THE KRESGE FOUNDATION

Expanding opportunities in America's cities

Speech by Rip Rapson:

The Fifth Sector: Philanthropy's Role in Community Change

Guest lecture to Mertie W. Buckman Fellowship for Leadership in Philanthropy, College of Design, University of Minnesota.

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Thank you for such a kind introduction, Tom.

I've said a number of times over the last week that my father considered his greatest accomplishment the stewardship of this institution and the attendant cultivation of almost two generations of architects that not only defined this state's design practice, but also influenced architectural schools and practices throughout the country. To be here a week after his passing is one of those remarkable twists of fate, but is for me a deep privilege and honor. Thank you for inviting me.

My ties to this college are longstanding and very personal. I attended my first School of Architecture lecture when I was 3. It was given by Frank Lloyd Wright at Northrop Auditorium shortly after my father had taken over the deanship from Roy Jones. Over the next 30 years of my father's tenure, I watched an extraordinary institution change with the times, grow in influence and produce the bedrock of this state's design community. For five years before going to the McKnight Foundation, I was proud to be a part of this college, working alongside with Bill Morrish at the Design Center for American Urban Landscape. And it was my pleasure to watch my father pass the deanship baton to Harrison Fraker and then to watch it pass again, to Tom Fisher.

Mertie W. Buckman, who endowed the Buckman Fellowship for Leadership in Philanthropy and who is the namesake of this lecture, loved the University of Minnesota as I do and as my father did. She met her husband here, Dr. Stanley J. Buckman, and together they founded Buckman Laboratories, an industrial specialty-chemical company based in Memphis. She was a wife, businesswoman, mother, grandmother, great-grandmother and philanthropist of the highest order. And although she didn't have a background in architecture or landscape design, she shared with architects and landscape architects a deep commitment to the welfare of people.

Mrs. Buckman's philanthropic gestures were directed toward education. So it is fitting that she would establish a fellowship program for faculty, staff, graduate students and alumni from several people-focused disciplines at the University of Minnesota, including social work and family social science. Candidates are chosen for the yearlong fellowship based on their commitment to a specific philanthropic project. Each fellow receives a financial stipend to develop his or her project during that 12-month period. It is wonderful to have the 10 current Buckman Fellows in attendance tonight, as well as many alumni of the program, including Marilyn De Long, who has been a gracious help to me.

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. This evening, I want 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 this nation's cities.

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. If one hopes to shatter calcified barriers to full opportunity, there is little choice but to step onto the larger stage of public policy, civic relationships and economic systems.[3]

But the flip side is true as well – systems-change work has little legitimacy if it is divorced from efforts to improve the bedrock conditions of people living day to day. So you have to have both. Philanthropy seeking not only to support organizations working on the front lines of human need and social challenge, but also to influence the context within which that work is being done.

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, incrementally making a difference.

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.

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.

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 minor to the Ford Foundation, but were terrifying for their own boards and staff. Two years ago, for example, we gave the award to the Blandin Foundation for its numbingly complex, but vitally important and effective, efforts to encourage timber companies in rural Minnesota to pursue sustainable forest harvesting practices. The year before that, the award went to the Maytree Foundation, a $20 million Canadian family foundation that bent its entire institutional purpose to a dramatically successful effort to improve Canada's legislative and regulatory environment for new immigrants.

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 as the Bush Foundation does and supporting the ability of people to pursue alternative medical solutions to end of life issues, as does the Bill and Penny George Foundation. Promoting wind farms in southwestern Minnesota, as the Southwest Initiative Foundation does, and encouraging the cultivation of neglected crop varieties in South America, as does McKnight. Commissioning avant-garde musical works as the Jerome Foundation does and supporting the preservation of medieval theological manuscripts, as does the Target Foundation.[7]

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 activate in the presence of suffering, injustice or callous behavior.[8]

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 organizations that serve as ballast against these trends.

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 some of you may know, Kresge has long adhered to a single tool: the capital challenge grant. We have assumed that providing a grant in the form of a challenge is the best way to promote an organization's fundraising 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 can be done, but 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.

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 unnervingly clever – and it's a complete coincidence that I'm looking right at Jerry Fisher as I speak these words.

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, in our grantmaking decisions, the importance of an organization's mission, strategies and resilience and what it will take for us to contribute more meaningfully to an organization's long-term sustainability.

It seems so self-evident, 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. 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 and will continue to. But the organizations to which we are making them possess a very different profile – sometimes smaller, sometimes not as far along in their campaign, sometimes less secure in their financial sophistication. The values lens has 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.

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.[9] Let me mention two examples that suggest the breadth of this conversation.[10]

The Edna McConnell Clark Foundation is testing an early "capital aggregation" initiative in which it, together with Gates, Kresge and a handful of other foundations, will provide very large pools of working capital – and by large, I mean in the $30 million to $40 million range – to three nationally recognized, multistate youth-serving nonprofits before those organizations set out on their growth strategy. It is a fascinating test of the idea that working capital provided early in an organization's trajectory can accomplish what is so often difficult for nonprofits to accomplish – dramatically scaling up their programs and sustaining them over time.

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.

At Kresge, we've thrown ourselves into the middle of these conversations. We're focusing on five broad strategies that seek to enhance an organization's capacity for growth and long-term stability:

- Recalibrating our facilities-capital grantmaking by applying our values more strategically, as I've just noted;
- Providing support for early-stage business planning, particularly through a close working relationship with the Nonprofit Finance Fund;
- Evaluating the appropriateness of working- or growth-capital grants;
- Assessing the benefits of program and operating support; and
- Developing an aggressive approach to program-related investments – repayable, below-market-rate loans.

This approach draws Kresge into a different kind of conversation with, and relationship to, nonprofits. It acknowledges that an organization's business plan, not just its fundraising strategy, should shape the nature and magnitude of our support. It necessitates 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.

This kind of analysis draws Kresge more closely into what our program-related investment consultant, Lisa Richter, calls a "credit mentality." Not sure I'm crazy about that term – 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. Just give us a grant, for heaven's sake. 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 or 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 Community Reinvestment Act 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.

Another advantage to this investment mentality is that it can more fully leverage foundation assets.

Most foundations insist on a clear separation between the program and investment functions – with the investment committee arguing that annoying concepts like social investing constrain it from generating 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 – 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.

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 program-related investment – 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.[11]

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 issue in this third and final section of my remarks.

I want to use as my point of departure one of those consummately "wicked problems"[12] with which philanthropy has wrestled for quite some time and in which it has enjoyed decidedly mixed results – the renewal of America's cities.

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 overwhelming complexity of creating community-support systems in the absence of a robust pre-existing nonprofit infrastructure. The paucity of political courage 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, Cleveland 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 it is less clear that we are 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 countless community development institutions is testimony to that. We've enjoyed success in individual neighborhoods – I think, for example, of the extraordinary work the St. Paul Foundation has done in Frogtown, Dayton's Bluff and other communities. We've made progress in cohorts of neighborhoods – the work of Payne-Lake Partners along the Lake Street and Payne Avenue corridors 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 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, one would think. 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.

But 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. Although we cannot substitute for the public sector, 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.

The Itasca Project is a particularly striking illustration.

Responding to the business community's concerns that the Twin Cities was becoming complacent about its ability to compete with other metropolitan regions, McKnight brought together the CEOs of the region's three dozen largest employers, together with the president of the University of Minnesota, the governor's office and the mayors of Minneapolis and St. Paul, to create the Itasca Project, an effort to hammer out, in essence, a regional business plan.

It was compelling because the agenda that emerged was not simply a business agenda, but a civic agenda. It was innovative because it brought business leaders into close proximity with key staff from the nonprofit and philanthropic community through a series of task forces. And it was effective because McKnight was able to spend its political capital as a neutral party to keep the effort focused, well-staffed and empirically grounded.

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

The public sector is notoriously poor at figuring out how best to use the leverage of foundations, looking most often to enlist help for small-bore, in-the-moment crises. And foundations aren't so hot at figuring out how to tango with them either, tending to view the municipal political arena as some elaborately disguised version of the World Wrestling Federation's Smackdown. And coming from the state that produced Gov. Jessie Ventura, we probably have to admit they may have a point.

But our tools can be a huge benefit for the public sector. Two examples.

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 bases in Miami, which is experimenting with truly radical ideas about how new technologies can be drawn into the service of community change and revitalization.

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, in which Kresge each month gathers all the local banks, foundations, LISC and key city departments to stack and align our individual efforts to improve the life circumstances of residents in six targeted neighborhoods.

The third way in which we can make progress on a comprehensive urban agenda is by aggressively taking risks.

The places we're talking about are not high on the list of investible priorities for the private sector. We accordingly find ourselves investing where the market is lethargic, uninterested or hostile – poor neighborhoods with depreciating home values, struggling economic nodes with little curb appeal to national retailers and the like.

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.

Foundations can contribute to changing 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 that national commercial chains have relegated to convenience-store economies.

Foundations can also 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.[13] 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 foundations can entice markets 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.[14]

Returning to the fourth element of strategic philanthropy, foundations can make progress in urban areas by keeping the equity agenda front and center.

A regional growth agenda can all too easily focus exclusively on some variation of a high-road economy based on nano technology, biomedical devices or photovoltaics. That knowledge-driven economy is, without question, a crucial gateway to 21st-century competitiveness. But, when all is said and done, more than 37 million Americans are living below the official poverty threshold of $20,000 a year for a family of four. That's about 12 percent of this country's population. And there are some 90 million working poor – those making less than $40,000 a year. That's one-third of all Americans.

As I noted earlier, foundation support for nonprofits is an important moral circuit breaker in exactly these circumstances.

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 and Surdna foundations have 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. Kresge just approved a program-related investment to help build a half-dozen federally insured community health clinics. The Casey Foundation is creating a philanthropic pool of grant and program-related investment dollars to support a project by 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.

Conclusion

Let me conclude with just a thought about what all this might mean for those of us in this room.

There's an old Asian saying, "Everything rests on the tip of intention." It implies a very close relationship between outcome and motivation. I've always thought that this applies not only to individuals, but to institutions as well.

In the world of public service, all of our institutional values and principles grow directly out of our fundamental intention to help others, especially those who are less fortunate. We shift and adjust, we expand and contract, we assess and respond – but we always keep our original intention in clear view, spurring our dreams of new and better ways to serve.

But intention alone is not enough. It must be accompanied by purposeful, strategic collective action. Our recent track record on that score is not so hot – either locally or nationally. That is no longer acceptable.
The key is, of course, leadership. At all levels, in all sizes, in all sectors, at any time, to be sure. But to be truly effective, it needs to be focused, interdisciplinary and timed to make a difference. And there's the rub.

The private sector is immobilized by bottom-line pressures. The public sector is paralyzed by ideological rigidity and a tentativeness borne of electoral cycles. The academic sector is not institutionally well-equipped to lead. The nonprofit sector can innovate and respond, but has its hands full just keeping the lights on.

So it falls, in my book, to philanthropy to step forward. Working closely with the other sectors, but standing apart from them. A sector whose qualities permit it alternatively to accelerate the pace of community change, provide the glue that holds disparate efforts together, fill gaps and catalyze new response.
The people in this audience will be instrumental in determining whether philanthropy can, indeed, beneficially help shape the dizzyingly fluid political, economic and social landscape we confront. Whether that landscape 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.

I believe that our path is clear. Whether we summon the political will and exercise the strategic skill 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 profoundly unproductive use of our time.

Thank you, and good luck.

[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*, at 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."

[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.*, pp. 40.

[7] The Target Foundation was the chief national sponsor of St. John's Abbey and University's remarkable St. John's Bible project. See also "Mellon Foundation Awards $1.4 Million to Digitally Archive Hundreds of Medieval Manuscripts," *Philanthropy News Digest* (Foundation Center, July 15, 2005).

[8] The metaphor is that of Paul Ylvisaker. Paul Ylvisaker, *op. cit.*

[9] 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 since changed dramatically.

[10] Another example is the F.B. Heron Foundation, which has creatively utilized a mission-related investment strategy. Its website states: “The foundation makes mission-related investments across a range of asset classes (deposits, fixed-income securities, senior and subordinated loans, preferred and common stock and private equity) and targeted rates of return (below market and market-rate). Approximately 73% of the foundation’s mission-related investments are market-rate.” F.B. Heron Foundation: www.fbheron.org.

[11] 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).

[12] The term of John Kao, *Innovation Nation* (New York: Free Press, 2007).

[13] 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." Reprinted from the “It Takes Great Places to Create Great Cities,” Project for Public Spaces website, www.pps.org/articles/ittakesgreatplacestocreategreatcities/

[14] Discussed in Steven Godeke, with Doug Bauer, *Philanthropy’s New Passing Gear: Mission-Related Investing*, pp. 67 (Rockefeller Philanthropy Advisors, 2008).