Responsive Philanthropy

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IN THIS ISSUE

The West County Toxics Coalition protests the health and climate effects of the Chevron oil refinery in Richmond, CA. Creative Commons image by Flickr user JacobRuff, http://www. ickr.com/photos/jacob_ruff/.

New Constituencies for the Environment: A Case Study

By Danielle Deane

In 2004, the William and Flora Hewlett Foundation's Environment Program launched a California grantmaking initiative called "New Constituencies for the Environment" (NCE), now called -"Broad Based Support". More than $20 million was invested over a seven-year period to bolster the environmental movement in California by broadening the range of groups advocating for clean air, the top environmental concern in California. The foundation had long been one of the largest grantmakers to large and established environmental organizations working on state and federal policy. It had a proud legacy of supporting NGOs that helped propel California into becoming arguably the nation's most innovative environmental policy leader. But there was a risk of this forward movement stalling. The state now had a majority-minority electorate and an increasingly diverse elected body. High projections for population growth rates would degrade environmental conditions unless stronger safeguards were put in place. The grantees Hewlett had historically supported were struggling to adjust to these changes. A wider range of partners would ensure that the public's high support of balancing growth with a healthy environment was heard.

The initiative thus aimed to increase support for medical, faith-based and labor groups concerned about environmental issues, as well as environmental and health organizations that had emerged from minority communities. Organizations emerging from minority communities often, but not always, identified themselves as environmental *(continued on page 13)*

ncrp
National Committee for Responsive Philanthropy

challenging grantmakers to strengthen communities

A Message From the Executive Director

Dear Readers,

Barriers to injustice and inequality are increasingly being challenged in the United States and across the world. Unfortunately, the environmental movement is trailing behind. Environmental initiatives are being stalled and attacked, and the condition of our planet is declining. Now more than ever, it is imperative that environment and climate funders invest in ways that truly help us build and strengthen the environmental movement's ability to win real change.

With that goal in mind, NCRP will release in late February the next report from our High Impact Strategies for Philanthropy series. It will explore how philanthropy can help the environmental movement by increasing funding for grassroots communities that are directly affected by environmental harms and decreasing reliance on top-down funding strategies.

In this issue of *Responsive Philanthropy*, we hope to whet your appetite for that forthcoming report. In our cover story, Danielle Deane describes the impact of funding grassroots organizing for environmental change. She looks at the William and Flora Hewlett Foundation's initiative called "New Constituencies for the Environment" and how it has strengthened the environmental movement in California by expanding the range of groups advocating for clean air.

This issue also examines other important issues in our sector. Jon Pratt, executive director of the Minnesota Council of Nonprofits, looks at the use of charity for moral enhancement and how large charitable gifts can complicate the workings of major institutions that want to avoid being used as public foils.

In "Philanthropy and Inequality: What's the Relationship?" NCRP research associate Kevin Laskowski explores how philanthropy has grown in the midst of rising economic and social inequality in the United States. He writes, "Foundations and other philanthropic vehicles are simply tools that can be put to any number of uses. If we care about our democracy, we have to ensure that reducing inequality is one of them."

Barbara Heisler, executive director of the Funding Exchange, describes the organization's grantmaking model. She discusses how the unique approach to grantmaking has allowed the foundation to support social movements in new ways and tackle the root causes of poverty and injustice.

Finally, our Member Spotlight features the work of The California Endowment, a foundation that works to expand access to affordable, quality health care for underserved individuals and communities.

We always are striving to make *Responsive Philanthropy* a better resource on important issues in philanthropy. Please feel free to send comments, suggestions or story ideas to readers@ncrp.org.

We look forward to hearing from you.

Sincerely,

Aaron Dorfman
Executive Director

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Philanthropy Makes Amends?

Bad Boys, Generosity and Absolution (and When to Take Their Name Off the Building)

By Jon Pratt

Mark Zuckerberg, chief executive and a founder of Facebook, announced his $100 million donation to the long-troubled public schools in Newark the day before the Hollywood film The Social Network was released, a biting critique of Zuckerberg's personal and business relationships. For the youngest billionaire in history, Zuckerberg's very public mega-gift carried on a tradition of moral enhancement and reputation management going back to the Middle Ages.

Donating and volunteering are publicized as testimony to the compassion and public spirit of a donor, but public recognition is naturally hedged by opinions of the motivation of the donor or the morality of how the funds were attained. Objections to the use of "charity" for absolution has a long history, going back at least to 1517 when Martin Luther nailed his Ninety-Five Theses on the Power and Efficacy of Indulgences to the door of the Castle Church in Wittenburg. Outraged by the sale of indulgences (forgiveness of temporal sin) by Pope Leo X, Luther rejected the need for intermediaries to speak to God and, in Thesis 28, attacked the dictum attributed to Johann Tetzel that "as soon as the coin in the coffer rings, the soul from purgatory springs."[1]

In the modern era, charitable organizations and public schools are eager partners for major donors, grateful to organize press conferences and name buildings, scholarship funds and virtually any physical or conceptual object after a donor. Donor recognition proportional to the size of the gift is such an established part of the fundraising process that donors are not offended by price lists that spell out exactly what they get in return. This appreciation is not a surprise thank you party, but a carefully negotiated guarantee that the donor will "receive appropriate acknowledgement and recognition," in the words of the Donors Bill of Rights adopted by the Association of Fundraising Professionals.

Jon Pratt

Delivering the levels of recognition warranted by mega-gifts can complicate the workings of major institutions that want to avoid being unwitting tools or used as public foils to cleanse or burnish the reputations of tainted donors. In the case of Mark Zuckerberg's giant donation, the Newark Public Schools, Newark Mayor Cory Booker and New Jersey Governor Chris Christie were all rewarded by the public investment by a celebrity announced alongside Oprah Winfrey, and the publicity bonanza flowed in every direction. Zuckerberg has resolved his legal challenges from the early days of Facebook, came out just fine in "The Social Network" version of his life, and in 2010 signed on to Bill Gates' and Warren Buffet's "Giving Pledge" initiative by agreeing to give most of his wealth to charity.

Other major donor stories have not turned out as well. Tom Petters is now a convicted felon and inmate serving a 50-year sentence at the Leavenworth United States Penitentiary. Before his 2009 conviction for operating a $3.6 billion Ponzi scheme, Petters was the high flying CEO of Minnesota-based Petters Group Worldwide, which owned Sun Country Airlines and the Polaroid brand, and was a gregarious community volunteer and generous donor. For two months in 2008, the Petters' fraud was considered the biggest in U.S. History -- before being overwhelmed by the even more historic $65 billion Bernie Madoff swindle.

Like Madoff, Petters took advantage of trust-building religious networks – in Petters's case evangelical Christians – plus active engagement in evangelical and Catholic-related charities and colleges. Once the Petters Company collapsed, more than 50 nonprofit organizations were revealed as defrauded investors of their own funds, or as embarrassed recipients of contributions from a formerly respected (and now tainted) donor. The embarrassment soon turned to pain, when a receiver appointed by the bankruptcy court issued demand letters and threatened suit to "clawback" the contributions as ill gotten gains of a

New and Renewing Members

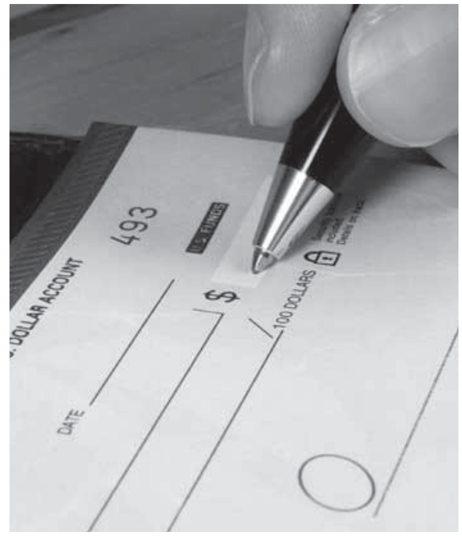
- Alliance for Justice
- Appleseed Network
- Bank of America Charitable Foundation, Inc.
- Blue Shield of California Foundation
- Boston Foundation
- CareOregon, Inc.
- Center for Effective Philanthropy
- Communities Joined in Action
- Discount Foundation
- Dominion Solution Corp
- Emerging Practitioners in Philanthropy (EPIP)
- Forsyth County Public Library
- Foundation for the Mid-South
- Hill-Snowdon Foundation
- Humboldt Area Foundation
- Jessie Smith Noyes Foundation
- John D. and Catherine T. MacArthur Foundation
- Kresge Foundation
- National People's Action
- People Organized for Westside Renewal (POWER)
- Polk Brothers Foundation
- Silicon Valley Community Foundation
- Social Justice Fund Northwest
- Southeast Asia Resource Action Center (SEARAC)
- Warner Foundation
- William Caspar Graustein Memorial Fund

fraud that need to be returned to the victims of the fraud. Minnesota's fraud statute allowed the receiver to look back six years for contributions, regardless of whether the organization had any reason to know of the fraud, or whether the funds were already spent (such as Cathedral High School having used the funds for an elevator).

So back came the Petters contributions from 15 organizations in response to the demand letters, including Miami University in Ohio ($5 million, ironically designated for the Petters Center for Leadership, Ethics and Skills Development), and St. John's Abbey in Collegeville, Minn. ($2 million). Petters' case receiver Doug Kelly also has filed 16 clawback suits against nonprofits, including the Breast Cancer Foundation and the College of St. Benedict. Quietly the Petters name was removed from college and school buildings and web sites.

Charities and universities commonly seek to protect their liability and their reputation through the use of gift acceptance policies: that is, internal rules designed to ensure that the source and conditions of contributions are in the best interests of the institution. Yet, charitable institutions generally lack detailed knowledge of the thousands of businesses operating in their region, which puts them at a disadvantage in vetting contributions for potential future clawback claims, let alone awkward revelations. Universities discreetly check credit and scan legal filings to confirm the likelihood of payment before they announce major gifts, especially at campaign launch. From hard experience capital campaigns have learned to include "bad boy" clauses in naming agreements as part of their gift acceptance policy, so that all sides know the name will be removed in the event it becomes a public relations liability for the receiving organization.

Less clear for fundraisers are rela-



tionships with noncontroversial donors whose previous business practices later become questionable. Bob Cole and Ed Gotschall, founders of New Century Financial, the now-bankrupt and formerly second largest U.S. pioneer of the subprime mortgage market, left 7,000 employees jobless and facilitated the movement of hundreds of thousands of low-income homeowners into mortgages they couldn't afford and sometimes lost to foreclosure.[2] Cole and Gotschall left the firm and sold most of their stock six months before its collapse in 2007.

Where are they now? When the Orange County Register asked Cole and Gotschall, "What are you doing these days?" they responded that they "are very involved in philanthropy and are focused on giving back to the community," publicly promoting their contributions to the Christopher Reeve Paralysis Foundation, the Children's Hospital of Orange County, the Ocean Institute, the Boys & Girls Club of Laguna Beach, the Orange County Council of the Boy Scouts of America, the Outdoor Education Center in Irvine, South Coast Repertory, and Santa Margarita Catholic High School.[3]

The same story has been repeated throughout the financial crisis – and before – from Michael Milkin to Fannie Mae, where charitable activity is one part of the equation to offset in the public mind the aggressive business practices that lead to enormous private gains. Clearly, no charitable organization would intentionally whitewash the image of those who have made fortunes from predatory business practices, but organizations tend to accept contributions from virtually any source. The top 1 percent targeted by Occupy Wall Street are major underwriters of everything from Newark Public Schools to the Harlem Children's Zone ($20 million from Goldman Sachs) and Teach for America ($50 million from the Walton Family, majority owners of WalMart).

An uncomfortable reality for school districts and any nonprofit is that large sums of money bring conditions and suggestions. Like college presidents, urban school superintendents are spending increasing amounts of time with major donors, who bring their own ideas about what the schools should be doing. In Newark and Washington D.C., that has led to very public squabbles about who is really running the schools and what role is left for elected school board boards.

In the end, not all donations should be sought or accepted. When those who gain great wealth leave destruction and misery in their wake, it seems premature to elevate them to the status of philanthropist. In the spirit of the eighth step in Alcoholics Anonymous's 12-Step Program, they should be urged to seek help first by "Making a list of all persons we have harmed, and be willing to make amends to them all." ■

Jon Pratt is executive director of the Minnesota Council of Nonprofits.

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Philanthropy and Inequality: What's the Relationship?

By Kevin Laskowski

> *"Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?"*
>
> *—F.B. Heron Foundation*[1]

This is supposed to be a "golden age of philanthropy" in the United States.

In 1999, Boston College researchers John Havens and Paul Schervish estimated that, from 1998 to 2052, some $6 trillion of a $41-trillion intergenerational wealth transfer would make its way to charity.[2] In the decade following that prediction, the number of U.S. grantmaking foundations grew by more than half; total foundation assets increased by a third, and total grant dollars doubled.[3] The philanthropic growth is not limited to foundations. The number, total giving and contributions to donor-advised funds and other giving vehicles have increased dramatically, and new hybrid organizations – low-profit limited liability corporations (L3C) and benefit corporations, among them – are attracting attention.

This "second great wave of philanthropy,"[4] however, has occurred amid increasing economic and social inequality in the United States. The Occupy Wall Street (OWS) movement has succeeded in drawing attention to another wealth transfer, one perhaps more relevant to philanthropy's growth in recent years: the transfer of a growing share of national income and wealth to those at the top. Drawing inspiration from the Arab Spring, OWS asserts that the richest 1 percent "are writing the rules of an unfair global economy that is foreclosing on our future."[5]

The protestors have a case: After World War II, workforce compensation paralleled increasing productivity until the late 1970s when, in what has been called the "Great Divergence," those at the top, especially the top 1 percent, began to capture a steadily increasing share of American income.[6] By 2007, the richest 10 percent of Americans controlled two-thirds of Americans' net worth.[7] In 2008, the wealthiest 10 percent earned almost the same amount of income as the rest of the country combined.[8]

Commenting on the OWS protests, Albert Ruesga, president and CEO of the Greater New Orleans Foundation, wondered what a growing philanthropic sector had to say for itself:

> "Whereas taken together the collective actions of 90,000+ foundations in the United States have failed to eliminate the most basic injustices in our society. Whereas after decades of work foundations have failed to alter the most basic conditions of the poor in the United States…Be it therefore resolved that the 99% should ask: 'What the **** y'all been doin'?'"[9]

What *has* the philanthropic sector been doing, and why has it had so little success in combating persistent inequality?

Part of the answer can be found by looking at the growth in philanthropy as part of a broader economic trend of financialization. While grantmakers can function in ways significantly different than investment firms, as the F. B. Heron Foundation and others have pointed out, foundations and similar giving vehicles are indeed investment vehicles that use excess cash flow for charity. Without a robust set of normative expectations about how that wealth is stewarded and eventually distributed, these vehicles default to the short-term financial interests they are designed and marketed to serve.

Foundations and other philanthropic vehicles are simply tools that can be put to any number of uses. If we care about our democracy, we have to ensure that reducing inequality is one of them.

PHILANTHROPY AND INEQUALITY

Philanthropy's golden age did not emerge fully formed from the wallets of a new breed of strategic grantmakers. The forces that drove increasing inequality similarly powered philanthropy's rapid rise.

In some ways, this is to be expected: people often are generous. Rising inequality increases the likelihood of surplus wealth and the chance that some of the surplus wealth held by the richest among us will exchange hands as charity. Economist Edward Wolff found that inequality explained "changes in contributions relative to personal wealth, but the strongest effect is from the wealth share of the richest 1 percent."[10]

At the same time, we should expect inequality to decrease somewhat as philanthropy increases. The increase in philanthropy should mean an increase in at least some exemplary foundations addressing inequality explicitly in their grantmaking, or at least becoming more effective at achieving broad-based impact. Grantmakers can prioritize the needs of the most vulnerable and support programs that might not otherwise be available to communities in need. Foundations can directly challenge systemic inequities and fund advocacy or community organizing. At the very least, philanthropy can serve to direct private wealth to public purposes; it can increase social capital and eases class tensions by putting disparate groups in touch with one another. We should expect the relationship between philanthropy and inequality to change and for inequality to decrease with philanthropic giving framed by these values.

It has not, so Ruesga's question remains: what has philanthropy done?

PHILANTHROPY AS FINANCIALIZATION

Philanthropy is far from insulated from the economic health of the private sector. It is a creature and extension of the market. Philanthropy is, in part if not wholly, a product of the recent rise in inequality and the financialization that powered it.

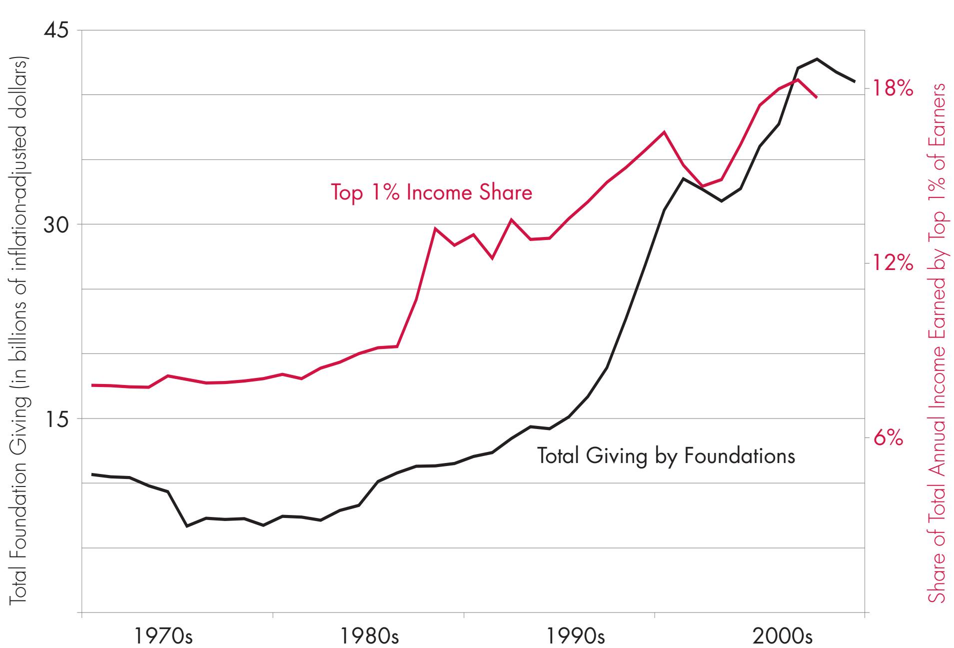
Financialization is the term given to the decline of manufacturing and the rise of banking and investments in recent years. It "refers to the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level."[11] Since 1980, between 5.8 and 6.6 trillion dollars were transferred to the finance sector.[12] Not only does finance make up an increasing share of gross domestic product (GDP), but even nonfinancial firms have increased the portion of their businesses involving financial services. Furthermore, financialization has played an important role in the decline of labor and the rise in executive compensation, both implicated in the rise of inequality. According to sociologists Ken-Hou Lin and Donald Tomaskovic-Devey, financialization can explain "more than half of the decline in labor's share of income, 10 percent of the growth in [executives'] share of compensation, and 15 percent of the growth in earnings dispersion between 1970 and 2008."[13]

The resulting inequality, in turn, further drives financialization. The top-heavy rewards of a financialized economy create a demand for more promising investments. The recent "innovations" in derivatives, collateralized debt obligations and credit default swaps implicated as fundamental causes of the current financial crisis and recession are thought to result from this trend.[14]

What does this have to do with philanthropy? The field has begun to show signs of the financialization affecting the rest of the economy.

There is increased emphasis on financial intermediaries. For nearly five decades, charitable giving as a share of GDP has remained around 2 percent.[15] Charitable giving has not increased from this vantage; it has instead shifted. In 1978, foundations received 4 percent of charitable dollars; by 2010, foundations were receiving 11 percent of charitable dollars.[16] In effect, the rise of philanthropy means that less is going "directly" to charity as a share of GDP, and more is moving to a larger and larger set of competing financial intermediaries. Additionally, more and more nonprofit organizations are offering to serve as these intermediaries.

THE NEW GILDED AGE OF PHILANTHROPY



Many charities, including community foundations, churches, universities and hospitals, can sponsor donor-advised funds.[17]

These developments are not, in and of themselves, unwelcome: philanthropy *is* a form of financialization. Inequality drives financialization, and sometimes it takes the form of philanthropy. Foundations, charitable trusts, donor-advised funds and supporting organizations are all financial instruments marketed to the affluent as tax-advantageous vehicles for surplus wealth. The problems come when short-term financial interests are prioritized over the public interests for which these vehicles are created and for which they are granted substantial tax privileges.

If philanthropy as a field has had a difficult time combating inequality, it is partly because, much like firms in the rest of the economy, a significant and growing part of the sector is more responsive to financial rather than "product" considerations. The sector has become more responsive to the financial health of some of its endowments and some donors' demands than it is to some communities' needs. In finding that giving varies with inequality, Wolff also found – surprisingly and disappointingly – that giving varies more with wealth than with poverty,[18] a fact that would have been obvious to any nonprofit that solicits foundations after a dip in the market.

Without the additional expectation that philanthropy must do something to disrupt inequality, a financialized philanthropy (one that increasingly gives to intermediaries as opposed to charities directly) defaults to what financialization does elsewhere: reinforce inequality.

CHAMPIONING EQUALITY

While we should encourage philanthropy to increase with rising inequality, we should, simultaneously, expect inequality to decrease as philanthropy increases. Otherwise, a foundation or any other giving vehicle is little more than "a private investment company that uses some of its excess cash flow for charitable purposes." The public expects more and we should expect more of ourselves as a field. Otherwise, as Ruesga says, what are we doing?

Those who steward and manage philanthropic vehicles should ensure that more of their giving directly benefits charities in ways that increase the public benefits of their work and work intentionally to disrupt inequality. Leaders can do this, for example, through robust payouts and mission-related investing, and by funding advocacy and organizing on behalf of and by underserved groups.

A protest outside Philadelphia City Hall dubbed Occupy Philadelphia. Photo by Jodi Jacobson.

Ultimately, greater responsiveness on these issues is also in philanthropy's best interest. Without significant progress in easing disparities, philanthropy will have a very hard time continuing to justify its tax-privileged place during a time of economic struggle. Philanthropy will be seen as emblematic of unjustified inequalities rather than the inspired and voluntary largesse it purports to be.

The "natural state" of philanthropy is not "underperformance."[19] The default is financial performance. All philanthropic products succeed on some level as donor-service products. The question is whether the public gets a similar benefit, and whether the product succeeds as a community-benefit. From the perspective of inequality, philanthropy does not seem to be doing that. On the contrary, it seems that philanthropy serves to reinforce inequality as much as – if not more than – it serves to disrupt it.

Stanford professor Rob Reich wrote that philanthropy has always had an "uneasy relation to equality":

> Philanthropy is not always a friend to equality; it can be indifferent to equality and sometimes a cause of *in*equality … when philanthropic activity actually worsens inequality, any justification for the state's provision of special tax treatment to philanthropic organizations is considerably weakened and perhaps entirely eroded.[20]

Absent significant progress in combating inequality, the larger question of what exactly it is that philanthropy does for society and the communities it purports to serve will remain. Inequality has risen to a level not seen since the Gilded Age, the name some gave to American philanthropy's first golden age. It would be a pity if the second golden age of philanthropy proved as gilded as the first. ■

Kevin Laskowski is research and policy associate at the National Committee for Responsive Philanthropy. He is grateful to Samantha Davis and Chanon Bell for their research assistance.

Without significant progress in easing disparities, philanthropy will have a very hard time continuing to justify its tax-privileged place during a time of economic struggle.

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The Funding Exchange Model of Grantmaking

By Barbara Heisler

Barbara Heisler

Philanthropy through foundations is largely defined by its honorable goals and the potential for far-reaching impact through grantmaking. In crafting each strategic plan and each time we revisit our missions and values, the end results we generally desire for our communities include justice, equality, liberty, autonomy, understanding, access, fulfillment and beyond. If we can imagine it, we can work toward it – and we set our grantmaking in motion in support of moving resources to organizations that we believe align with our goals. This has been our course, and over the last 35+ years, we've seen a phenomenal growth in foundation giving. According to the Foundation Center, in 1975, almost 22,000 foundations accounted for $1.94 billion in annual giving; in 2009, more than 75,000 foundations contributed nearly $43 billion. Foundation assets also have swelled – growing from $30 billion in 1975 to more than $680 billion in 2009.[1] Yet, in examining the field, there are only a handful of examples of extremely successful philanthropy. By and large, those lofty goals for our communities remain undone.

Funding Exchange stakeholders believe that models of grantmaking exogenous to local community leaders stymie foundation efforts to create lasting change in our society. In fact, traditional grantmaking initiatives have seen impacts far below the stated goals. Recent publications attribute the problem to funders that failed to engage grantees and other stakeholders in identifying problems and designing solutions. In a 2008 survey conducted by *Grantmakers for Effective Organizations* that looked at the attitudes and practices of staffed grantmaking foundations in the United States, it was found that only 54 percent indicated that it is "very important" for effective grantmaking that their organizations solicit outside advice.[2] A similar proportion (52 percent) said it is "very important" to collaborate with external groups and organizations.[3] Even with this knowledge, most funders continue to stop the engagement at the door marked "decision makers." Yet our field does have strong examples of success. Affecting real change through philanthropy has been happening across the country for more than 30 years, as evidenced by a small group of funders with a unique model of grantmaking. Inviting people who are directly involved in front-line, grassroots work to sit at the decision makers' table has been key to this success.

30+ YEARS BUT STILL UNIQUE

Funding Exchange (FEX) is a social justice foundation working toward "change, not charity" and serves as the national hub of a network of regionally-based foundations. Started over 30 years ago, FEX is charting a bright, bold future together with our loyal stakeholders and the next generation of multiracial, cross-class donor activists.

Funding Exchange, which operates as a partnership of activists and donors, began in the 1970s when small groups of donors and community organizers banded together in Boston, Philadelphia and San Francisco to find new ways to support social movements. FEX coined the phrase "change, not charity" because its architects believed in the importance of tackling the root causes of poverty and injustice. Most of the founding donors had inherited wealth, which provided the seed money to launch nearly all the community foundations in the network. FEX's goal is to provide permanent institutional support for grassroots social justice and movement-building work across the country. Today, FEX focuses on developing its network of 16 (and growing) member funds while also making grants in places not currently served by funds in the network.

ACTIVIST-ADVISED MODEL

Funding Exchange network funds pioneered a unique activist-advised model of grant making: democratizing philanthropy by handing grantmaking decisions to boards of activists that represent the diversity of the affected community. Thirty years after announcing its first round of grants, FEX's commitment to community control of grantmaking continues to be innovative and distinguishing. FEX funding panels are made up of activists who, once a year, review relevant proposals, conduct site visits with potential grantees and recommend where the grant monies should be allocated. The Funding Exchange model has inspired some of the newer progressive foundations to model their grantmaking differently. FEX's concern for involving activists in its grantmaking has generated some of the most cutting-edge funding this country has seen.

In Boston, **Haymarket People's Fund** has been funding groups that organize or provide resources for organizing around a wide spectrum of issues since 1974. Funded groups must engage in grassroots organizing or provide resources for grassroots organizing efforts. Haymarket's guidelines speak to the values that FEX member foundations share.

Organizations must demonstrate the following characteristics:

- Having a clear strategy aimed at an equitable distribution of wealth and power.
- Building strong leadership from the group's constituency, representative of and accountable to the organization's membership.
- Engaging in an ongoing effort to develop new leadership.
- Committing to building the organization and involving previously uninvolved people.
- Demonstrating organizational capacity to successfully raise funds, manage funds, and carry out plans.
- Managing an organizing campaign or project with specific goals.

FEX funding panels ask deeper and different questions about funding proposals than most mainstream funders. They examine potential grantees' understanding of the root causes of the problems they face and of power structures and their impact. They ask what kind of racial and economic analysis informs their work and try to determine what kind of institutional or systemic change grantees are trying to create.

The Funding Exchange model of activist-advised grant making encourages potential grantee organizations to think differently about what they write in their proposals. On the web site for **Headwaters Foundation for Justice** in Minneapolis, staff write, "We remind grant-seekers that the particular committee that reads your proposal is made up of those who are also working on the front lines of change. They understand the issues. They see the hurdles. And they want to support everyone who shares the passion. Our advice is simply this – make the case for permanent, positive change."

Key to all of the FEX funds is assessing how a potential grantee is accountable to its community, going beyond tokenism. This includes asking if the group's members or constituency are the ones making all the important decisions and if the group's leadership is from the community.

The Haymarket Funding Panel, made up of community organizers and activists, is expected to make all its decisions within Haymarket's criteria and ethical guidelines, and policies developed by its board. All panel members review each proposal within reading teams to establish accountability. It is critical that each proposal is read thoroughly by more than one person. Then, the Funding Panel meets to review them. This is often referred to as the "first cuts" meeting, where Funding Panel members decide which groups to reject and which to interview. After the first cuts meeting, the Funding Panel arranges for interviews with applicant groups.

A TRANSPARENT PROCESS

Uniquely, at Haymarket, prospective grantees are not interviewed individually, as it is believed to be beneficial for multiple groups from an area, or those doing the same organizing work, to have an opportunity to come together. This is not a competitive environment but one meant to foster ties. Groups respond to the Funding Panel's inquiries and have a chance to ask questions of one another, as well as network. This has resulted in shared work and alliance building. Indeed, following this process, the Haymarket Funding Panel has reported on instances in which grantees have asked to allocate some of their grant to another organization in support of shared work. Lastly, at a "final cuts" meeting, Funding Panel members decide which groups to fund and at what levels.

CHANGING THE POWER DYNAMICS

Since its founding in 1981, **Crossroads Fund** in Chicago has challenged the typical power dynamics of philanthropy by working with a grantmaking committee composed of community organizers and activists. Crossroads Fund's Policy Statement from 1981 states:

> We intend to incorporate into our decision-making process the advice and guidance of the types of organizations we wish to fund. Thus we envision a donor-community board and a funding process, which is conducted in an open and non-hierarchical manner.

Its policies then and now explicitly foreground an understanding that the people who best understand the needs of grassroots social justice organizations are those who are themselves affected by – and working to address – grassroots social justice issues. Crossroads Fund also was unique amongst Funding Exchange member funds when it decided to include donors as well as activists in the grantmaking process (recognizing these two groups are not wholly separate), believing that building partnerships between donors and activists contributes to social change. Other FEX funds, and the Funding Exchange itself, have since adopted this practice.

Further, in the past several years, Crossroads Fund's Seed Fund grantmaking committee has evolved to include colleagues from mainstream foundations in addition to activists and donors. This effort is seen as an opportunity to educate mainstream philanthropic staff about the value of the FEX grantmaking strategy and the need to support grassroots social justice organizing. Working with traditional foundations to increase their support for grassroots social change projects has been a part of Crossroads Fund's mission since its inception, and including philanthropic colleagues in its grantmaking helps to achieve this goal.

OPENING GRANTMAKING FURTHER

The August 2009 grant cycle was the last time the 29-year old **Wisconsin Community Fund** (WCF) used a community grantmaking *committee*. Instead, it has transitioned to a short-lived, low-bureaucracy participatory *process*, which repositioned WCF closer to the organizations it supports. Utilizing Technology of Participation (ToP®) and Open Space Technology methods, it aims for larger community involvement in the grantmaking process and maximizing results by leveraging more resources at once.

The Technology of Participation teaches team members how to collaborate on projects and group facilitators how to effectively lead their team, while Open Space Technology is an intentional leadership practice that highlights common ground among diverse groups of people and encourages cooperation.

WCF had been dealing with a historic power struggle between board members and the grant allocation committee for years. A deep divide existed between the core activists who conducted site visits and the board members who questioned their decisions. Each side resented the other, and key people left the organization due to the tension. One thing that everyone remaining agreed on was that they wanted to start fresh and move on. They just weren't sure how to do it.

When Jeff Streier, former WCF program coordinator, brought up the possibility of allocating funds through an Open Space Technology event, the staff immediately recognized that this solution would address everything they wanted out of their grant cycle: building solidarity, accountability and transparency; less competition among grantees; more collaboration for funding; and ultimately more effective social justice movements. In addition, involving donors more directly brought in new perspectives, resulting in increased giving and engagement with a core WCF constituency.

However, there was a significant concern that marginalized constituencies would not feel empowered to take the lead in self-organized groups. The board did all that it could to engage people from diverse communities and to address power dynamics. In the end, the board approved the idea mainly because traditional grantmaking processes were not participatory; uncomfortable power dynamics plagued the organization and everyone was simply ready for change. Figuring that no solution would be perfect, the WCF community took a chance with Open Space. To date, the community grantmaking events begin with a theme, rather than an agenda, and comprise the following questions:

- What are you passionate about in creating social justice and strong equitable communities in WI?
- What are you willing to take responsibility for?
- What other community assets and opportunities do you have, and how could you share them?
- How should we allocate our dollars?

On April 10, 2010, WCF piloted its Community Grantmaking event with a group of 23 board members, staff, donors, potential grantees and activists. In one day, these participants created grant proposals on the spot, raised an additional $3,000 in response to a matching challenge from a major donor during the day, and decided on grant allocations totaling $10,000. Two-thirds of the participants in the room were activists and each group walked away with a grant.

One unique part of the day was the inclusion of a "Community Asset Bank" (posted on the wall). Participants could add expertise or services to the bank throughout the day, such as program development or lending out vans. These nonfinancial items helped groups save money that might normally come from WCF grants.

INNOVATION CONTINUES

These examples are only the beginning. Throughout the FEX network and around the country, new models of grantmaking are being developed that harness resources to strengthen partnerships between community members and donor activists, continuing to challenge the power dynamic inherent in most grantmaking paradigms.

In working to attain its goals, FEX not only employs a model of inclusive decision making, but it sees itself on equal footing with its communities and constituencies. Working together – sharing power, ideas, space, strategies and contacts – helps FEX create best practices of achieving parity in real time, and enhance efforts for change brought forward and supported more widely. ■

Barbara Heisler is executive director of Funding Exchange.

Notes

1. Foundation Center, Foundation Growth and Giving Estimates, Current Outlook, 2010 Edition.
2. Grantmakers for Effective Organizations, Is Grantmaking Getting Smarter? A National Study of Philanthropic Practice, 2008.
3. Ibid.

New Constituencies for the Environment

(continued from page 1)

justice groups. These organizations were dynamic in many ways, but usually smaller and more grassroots than the foundation's typical grantees. The Environment Program team recognized that it needed to adjust its own grantmaking approach to invest effectively in these organizations. Below are some examples of the approach and strategies that often contrasted with the large foundations' typical *modus operandi*.

We conducted pre-grantmaking outreach that was more extensive than usual. We sought to find areas of overlap with the Environment Program's strategies that were most likely to have the most impact, whether regionally or at the state level, by interviewing potential grantees about their organizational capacity and priorities over several months. A strategic decision was made to focus on the largest sources of air pollution and some related climate and energy concerns, rather than spread ourselves too thinly. Air pollution consistently polled as the top environmental concern in California. Many interviewees were pleasantly surprised by this degree of outreach coming from a large foundation. It was telling commentary on foundation approaches as seen by grassroots groups. The Environment Program team realized that there was room for improvement in communications during times like this. Now, there are now stronger communication protocols in place across the board at the Hewlett Foundation.

We engaged communications consultants to work with grantees, which made a huge difference to small and medium-sized grantees' expertise in dealing with journalists and editorial boards, and sharing their concerns with elected leaders. The influence of ethnic media was under-appreciated and changes were made. For example, in partnership with an ethnic media leader, the pollsters who conduct the annual environment poll funded by Hewlett pioneered having separate ethnic media briefings that included some of our grantees. Away from the media spotlight, there were briefings at which grantees could ask questions that they might not ask in a larger, more public setting. Addressing these grantees' needs improved the effectiveness of our grantmaking.

One of the most frequent complaints from the potential new crop of grantees was that communication and requests for collaboration from larger NGOs can come late in the game on campaigns, and can foster mistrust and flawed strategies. As a result, we invested heavily in improving information sharing and strategic collaboration among regional and state grantees. When California adopted its landmark diesel truck/bus rule after a strong show of support in public hearings, several members of the environmental community said it was the best collaboration they had seen among the different wings of that community in some time. More grassroots organizations were strategically engaged and consulted. The win was all the more impressive because it came in the midst of the economic downturn.

Hewlett's targeted approach to organizational effectiveness grants was incredibly helpful, particularly for smaller organizations. After becoming a grantee, there is the opportunity for a smaller grant to pay for a consultant to address an area of concern. In administering these, more frank conversations about organizational needs emerged and grantees chose their own consultants. One of the most popular requests was to build long-term fundraising capacity. Although money is not the sole problem for smaller environmental groups, the underfunding of these groups must be addressed to help generate the pressure needed for solutions that are adequate to the scale of the problems that we face.

We ensured researcher consultations with grantees before, during and after reports were commissioned, and were very careful about selecting scientists and academics who were willing to sit down with grantees before research began, meet with them when results were preliminary to answer questions, and then have separate grantee-only briefings after publication. This approach with smaller grantees enriched both sides, helped build trust and encouraged peer learning. It left grantees better able to use research to educate their members and more secure when quoting the data. Researchers often were excited to better understand how grantees wanted to put their work to use, and gratified to see their technical skill increase.

The foundation's reputation helped give grantees greater access to influential leaders. Two examples were meetings organized in partnership with the California Latino Legislative Caucus Foundation and another with the Black Chamber of Commerce Foundation. Smaller groups would have had a tough time pulling leaders in for one day to focus on air pollution, energy and climate concerns. We helped grantees get more face time than is typical and dispel many of their own leaders' old notions about "environmentalists." Grantees saw an increase in the attention paid to air pollution issues, for instance from minority leaders, after hearing from groups in their own backyard suffering the ill effects of air pollution. In addition to leveraging Hewlett's convening power, we also provided as much multiyear and general operating support as possible, as Hewlett tries to do across the board with foundation grantees.

One frustration was that sometimes there was too much hesitation about significantly scaling up small or medium-sized organizations, even after many had proven themselves able to handle what in some cases were the largest grants they had ever received from a major foundation like Hewlett. Is scaling up hard? Absolutely. This is all the more reason to have more test cases, thoughtfully done with the help of the right organizational consultants and evaluators, to better understand what works. Staying in the current holding pattern will not help us reach our desired destination.

IMPACT AND CONCLUSIONS

- Funding smaller organizations is more time-intensive, especially in the early stages, than funding big organizations where a foundation can write a large check, have a couple of check-ins if at all, and wait to hear the results in a year. But the effort to fund and grow the small and medium-sized organizations delivers. It is vital if we hope to make our air, water and land healthier for everyone. Hewlett's funding did not just improve how much organizing power was behind the same old strategy. It improved our grantmaking strategies, as well as the effectiveness of the pollsters, researchers and consultants who worked with this newer set of grantees.
- Not every organization that we invested in worked out and some efforts died on the vine. Some barriers – of capacity, trust and leadership – could not be overcome. Some organizations were able to leverage receiving support from a major foundation like Hewlett to improve their fundraising and strategies better than others. This is not a story of giving to organizations without high expectations, or giving equally to all out of a sense of "fairness." This is about strategic, patient but high-reward grantmaking where everyone learns. It meant evolving from the foundation's typical style of operation and ensuring that any consultants or experts that we engaged were willing to adjust their work style if the situation required it to have impact. To keep us on track, we engaged savvy evaluators who were not slaves to numbers, but who make sure to help grantees quantify what is meaningful and tell compelling stories about qualitative results. Payoff is significant in some ways that are measurable and some that are not easy to quantify.[1]
- Mainstream organizations sometimes are unfairly described as completely stuck when it comes to reaching out beyond their typical base and diversifying their leadership. We need instead to shed light on those leaders who are making changes. No side has a monopoly on sometimes getting stuck within its own narratives, based on very real negative experiences, which can prevent us all from seeing efforts to change. This limits the progress and collaboration that are sorely needed to push back on efforts to weaken environmental and health safeguards.
- So, to which policy wins did this investment in advocacy by grassroots organizations contribute? At the nation's largest gateway for receiving imports, the Los Angeles-Long Beach ports, air pollution from trucks is now 70 percent lower as a result of a program the grantees helped to advocate for. At the state level, California's standards for heavy-duty diesel trucks – an estimated one million traverse the state – are among the strongest in the nation. It is estimated that billions of dollars in health-related costs will be saved as a result. In California's most polluted region, the San Joaquin Valley, science and medical expertise must now be better integrated into clean air decision making, and many have commented that the public process has significantly more – and more effective – participation than in the past. When some interest groups tried to weaken California's landmark climate change efforts, there was a stronger web of relationships for the field to build on to educate and organize. Of course, many foundations contributed to a wide range of organizations on each of these issues. But independent feedback indicates that the field has benefitted meaningfully from Hewlett's channeling more funding into the NCE organizations.

Given the scale of our environmental problems and the complications of our politics, we need to scale up the resources for small and medium-sized organizations that are doing great work. It needs to be done with care, humility and high standards. It is needed to win the battle to achieve growth that is healthy for businesses, people and the environment.

Danielle Deane served the maximum eight-year program officer term at the Hewlett Foundation from 2003–2011. She designed, built and managed the Environment Program's New Constituencies for The Environment initiative. The case study represents her views and not necessarily those of the Hewlett Foundation.

Notes

1. Paul Brest and Hal Harvey. *Money Well Spent: A Strategic Plan for Smart Philanthropy*, 2008.

MEMBER SPOTLIGHT

The California Endowment

Los Angeles, CA

www.calendow.org

Est. 1996

An interview with The California Endowment President & Chief Executive Officer Robert K. Ross, M.D.

NCRP: The California Endowment has increased its funding of advocacy and community organizing over the years. Why has the foundation's support of these strategies grown?

RR: One of the myths in philanthropy today is that giving away money must be easy – and it's not. A second myth is that philanthropy is about the business of taking risk – and in my experience, philanthropy is far more risk averse than typically assumed. Another myth, in my opinion, which relates to this question of advocacy, is that philanthropy needs to worship at the altar of innovation. My view is that while innovative ideas and the search for problem-solving innovation seem to represent the holy grail of philanthropy, innovation is overvalued. I think what's undervalued and underappreciated is the issue of power, and that the root of most of the social problems that plague our nation – health reform, education reform, fiscal government reform, housing reform – are not fundamentally innovation problems but power and inequity problems. As a result of that, we have over the years increasingly been attentive to issues of advocacy, voice and power building in underserved communities and populations, and our grantmaking reflects that.

NCRP: The California Endowment and its leaders have taken an increasingly active role in directly promoting changes in the policy or regulatory environment, for example, the recent amicus brief to the Supreme Court. Why does the foundation feel it's important to take stands like these?

RR: Over my decade in philanthropy, I've underappreciated the bully pulpit as a resource in the tool belt of philanthropy. Everyone understands that we're grantmakers, but philanthropy has tools and assets in its belt beyond grantmaking; sometimes they're in the form of convening and facilitation and sometimes they're in the form of amplifying voice. We'd rather see our grantees rallying to use voice and assert issues of equity, and we don't intend to speak for them. In this particular case of health reform, the folks that we talked to from a strategy perspective, said there was a role the California Endowment could play as an organization that's uniquely positioned, cares about what happens in the health care system, but doesn't stand to financially benefit in any way from the rulings. That was part of the reason we asserted support for the Amicus Brief in favor of the Affordable Care Act. We've begun to pick our spots and use our voice when we think having our voice has a unique benefit.

NCRP: What else is going on at the Endowment?

RR: We've jumped into the swimming pool on mission investing and are now using a portion of our investment portfolio to address economic development and community development needs in the communities. We had a very successful first go-round with it when we engaged community leaders about how to reduce childhood obesity in their communities. They asked if we could help them gain access to fresh fruits and vegetables in disinvested communities, so we created a fresh foods financing fund called Fresh Works, and deployed $30 million of our investment portfolio toward incentivizing independent grocers to bring fresh produce to these food desert communities. We now have a $240 million fund with 40 potential deals in the pipeline. We're not pretending to solve their poverty and unemployment problems, but we can contribute using our investment portfolio in some way toward their economic development and community development challenges. It's a small thing in the scheme of this recession but I think our board feels very good that we were smart enough to listen and take the risk of doing something we'd never done before.

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