of strategies and tools to confront them – making the right form of capital available to organizations at the right time in the right doses with the right terms.

The financial crisis of 2008 gave us our first exposure to this kind of thinking.

Human services organizations providing food, shelter and other emergency services needed a bridge – to an improved climate for donations, to the receipt of government payables, to an easing of personal economic crisis among their clients. We made 14 zero-interest, three-year loans to those organizations. They were a stop-gap and they weren't innovative, but they were what the organizations needed. They worked. And they started us on a new way of doing business.

Kimberlee Cornett, our extraordinarily gifted director of (Kresge's) Social Investment Practice, has skillfully navigated us from that starting point to a sophisticated and complex portfolio that by the end of 2018 will have deployed some $350 million in loans, guarantees and other social investments against our programmatic priorities.

It strikes me that the universe of CDFI's and Development Finance Agencies becomes an ever-more essential partner as we move forward. Because the devilishly difficult and complex work that you undertake daily – whether jump-starting a business, expanding a charter school, financing a mixed-income housing project, underwriting a community clinic, or boosting college access – demands this kind of reverse engineering, demands that you adapt your knowledge, experience, creativity, skill, and tool set to problems that continually shape-shift.

In acknowledgement of this role, we've launched an initiative called Kresge Community Finance, which will make $30 million of standardized loan capital available to more than a dozen CDFIs and DFAs that lend to arts, environment, housing and small business activities.

2. Swimming Outside Your Lane

A second principle that has guided our investments is the need to swim outside traditional philanthropic lanes.

Philanthropic social investing doesn't seek to substitute for private markets over the long term. But it does seek to catalyze the markets – providing proof points for private and public investment and spurring financial systems to expand their aperture to take in new possibilities of social benefit.

Kresge's work in Detroit has cast this role in bright relief.

A decade ago, Detroit was drawn into the vortex of a storm of unimaginable proportions and severity. The Great Recession knocked an already fragile economy to its knees. The housing foreclosure crisis crushed the economic and emotional lives of countless families. The automobile industry stared into the abyss of corporate bankruptcies. An all-consuming corruption scandal landed a charismatic, popular mayor and scores of his co-conspirators in jail.

The collision of these near-death experiences exposed and widened the underlying fault lines that had already made Detroit synonymous with urban devastation, dysfunction and despair. The city narrative read like a municipal obituary.

Indeed, much of the nation appeared to embrace the insidious proposition that equity and justice simply were not possible in Detroit. The market had failed low-income people: starving neighborhoods of jobs that pay a living wage; creating food deserts; declining to provide the capital necessary for neighborhood businesses to survive and grow; and otherwise leaving individuals unattended at the economic margins.

Philanthropy could no longer sit at the margins, hoping that our good intentions and charitable impulses would help the community slide through tough times.

We at Kresge concluded that we had to wade into the pool and test leverage points that might draw markets back into the city – but in a way that advanced inclusive growth and equitable opportunity.

Yogi Berra once remarked, "Even Napoleon had his Watergate." Now I have no idea what that actually means, but we probably would have been wise to think about it before we plunged ahead.

But plunge ahead we did. We began by focusing on small-business development.

For the better part of a century, Detroit had been an economic monoculture – with a command-and-control automobile industry telegraphing precisely stipulated production requirements into every nook and cranny of its vast supply chain. Innovation and creativity were everywhere, but entrepreneurship was in scant supply.

In 2007, the Kresge, Ford, and Kellogg foundations made the lead $25 million gifts to create the New Economy Initiative, a $130 million fund to promote the emergence of an entrepreneurial ecology in Detroit. The fund would invest in the supports that small businesses need in order to get started and grow – technical assistance, mentoring and networking opportunities, early stage capital, affordable space and many others.

The effort started in motion a flywheel of small business growth that has radiated to all corners of the city: an arts, culture and restaurant corridor giving renewed life to Detroit's historic Avenue of Fashion; a proliferation of maker spaces providing residents of all ages and backgrounds with the tools, materials and spaces required to make stuff – out of metal, or wood, or three-dimensional printers; the animation of neighborhood life with quality-of-life businesses like barber shops, dress stores, bakeries, urban farms.

The explosion of small businesses in Detroit has not only dramatically diversified the city's economy, but has also enabled countless families to build assets, attracted thousands of new jobs into neighborhoods, and stabilized commercial corridors vital to neighborhood identity and safety.

The second way we took aim at markets in Detroit was to use social investment tools to reduce the risk in key redevelopment transactions.

Until just recently, the most elementary financial equation didn't pencil out in Detroit – returns for residential and commercial projects were insufficient to offset the costs.

We needed to use our social investment tools to peel away the top-layer of risk for market-rate lenders – to make it safe for them to invest in proof points. And we needed enough of those proof points to begin bending the financial viability curve.

It has worked. More and more mixed-use, mixed-income projects are coming on-line, demonstrating to investors that they can obtain a return on their investment independent of philanthropic capital.

The trick is, of course, how to ensure that this engagement with private markets – whether small businesses or mixed-use residential and commercial projects – inures to the benefit of Detroit residents. Trickle-down is not an equity strategy. We're working hard to put bumper rails in place to ensure that each of these moves is genuinely inclusive.

3. Creating Capital Platforms that Bridge Across Disciplines

A third principle that has shaped our social investments is the need to create, and scale-up, capital platforms and instruments capable of bridging across disciplines.

Philanthropy and the nonprofit sector have no choice but to work at the sharp edge of innovation if we're going to make the so-called impact investing space more than a cliché. A day doesn't go by without some news flash about a first-time, high-net-worth actor cloaking her investment in a new form of ESG. There's absolutely nothing wrong with that – indeed, the breathtakingly courageous and creative investment models emerging from Steve and Jean Case, Chan-Zuckerberg, the Ballmer Group, Omidyar, and countless others is genuine reason for optimism.

But for stodgy legacy foundations like Kresge and for donor-advised funds – for less risk-embracing individual donors and for our partners in the realm of public sector finance – it is imperative that we create vehicles that enable us to deploy new capital in more forms and in larger does against community challenges that are multi-dimensional and interbraided.

None of the problems we confront is neatly rooted in a singular set of causes or confined to neat and tidy dedicated funding streams. A low-income mom's ability to hold a job may depend on whether she is at risk of eviction, whether she can make public transit connections to and from work, whether her neighborhood offers affordable childcare and community-based healthcare, whether her children incur a higher risk of asthma because of the neighborhood's proximity to truck routes servicing a rail-yard, and on and on.

And yet, even as the reality of interlocking systems propels people to live their lives horizontally, our public systems and channels of social finance insist on organizing themselves vertically. Our next-generation capital strategies simply have to correct for this mismatch.

Perhaps nowhere will this need be more critical than in housing.

The pending tax bill creates the ultimate nightmare for affordable housing: The reduction in the corporate tax rate diminishing the value of low-income housing tax credits; the curtailment or elimination of new markets tax credits; the decline in charitable deductions because of the hike in the standard deduction – and heaven knows what else. In the absence of some high-octane innovation in the housing space, we'll almost certainly witness many hundreds of thousands fewer affordable housing units being built over the next years.

- Some of that innovation may look like NeighborWorks Capital's Strategic Growth Fund, which provides unsecured enterprise-level loan capital to support community organizations' efforts to diversify their revenue sources, work outside customary rules, and ultimately shift their business model.

- Some of that innovation may look like the Strong, Prosperous and Resilient Communities Challenge – SPARCC – a coalition of five foundations and four nonprofit partners that will blend $90 million of grant, loan and guarantee capital in real estate developments that are accessible by public transit, offer community-based public health services, mitigate the effects of climate change and incorporate local arts and culture activities.

- Some of that innovation may look like the Strong Families Fund, a pay-for-success grant and loan fund launched by Kresge and Robert Wood Johnson that will make performance payments to real estate developers who provide wraparound health, education and social services in some 700 units of low-income housing.

- And some of the innovation may look like the Healthy Futures Fund, a $100 million fund created by LISC, Morgan Stanley and Kresge to provide loans to federally qualified health clinics that are co-located with affordable housing, human services, grocery stores, or other supports for low-income people.

III. A Path Forward: Reflections on the Primacy of Values

Those three principles – defining the problem first, swimming outside our lane and pursuing cross-disciplinary capital platforms – create a framework for how Kresge is approaching our social investments transactions. I want to close, however, by suggesting a larger frame of reference for our work.

In the immediate hours after last November's election, I wrote our staff about the hope felt by so many of us that the vulgarity, bombastic certitude and mean-spiritedness of the campaign season would yield to a rational consistency of governance norms across party lines, across systems of belief, across idiosyncratic temperaments.

Well, things didn't quite turn out that way.

We have instead been catapulted into an existential crisis that forces each of us to look inward, to excavate the unalterable bedrock of our values, of our faith, of what we stand for. And each one of you in this room does exactly that – every hour of every day. Valorizing an abiding belief that our every action must reflect what we believe to be good and true and just.

That is what it means to be a mission-driven organization. That is what it means to be dedicated to improving the life circumstances of those who stand outside the economic mainstream or who are otherwise disenfranchised or marginalized. That is why what all of you in this room do and represent is so terribly, terribly important.

A philanthropic organization like Kresge is no different. Indeed, our privileged position in society carries with it elevated responsibility to ensure that there is no confusion or equivocation about what we stand for. So, let me try to be as clear as I can about what Kresge does stand for:

> We stand *for* the animating energies of the pursuit of truth, *not for* fealty to the indefensible and depreciation of reasoned discourse.
>
> We stand *for* opportunity structures that dismantle and substitute for the persistent and pervasive racial, economic, and political barriers that so shamefully impede pathways to equality and justice, *not for* the enshrinement of those barriers in public policy in the perpetuation of racial and ethnic division, and in the corrosion of compassion for the least fortunate among us.
>
> We stand *for* the principled stewardship of our shared destiny and the promotion of structures of mutual support, *not for* the legitimization of a malevolent machinery of feigned and non-stop outrage and vilification that undermines confidence in our most fundamental democratic institutions.
>
> We stand *for* the power of a creative problem-solving that calls on community wisdom, intergenerational exchange, and respect for difference, *not for* the false comfort of facile judgments and rhetorical hyperbole about complex, interbraided problems.
>
> We stand *for* the embrace and ennoblement of every individual's inherent dignity, worth, and decency, *not for* a denigration, objectification and demonization of those whose gender, skin pigment, physical conditions, sexual orientation or faith differs from our own.
>
> And we stand *for* an abiding optimism about the perfectibility of the human spirit and the power of faith and grace, *not for* the dismal brew of a calculating and cruel cynicism placed in service of an unyielding pursuit of self-advancement.

Those are our values. They don't need to be everyone's. But for all of us in one degree or another, the question is what do we do when what we stand for comes under assault.

This country is so rich in aspiration, yet so big and sloppy and diverse in every other possible way, that there is room in the interstices of even the most deleterious policies, dehumanizing rhetoric, decimated regulations and dismantled programs for Americans of every walk of life to build in the unappreciated silhouettes of marginalized communities the spark that makes light.

So, above and beyond our daily job descriptions, what else can we, should we, do? Let me suggest three things.

First, we must bear witness.

It's understandable for community workers, nonprofit organizations and philanthropists to question whether their voices matter in an environment saturated with "information chaff" – insomnia-induced tweets, bot-distributed misinformation, and troll-generated diversionary feints intended to lock our attention onto bits of data, alternative facts, and other intellectual flotsam and jetsam that obscure the real issues of the day. But these voices do matter – enormously.

They are needed to cast our values in bright relief, providing unequivocal compass toward the North Star of a just and humane society. They are needed to tell the stories of ordinary people working in dignity to improve the economic, social and political conditions of community life. They are needed to jolt people out of a sense of defeatism about the inevitability of power structures smothering authenticity and conviction. They are needed to give us the courage to persevere.

Second, we must create the space to surface our courage.

Those gathered here this morning also remind us of the importance of strengthening the broader civic membrane needed to hold acts of courage. These are the organizations like yours that have gotten proximate to those most affected by injustice. They are vehicles to amplify community voice, fortify informal networks of mutual assistance and build community agency. They are antidotes to the democratic degeneration precipitated by apathy and indifference.

Third, we need to forge alliances around the non-negotiable.

Foundations can't lobby or advocate for particular legislation. But that doesn't mean that we can't help build and strengthen the alliances necessary to speak and advance those truths of equity, fairness, and justice that we know to be inviolable:

- That climate change is a social justice issue.
- That unequal educational attainment is an injustice no civilized society can tolerate.
- That health disparities driven by social, economic and environmental deprivation undermine the best intentions of our public health system.
- That no neighborhood resident in any city in this nation should have to cope with entire blocks of blight, neglected and unusable public parks and community centers, corner convenience stores substituting soda and chips for fresh food.
- That an effective and affordable local and regional public transit system is prerequisite to getting and holding a job.

So, institutions like Kresge have to invest in what Dr. Martin Luther King called the "inescapable network of mutuality" – ensuring that individuals, organizations, and movements possess the tools they need to organize and mobilize, to educate and advocate, to rebuild the sinews of social capital and strengthen the musculature of citizen-based problem-solving.

Conclusion

As I think about what passes for our nation's public policy environment, I can't shake the image of anesthetic wearing off following a serious operation – that we're awakening to the realization that something is profoundly different, and risks being irretrievably lost.

Our conceptions of risk and safety are sliding like sand from out beneath us. Acts that were once risky, are now elementary and insufficient. Fundamental democratic norms that were once safe, are too often trivialized as transitory, relative, or out of touch.

I choose, however, to view this moment as an inflection point, not a new stasis. It is a call to reassessment, recalibration, recommitment. This room is a collective reminder that we have spent decades trying to create and assemble the building blocks of opportunity and justice. That architecture is woefully incomplete to be sure. But we have created a complex, dynamic and resilient nonprofit, civic and philanthropic infrastructure to fit together those building blocks in a coherent, impactful way.

This is no time to put down our trowels and mortar. We need to keep building and rebuilding, even when the building inspector tells us we don’t have a permit, even when the demolition crew drives onto the site.

Sorry to be trite, but my father was an architect and a planner. In this climate, we all need to be.

Thank you for listening. I hope the rest of the symposium is useful and productive.