LESTER M. SALAMON

Leverage for Good

An Introduction to the New Frontiers of Philanthropy and Social Investment

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"There are moments in history when the needs of an age prompt lasting, promising innovation."

—Monitor Institute, 2009

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Foreword

Rip Rapson

American philanthropy is in the midst of one of its most turbulent and interesting transformations in nearly a century. The changing terrain of charitable giving is evinced by an at-times baffling proliferation of new actors, new tools, and new organizations, challenging everything from philanthropy's traditional ways of doing business to how we think about defining our social objectives. Navigating that terrain is difficult enough for someone whose organization is in the thick of it, let alone for newcomers to the field.

That reality makes the present monograph, and the companion volume for which it serves as an introduction, indispensable reference points for new and experienced practitioners alike. They provide what the sector has long been missing: a coherent, comprehensive, and compelling road map that brings together an array of disparate pieces into a coherent whole. They will provide a resource and shortcut that will not only help my organization—the Kresge Foundation—but also, I believe, the sector as a whole emerge from these transformations more organizationally effective, vibrant, and vital. That is why we at Kresge so enthusiastically supported the creation of these volumes, and why we are so pleased with the results.

Indeed, I wish this material had existed five years ago when Kresge began its own transformation—a transformation that is emblematic of, and aligns with so many of, the trends and themes outlined in the pages that follow. So allow me to start by describing the particulars of Kresge's experience, in the hope that they will help illustrate the importance of this project for the sector as a whole.

The Kresge Foundation's Path

The Kresge Foundation I joined in 2006 was defined by one tool—the capital challenge grant, which sought to build the capacity of nonprofits by helping them complete capital campaigns for building projects. Kresge's brand was crystal clear: we were synonymous with bricks and mortar.

It was a remarkable legacy, one we are proud of to this day. Not only had we assisted thousands of organizations in getting important projects to the finish line, we had also defined an admirable set of competencies that distinguished us within the philanthropic cosmos:

- We got good at something and stuck to our knitting—as such, we were able to separate the good project from the great project and readily identify the strengths and weaknesses of proposals.
- Grant seekers were very clear about what we funded—organizations had to go through rigorous analysis, but didn't have to bend themselves into pretzels trying to guess at our expectations.
- And we provided critical leverage—our funding served as a catalyst to bring others to the table.

But it was clear to me—and to the Kresge board—that the time had come for a refresh. From our perspective, what was needed was not necessarily more new buildings, but a more expansive way of thinking about society's most intractable problems. And yet we wanted to carry forward those qualities that had served us well: sophisticated insight into good ideas, clarity of purpose, and high leverage.

We began reconstructing the foundation topically, assessing field by field how we might expand opportunities in America's cities. We would do that by investing in the revitalization of Detroit, attacking health disparities, mitigating and adapting to climate change, increasing the resilience of human service organizations, improving postsecondary access and success among low-income and nontraditional students, and elevating the importance of arts and culture in community identity and revitalization.

Because this new constellation of challenges didn't respond to just one "tool," we also had to recalibrate how we worked.

This has all taken a while to settle out. We now have sharply etched subject matter strategies. We've built program teams that convene and invest in research, networks, advocacy, and communications strategies. We've stretched our capital support spectrum to include a variety of philanthropic instruments. We've created a social investments practice that over the next five years will deploy $150 million in loans, guarantees, linked deposits, and direct investments. And we've tested the edges of risk and the complexities of working across sectors.

A Recalibrated Orientation to Capital

What we haven't yet fully done, however, is to leave the safe and familiar moorings of approaching most funding opportunities with a grant-centric perspective.

Like many foundations, Kresge has deeply coded in its DNA a two-step analysis that defines how we spend our money:

- First, does a proposal from a nonprofit fit our strategy?
- And second, should we make a grant to support that organization?

At a first level of analysis, there is absolutely nothing wrong with this formulation. It calls for a strategic intentionality that is entirely appropriate. Indeed, the first part of the question is essential—we start by asking what problem we're trying to solve.

The nuance comes with the second part of the question. Given the diversity of problems we're seeking to crack, it seems odd to assume that the right tool for the job will always be a grant to an organization. In fact, it is virtually never the case that a stand-alone grant solves the entirety of a problem or allows us to scale impact. And in fairness to grantees, they rarely claim otherwise.

We've accordingly sought to ask a different question: what is the set of tools or approaches that are most likely to move the needle on the problem we seek to address?

There may be a grant somewhere in that mix, but there may also be a program-related investment, a prize, or even a social-impact bond. And if there is a grant, it might be for any number of purposes—to support operations, projects, research, public information campaigns, advocacy, policy reform, and many other activities. At the risk of being ridiculously simplistic, we're testing what it means to be problem-solvers first and foremost. That means starting with the problem and then, and only then, selecting the form of capital—whether financial, intellectual, or reputational—most suited to fixing it.

The financial crisis of 2008 launched that approach. Our social investment practice's very first investments were driven by the problem at hand. Human service organizations providing food, shelter, and other emergency services needed a bridge—to an improved climate for donations, to the receipt of government payables, to an easing of personal economic crisis among their clients. We made 14 zero-interest, three-year loans to those organizations. They were a stopgap and they weren't innovative, but they were what the organizations needed. And they started us on a new way of doing business. We have since navigated from that starting point to a far more sophisticated and complex portfolio that has vastly expanded our capacity and effectiveness as a philanthropic organization. It has made us more rigorous about starting with a problem, rather than with a tool.

The Woodward Corridor Real Estate Initiative in our hometown of Detroit is an example. In mid-2012, a senior program officer on our Detroit team sent out an e-mail pointing to the incredible diversity of some two-dozen emerging real estate projects along the Woodward Avenue corridor. These projects needed to come to fruition, he argued, if we were to achieve our goals of introducing density, diversity, vibrancy, and walkability to Detroit's core. He suggested that we needed a "capital war chest" that would provide the critical missing pieces of financing. We responded by creating a "hybrid fund structure" that will allow us to use the capacity of a strong intermediary (for lending purposes) while maintaining control of our most flexible capital tools (grants and guarantees) for strategic deployment alongside and/or in support of our externally managed debt capital.

Three Challenges

But these approaches are still the exception at Kresge. Three obstacles have made the pivot toward a more creative use of capital difficult, obstacles that face many philanthropic institutions.

First is the capacity to work across sectors, with a particular eye toward finance.

Investing in social change implicates a larger context occupied by public and private partners. That requires that we understand how philanthropic capital fits: how it will combine with the actions of others to help lever changes in markets, behaviors, and policy. Each sector will ask different things of the foundation, but each will almost certainly contribute in some measure to the problems we seek to influence. That, in turn, necessitates that we become conversant in the language and needs of private and public finance, policy, decision-making, and accountability systems—and accordingly rethink our professional development strategies to find a balance between topical expertise and financial dexterity—in short, it necessitates that we become what Lester Salamon in this volume calls a "philanthropic bank."

Second is the ability to break down internal barriers among different program areas within a foundation and work as an integrated whole.

It is the norm rather than the exception that a strategy centered in one topical area will be linked with strategies in other disciplines. In New Orleans, for example, our Environment Team's investments in organizations working for the restoration of the Gulf Coast play off of our Community Development Team's investments in community engagement strategies in the Ninth Ward.

For that reason, social investment practices in foundations will fall short if they are seen simply as a service desk for program teams. Just as program teams need to be more deeply conversant in finance, the social investments function has to more deeply understand programs—they can't be finance jockeys for whom the imperative becomes making a compelling deal, rather than reinforcing program strategy by tackling the biggest social problems in the most effective ways.

Third is bridging the normal divide between the program staff and the investments office.

Our initial gesture at Kresge has been to create a more sustained feedback loop between our investment teams and program teams, under the theory that even having both sides of our house know what the other is up to will make a difference. We've also taken some baby steps toward mission-related investing—trying to identify among all our resources and knowledge those assets that can contribute most readily and directly to our mission. What we do with that information remains an open debate within our staff and among our trustees. But having that information allows us to ground our future path in data, and make some informed choices accordingly.

Concluding Thoughts

Kresge's efforts in pushing ourselves into the social investing arena and organizing around a new way of working are not models—they have simply been our reality. And that reality has at times been a slow, tough, and exasperating slog. That, at core, is what makes the present monograph, and the companion volume it so effectively introduces, so valuable and worth supporting: it won't solve all of these challenges, but it outlines them exhaustively and provides an invaluable overview of the enormous opportunities opening up to bring new resources and new talents to the solution of some of our most intractable problems.

It has been an honor for us at Kresge to support this project, but in truth it wasn't purely a selfless gesture. It will help us, as we believe it will help our partners, our peers, and the sector as a whole, make a more profound and lasting impact on the issues about which we are most passionate. I look forward to returning to it time and again.

Acknowledgments

It has been said that "it takes a village to raise a child." But, as any author knows, the same applies to raising a book. And that is certainly the case here. My debts in bringing this book, and the larger companion volume on which it heavily leans, to fruition have been enormous, and I gratefully acknowledge them here. They are owed to Rip Rapson, President of the Kresge Foundation, who early on recognized the niche that this book and its companion would fill and helped provide the support and encouragement that made them possible; to William Burckart, who assisted me in organizing the project, recruiting authors, maintaining contact, and managing the substantial paper flow that any project of this scope entails; to Luther Ragin, now at the Global Impact Investing Network (GIIN), who encouraged the effort and gave selflessly of his time to review most of the chapters in the companion volume and offer comments and advice; to the members of the Project Advisory Committee (listed in Appendix A) for their enormously helpful comments and assistance at numerous points in the process; to David Erickson and his colleagues at the Federal Reserve Bank of San Francisco for providing meeting space at the Fed and other support and encouragement to our work; to Bill Dietel and Mario Morino, who agreed to write a Preface and Foreword, respectively, for the companion volume, to introduce the work to the broader audiences it seeks to address and who provided inspiration along the way; to the authors of the companion volume (listed in Appendix B), incredibly thoughtful and dedicated professionals all, who spent what I am sure is far more hours than they ever imagined responding to my detailed comments and suggestions to get their chapters into a consistent form and make this complicated topic accessible to the broadest possible audience; to David McBride, the social sciences acquisition editor at Oxford, who skillfully moved this book and its companion through the complex Oxford review process; to Chelsea Newhouse at the Johns Hopkins Center for Civil Studies, who patiently and professionally handled the process of bringing the manuscript into conformance with the protocols and formats that Oxford procedures stipulate; and last, but by no means least, to my lovely wife, Lynda, who put up over an unforgivably long period with the unavoidable distractedness and preoccupation that writing inevitably entails, and did so with enormous understanding and support.

Without taking away anything from the enormous assistance I received from all of these friends and colleagues, at the end of the day I recognize that responsibility for this final product, with whatever faults it might still have, belongs with me, and I accept it fully.

Lester M. Salamon
Annapolis, Maryland
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