



Speech by Rip Rapson:

Philanthropy in Times of Economic Turmoil: One Foundation's Response

Address to gathering of YMCA officials in Dallas.

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Thank you for that kind introduction. It is a pleasure to be here. All of The Kresge Foundation – trustees, emeritus trustees and current and former staff – know of the YMCA network's tremendous reach and positive influence on children and families. Since the very first year the foundation awarded grants – in 1926 – Kresge has been awarding them to YMCAs.

We've made 436 grants since then, with Detroit, Hartford, Seattle, St. Louis and Upland, Calif., all receiving grants from us last year. The sum total of these awards is just over \$79 million. Quite a relationship. It's one we're very proud of. And it illustrates Kresge's long-term desire to help build the nonprofit infrastructure of the United States.

As some of you may know, a great deal has changed at Kresge since we began the expansion of our grantmaking in 2007. We elevated the values that had quietly been guiding our grantmaking all those years and made them the centerpiece of everything we do. Within those values, we have made creating opportunity for the poor and disadvantaged our primary focus. It realigns us with our founder's original charge. And it positions us very differently to respond to the precipitous economic environment we are living through.

I'd like to use my time today to first talk about how this environment has affected the nonprofit landscape. I'll then turn to a description of how we're responding at Kresge. And I'll conclude with some observations about how that response may affect our relationship with your organizations.

I. Nature of the Current Crisis: How It Will Play Out in the Nonprofit Sector

I don't have to detail for this audience the extent to which the economic contraction has had a cataclysmic effect on every conceivable nook and cranny of the nonprofit and foundation sectors. Endowments in free-fall. Nonprofits being crushed by heightened demand for their services and reduced revenue flows from all sources. Capital campaigns being subjected to reductions, delays or outright cancellations of pledges and to plummeting values of the collateral securing their loans. A public sector reeling from dwindling property, sales and income tax receipts. There are countless variations on these themes, all indescribably bleak.

One of the 20th-century's great philosophers observed: "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 We chuckle, but the truth is that Woody Allen could hardly have known when he said that 25 years ago how utterly apt it would be today.

Early on in the crisis, we argued about whether the problem would be short- or long term, about whether we could simply limp through to a resumption of what we've come to understand as normalcy. No longer. We are indisputably in the midst of profound structural shifts that will carry deep and enduring effects. There has been a fundamental breakdown in those systems that serve as the thermostat for much of our daily lives – not just in whether we can get a bank to make a loan, but also in the nature of the regulatory environment, the role of government investment, the need to manage against scarcity.

The nonprofit landscape of yesterday or today will not be the nonprofit landscape of tomorrow.

Undercapitalization, chronically a problem, will become a death spiral. When revenues decline by 10 or even 20 percent, a nonprofit can put itself on a diet of discipline and flexibility and emerge at the other end with its mission pretty much intact. When demand skyrockets and revenues decline by 40 or 50 percent, however, you're a different organization altogether.²

Generous benefactors will almost certainly rise to the occasion and try to stabilize their organizations of choice. But they can't begin to provide enough support to offset diminished public and philanthropic dollars.³ And their generosity will flow selectively, leaving outside the rescue pipeline vast numbers of organizations that are largely invisible to most of those donors – particularly organizations that have traditionally been heavily subsidized by government.

Regardless of which direction you look – other sources of private capital, the stimulus package or elsewhere – the result is not so different. Too few dollars, too rapid an unraveling, too little time to plan systematically for thorough-going change. We have to face the very real possibility, therefore, that the kind of re-examination and reinvention demanded by this new world is either not possible or simply too difficult. If that were to become the case, the consequences for our social and economic fabric would be correspondingly harsh, cruel and disruptive.

But there is something deeply embedded in the American can-do mentality that seems incapable of accepting this kind of nihilistic view. We certainly have to be able to do something to solve the problem. "Solving" may be the wrong word. Perhaps "moderating" or "adapting to" is the better way of thinking about things. That will likely involve a combination of responses:

- A healthy infusion of compassion from lots of funders who care deeply about safeguarding vital strands of the safety net or essential elements of a community's quality of life.
- Widespread organizational cutbacks in tenacious attempt to live to see a better day.
- A heartbreaking number of organizations closing their doors.
- Multiple serious-minded, creative efforts to recalibrate and reboot different dimensions of the nonprofit environment.

This last response – the reinvention of large portions of the sector – is crucial. Mario Morino, the president of Venture Philanthropy Partners, puts the opportunity the following way:

If necessity is the mother of invention, then this crisis, which has laid bare the depth of our needs, provides us the dramatic necessity to drive innovation and spur entrepreneurs of all types and sizes to find ways to deal with our challenges. [It is an opportunity] to systematically foster a mindset in America that is nothing short of a cultural and economic ground-shift.⁴

The question for philanthropy is how, and in what measure, we can both help nonprofits stay afloat and encourage the innovation that will be required for their long-term health. We are struggling with that question at Kresge.

Foundations like Kresge also need to ask themselves where their uniquely flexible resources can make the greatest difference. Is it in investing organization-by-organization in those elements of the safety net infrastructure that touch people directly? Or is it in putting money into efforts to change systems that bear so heavily on people's life opportunities? In foundation-speak, is it responding to here-and-now charitable need

or is it pursuing strategic philanthropy with a more distant horizon line?

So let me sketch how we at Kresge have tried to strike the balance.

II. Kresge's Response

As I mentioned, Kresge has repositioned its work dramatically over the last couple of years. It has placed at its core an assessment of how nonprofit requests meet a set of values we believe are important. We now ask, for example, the extent to which an organization seeks to advance low-income opportunity or the nature of a capital project's community impact beyond the confines of the building itself.

Kresge's new emphasis also plays out in our interest in exploring other forms of capital support that can enhance the sustainability of a nonprofit's operations over the long term. And it has led us to identify a handful of fields – community development, health, the environment and the arts – in which we hope to add value above and beyond strengthening individual organizations.

The economic downturn promises to affect most profoundly our support for building projects. So let me start there.

Existing Capital Challenge Grants

Last fall, we sent a survey to all of our current capital-challenge-grant recipients – some 200 – asking them about their confidence in their campaigns and whether there were tangible ways we might help if they were encountering difficulties. At first there was little panic, but instead a quiet confidence that people would struggle through. That tone has, to understate the case, changed. As many other surveys have shown as well, virtually all nonprofits have too few reserves, are seeing precipitous drops in support and are facing draconian choices that cut to the bone.

These are highly effective organizations, and we are exploring a full range of options to help those who are in a position to take advantage of what we can offer. But we are also committed to being an honest broker, pushing respectfully on grantees to assess the wisdom of continuing their campaign if they haven't yet begun to build, if they've lost their financing or if they have yet to secure their government funding sources.

What may be appropriate in one case may be entirely unsuitable in another. We'll have to analyze whether what is being asked in a particular situation is reasonable, necessary and conducive to long-term sustainability. It's tempting, for example, to conclude that we should – in the spirit of helpfulness – simply grant extensions whenever they are requested. But the discipline of holding to a deadline is often helpful for an organization – it reinforces for potential donors the seriousness of the challenge and can redouble board and staff effort to get to the finish line. We simply have to analyze carefully where the balance lies. We'll also need to consider very carefully whether requests for additional monetary support represent the highest and best use of our grant dollars.

Kresge needs to be open to providing additional capital infusions if a grantee fits securely within our evolving strategic priorities and if our funds will materially increase a grantee's stability and long-term outlook for success. To invest significantly in such an organization through a challenge grant and not seek to protect that investment through reasonable additional investments may be penny-wise and pound-foolish.

And yet, we will have to prioritize. The idea that additional Kresge grant monies are all that stands between an organization and its economic collapse should raise red flags. At the very least, we will need to ensure that our funds contribute to a thoughtfully designed sustainability plan that includes other sources of funds. We will also have to put requests from existing grantees alongside requests from new applicants, with an eye toward making those decisions that most directly advance the objectives of our programs.

New Capital Challenge Requests

That describes our approach for working with current grantees. Let me turn then to the new capital challenge-grant requests.

Despite what we read and hear about the dismal state of building campaigns, we continue to receive a stream of capital-challenge requests. But the flow is slowing. And those in that stream are increasingly going through contortions to make the numbers work. We're accordingly taking a very long and careful look at proposed financing structures.

Although we don't want to return to the ghost of Kresge past, when fundraising strategy was the end-all and be-all of our review, we do need to bear in mind that fundraising fundamentals clearly need to be in good shape. For example, if an organization is relying on bonds that are secured by real estate, we'll have to understand whether the value of the land continues to provide the required collateral. If an organization is

planning on government reimbursements, we'll need to know whether those will be paid in a timely way. And if a campaign hinges on key donor pledges made before the economic collapse, we'll have to push hard on the reliability of those commitments. And the like.

I'm not yet entirely clear how this will play out. There is no question that traditional fundraising projections are going to be increasingly unreliable and campaign completion exponentially more difficult. We don't want to be paralyzed by an excess of caution, but neither do we want to be foolish stewards of our resources. We will, at the end of the day, almost certainly say "no" to an increasing number of organizations.

Innovative Capital

Given that unforgiving prospect for even the most well-structured and energetically pursued building campaigns, Kresge would be well-advised to consider providing other forms of capital support to nonprofits. That is exactly our plan. Kresge's long-standing work with a particular form of capital – facilities – gives us confidence that we can effectively expand our toolbox beyond that form to a greater variety and sophistication of tools. We are committed to creating what we are calling an "innovative capital" practice to explore what forms this might take: business planning, operating support, growth capital, program-related investments, a combination of these or others.

In a word, making capital available to an organization in the right form at the right time with the right terms in order to propel it along the trajectory of long-term sustainability.

To school up on how to do this most effectively, we've taken our bearings from organizations like the Heron Foundation, which has pioneered mission-related investing; the Edna McConnell Clark Foundation, which has made available to four national youth-serving agencies very large pools of capital from multiple foundations; and the Casey Foundation, which has used loan guarantees and other forms of program-related investments to advance community revitalization in East Baltimore.

Field Building

Creating greater focus in our capital challenge grant program and supplementing that program with more innovative forms of capital describes our tools. What has been equally important to our expanded grantmaking has been a focus on four fields in which we hope we can add value – community development

in Detroit, the environment, health and arts and culture. Just a word about each.

- Our investment in the revitalization of Detroit has focused on the most intractable issues of community stability – foreclosures, revitalizing central business districts, retooling the economy and providing essential supports for families and children.
- Our emerging grantmaking in the environment has focused on ameliorating climate change, adapting to its effects and encouraging the transition to a green economy based on renewable resources.
- Our efforts in health concentrate on altering upstream causes of poor health among low-income people, such as expanding access to fresh food, improving housing stock considered toxic because of the presence of lead and other dangers, and attacking intense diesel exhaust and other pollutants that cause poor air quality in far too many low-income neighborhoods.
- Our attention in arts and culture has been focused on factors that threaten the sector's long-term sustainability, including inadequate capitalization, changes in audiences and audience demand, the impact of technology and a frail arts education system.

The path we're on – flexibility with our current grantees, heightened rigor with new facilities requests, the diversification of our nonprofit capital support and strengthened field-building efforts – has been shaped both by a strategic impulse of where we can make the greatest difference over the long haul and by a recognition that we can't stand back and watch passively as the economy disintegrates before our eyes. Both motivations have implications for long-standing recipients of Kresge support such as the YMCAs.

So let me offer a few observations about what all this might mean for your organizations.

III. The Implications for YMCAs

When Neil and I first talked a year ago, we were struck at the degree to which Kresge's new course mirrored the work with low-income communities that so many YMCAs do. That commitment to low-income families has not changed at Kresge. It has, instead, been intensified by the economic maelstrom.

That intensification has taken a couple of forms.

First, as I described just a moment ago, it has encouraged us to look for ways beyond facilities capital to help organizations.

Second, it has placed a very heavy thumb on the scales in favor of organizations whose core mission is to expand opportunities for low-income families.

And third, it has led to our asking whether we should elevate within our priorities the plight of people at the very top of the Maslow hierarchy – people who are going hungry, people who have no home, people who have no job.

This third issue has proved difficult for us to wrestle to the ground. Just how much, if at all, should Kresge engage in emergency support? We are of two minds.

On one hand, much of the rest of the philanthropic ecosystem is better suited to rise to this challenge – whether individual donors, family foundations with deep roots in a community, community foundations or corporate foundations with long histories of mobilizing goods, volunteers and monies in the aftermath of catastrophe. National private foundations like Kresge are not as close to the ground as these players and hence are less connected to vital response and delivery networks. We have less expertise, less community credibility, less agility.

On the other hand, however, the suffering is so severe and the potential for permanent damage so catastrophically high that it seems rigid and callous for us to leave the here-and-now response to others. If we work in the realm of health and human services, which we do, it is very difficult to justify inaction. So, where do we stand?

In a word, we have chosen one approach for the short term and kept our options open for the longer term. Over the long term, our Human Services team – the team that evaluates our YMCA requests – will systematically explore how it can best add value to the vast realm of human services. That might involve focusing on a particular discipline. It might mean arching across disciplines to improve management and program capacity. It might entail building effective intermediary institutions capable of working at the wholesale level.

We're not yet sure what form this long-term exploration will take, but we're committed to identifying strategies that help low-income people find pathways to self-sufficient, healthful and productive lives. There were poor people before the economic collapse and there will be many more even when the economy eventually rebounds.

In the short term, the Human Services team has decided to make its top priority the funding of high-performance, community-based organizations dedicated to alleviating hunger, providing shelter and supporting the bedrock emergency needs of people who are out of work. Their rationale is that expressed by Professor David Williams at the Harvard School of Public Health: "If you can address basic needs so people are no longer worried about them, you can free them to consider those larger, higher-level needs that have the greatest long-term consequences for their well-being."

This short-term emphasis likely translates into a tougher road for YMCAs seeking Kresge support.

In so many ways, Ys are the consummate resource for people down on their luck during an economic downturn. You're an essential part of the safety net in every community you work in. Neil related to me, for example, how much higher the usage of Ys has been since the economic collapse. That makes complete sense. People on the edge need to have somewhere safe and supportive to go. Somewhere to take advantage of educational offerings. Somewhere where they know their children can participate in quality preschool and latch-key programs.

But – and it is a big but – most of you aren't in the emergency-relief business. And you shouldn't be. Just as I argued was true for Kresge, emergency relief tends not to be your core competency. And just as Kresge isn't going to throw over its long-term aspiration to influence broader systems, neither should you turn your back on what you have done well for generations. Your communities are counting on you now more than ever.

So the question is, where will our work and yours intersect going forward? Three areas strike me as most likely.

First, there is certainly a close fit when a local Y is, in fact, the place people of a community turn for the kinds of support that prevent them from falling off the cliff and for the kinds of programming that can make material contributions to improving their long-term life circumstance. Rural Ys seem particularly strong examples of this role, but I can imagine any number of inner-city Ys playing this part as well.

Second, Kresge will be looking for models of how nonprofits can reposition themselves to emerge from the economic carnage well-positioned for long-term sustainability. It is really, really hard to innovate – financially, programmatically or otherwise – when you're having to lay people off, cut back on

programming and fight off declines in membership. As I noted earlier, though, not innovating is increasingly going to be hazardous to a nonprofit's health. Not just Kresge, but many other donors will be watching closely to see what you come up with to hedge against the ravages of downsizing while taking advantage of the positive opportunities that will – hard as it is to imagine – accompany this crisis.

Third, and in a related vein, we and other foundations will try to identify the most relevant and effective "infrastructure organizations" capable of providing financial management, governance assistance, research, capacity-building, advocacy or other supports necessary for the nonprofit system to come out the other side of this crisis in one piece. The problem is that coming at this one organization at a time is like throwing a pebble against the Hoover Dam. We're going to need networks like the one assembled here today to help disseminate and take up the applications of that knowledge and assistance at a meaningful scale.

I can only imagine that these three ideas are annoyingly narrow for organizations like yours that have grown accustomed to thinking about Kresge as a much more expansively supportive funding partner. I hope that the questions and comments portion of the program will give you a chance to let me know just how annoyed you are.

IV. Conclusion

There's an old Asian saying, "Everything rests on the tip of intention." It implies a very close relationship between outcome and motivation. We like to believe that the path we have been on for the last three years at Kresge embodies that kind of relationship. But the economic collapse has cast it into even brighter relief. We have been reminded in the starkest terms that our institutional values and principles grow directly out of a fundamental intention to help those who are less fortunate.

Whether Kresge and this nation's other foundations can be sufficiently purposeful, enlightened and skillful to make a dent in the current and upcoming challenges remains to be seen. But we have to believe that we can. And we have to always bear in mind that it is institutions like yours working on the front lines that ultimately provide community ballast. You're where the laid-off auto worker goes for a small dose of respite. You provide essential services, offer volunteer opportunities and promote civic engagement. You symbolize the kinds of values we dearly need to hang onto to preserve our dignity and hope in such unforgivingly tough times.

I deeply appreciate the role you play in communities across this country. Thank you. And thank you for the opportunity to be with you today.

¹ Woody Allen, *Side Effects* (1986).

² See Grantmakers in the Arts, “Fundors Convene in Seattle: Memo From Holly Sidford to David Landers,” reprinted in <http://www.giarts.org/article/funders-convene-seattle>, January 22, 2009.

³ The case of the Harlem Children’s Zone, one of the nation’s most effective and financially secure nonprofits, will bear watching. With upwards of one-third of its funding historically coming from Wall Street, it is bracing for a very different future. See Mike Spector, “[Bear Market for Charities](#),” Wall Street Journal, January 24, 2009.

⁴ Mario Morino, “Chairman’s Corner: The Innovation Imperative,” Venture Philanthropy Partners, <http://www.vppartners.org/learning/papers-and-perspectives/chairmans-corner/innovation-imperative> (April 2009).