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Social Innovation Fund Sends Important Signal to Grant Makers

By Cheryl Dorsey and Paul Schmitz

In December, 2007 the presidential candidate Barack Obama promised to usher in a new era of service and social innovation as President. One year into his term, President Obama has made significant early strides to fulfill this promise. The bipartisan Edward M. Kennedy Serve America Act and the creation of the White House Office of Social Innovation and Civic Participation have been two big milestones.

As two veteran nonprofit leaders who worked to help the president's transition staff devise some of those ideas, we are pleased to see that the administration has been hard at work thinking about how to improve our nation's ability to solve problems, especially in the neediest neighborhoods.

What has been most important is that the White House is not simply seeking to send money to worthy nonprofit groups but also trying to build a better financial marketplace for innovative nonprofit organizations so they can better expand and sustain effective solutions to local and national needs.

New federal grant programs that will provide significant growth capital to effective, results-driven nonprofit organizations are now getting under way. In October the Department of Education officially announced its \$650-million Investing in Innovation Fund. And last month, the Corporation for National and Community Service announced its \$50-million pilot Social Innovation Fund.

The Social Innovation Fund will provide money for five to 10 grant makers — including foundations, municipal and state government agencies, and nonprofit groups with grant-making experience — that will identify and support a small number of nonprofit groups that can prove they have effective approaches to solving problems that can be copied and expanded.

The fund will focus on innovations in three categories:

- Increasing economic opportunities.
- Preparing young people to succeed in school, become active citizens, undertake productive work, and lead healthy and safe lives.
- Promoting healthy eating, exercise, health screenings, and other habits that reduce the risk of illness.

The fund is both investing in services that will improve a single geographic area and in spreading effective innovations across the country.

While its \$50-million price tag may seem limited, with its requirements that foundations and nonprofit groups match the federal money, the fund will generate \$200-million total in support, each year — a \$1-billion investment over five years. That investment and the lessons learned will advance a growth-capital

marketplace that better supports the expansion and sustainability of effective nonprofit groups.

One of the things that make the Social Innovation Fund game-changing is that it will provide large sums of general operating support to grantees over multiple years, an important signal to the philanthropic marketplace.

We, like so many other nonprofit grant seekers, have been both beneficiary and victim of foundations' wise and not-so-wise approaches. All too often, rather than spending money to help organizations improve their operations so they can achieve better results, they support parts of programs that require organizations to fit their accounting to the specific programs or expenses each grant maker prefers.

In addition, much of the money foundations give away does not respond to the needs of effective nonprofit groups that are growing quickly.

The Bridgespan Group studied 24 local, regional, and national youth organizations that had completed a five-year growth cycle and found that all of them had trouble attracting the money they required to increase their management capacity when they needed to — that is, these nonprofit groups had to grow first and pay for it later. Even the best known and oldest among them had very constrained balance sheets despite their results.

That way of supporting nonprofit groups does not promote results, effectiveness, and growth.

George Overholser, a venture capitalist and venture philanthropist at the Nonprofit Finance Fund, says that nonprofit groups have a Copernican problem in which grant makers see themselves as the sun and nonprofit groups as the planets, rather than seeing the nonprofit groups and their results as the sun and the grant makers as planets.

Mr. Overholser argues that nonprofit groups often cannot expand ideas that work because the nonprofit marketplace is 180 degrees from how the private-investment marketplace works. Businesses receive growth capital upfront for many years and can spend as needed on their rigorous strategic plans to expand both their sales operations and their management operations. It allows them to take risks, stop doing whatever isn't working, and expand what does work while they find ways to improve sales and become sustainable.

Yet even despite those barriers, innovative programs have emerged in communities across the country. We have both seen a number of social entrepreneurs and many established organizations develop effective and innovative solutions.

We have also seen how major growth-capital investments in nonprofit groups like Harlem Children's Zone, DonorsChoose.org, and Teach for America have allowed them to achieve astounding results. Still, not enough organizations have been able to tap such philanthropy to expand their impact in a community or nationally; the Social Innovation Fund promises to help more innovative groups reach their potential.

In reading the "fine print" on the proposed structure of the Social Innovation Fund, there emerge other notable features. Nowhere does it call for charismatic chief executives or social entrepreneurs. While recognizing that effective organizations need effective leaders, it puts the innovation and results first. An organization could qualify for support whether five years old or 100 years old, whether it has five employees or 100. It also is not structured to micromanage a group's operations but to give organizations support to strengthen, sustain, and expand their operations to support their innovations. It also encourages spreading good ideas not just by expanding one organization but also by publicizing approaches that work well.

While all of this is promising, there are some challenges. First and foremost, the dollar-matching requirements will limit the kinds of philanthropic organizations that will be eligible to distribute those grants and the kinds of organizations that will be qualified to receive them. We know that sometimes the organizations that run the best programs are not the best fund raisers and they will need assistance. The White House has been meeting with philanthropists and may be able to help some of the grantees.

The fund acknowledges that some promising innovations may not be accompanied by a rigorous evaluation as others, but even some potential grantees and grant makers may struggle to meet the federal program's evaluation requirements.

Another barrier to innovation and success in the nonprofit world is the lack of collaboration and coordination among organizations working on complementary issues or in similar neighborhoods. The reality is that often the economic, health, and educational needs of a community are intertwined in residents' lives but atomized in the nonprofit and government agencies that serve them.

The Social Innovation Fund should encourage grant makers that focus on a particular geographic area and grantees that work in the same neighborhoods and regions to foster synchronized approaches among organizations with the goal of achieving better overall results.

In devising its ideas for helping nonprofit groups, the administration reached out to more than 1,000 charity officials and others to develop and refine its thinking on the structure.

We hope that many of our colleagues will provide additional ideas to the Corporation for National and Community Service by the January 15 deadline it has set for accepting public comments.

The White House Office of Social Innovation and Civic Participation hopes that it will become a central place for absorbing and sharing the lessons that come from this grant-making process — and other federal efforts to stimulate innovation by nonprofit groups.

While only a few dozen organizations will benefit from the initial federal investments, we hope more nonprofit groups and philanthropists will use such lessons to create financing models that build more robust, effective organizations. In many ways, the Obama administration's plan offers a new deal for nonprofit groups — more general, multiyear support to carry out essential programs in return for more innovative and effective results. We have seen firsthand how this approach can build stronger organizations that make a bigger difference in their communities, and we look forward to this practice becoming more widespread.

Cheryl Dorsey is chief executive of Echoing Green, a New York group that provides aid to organizations devising new ways to solve problems. Paul Schmitz is chief executive of Public Allies, a Milwaukee organization that trains young people to become nonprofit leaders. Both served as advisers during the Obama administration's transition to the White House, working on the plans to spur social innovation.