Thinking Outside the (Tool)box

By Rip Rapson, President & CEO

Private philanthropy has continually struggled to balance the impulse toward reflection with the realization that what’s happening on the ground requires bold action and direct engagement.

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hat balancing is necessary and appropriate. Without thinking long term, there is little integrative problem solving. But not heeding the drumbeat of today’s urgency brings overly tentative leadership and risk aversion.

Generalizations are dangerous, but it is safe to say that during the last decade, philanthropy has moved toward the less certain waters of direct engagement with the challenging problems that have come to define the 21st century: from the existential threats of climate change to the unforgivable immorality of gaping income disparities; from stagnant college access and completion rates to the collapse of robust civil discourse.

For The Kresge Foundation and many of our colleagues, a growing refusal to play it safe and small has fueled a new calibration toward taking risks equal to the magnitude of those challenges. Such a posture is possible only when we extract the full advantage of each and every tool in the philanthropic toolbox.

Broadening Our Perspective
The Kresge Foundation, I joined in 2006 was defined by one tool: the capital challenge grant, which helped nonprofits complete capital campaigns for building projects. We believed that the infusion point of a bricks and mortar campaign would not only contribute to getting a building project across the finish line, but a posture is possible only when we extract the higher levels of individual giving that would enhance an institution’s long-term stability and capacity. With our help, thousands of organizations did exactly that. It’s a legacy we remain proud of to this day.

Along the way, we honed our discernment of those who could absorb and deploy capital most effectively. We cast broadly across a wide spectrum of disciplines — health, education, the environment, arts and culture, human services, community development.

As it turns out, that was valuable intellectual muscle. Because in 2006, the Kresge Board of Trustees began a concerted journey beyond the fence line of its historic approaches. We couldn’t simply abandon precipitously what had served the nonprofit community so well; instead, we had to pace our change by shedding old beliefs and behaviors as more suitable ones emerged to take their place. That took a number of forms.

We moved away from a reliance on fundraising prowess, instead emphasizing projects that fit our new values. We increasingly shed our agnosticism about the mission of the institution seeking our support, and gravitated toward organizations wrestling with the most pressing, goryly issues of their field — improving postsecondary education access and success among low-income students, building greater resilience among multisection human service organizations, attacking health disparities, adapting to the disproportionate effects of climate change on vulnerable communities, integrating the role of arts more fully into community revitalization. We explored how we might braze all of our interest areas into a mutually reinforcing set of strategies to help bring Detroit back from the precipice of economic, social and political collapse.

Different forms of grantmaking offered a variety of entry points for attacking these challenges. Grants could buttress each organization’s particular efforts, to be sure. But they could also strengthen networks of these entities, aligned in common purpose. They could build a knowledge base of applied research. They could enable grantees to construct information-sharing platforms — through convenings, leadership exchanges or joint databases. They could support public policy advocacy, creating both membranes of cooperation with other sectors and mechanisms of constructive disruption where necessary.

One Size Does Not Fit All
The diversification of our grant portfolio led to the exploration of whether other forms of capital could further build our efficacy and that of our partners on the ground. During those years of strategic honing and staff growth, we began to stretch our capital support spectrum to explore the still-emerging field of “social investments,” which includes low-interest loans, guarantees, equity investments, pay-for-success instruments and market-rate investments.

Learning from experienced foundations already using these investment tools — MacArthur, Casey and Herron among them — we began modestly with a suite of 14 three-year, low-interest loans during the Great Recession to help nonprofits bridge to more stable economic times. It wasn’t long before we brought Kimberlee Barnett, a supremely gifted director, on to lead our Social Investment Practice. She immediately waded into more complex deals, drawing in different kinds of capital in concert with multiple partners. As our portfolio grew, it became apparent that social investments could penetrate a problem set in ways that grants alone could not.

Social investments could make larger amounts of capital available and extend that capital out over a longer term. They could peel away the top layer of risk in a transaction, creating a pathway for market-rate capital to enter a deal. They could create closer adjacencies among different forms of capital in concert with multiple partners. As with grants, our social investments took a variety of forms. And just as grants alone couldn’t always...
crack the code, neither could social investments. We quickly realized that we could mix and match our tools, asking first what aspect of a problem we sought to address, and then what forms and configurations of capital would be most effective in responding to it.

A grant might help an organization stabilize a part of its operations — essential to take on debt. A guarantee might be the one missing piece in another transaction. A loan paired with a grant might be the right fit for still another deal.

Building the Practice
The problem-first and tools-to-suit approach was the strategic dimension. How to make it operational within Kresge was another challenge. And so we built the Social Investment Practice on a cascading set of principles.

First, we agreed from the outset that our social investments must reinforce our program strategies; the practice couldn’t be about using next-generation tools without regard to programmatic alignment.

Second, and in a related vein, our program and Social Investment staff had to work hand in glove to identify and pursue investments that formed integrated portfolios for each of our six programs. That meant program staff had to become increasingly conversant in the language and needs of private and public finance systems. Kimberlee and her staff have cultivated that culture carefully over the past six years through team trainings, one-on-one coaching, advice on new hires and the experiences of collaborative deal formation. It also meant that Kimberlee had to build out a Social Investment staff capable of developing sufficient topical expertise to be willing and competent partners with our program teams.

Third, we needed to prevent the possibility that our programs would fall into a default position of relying exclusively on grants. We initially placed our Social Investment budget — 10 percent of our grant budget for cash investments and 10 percent for guarantees — on top of the grant budget, effectively creating the possibility that a program team could simply fill its portfolio with grant investments and ignore the Social Investment Practice. Fortunately, the teams didn’t take this posture. In fact, they rushed the door, working together to cement some 30 deals within a span of five years.

Fourth, we needed to forge back-office machinery that applied the expertise of our Finance and Investment staffs to track repayments and compliance with deal terms, develop due diligence and documentation practices to satisfy auditors and handle a host of other complexities. This process required a number of workarounds and rewiring of existing foundation procedures. The result? An increasingly seamless and integrated system that allows us to successfully make and manage investments.

A Bold Goal
In September 2015, Kresge’s Board of Trustees acknowledged the centrality of the Social Investment Practice to the foundation’s identity by committing a dedicated pool of $350 million for social investments. Some $100 million of those funds have already been committed, with the remainder to be invested by 2020. Tied to it is a goal to leverage at least $1 billion from other investors. Our entire staff is prepared for the challenge.

One Life at a Time
As you read this 2015 Annual Report, you’ll see story after story of neighborhoods revitalized, gaps filled, lives changed. Some initiatives are works in progress. Others are shining successes and demonstrate the good that can result from thinking outside the box and putting all of the tools at our disposal to work.