Spotlight: Guarantees

Guarantees are contingent liabilities offered by foundations as a credit enhancement to crowd in more or lower cost private capital for impact. Select foundations have increasingly relied on guarantee strategies after seeing the value of government guarantees in crowding in capital (e.g., SBA lending, etc.) Active guarantee providers among foundations include the Kresge Foundation, the MacArthur Foundation and RWJF.

There are several benefits to structuring a guarantee program. The first is the ability to offer unfunded guarantees, which require no cash to change hands until and unless there is a guarantee payout in the future. This structure is particularly advantageous during times when the need for liquidity is high or the desire to realize certain investment holdings is low (such as in early 2020 when COVID-19 upended the U.S. economy). Another key benefit is that, because the guarantee is booked as a liability, it does not immediately impact either the foundation's spending strategies (e.g., grants or PRIs) or the endowment. However, despite their merits, foundations infrequently utilize guarantees. A key drawback is the relative complexity of underwriting and managing guarantees relative to grants or other investments, particularly when it comes to forecasting guarantee payouts into the future.

A more recent innovation is the decision by some to couple an investment grade credit rating with a guarantee product. RWJF, for example, secured AAA/Aaa credit ratings from S&P and Moody's in 2021 to be able to provide investment grade guarantees. One advantage of augmenting the guarantee with a third party credit rating is that it can de-risk the investment and drive down pricing, providing multiple benefits to both the investors and the intermediaries receiving that capital.

Spotlight: Social Bond Issuances

The year 2020 saw a handful of foundations begin to explore a relatively new balance sheet tool – social bond issuances – to ramp up their programmatic activity in response to the triple pandemics of COVID-19, economic crisis and growing racial unrest across the United States. The core tool itself – a bond – is not new as many institutions (e.g., corporates, municipalities, university endowments) have leveraged existing capital markets infrastructure to raise capital based on the strength of their credit rating. However, utilization of this specific tool by foundations is quite new, particularly for grantmaking activity. The Ford Foundation was an early adopter of the tool, with a $273 million bond issuance in 2017 to finance the renovation of their headquarters in New York City. Since 2020, at least eight foundations have issued social bonds, including the MacArthur Foundation, the W.K. Kellogg Foundation, the Andrew W. Mellon Foundation and the Doris Duke Charitable Foundation.