THE KRESGE FOUNDATION
Expanding opportunities in America's cities

Speech by Rip Rapson:

Philanthropy's Opportunities and Responsibilities in Times of Civic Redirection

An address to civic leaders in Columbus, Ohio.

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What a pleasure it is to be here. In my previous life, our law firm represented one of this city's leading companies, and I had the opportunity to visit a number of times. I'm struck by how much Columbus has developed in the last 25 years. You have leveraged your educational institutions to cultivate an infrastructure for new thinking, creative talent and entrepreneurial innovation. You have dramatically strengthened your cultural institutions. You have created a downtown that is attractive and vibrant.

Congratulations. Your success is testament to a tradition of able public-, private- and nonprofit-sector leadership. Collectively – and collaboratively – you have prevented the erosion of public-sector vision, the flight of private-sector investment and the collapse of nonprofit-sector resilience that have bedeviled so many other Midwestern cities.

And yet, I'd like to talk about the leadership challenge communities like Columbus face in times of such extreme economic dislocation.

Let me begin by stating the obvious – that no community is immune to the effects of the maelstrom we are experiencing.

Credit markets careening through a collapse more dire and enduring than any of us could have imagined. Entire neighborhoods painstakingly built up layer by layer over decades through community sweat and treasure devastated by the mortgage crisis' cancer of greed and overreach. Accelerating income polarization that jeopardizes the basic tenets of opportunity at the heart of this nation's democratic heritage. A public sector frozen in its tracks by dwindling tax receipts, collapsing pension funds and the possibility of bond defaults.

And all of these forces ricocheting off one another, hurtling us into ever-deeper crisis.

Because the problems are dense, intertwined and complex, the solutions must be systematic, not piecemeal; dynamic, not rigid; participatory, not hierarchical.[1] We're not going to coast comfortably into a new reality, but instead will have to hardscrabble our way through terrain that promises to be unrelentingly harsh and cruel.

President Obama was certainly correct when he said in his inaugural address that we face hard choices. Not in the clichéd way politicians usually mean it. But instead in a deeply penetrating way, calling into question our stomach for repositioning those systems that serve as the thermostat for much of our daily lives. Not just in our ability to get a car loan, but also in the nature of the regulatory environment, the role of government investment, the need to manage against scarcity.

The last number of weeks have focused on the federal dimensions of these changes: whether TARP is doing its job. Whether the stimulus package is too large, or too small. Whether the answer to lots of bad banks is a new bad bank. But all this two-stepping and side-stepping is an elaborate prelude to the real dance – the ever-changing impact all these forces have on the places we live. Places like Columbus.

The question is whether we can fashion meaningful response at the local level or whether we are at the mercy of larger forces over which we have little sway. My strong bias is the former – that federal dollars and policies can travel only as far as local vision, determination and innovation will carry them.

The power of the private sector to help structure this response is immense. I'll be fascinated to hear from you what that looks like in Columbus.

But I'd like to focus my remarks on an often overlooked part of the response – the role of foundations.
I'll start by trying to make the case that for philanthropy to be relevant, it has to move beyond its charitable impulses and toward a more strategic orientation. I'd then like to describe three ways in which it can, in fact, be of strategic importance to the life of cities.

I. Embracing Strategic Philanthropy

Every day, in communities around the nation, foundations provide grants to nonprofits toiling to feed hungry families, shelter women fleeing domestic violence, provide job training to laid-off workers and provide any number of other supports for people in need of help.

That is certainly true here in Columbus. The Columbus Community Foundation's $72 million in grants last year supported more than 1,500 organizations dedicated to improving the quality of life for this city's residents.

There's an old Asian saying, "Everything rests on the tip of intention." It implies a very close relationship between outcome and motivation. The foundation's activities seem to embody that relationship, its institutional values and principles growing directly out of a fundamental intention to help others, especially those who are less fortunate.

But – and Doug understands this – philanthropy has also been accorded the enormous privilege of being able to sight on a more distant horizon line, to balance its responsibilities in the here and now with its obligation to help construct, bit by bit, the longer-term solutions to some of society's most intractable problems.

If, on one hand, we put our full weight behind emergency support, we simply push the problem into the future. If, on the other hand, we can get underneath the problem – particularly in influencing economic, political and social systems – we have a chance to make an enduring improvement in our citizens' day-to-day quality of life and their long-term trajectories of opportunity.

You have to do both. Sacrifice compassionate, grassroots grantmaking and you risk becoming academic and disengaged. Sacrifice strategy and you risk having your finger in the dike on a permanent basis.

So let me suggest how this blend of charity and strategy might play out. Specifically, I want to talk about three ways that private philanthropy – foundations like Kresge – can contribute to a community's ability to weather this economic storm.

II. Establishing the Frame

The first way foundations can help is by contributing to a community's "vision."

This is an overworked term. But nevertheless, these are times that cry out for a community to identify tangible aspirations for its future, place bets on the strategies for getting there, prioritize and sequence its efforts and lay out a path for marshaling the necessary resources.

There was a time when, firing on all cylinders, state and local government worked with the business community and others to accomplish this. The examples of that today, however, are few and far between – viewed charitably, a casualty of the crushing financial constraints on local decision-makers.

There's lots of activity within cities, but it's usually episodic, scattershot and ultimately lacking critical mass. This constitutes an open invitation for philanthropy. Not that foundations can substitute for government, for they certainly can't. But foundations can help reset the table to make it easier for communities to chart a course of concerted, mutually reinforcing effort.

Philanthropy can create neutral and safe space for the tough give-and-take that is required to agree on a strategic, over-arching community direction. Philanthropy can bridge between all the sectors – business, public, nonprofit, academic – to ensure the infusion of an appropriate breadth of perspective and buy-in. Philanthropy can ensure there is a sophisticated, data-driven architecture of information and analysis undergirding the process. Philanthropy can provide the political cover for a city to muster the imagination and intellectual energy necessary to assail prevailing assumptions and embedded inertias. And then there is the money – philanthropy can actually pay for some of this stuff.

Let me give you an example of how this can work.

Responding to the business community's concerns five years ago that the Twin Cities was becoming complacent about its ability to compete with other metropolitan regions, the McKnight Foundation brought together the CEOs of the region's three dozen largest employers, together with the governor, the mayors of Minneapolis and St. Paul and the president of the University of Minnesota to create the Itasca Project, an effort to forge a business-led civic regional agenda.

To make a long story short, Itasca gained initial traction by focusing on six priorities that business leaders had identified over the course of a year's worth of meetings with top McKinsey officials. The work was driven by three dynamics structured by McKnight.

First, McKnight convened and McKinsey staffed the quarterly meetings, providing a safe, neutral environment and supporting the discussions with the kind of sophisticated empirical background materials corporate leadership expects.

Second, a CEO led each of the six initiatives, but McKnight arranged for the region's top nonprofit leadership to provide, in conjunction with McKinsey, the staffing for the working groups, giving rise to a new-found trust and respect between the private and nonprofit sectors.

And third, McKnight underwrote the costs – studies from the Brookings Institution, McKinsey's consulting fees, public relations costs, the time contributed by nonprofit executives and others.

The impact has been dramatic. Itasca helped design and pass through the Legislature a multiyear, multimillion-dollar commitment to improve the state's transportation system. It created a privately funded statewide effort to advance early childhood development. It developed a mechanism to enable the university and the private sector to share research efforts. And, perhaps most importantly, it put influential members of the business community unambiguously on record in support of a regional business plan tied directly to broad-based civic dialogue among all the sectors.

III. Aggregating Capital to Stabilize Essential Activity

Even if a community creates this kind of civic frame, however, there remains the nagging little problem of how to pay for any of this. Vanishing tax revenues won't do it. Neither will evaporating corporate profits. We can all hope that the stimulus package will prove to be the silver bullet and catalytically revivify local economic activity, but forgive me if I'm a bit skeptical. At the very least, the package will almost certainly not work its magic in exactly the way we would like or at quite the speed.

This reality suggests the second role I believe philanthropy can play in the restabilization of cities. Foundations can assemble flexible capital to invest very selectively in local projects that form a bedrock on which a community can build once the private capital markets return.

Which projects fall onto that list is entirely dependent on a particular community. In St. Louis, it might be the mall. In Detroit, it might be a light-rail line up the major commercial corridor. In Minneapolis, it might be the riverfront. But in each case, they represent a bulwark against an erosion of community identity, pride and hope.

This has not traditionally been the domain of foundations. After all, when most people think of foundations, they think about grants to human-service agencies or arts organizations. And that's a big part of what foundations do. But not only can foundations target their grantmaking to more strategic objectives, they can also deploy capital in a variety of other forms. They can make below-market loans. They can invest their endowments in market-rate ventures. They can deposit funds in community financial institutions. They can guarantee loans or provide other forms of credit enhancement.

This is a picture of foundations acting like investors. The problem is that few behave that way. There are a couple of reasons.

First, there is the matter of scale – the Gates Foundation excepted, the amount of capital foundations can pump into a given challenge is infinitesimal when contrasted with the true magnitude of society's most pressing challenges.

Second, there is the matter of skill – foundations are relatively unsophisticated in managing large capital flows and, as you know better than anybody, investing wisely to achieve real return is very, very difficult in the best of times; and these are not the best of times.

And third, there is the matter of intention – philanthropy has been distinguished by its willingness to drop its money into circumstances in which private markets have concluded there is no return on investment. In the eyes of many, this isn't real investing, but instead, charity.

These considerations notwithstanding, a handful of foundations have broken from the pack and attacked the issues of scale, skill and intention head-on. These foundations have addressed the challenge of scale by drawing other investors into the mix. They have increased their sophistication by putting together enough deals of sufficient complexity to be confident of their ability to realize measurable returns. And they have steered away from pure charity by targeting their efforts less on the modest risk entailed in individual grants than on the larger wagers that promise results commensurate with the true magnitude of challenges cities face. Serving as society's social venture capital, if you will.

Let me offer as an example the Annie E. Casey Foundation's efforts to pool capital for the rebuilding of East Baltimore.

Six or seven years ago, Johns Hopkins University announced its intention to create a new bio-industrial complex in East Baltimore, an area of 70-some blocks that is home to some of the nation's most intense concentrations of poverty, physical abandonment, infrastructure deterioration and crime. Knowing that it couldn't begin to take on these social and economic challenges, Hopkins invited Casey to participate.[2]

Working with Hopkins, the mayor and the local community development organization, Casey constructed housing, employment and social strategies to tie the expansion back to neighborhood improvements. Very, very expensive stuff – hundreds of millions of dollars.

Casey started the ball rolling by putting grant and program-related-investment dollars into the project. They then offered to buy down the risk of others by guaranteeing a $50 million project loan from Bank of America. They in turn spread the risk by convincing the city to issue $50 million of municipal bonds. And finally, they drew in other local foundations and families by buying private placement bonds from the city.

The project is still taking shape. But it has already replaced dilapidated row houses with mixed-income housing. It has trained and placed neighborhood residents in jobs in the construction, health care and service sectors related to the new complex. It has improved neighborhood safety and offered a wide spectrum of human services for seniors and for families and children.

Casey's actions weren't launched in today's environment. But they are nevertheless a powerful example that philanthropically driven capital – early, rapidly and strategically assembled – can create a tipping point that generates possibilities of meaningful scale and impact.

IV. Contributing to the Restructuring of the Nonprofit Environment

One of the toughest challenges Casey faced was making sure that local nonprofit organizations could actually deliver the necessary results – from rehabbing homes to providing job training to supporting homebound seniors. That challenge underscores just how vital nonprofits are to the day-to-day life of our cities. Let me turn to this theme as the third way philanthropy can help shape community response to the downturn.

Nonprofits serve as our society's moral thermostats – organizations that activate in the presence of suffering or hardship.[3] If there was ever a time that these organizations were needed, it is now.

But Yogi Berra once warned, "Even Napoleon had his Watergate." Who knows exactly what that means, but I think it bears on the question of just what that philanthropic commitment to nonprofits will look like.

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 15 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 30 or 40 percent, you simply can't preserve mission – you're a different organization altogether.[4]

Or perhaps no organization at all. Paul Light of New York University estimates that the number of nonprofits may decline by 100,000 over the next few years, or 2,000 in every state of the union – probably far more in a state like Ohio.[5]

Generous benefactors will almost certainly rise to the occasion and try to provide emergency ballast. But they can't begin to provide enough support to offset diminished public and philanthropic dollars.[6] 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.

The result is likely to resemble an hourglass. On the top, larger nonprofits able to capitalize on their superior fundraising capacity. At the bottom, the smallest nonprofits eking out their survival by living hand to mouth through their close ties to community volunteers and small contributors. The casualties will be those in the middle, possessing neither set of attributes.

It is tempting for philanthropy to wait to see how all of this plays out before committing to a particular course of action. Given the dizzying pace of change, we probably have no choice but to do a bit of that. On the other hand, however, these forces call a series of unpleasant, but necessary questions: what elements of the safety net infrastructure can we not allow to collapse? What organizations are most essential to the preservation of those elements? What forms of support will move beyond Band-Aids and contribute to organizations' long-term sustainability?

Each community will answer those questions differently, of course. But there are three things that foundations can help with.

First, foundations can support efforts to redesign nonprofit human-service delivery networks.

Foundations abhor the idea of "picking winners and losers." That's understandable, but misguided. There will be winners and losers. The question is whether we will arrive there through a thoughtful, intentional process that leaves the community stronger or through a haphazard winnowing that may undermine community stability and health.

We're about to test the first alternative in Detroit.

Mike Brennan, the head of United Way in Detroit, recently told me that he met with about 50 of the area's 1,000 emergency food providers. Very few knew one another. And they most certainly had never had a conversation about whether they might share information about how they work or coordinate efforts in either collecting or distributing food. Mike realized that United Way – and Detroit – simply couldn't support the ponderousness and inefficiencies of such a gargantuan nonsystem.

With the help of Kresge and others, Mike intends to contract with McKinsey to lay out a clean-sheet vision for how an optimum emergency-service system would work in three key areas: food, shelter and access to health services. They will then map a pathway to get to that vision from our current circumstance.

This will be enormously controversial. In each of these fields, hundreds of providers may be out of business. Hundreds of others may have to consolidate their operations. And hundreds more will be expected to behave in more entrepreneurial and creative ways.

It would have been easy for United Way to simply try to raise a "bailout" fund to help those of its grantees facing the gravest threats. It will do some of that. It will, however, also play on the knife's edge, hoping that this approach will not only help navigate Detroit through the storm, but also provide a model for other United Ways throughout the country.

Second, foundations will need to be far more flexible in how they make capital available to nonprofits making the transition to a different world.

If nonprofits are to restructure as dramatically as the United Way proposes, they'll need capital – to redesign their programs, to implement new technologies, to pursue consolidations and to undertake any number of other forms of retooling. We're putting demands on their equity – equity they don't have.[7]

At Kresge, we began a year ago to develop what we call an "innovative capital practice" – ways of 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. We've already made a handful of business-planning grants, working-capital grants and program-related investments.[8]

It remains to be seen just how far other foundations will go in this direction. But the need to create a far more "disciplined social capital market"[9] is becoming increasingly urgent.

The third thing that foundations can do is support national and state-level nonprofit "infrastructure" organizations.

By infrastructure organizations, I don't mean the guys who are going to use the stimulus package to repair bridges, but instead those organizations that provide financial management, furnish governance assistance, offer training in the more creative use of volunteers and countless other services – the underlying supports necessary for the broader system to recalibrate. This is seriously unsexy stuff, but it is essential. Nonprofits have to be able to tap into this kind of knowledge and expertise if they are to design a different long-term trajectory.

Conclusion

So that's the case for strategic philanthropy in the life of cities. Sounds simple enough. Philanthropy acting strategically to help establish a municipal frame, to aggregate risk capital and to help bolster nonprofit resilience through restructuring.

The problem is, of course, that this is demanding work, and few foundations do it. They just don't think of their role that way. As Adlai Stevenson once observed, "It's hard to lead a cavalry charge if you think you look funny on a horse."

Maybe these foundations are right. After all, foundations are thin on legitimacy – unlike government, we cannot command a public solidarity for the actions we espouse. We're insular and overly narrowly focused. And we're loath to give up our mantle of neutrality, preferring to maintain a kind of objective distance that avoids stirring up controversies that might force us to spend whatever political capital we possess.

But, at the end of the day, these are just obstacles, not permanent impairments. In my view, the future of philanthropy rides on our willingness to overcome them and aspire to a bolder role within our communities. In times like these, there are no places for us to hide. Our communities shouldn't let us, and we shouldn't want to. We don't really look all that funny on a horse.

The road is there to be taken. If enough of us take it, it might actually make a difference.

It has been a pleasure. Thank you.

[1] *See* Barry Boyce, "Complexity, Chaos, Collapse," *Shambhala Sun,* September 2008.

[2] Doug Nelson, Casey's president, described his reaction this way: "For lots of reasons, I was profoundly skeptical. The track record of large-scale urban renewal in this country isn't an encouraging one. Most such reinvestment efforts have just plain failed – the result of providing too little, too late. ... But if this whole effort could be aimed at transforming the life circumstances of these long-struggling people – and not just the landscape of the place – then we just might have a challenge worth embracing and big risks worth taking." Douglas Nelson, remarks to the Community Conversations Breakfast, Johns Hopkins Club, Baltimore, March 6, 2008: http://www.aecf.org/m/speeches/speech-simplyputselectedspeechesofdouglasnelson-2010.pdf

[3] The metaphor is that of Paul Ylvisaker. *See* Paul Ylvisaker, "The Spirit of Philanthropy," Address to the 38th Annual Conference of the Council on Foundations," Atlanta, March 1987, reprinted in Virginia M. Esposito, ed., *Conscience & Community: The Legacy of Paul Ylvisaker* 346 (Peter Lang: 1999).

[4] *See* Grantmakers in the Arts, "Funders Convene in Seattle: Memo from Holly Sidford to David Landers."

[5] Paul Light, "Four Futures," *The Nonprofit Quarterly*, pp. 66-68 (Winter, 2008).

[6] 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.

[7] “Surviving Tough Economic Times: Q&A With Clara Miller, President/CEO, Nonprofit Finance Fund,” PhilanTopic, *Philanthropic News Digest, op cit*.

[8] We’ve taken our bearings from organizations like the F.B. 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 I just described.

[9]A term used by Ralph Smith, vice president of the Casey Foundation, in Editors, “Nonprofits and Philanthropy: Scenario II – An Interview With Ralph Smith,” *The Nonprofit Quarterly*, pp. 40-41, Winter, 2008. Smith notes that such a market would probably require the emergence of three kinds of funds:1) risk capital funds that would support innovation; 2) growth capital funds that would support expansion; and 3) funds to develop organizational capacity.