The New Philanthropy: Its Impact on Funding Arts and Culture

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In the final years of the twentieth century, there was a great deal of talk about a phenomenon called the “new philanthropy” that had altered the philanthropic landscape. Broadly speaking, the term “new philanthropy” refers to a variety of late-twentieth-century developments, including the significant growth of individual giving in the 1990s, the creation of new foundations, the rise of such new funding mechanisms as charitable gift funds and e-philanthropy, the expansion of community foundations, and the emergence of venture philanthropy. Although no single definition can capture this phenomenon, it was characterized by three attributes: an increase in the available funds, an expansion in modes of giving, and a greater democratization of philanthropy.

In this article I look at these new dimensions in charitable giving over the last decade—especially the rise of venture philanthropy—from the vantage point of arts and culture. Venture philanthropy has bypassed the arts, but its rhetoric, principles, and priorities present challenges for arts and cultural institutions. Although venture philanthropy is neither as innovative nor as revolutionary as its proponents have claimed, some influential funders now look at philanthropic giving through a different lens and with a changed set of priorities. At the very least, arts and culture organizations need to be aware of these priorities and approaches to funding when formulating their own fund-raising strategies.

As this article goes to press, the weakening of the economy and the terrorist attacks of 11 September 2001 have set in motion profound changes in the funding world. A discussion of the specific impact of these events is beyond

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the scope of this paper. Nonetheless, I believe that however the ideas discussed here may be transformed, they will not be abandoned in the coming decade.

BACKGROUND

Philanthropic change at the end of the twentieth century was a response to large-scale societal influences that included technological innovation, the creation of enormous wealth, new demographics, government retrenchment, and the (apparent) triumph of the market economy. Each of these factors altered the philanthropic landscape in dramatic ways. New demographics—particularly the growing disparity between rich and poor—coupled with government retrenchment led to increased competition for private sector funds.¹

The creation of large new fortunes and the intergenerational transfer of old wealth greatly increased the amount of charitable giving. In 1998, the United States had more than 5 million millionaires and over 350,000 decamillionaires. The number of billionaires in the United States grew from 13 in 1982 to 170.² In addition, scholars have been forecasting intergenerational transfers of wealth of anywhere between $40 trillion to $136 trillion over the next fifty years.³ No doubt in anticipation of this enormous influx of new giving capacity, The Chronicle of Philanthropy reported “an unprecedented stampede by for-profit advisers and financial institutions into the philanthropic arena.”⁴ Despite the downturn in the economy, there are expectations that this trend will continue. Thus, as recently as April 2002, the New York Times reported that the Rockefeller family was setting up a philanthropic service to aid new philanthropists.⁵

In the 1990s, as a result of a burgeoning economy and a stock market boom, private sector giving more than doubled, going from $101.4 billion in 1990 to $124 billion in 1995 and then accelerating to $203.5 billion by 2000.⁶ Of that $203.5 billion, individual donors contributed 83 percent, or $168 billion; foundations contributed 12 percent, or $24.5 billion, and the corporate community (including corporate foundations) donated the remaining 5.3 percent, or $11 billion.⁷ Although corporate and individual giving almost doubled between 1990 and 2000, foundation giving more than tripled, jumping from $7.2 billion to $24.5 billion.

The last decade also saw some significant shifts in the mechanisms through which wealthy individuals dispense their charitable gifts. For the wealthiest Americans, the private foundation became the vehicle of choice. A recent article in Forbes Magazine noted that 75 percent of the wealthiest Americans give to charitable causes through their own foundations.⁸ For those who do not have the means or the desire to set up their own charitable vehicles, community foundations and charitable gift funds established by for-profit financial institutions have been playing an increasingly important role.

Foundations have been the fastest growing sector within philanthropy, with
a growth rate consistently higher than that of the economy as a whole. Foundation giving accounted for 7.3 percent of overall private sector giving in 1990. By 2000, its share of a much larger private-giving pie had increased to 12 percent. The explosion of this sector was a consequence of a booming stock market and rapid formation of new foundations. The number of active grant-making foundations increased twofold between 1987 and 2000, jumping to 56,600 from 27,700, with the vast majority of these formed in 1998 and 1999. Among the nearly 21,000 larger foundations active at the end of the decade, more than two-fifths were formed in the 1990s.9

Family foundations experienced the greatest growth. In 1998, 39 percent of all private foundations, or 18,276 foundations, were family foundations.10 In 2000, 24,434 family foundations represented almost half of all private foundations, controlled $197.7 billion, and gave away $11.3 billion.11 Although the vast majority of the new family foundations are small, the Bill & Melinda Gates Foundation, established in 1997 as a family foundation, has assets of $21 billion and has eclipsed every other foundation.12

Community foundations also grew enormously during the last part of the decade. A survey by the Columbus Foundation revealed that assets of community foundations reached almost $31.5 billion in 2000 and grants totaled $2.2 billion.13 Although gifts to these foundations reached $4 billion, up 13 percent from 1999, that change is significantly smaller than the 28 percent increase in 1999.14 Almost one quarter of these funds went to California foundations in 2000, with two Silicon Valley community foundations—the Community Foundation of Silicon Valley and Peninsula Community Foundation—receiving half.15

Private enterprise has made dramatic inroads into the world of philanthropy with the creation of charitable gift funds. Operating as donor-advised funds, they compete directly with community foundations. Pioneered in 1992 by Fidelity Investments, the Fidelity Charitable Gift Fund is the largest and most successful of these, with assets of $2.6 billion in FY 2001. In that year, it received slightly over a billion dollars in contributions and dispersed $700 million in grants.16 Donors receive a tax deduction for turning their assets over to a charitable gift fund; the fund invests the assets, which can be turned over to any 501(c)3 organization of the donor’s choosing on his/her timetable. Meanwhile, the gift fund receives a fee for managing the funds. The Vanguard Charitable Endowment Program had contributions of $169.3 million and disbursements of $45.1 million for fiscal year 2001; the Schwab Fund for Charitable Giving amassed $129 million and distributed $43 million in grants.17 These funds have proliferated to such an extent that the Chronicle of Philanthropy wrote that “donor-advised funds may soon be as ubiquitous as branch banks and mutual funds.”18

Of all the recent developments included in the new philanthropy, venture philanthropy captured the most attention from the media. It attracted many followers in the philanthropic community, particularly among new philanthropists.
with an entrepreneurial background. The years of venture philanthropy’s greatest growth were between 1997 and 2000. Although comprehensive information about venture philanthropy is not available, the Morino Institute concluded that the forty-two venture philanthropy funders included in its 2002 survey were capitalized at $400 million and provided nonprofits with $50 million in grants.\textsuperscript{19}

More recently, venture philanthropy, like the dot-com world that spawned it, has been slowing down. In 2001, only six new venture philanthropy funders appeared on the scene, and three ceased active grant making.\textsuperscript{20} In addition, some endowments are declining, and growth has been slowing in funding circles such as Social Venture Partners (Seattle).

The private sector has long been the lifeline for arts and cultural organizations in the United States, providing 35–40 percent of their funding, so it is of great concern that arts and culture did not share fully in the impressive growth in giving that I have summarized above.\textsuperscript{21} From 1990 to 2000, the average annual growth rate for private giving to arts and culture organizations was only 3.9 percent, a little more than half the 7.3 percent for private giving as a whole. Indeed the rate of growth for giving to arts, culture, and the humanities has lagged behind that of all other subsectors over the past decade.\textsuperscript{22} Of particular concern, the gap grew dramatically in the second half of the decade. During that five-year period, 1995–2000, the average annual growth rate for giving as a whole was 10.4 percent, whereas it was a meager 2.9 percent for giving to the arts.

When we look at how arts and culture fared at private foundations over the last five years, the most recent headlines seem upbeat. \textit{Arts Funding Update, 2002}, estimated that foundation giving to the arts doubled between 1996 and 2000, going from $1.8 billion to $3.7 billion.\textsuperscript{23} Adjusted for inflation, arts giving climbed 83 percent, or 16.3 percent annually during that period.\textsuperscript{24} Nonetheless, there was a slight erosion of support on a percentage basis as arts and culture’s share dropped from 13–15 percent in the 1980s to 12–13 percent in that period.\textsuperscript{25}

Although figures may not be comparable, it is interesting to note that arts and culture received a considerably smaller share of distributions by the charitable gift funds in 2001.\textsuperscript{26} Fidelity distributed 6.6 percent of its grants to arts and culture while Schwab and Vanguard distributed 7 percent. In dollar terms, Fidelity dispersed a staggering $46 million to arts and culture, and Schwab and Vanguard each provided about $3 million.\textsuperscript{27}

\textbf{VENTURE PHILANTHROPY}

In the late 1990s, venture philanthropy received great attention in the press and in the nonprofit community. Many journalists, scholars, and practitioners argued that, with its emphasis on concepts borrowed from the venture capital culture, venture philanthropy would revolutionize philanthropic giving. In its
2001 report on venture philanthropy, the Morino Institute boldly stated, “Philanthropy may be on cusp of the greatest revolution in the nonprofit sector since Congress granted it tax-exempt status in 1954.” For the most part, however, venture philanthropy was poorly understood. The buzz surrounding it created confusion as articles, surveys, and panelists, in their eagerness to catalogue a dramatic new development, lumped together funders, consulting firms, facilitators, and venture capital firms and described organizations that had not really gotten off the ground. For their part, funders, consultants, and facilitators seemed eager to use the glamour and rhetoric of the venture capital movement. Few commentators noted that the amount of money in these funds was small. None pointed out that most of the donor organizations were not private foundations with endowments, but public charities that were themselves dependent on fundraising to support their philanthropic efforts.

Like earlier forms of philanthropy, this new philanthropy reflected the ethos of its era. Venture philanthropy grew out of the economic boom of the late twentieth century as venture capitalists and technology entrepreneurs converted some of their large fortunes into philanthropic capital. The earliest practitioners of venture philanthropy were the Robin Hood Foundation and the Roberts Foundation, established by venture capitalists Paul Tudor Jones in 1988 and George Roberts (Kohlberg, Kravis, and Roberts) in 1986, respectively.

With capitalism ascendant at home and abroad and the entry of a new entrepreneurial class into philanthropy, it should not be surprising to find a reform movement within philanthropy that views venture capitalism as an appropriate model for charitable giving and uses its terminology. Thus grants are called investments; grantees are investees; and a program officer may be called a managing director or partner. Whether this is merely rhetoric or reality, it has a significant effect on grant making. Program officers handle fewer grants and develop a “hands-on” relationship with grantees through a greater investment of time, money, and expertise, whereas funders and grantees formulate benchmarks, performance measures, and exit strategies.

The theoretical underpinnings for venture philanthropy are found in the many publications of the Roberts Economic Development Fund (REDF) and in an influential article by Christine Letts, William Ryan, and Allen Grossman. Letts et al. criticize foundations for focusing on innovation rather than capacity building. The result of that focus, the authors argue, is that traditional grantmaking is unable to solve social ills and has left nonprofits trapped in a vicious cycle of dependency. When focus remains on research and development alone, promising initiatives remain just that, promising. They recommend that foundations model themselves after venture capitalists by making grants that build organizational capacity as well as programs. Venture capitalists have “a comprehensive investment approach that sets clear performance objectives, manages risk through close monitoring and frequent assistance, and plans the next stage
of funding well in advance.” The authors identify several practices that venture capitalists use to turn start-ups into successful enterprises. They include:

- strategies of risk management based on greater accountability,
- the development of performance measures,
- a “hands on” relationship between the funder and the start-up,
- sizable and long-term funding, and
- the development of exit strategies.

Other frequently cited but more controversial venture philanthropy strategies to make nonprofits more accountable or to foster sustainability include placing managing directors/program officers on the grantee/investee’s board and the creation of revenue streams.

Theory aside, an investigation into how venture philanthropy operates yields the following conclusions:

- There is great variety among venture philanthropy funders.
- Venture philanthropy is a very young, fluid model that is still evolving.
- It provides virtually no support for arts and culture.
- The mission of most venture philanthropy funders is a greater impediment to the support of arts and culture than its methodology.
- Finally, support for arts and culture is further limited by a general perception that they do not play an important role in social change.

These observations are based on a comprehensive study of nine venture philanthropy funders and are confirmed by two broader surveys published subsequently by the Morino Institute. My study, completed for the Irvine Foundation in 2000, examined the priorities and practices of nine of the most prominent or promising venture philanthropy funds to clarify how venture philanthropy operates and to assess its potential as a source of support for arts and culture.

Seven of the funders that I studied were at the forefront of the venture philanthropy movement. Two were chosen because they had the potential to be significant in the field or represented an interesting model. Each funder, with the exception of the Robin Hood Foundation and REDF, was established between 1997 and 1999.

Each of the funders surveyed for the Irvine report viewed the advancement of social change through new approaches to accountability and engagement as its primary goal. As venture philanthropy funders, they provide the wherewithal for capacity building—both financial support and technical assistance—to nonprofits led by social entrepreneurs. Typically, they do not support new programs so much as strengthen a nonprofit’s capacity to create social change. For the most part, these funders support organizations with a focus on youth and education.

Despite an apparent uniformity of goals, the mission, structure and funding base of these donor groups differ enormously. Only two, REDF and
Omidyar, are private foundations with endowments. The others depend on fundraising to obtain the resources that they allocate to other nonprofits. For example, the largest, Robin Hood, successfully targeted 4,000 individuals and a few corporations to amass the $13 million that it provided as grants to one hundred New York City nonprofits in FY2000.\(^{36}\) Social Venture Partners (Seattle) (SVP), on the other hand, had 260 partner/donors who contributed $5,400 a year for two years. Robin Hood’s staff does the grant making and provides technical assistance, whereas at SVP, partner/donors decide which nonprofits to fund and provide technical assistance.

The raisons d’être of these funders vary as well. REDF and the Center for Venture Philanthropy (CVP) were established to demonstrate the effectiveness of venture or performance-based philanthropy. SVP, the Entrepreneurs Foundation, and the Silicon Valley Social Venture Fund, are designed to enhance philanthropic giving and volunteering. The remaining three are more idiosyncratic: Robin Hood’s goal is the elimination of poverty in New York City; New Profit, Inc., is interested in the problem of taking effective social entrepreneurs and their organizations to scale; and Omidyar supports projects that help people regain a lost sense of community.

REDF and SVP are the most influential venture philanthropy funders and as such bear further scrutiny. Set up in 1997 as a donor-advised fund within the Seattle Foundation, SVP has spawned twelve SVPs nationwide. Paul Shoemaker, president of SVP Seattle, reflected that grant making is a secondary activity of the partnership. According to Shoemaker, its main goal is to “develop philanthropy and volunteerism to achieve positive social change in the Puget Sound region.”\(^{37}\) Partners determine funding priorities, select grantees, and form small teams (six to ten people) to create a comprehensive, long-term partnership with nonprofits. Its three funding areas are education, children, and the environment. The organization provides support so that nonprofits can strengthen their organizational capacity and attain self-sustainability.

The San Francisco–based Roberts Foundation inaugurated REDF in January 1997, but its strategy was based on six years of prior grant making. REDF funds nonprofits that provide employment and training to those deemed unemployable by the mainstream labor market through the establishment of profitable market-based enterprises.\(^{38}\) The mission statement reveals that REDF’s goals have in fact become much more ambitious than the particular portfolio of nonprofits that it supports. Its calling is to “raise the standards of excellence and integrity in the nonprofit and philanthropic community nationwide through the development and dissemination of innovative approaches to address critical social issues.” To achieve this result, REDF operates as if it were a demonstration project.

Each fund studied “hands on” philanthropy. An emphasis on accountability, a focus on capacity building, and the desire to fund social change entrepreneurs unifies them. On an institutional level, they are trying to redefine the relation-
ship between funder and grantee by creating a partnership and lessening dependency. Thus, grants may be larger, and grant periods are longer. To provide grantees with considerable technical assistance, program officers often have smaller portfolios. However, there is little agreement about exit strategies—the ultimate tool to eliminate dependency. Two funders have highly articulated strategies, but others think they are inappropriate. The majority, however, are still developing them. Accountability may be implemented through frequent assessment and by placing a program officer on a grantee’s board.

Despite the hype, after a few years of experience with high-engagement grant making, venture philanthropists are considerably more sober. They have found that developing a hands-on relationship with grantees is extremely complicated. On one hand, many nonprofits simply are not ready for the kind of intervention by the funding organization that venture philanthropy involves. On the other hand, venture philanthropy has often been predicated on donor participation to provide technical support. Donors frequently cannot commit enough time, and it is difficult to match a donor with an appropriate grantee. Venture philanthropy’s requirement of appropriate performance measures to enhance accountability presents problems. The measures have been difficult to develop, and there is very little experience on which to set benchmarks. Exit strategies have been difficult to develop, and even more challenging to implement. Finally, all of this requires a significant investment in staff, raising new needs for management and funding for the organization.

Much is uncertain about the future of venture philanthropy, but at the moment it is not fertile soil for arts and cultural institutions. The amount of money available through venture philanthropy remains quite small. With a major emphasis on assisting social entrepreneurs’ efforts to alleviate the sources of poverty, venture philanthropy is not an immediate source of funds for arts and cultural institutions, let alone individual artists.

Although funding priorities change, it is unlikely that the more established funders with a single focus will move in this direction. REDF and Robin Hood have been funding nonprofits for at least ten years, and their programs are well established. There is more flexibility among the newer venture philanthropy firms because their missions are broader and they are still developing their programs. Newer venture philanthropies, in which individuals play a role in determining funding areas, are more likely to provide some support for arts and culture than others. SVP Seattle considered adding the arts to its portfolio but chose the environment instead. SVP Denver supports two arts education programs.

THE NEW PHILANTHROPY AND ARTS AND CULTURE FUNDING

The impulse to harness the power of the for-profit sector is inherent in much of the new philanthropy. Though venture philanthropy has bypassed the arts,
some funders are moving beyond traditional grant making to expand resources for cultural institutions and, in at least one case, artists. Several of the strategies and initiatives may predate the new philanthropy, but they partake of its impulse to break down barriers between business and philanthropy. In this section, I turn to a variety of initiatives that support arts and culture by bridging the for-profit and nonprofit worlds. The first group of strategies involves the creative use of financial instruments, instead of grants, to assist cultural institutions. The second comprises grants that were made to achieve longer-term financial goals—the generation of revenue streams. The third set of initiatives—Ford Foundation Working Capital Fund, Creative Capital, and the Bronx Council on the Arts’ Assets-Based Cultural Venture Fund—uses venture philanthropy techniques to fund artists and cultural institutions. In the fourth group are funds that bring nonprofit and for-profit funders together to advance a social goal and turn a profit.43 ProVenEx is an example of a foundation fund established to stimulate for-profit investment in ventures that fulfill foundation guidelines. The New York City Investment Fund calls itself “a private fund with a civic mission.”44 Finally, several idiosyncratic approaches merit discussion. I have included The Ford Foundation’s New Directions/New Donors initiative in part because of its size, $40 million, but also because it was designed to capture some part of the new philanthropists’ wealth for arts and cultural institutions. The Community Foundation of Southeastern Michigan established a program to stimulate planned gifts to create endowments for cultural organizations.

The discussion and the examples are meant to be illustrative, rather than comprehensive. It goes without saying that many creative efforts developed by cultural institutions, arts councils, and similar organizations are beyond the scope of this article.

Use of Financial Instruments to Expand Foundation Resources

Foundations use several mechanisms to increase the amount of money available over the long run to support nonprofits without increasing program budgets. These tools—whether denominated Program Related Investments (PRIs), equity investments, or recoverable grants—allow a foundation to loan assets or program funds to a nonprofit or a socially responsible for-profit enterprise and then recycle them back to the foundation. Using PRIs, a foundation can provide nonprofits or socially responsible for-profits with below-market-rate loans. Although funds generally come out of a foundation’s endowment, they are frequently returned to program budget when repaid. Unlike other foundation investments, PRIs count toward the 5 percent payout of endowment that the IRS requires a foundation to disperse annually. An equity investment, on the other hand, can be made in a for-profit subsidiary of a nonprofit organization but must be considered in the context of the founda-
tion’s overall investment policy and does not count as payout. A recoverable grant is, in effect, an interest-free, unsecured loan.

The LuEsther Mertz Gilmore Foundation, the LuEsther Mertz Charitable Trust, and the Robert Sterling Clark Foundation Equity pioneered the use of equity investments and recoverable grants for arts funding. Under the leadership of Robert Crane, the LuEsther Mertz Charitable Trust combined traditional grant making tools with business acumen to sustain an institution’s long-term well being. By providing a recoverable grant of $3 million to the New 42 Street to complete construction of a mixed-use building, the LuEsther Mertz Charitable Trust was able to save the New 42 Street $300,000 in financing and legal fees, as well as help create new income streams. The building now provides dance and theater companies much-needed, subsidized rehearsal space, a black box theater, and back office space. Crane believes that recoverable grants can be an ideal tool to help an organization that needs flexibility and a quick response from a funder. His criteria for this kind of support include a project that is consistent with an organization’s goals and artistic mission as well as a solid plan of action, strong leadership, and commitment.45

Margaret Ayres, president of the Robert Sterling Clark Foundation, pioneered the use of equity investments in for-profit subsidiaries of arts nonprofits. Under its internal policies, the foundation is allowed to risk 10 percent of its endowment. For example, the foundation made a $250,000 equity investment in a for-profit subsidiary of a nonprofit, avant-garde theater group in New York City, the Three Legged Dog. Its for-profit subsidiary, The Shape of Time, was established to develop software to simplify the multimedia control systems used in a variety of live performance contexts, lower production costs, and simplify touring. When the Shape of Time has repaid its loans, Three Legged Dog will be able to use its share of the income earned by The Shape of Time for the theater company, but the Robert Sterling Clark Foundation will also have an interest in that income through its equity investment. In addition, Ayres played a role in Three Legged Dog’s receipt of $750,000 from the New York City Investment Fund in a combination equity investment and loan.

The PRI, on the other hand, is the most widely used and well-established mechanism to expand programmatic support without increasing program budget, but it is not an important funding tool for arts and cultural organizations.46 Its financial implications are substantial; for example, in 1999, the Ford Foundation alone committed $180 million of its endowment toward PRIs. In 1997, only 7.6 percent of all foundation funds allocated as PRIs went to the arts, media, and historic preservation.47 An analysis of data provided by the Foundation Center for the Irvine Foundation report revealed only a slight increase of in the use of PRIs for cultural organizations between 1996 and 1999. In 1996, foundations made just twenty-three PRIs to cultural organizations. By 1998, the number had increased to twenty-nine. The amount of
money provided has fluctuated, however, going from $11,728,289 in 1996 to $7,152,355 in 1998. PRIs reported for the first half of 1999 totaled $23 million. During that period, PRIs were used most frequently for restoration, historic preservation, or building acquisition.

Enhancing Revenue Streams

In addition to using their own resources in new ways, foundations and other support organizations are using strategies to increase the amount of money coming to the arts from other sources. Thus some grant makers have provided funding to encourage the development of new revenue streams or the enhancement of old ones within nonprofit organizations.

Increasing revenue streams is a controversial element in venture philanthropy. The Robert Sterling Clark Foundation and the Joyce Mertz Gilmore Foundation pioneered this strategy in arts funding. Both foundations have provided grants to nonprofits to create for-profit subsidiaries. For example, they made a $100,000 grant to Playwrights Horizon a number of years ago to rent a storage facility for stage sets of nonprofit theaters. The facility provided an immediate double benefit: an income stream to Playwrights Horizons and a reduction in the cost of storing sets for the other theatres. Subsequently, the business expanded to building, loaning, and transporting sets and grew to a $1 million a year business for Playwrights Horizon.48 The Joyce Gilmore Mertz Foundation has also made frequent use of grants to not-for-profits to support their for-profit subsidiaries or to increase their revenues in other ways. A $100,000 grant to Streb/Ringside to build a self-contained performance space allowed that dance company to lower the cost of touring, increase revenues, and expand its audience.

Application of Venture Philanthropy Techniques

Ford Foundation Working Capital Fund

The Working Capital Fund supports culturally specific arts organizations of regional or national reputation or stature. The program started up in 1995 with an allocation of $4 million. In its first funding round (1995–1999), nine organizations received $350,000 over a four-year period. The program is now in its second funding cycle (1999–2003) and has eight grantees. In addition, Ford has established a loan fund of $5 million that any present or former grantees can apply to for loans of $100,000 at a time.

This program uses many of the principles articulated and developed by venture philanthropy a few years later. In the first year of the grant, organizations develop a viable business plan. Over the next two years, grantees receive funding only if they achieve the goals established in the business plan. Diane

Summer 2002
Espaldon, who oversees the program at Minneapolis Loan Technologies, refers to the program as performance based with a strong financial focus: the goal is to get the nonprofit to see the connection between finance and program. Technical assistance is provided on different fronts, including meetings twice a year for leadership training. In addition, a member of the Minneapolis Loan Technologies team sits on the nonprofit’s board during the duration of the grant.

Creative Capital: A Venture Philanthropy Fund for Artists

Creative Capital provides grants to individual artists on a recoverable basis. That it seeks to attract new donors to support individual artists and to increase its funding base by investing in its grantees makes Creative Capital a hybrid. The brainchild of Archibald Gillies, president of the Andy Warhol Foundation, Creative Capital opened its doors in January 1999. As of April 2002, the fund had raised over $7 million from forty-one donors. Although most donors are among the usual suspects—the Andy Warhol Foundation, the Rockefeller Foundation, the Ford Foundation, and the Graboti Foundation—individuals have also contributed, including two new economy entrepreneurs: Peter Norton, the software entrepreneur, and Bill Bose, a venture philanthropist. In December 2002, the board embarked on a $40 million endowment campaign. They had received over $1 million in pledge as of April 2002 and $10 million from the Andy Warhol Foundation (to be matched by 2004).

Creative Capital relies on traditional peer review panels to select grant recipients but then applies some methods of venture philanthropy once a grant is awarded. Ruby Lerner, president and executive director of Creative Capital, calls its approach “an intimate grant making mode” and likens it to engaged philanthropy because it evaluates an artist’s need for technical assistance to bring his or her work to the public eye and then provides that assistance. In addition to providing technical assistance, Creative Capital holds retreats to provide artists with practical assistance.

Creative Capital will document the effectiveness of its work by commissioning longitudinal studies to determine the impact of its grants. Evaluations will look at the grantee’s impact on the art world and on the social questions raised by the work. In its first rounds of awards, Creative Capital awarded seventy-five grants, averaging $12,500 when supplemental financial support to meet strategic project related needs are included. Creative Capital received 2,900 applications for its second round of grants. As a result of this deluge, it will award fifty grants rather than the smaller number it had planned on.

Assets-Based Cultural Venture Fund/Bronx Council on the Arts

In 2001, the Bronx Council on the Arts launched its Assets-Based Cultural Venture Fund to provide grants to help cultural organizations in the Bronx.
achieve greater self-sufficiency. Emphasizing capacity building and the creation of revenue streams, the goal of this innovative effort is to transfer venture philanthropy principles to arts and cultural organizations. Although grants are small ($10,000 to $25,000), the program has erected some significant hurdles that potential grantees must clear before funds are actually released. Nine groups were chosen to work with a pro-bono panel of business and financial people to develop a strategic arts-related business plan. Of the nine grantees, five received funds to implement their business plan. Better still, funding for the program has gone from $150,000 in the first year to $600,000 in the second.53

Breaking Down Barriers between the Profit and Nonprofit Sectors

In the last few years, some foundations have established funds that, in effect, break down barriers between for profit and not-for-profit investment to influence for-profit ventures and to expand a foundation’s financial reach. ProVenEx provides a notable example of such a fund and one of the few that includes arts and culture within its purview.

Established at the Rockefeller Foundation in early 1998, ProVenEx has a $20 million budget to catalyze private sector investment in projects that further the Foundation’s mission to aid the poor and excluded throughout the world. Through the use of equity investments and some PRIs, ProVenEx develops private-public partnerships in enterprises that fit these guidelines. The ventures may be set up as for-profit subsidiaries of nonprofits or may be part of a larger for-profit operation. To qualify for funding through ProVenEx, an investment must meet two independent standards: a financial return and a social return that is in line with the Foundation’s mission. ProVenEx invests in early- or expansion-stage companies, or in public-private joint ventures in areas that reflect the foundations’ philanthropic interests.54

Thus far, the Foundation has made ten investments, two of which have been for arts and culture.55 Its first investment to a cultural institution went to the Smithsonian Institution’s Center for Folklife and Cultural Heritage. Through this project, the Rockefeller Foundation will help the Smithsonian in its effort to save and promote the musical and cultural heritage of third world cultures, to enhance the digital capacity of collaborating third world institutions, to generate revenue for cultural producers, to safeguard local intellectual property rights, and to make the cultural contribution of third world cultures broadly accessible.

The New York City Investment Fund

The New York City Investment Fund (NYCIF) is in a way a for-profit counterpart to ProVenEx. Founded in 1996, it describes itself as a “private fund with a civic mission” and was the brainchild of Henry Kravis, chairman
ny and founding partner of Kohlberg, Kravis, and Roberts. Its mission is a strategic one: to build a stronger, more diversified economy for New York City. With contributions from sixty-eight individuals and some corporations, the NYCIF has raised over $100 million to pursue its goal. NYCIF was set up as an Evergreen Fund; any income or return of capital from its investments will continue to be reinvested pursuant to its mission.

NYCIF has targeted those economic spheres that are vital to the growth and maintenance of a vibrant economy in New York. Arts and culture enterprises, whether nonprofit or for-profit, are eligible for consideration if they come under the category “Media, Entertainment and Communication” and meet other NYCIF criteria. These include the project’s likely contribution to the local economy—through the creation of new permanent jobs and innovative products or services that position New York City at the cutting edge of a growth industry, among other things.

Generally NYCIF invests between $250,000–$2 million in an enterprise; but it has invested up to $3,500,000. It provides support for up to twenty projects a year with an annual expenditure of $12 million to $15 million, a decline from $18 million in 2000. It applies the same criteria to projects from for-profit and nonprofit enterprises. NYCIF provides loans to nonprofits, whereas it takes an equity stake in a for-profit enterprise. NYCIF will also defer payment for up to fifteen years. NYCIF also places someone on the organization’s board.

Thus far, NYCIF has funded six arts and culture projects, two of which are housed in nonprofits and four with for-profits. The two nonprofits are Three Legged Dog and Shooting Gallery, the city’s most prolific independent film production and distribution company. Three Legged Dog received a $500,000 loan and a $250,000 equity investment; Shooting Gallery received a $2.5 million loan. Maria Gotsch, president of Civic Capital Corporation at NYCIF, observed that there have not been a great many applications from this sphere.

### OTHER NOTABLE INITIATIVES

### Expanding the Donor Pool

In May 2000, the Ford Foundation launched New Directions/New Donors, an ambitious initiative to strengthen arts and culture in the United States by expanding its individual donor base. Twenty-eight nonprofit arts organizations received challenge grants up to $2.5 million to generate donations from individuals by 2005. All in all, the foundation hopes that by investing $40 million, these institutions will be able to raise another $73 million. The organizations chosen range across discipline, size, and location, but each one has strong programming, community ties, and management.
Although many in the foundation world initially regarded this initiative as a traditional challenge grant, it was tailored to capture the largess of the new economy for the arts. Such an allocation would not have been possible without the soaring foundation endowments of the late 1990s. More important, it is one of the few efforts to target the new philanthropy for the arts. In this respect it is a great leap forward. Ford is hoping to encourage a new generation of philanthropists to participate in supporting arts; it plans to document the results.

Just as the grant was a byproduct of the new economy, so it has been affected by its slowdown. Although several organizations have already made their match, generally fundraising is going more slowly than anticipated.61

Community Foundation of Southeastern Michigan

In 1999, The Community Foundation of Southeastern Michigan launched a program to provide nineteen arts and cultural organizations in its seven-county region with technical assistance and matching funds to building endowments through planned giving. Despite several years of economic prosperity, none of the cultural organizations in the region had been able to undertake an endowment campaign.62 This initiative allocated $10,000 to each institution to subsidize the cost of developing a planned giving campaign. It also provided outreach to educate attorneys, financial planners, accountants, and other estate-planning professionals about planned giving and ongoing training to nonprofits. The foundation matches planned-giving pledges at three to one. It also rewards institutions that meet their benchmarks with $25,000. The initiative has a target of raising $125 million by 2004. Although it is a very tough environment for deferred giving, the arts organizations have met benchmarks by doing more work.63 Funding for this initiative comes from the Hudson Webber Foundation.

CONCLUSIONS

The boom years that spawned the new philanthropy have come to an end, but the impulse to harness the power of private enterprise for public good that lies at the heart of much of the new philanthropy has not waned. Indeed, it seems likely that efforts of this sort will proliferate. Arts and culture have been virtually excluded from venture philanthropy and have received little support from traditional funders who combine business techniques with their grant making.

If the arts community wants to expand support from this new wave of funding, it needs to position itself for a more results-oriented, socially involved philanthropy. To do this, the arts community—arts and cultural institutions, arts service organizations, arts policy researchers and arts funders—need to invest resources in a variety of ways.
The Arts Community

The arts community must make the case that arts and culture change lives, make special efforts to use the talents of the new “engaged philanthropist,” and enhance the accessibility of the arts by connecting them with the community.64

Arts Policy Researchers

Arts policy researchers should develop better tools of assessment. Arts advocates have long promoted studies that examine the relationship between the growth of arts institutions and economic development to justify support for arts and culture. But researchers need to develop assessment tools that go beyond such data to focus on the broader social ramifications of strengthening the arts in a community.65 Researchers might also determine whether the assessment tools coming out of venture philanthropy are applicable to arts and culture. They should evaluate the degree to which the use of assessment skews funding toward measurable objectives, as some critics of venture philanthropy have argued.

More attention should focus on individual donors to arts and culture to determine, for instance, to what degree the so-called new philanthropists provide support to the arts on an individual basis. Community foundations, charitable gift funds, and fundraisers at major cultural organizations could provide valuable information on this question. Institutions that run training programs for philanthropists such as Harvard, Stanford, and TPI, may also be helpful. Determining to what degree the new philanthropists who support the arts as individuals are involved in venture philanthropy may also be useful.

Research should focus on learning more about innovative approaches to funding arts organizations. For example, the Bronx Council for the Arts new initiative should be assessed, and evaluations of Creative Capital, New Directions/New Donors should be consulted. A survey of arts councils, community foundations, and large arts funders should be conducted to develop successful new funding approaches for arts and culture.

Arts Funders

Funders should encourage arts organizations to continue efforts to reach out into the community and document the ways in which their work strengthens an organization. Documentation should go beyond the work of a single foundation.

Funders should make greater use of the PRI and be bolder when using equity investments, if possible, and the recoverable grant. They should also support more research on assessment to determine the best techniques developed by traditional foundations, whether venture philanthropy adds any new tools, whether they apply to arts, and whether there is a way to capture cultural and social value.

Funders should support research to learn whether new philanthropists sup-
port the arts, whether this support varies by region, the kinds of vehicles they use, and whether they want a “hands-on” experience when they give.

A venture fund, perhaps modeled on the Bronx Council for the Arts Assets-Based Cultural Venture Fund and New Profit, Inc., should be created for the arts that would provide technical assistance and capital to create new revenue streams.

Key words: philanthropy, arts funding, cultural funding

NOTES

1. For information on other significant demographic changes, including the emergence of women and minorities as philanthropists, see Philanthropic Initiative, Inc., “What’s a Donor to Do? The State of Donor Resources Today (Boston: The Philanthropic Initiative, August 2000); and the Council on Foundations, “Cultures of Caring: Philanthropy in Diverse American Communities,” (Council on Foundations, June 1999).

2. Paul Schervish of Boston College considers individuals with a net worth above $3 million to be wealthy, those with more than $10 million to be “thoroughly wealthy,” and those with a net worth between $1 million and $3 million to be merely economically competent. “The Modern Medici: Patterns, Motivations, and Giving Strategies of Wealthy,” 1.


7. Ibid., 18. It should be noted that the Foundation Center cites the figure $27.6 billion for foundation giving. See Foundation Growth and Giving Estimates: 2001 Preview (New York: The Foundation Center, 2002) 3.


12. Foundation Growth, 10.


15. Venture philanthropy funds at each of these foundations were part of my report to the Irvine Foundation that is discussed later in this article.


20. Ibid., 31–33. Although the survey cites only two venture philanthropy funders that shut
down, the Flatiron Foundation should also be included because it no longer gives grants.
Catherine Clark, phone interview with author, 23 April 2002.
24. Ibid. These dramatic gains were the result of decisions by major arts funders—the Andrew W. Mellon Foundation, the Ford Foundation, the John and James L. Knight and the David and Lucile Packard Foundation—to double or triple their giving to arts and culture as well as significant grants from major new donors including the Doris Duke Charitable Foundation.
25. Ibid.
26. These figures cannot be compared directly to figures from the Foundation Center, because charitable gift funds may not use the same classification system as the Foundation Center.
30. The Roberts Foundation had three iterations. The first established in 1986 was a traditional foundation. In 1990, it established the Homeless Economic Development Fund, which developed nonprofit enterprise creation, the basis for Roberts Economic Development Fund that opened its doors on 1 January 1997.
33. These included, The Center for Venture Philanthropy at the Peninsula Community Foundation (CA), The Entrepreneurs Foundation (Calif.), The Flatiron Foundation (NY), New Profit, Inc. (Mass.), The Omidyar Foundation (Calif.), The Roberts Economic Development Fund [REDF] (Calif.), The Robin Hood Foundation (NY), Silicon Valley Social Venture Fund of the Community Foundation of Silicon Valley, and Social Venture Partners [SVP] (Seattle).
34. Only four of the forty-two funders in the survey had given out grants before 1998. Nine had not done so as of the volume’s press date. Venture Philanthropy 2002, 32.
35. The Center for Venture Philanthropy diverges here by setting up its own programs.
38. See Melinda Tuan with Jed Emerson, “The Roberts Enterprise Development Fund: A Case Study on Venture Philanthropy,” Roberts Enterprise Development Fund 2000, retrieved 28 August from <www.redf.org>. The authors note that nonprofits had occasionally achieved this result, but on a hit or miss basis. They describe their efforts as the first systematic effort that was successful in achieving this goal.
39. The size of a program officer’s portfolio varies considerably. At Robin Hood, a program officer is responsible for twenty grantees; at the Center for Venture Philanthropy, two.
40. New Profit, Inc. and the Center for Venture Philanthropy have highly articulated exit strategies, although they do not differ greatly from exit strategies that traditional foundations have been using for years. REDF and Robin Hood argue that a social service nonprofit can never be self-
sufficient and that if it is doing a good job, it is simply inappropriate to focus on exit strategies.

41. Venture philanthropy funders are at different stages in their development of these measures. REDF has expended considerable effort to develop a measure for social return on investment; others use performance measures spelled out in the original business plan; still others are trying to develop a standard. Only two funders sat on their grantees’ boards.


43. In May 2000, the James Irvine Foundation launched its Innovation Fund. The major impetus behind the program is the belief that others outside the nonprofit world may have solutions that will improve the public sphere. By opening up its range of partners, Irvine hopes to create an “opportunity for philanthropy to play a more powerful role as an innovative problem solver.” This fund does not support activities in the cultural sphere. Cora Mirikitani, phone interview by author 1 September 2000.


48. Unfortunately, it no longer exists.

49. Diane Espaldon, phone interview with author, 10 November 2000.

50. If an artist succeeds in the market place, he or she is supposed to return the grant.


53. First-year funders included NYSCA, NEA, and Citigroup. In the second year, NYSCA funders included and the Empowerment Zone.

54. A good example is a $2 million investment in a pharmaceutical company that is developing a microbicide to prevent STDs and HIV. Through its investment in risky, early-stage clinical trials, ProVenEx has leveraged a commitment that the company will provide the poor in third world countries with inexpensive medication. Jackie Khor, senior program advisor, ProVenEx, phone interview with author, 5 October 2000.

55. Laura Callinan, associate director of investment, Rockefeller Foundation, phone interview by author, 28 May 2002.


57. There are a variety of community development funds including the Silicon Valley Community Ventures, the Detroit Investment Fund and Cleveland Tomorrow, among others. Not all will fund nonprofits, and few target arts and entertainment.

58. The others are retail and tourism; health care and sciences; education and information services; and finance, insurance and real estate.


60. Maria Gotsch, phone interview with author, 2 November 2000.


62. The largest cultural organizations in the region are the Detroit Symphony Orchestra, the Detroit Institute of Art, and the Michigan Opera Theater.

63. Larry Coppard, senior consultant, phone interview with author, 1 May 2002.

64. The St. Louis Symphony has done an admirable job in this regard and it has revitalized the orchestra. It participates in the Andrew W. Mellon Foundation’s Orchestra Program. Interview with Catherine Wichterman, The Andrew W. Mellon Foundation, 12 September 2000.

65. Several efforts are already under way, including those at the Urban Institute and at Fordham University.