

# Will the Social Innovation Fund Fund Social Innovation?

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The Social Innovation Fund has not yet started, but it has generated pro-and-con commentary, almost all pro, from its inception as an idea in proposals, working papers, and monographs from groups such as America Forward, the Aspen Institute, and of course eventually the Obama-Biden presidential campaign. Even before being operationalized, the Social Innovation Fund (lodged at the Corporation for National and Community Service) and the White House Office for Social Innovation have had a demonstrable impact in the nonprofit sector in raising important issues that merit sector-wide discussion.

The idea of a social innovation fund, capturing public attention inside and outside the nonprofit sector particularly in the context

of the 2008 presidential campaign, has triggered a vigorous debate in the sector around what constitutes innovation, how innovation can be best supported and stimulated, what government can do (or perhaps shouldn't be advised to do) to build nonprofit sector innovativeness, and how government might best deliver resources for nonprofit innovation.

Arguably, the Obama administration has already achieved one significant impact from the Social Innovation Fund, albeit with the help of other program initiatives and the expanded national commitment to community service through the SERVE America Act. There is an emerging national dialogue about the functions and roles of the nonprofit sector. In contrast to the Senate Finance Committee's hearings earlier in this decade,

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the Obama administration has shifted the nation's attention from charitable accountability to nonprofit performance.

Through the frame of “innovation,” people are thinking about what the nonprofit sector can really deliver and what resources and capacities it needs. Some of the discussion has opened the door to alternatives to the nonprofit sector, including expressions of a “sector agnosticism” from some leading foundations expressing concerns that the nonprofit sector should not presume to have exclusive access to philanthropy's half-trillion dollars of tax exempt assets. Others have suggested other-than-nonprofit variants on charitable endeavor, including low-profit limited liability corporations (L3Cs), “B corporations,” and even proposals to extend charitable deductibility to the activities of “regular” for-profit businesses, strongly advocated by charitable fundraiser Dan Pallotta and others.

The Social Innovation Fund tests part of the equation of nonprofit performance: Can government funnel resources to high-performing nonprofits that tap, replicate, and “scale up” their innovative features and programs not simply—and modestly—to benefit their communities and the nation, but to demonstrate what the 501(c)(3) nonprofits can generate to advance social change and social progress?

This brief essay, based on interviews with diverse local and national nonprofit observers, applauds the motivations of the designers and implementers of the Social Innovation Fund, particularly in its recognition that nonprofit organizations have valuable functions to deliver if they are better resourced and supported than they have typically been in government programs. Absolutely no one expressed the slightest doubt about the motivations and integrity of the key players engaged in creating and implementing the fund—nor, for that matter, any indication of concerns that the fund would end up becoming politicized, a typical charge lodged by

critics and opponents.

The program is still in its formative stages; a formal conference call to answer questions about the Social Innovation Fund is scheduled for October 15th (after this essay was written). Even at the fund's earliest stages, and notwithstanding the laudatory motivations behind it, this essay raises issues that observers suggest the fund might have to address.

We raise here seven areas of concern about the fund, not as weaknesses or flaws, but as issues that the managers of the fund will encounter as the program is implemented:

1. Seeing the Social Innovation Fund in context as one relatively small piece of the Obama administration's approaches to “resourcing” the nonprofit sector, necessitating a tempering of expectations of what the fund might achieve;
2. Staying true to the commitment to find “hidden jewels” in the nonprofit sector as opposed to falling prey to focusing on nonprofits that have the better public relations;
3. Avoiding a reflexive tendency to over-focus on organizations that emphasize volunteers (or stipended volunteers) to be supported;
4. Remembering the limitations of foundations as intermediaries for finding nonprofit innovations;
5. Thinking about how to support and sustain innovative nonprofit organizations;
6. Building local systems or networks for supporting and sustaining nonprofit innovation;
7. Cautioning fund managers and intermediary regrants about the downside of “scaling up.”



## Issue #1: Tempering Expectations

Public policy analysts tend to pick apart policy proposals as one-offs—thumbs up for this one, thumbs down for the next, and so on. Taken on their own, each program becomes a Rorschach test for impressions of government’s approach to an issue or problem. Imagine making a comprehensive judgment of government’s approach to rental housing financing, for example, by generalizing from only one program, such as Section 8 housing vouchers, without examining programs such as the Low Income Housing Tax Credit, Section 515 rural rental housing, Section 202 elderly housing, and public housing.

From the perspective of grassroots nonprofits, the suite of nonprofit-oriented programs generated by the Obama administration is a welcome infusion of resources and, perhaps more importantly, attention to the needs and potential of 501(c)(3) public charities. Within that suite, the Social Innovation Fund represents one of a number of avenues that the Obama administration is willing to explore without necessarily being wedded to any one response to or “treatment” for the nonprofit sector.

The list of significantly nonprofit-focused or nonprofit-related programs includes the following, some of which are already underway, some scheduled to be funded and implemented in the Fiscal Year 2010 federal budget:

First, the Department of Education has \$10 million dedicated to the Promise Neighborhoods program, to be distributed as planning grants for a twenty-city replication of the Harlem Children’s Zone, which links education to wrap-around services for children and their parents. Over two decades of performance, the Harlem Children’s Zone and its founder, Geoffrey Canada, have been widely praised for demonstrably positive impacts on children and families in the ninety-seven-block area of Central Harlem that it serves. The Zone’s charter school, one of its core successes, is linked to services for parents (including

a “baby college” providing parenting skills training), after-school programs, health services, and more. After the first year of planning grants, the department will provide as-yet undetermined implementation resources to the nonprofits (and public agencies and public-private partnerships) that pass through the planning process.

Second, at the Department of Housing and Urban Development, the Choice Neighborhoods program incorporates the Harlem Children’s Zone focus on schools, children, and intergenerational poverty into schemes for public housing redevelopment projects. Largely replacing the department’s HOPE VI program, Choice Neighborhoods is explicitly designed, according to HUD Secretary Sean Donovan, to “link housing initiatives with early childhood education innovations.” Slated for \$250 million in President Obama’s budget, Choice Neighborhoods resembles the “comprehensive community initiatives” long sponsored by foundations such as the Annie E. Casey Foundation, the Surdna Foundation, the Hewlett Foundation, and others.

A third example is the Strengthening Communities Fund, which is funded through the stimulus bill and replaced the Bush-era faith-based Compassion Capital Fund in the Department of Health and Human Services (HHS), with \$50 million to build the capacity of nonprofit organizations addressing economic recovery issues. President Obama has proposed re-upping and expanding this program in FY2010. Most of the funds for nonprofit technical assistance provision, awarded in October, went through nonprofit intermediaries with regrantmaking capacities.

Fourth, although started in 1994 under the Clinton administration, the Community Development Financial Institutions (CDFI) program in the Department of the Treasury received \$98 million (for sixty-nine nonprofit CDFIs) through the stimulus legislation this year. In the FY2010 budget, President Obama proposed increasing the CDFI program budget to \$243.6 million, more than doubling the



\$107 million in FY 2009. As private financial institutions increasingly abandon community investment goals, President Obama is giving the 771 CDFIs certified by Treasury, located in every state and the District of Columbia, a huge vote of confidence for comparatively better community development performance focused almost entirely on lending in very low-income neighborhoods.

Finally, YouthBuild is another nonprofit success story long incorporated into federal policy and substantially expanded under the Obama administration. In 1994, during the Clinton administration, HUD began funding thirty-one local YouthBuild affiliates engaged in providing job training in the construction trades, learned through building affordable housing through local nonprofits, with help and guidance for high school diplomas or GED certifications for young people sixteen to twenty-four years old. Shifted from HUD to the Department of Labor in 2006, the YouthBuild program became a centerpiece of the stimulus legislation (\$50 million) and President Obama's FY2009 (\$90 million) and FY2010 (\$100 million) budgets, funding a variety of community-based nonprofits following the YouthBuild "model" and the Massachusetts-based YouthBuild organization itself serving DOL as a support network.

These programs and others are only a small part of the administration's commitment to resourcing the nonprofit sector. Easily addable to the list would be programs such as the proposed \$50 million through "Section 4" for the National Community Development Initiative/Living Cities consortium through the Local Initiatives Support Corporation, Enterprise Community Partners, and Habitat for Humanity for nonprofit community development corporation capacity-building, President Obama's increasing appropriations for the congressionally-chartered Neighborhood Reinvestment Corporation in part for its stand-out performance in delivering foreclosure counseling resources benefitting some 700,000 homeowners, the stimulus-expanded Community Services Block Grant and weath-

erization programs operated significantly by and through community action programs, and the significant slices of Neighborhood Stabilization Program funding aimed at the acquisition and redevelopment of vacant, foreclosed residential properties that the Obama administration has encouraged to flow to and through nonprofit community developers.

The Social Innovation Fund, at the President's proposed budget of \$50 million, is a comparatively small piece of federal funding available for the nonprofit sector. Even with matching funds, the Social Innovation Fund equates to a relatively small foundation, but serving the entire nation with an ambitious mission.

Assuming that the Social Innovation Fund may be among the first of the new programs to emerge in the Corporation for National and Community Service's Fiscal Year 2010 budget, the Social Innovation Fund will have a calendar year 2010 roll-out regarding the selection of grant recipients, already one quarter of the way through the Obama administration's first term. Given how both government and nonprofits function in real life (it is often difficult to get money out and spent as fast as people might want), it may be necessary to explain to the American public and to the nonprofit sector the need to temper expectations.

Some experienced in efforts to field and replicate innovative social experiments through the nonprofit sector suggest a necessary alignment of ambitions, resources, and capacity. Ambitions can and should be "stretch goals," but they have to be adjusted to realities of what is realistically possible given, at the start, limited resources. Given a timeframe that will be partially dictated by critics inside and outside the Beltway, the program will have to make that alignment clear at the outset, and to distinguish the program managers' pragmatic expectations from the frequently overblown or overhyped language of some of the fund's more ardent advocates.



If expectations end up spinning wildly out of rhetorical control, the disappointment will not be in the nonprofit sector, where most nonprofits will not likely be connected to or beneficiaries of the fund, but in the communities to be served that will not receive what they thought they were going to get. One needs only to look at the less successful foundation-sponsored “comprehensive community initiatives” (CCIs), few of them as candidly documented and evaluated as the Neighborhood Improvement Initiative sponsored by the William and Flora Hewlett Foundation, to realize how community residents’ hopes and expectations were raised and dashed by overpromise and underperformance.

### **Issue #2: Reaching Hidden Jewels in the Nonprofit Sector**

The Social Innovation Fund, at the President’s proposed budget of \$50 million (as of this writing still not approved by Capitol Hill), is comparatively small next to many other nonprofit programs devised or expanded by the Obama administration. Though seen as a flagship program for some segments of the nonprofit sector, particularly those nonprofits that have been advocating for its creation, the fund will touch only a small part of the nonprofit sector compared to the vast resources in these and other subject-specific federal programs (nearly all of which are accompanied by training and technical assistance for the participating charities).

For much of the nonprofit sector, the Social Innovation Fund itself—as distinct from the debates over what kinds of resources and support the nonprofit sector needs in a time of recession and recovery—is not really high on the radar screen. It is not only new, but it is relatively small compared to the much larger array of resources in the federal budget used or consumed by nonprofits. At recent appearances in front of regional and state convenings of nonprofit community developers and community action agencies, this author found the participants concentrated on the federal

programs that sustain their programs—Community Development Block Grants (CDBG), CSBG, the Home Investment Partnerships (HOME) program at HUD, and others. Efforts to get interest in and reactions to the Social Innovation Fund didn’t generate much—except from their trade association leaders who have been eagerly plumbing potential new funding resources for their members and trying to position their sectors for access.

Other nonprofit sector leaders surprisingly report that the fund is not a big topic of discussion among their members or a priority for their engagement and advocacy. In large measure, they report that the program feels geared, even at these very early stages, toward larger nonprofits where investments to scale up start by building on some reasonable scale to begin with. The small nonprofits do not see themselves as likely participants in this, at least as seen by many leaders in the field with small nonprofit constituencies.

It is a little unfair to focus on the large, highly successful, well-promoted nonprofits such as the Harlem Children’s Zone and Teach for America that President Obama referenced in his June 30th talk on the “Community Solutions Agenda.” The White House has made a special point of trying to reference organizations smaller than these nationally publicized success stories, but critics still suggest, sotto voce, that they fear the fund will end up for a number of reasons funneling a large part of its resources to further bulk up sizeable and growing nonprofit social entrepreneurs.

The Harlem Children’s Zone, for example, is the product of Geoffrey Canada’s two decades of testing ideas and building capacity, evolving from an anti-truancy program (the original name of the organization was the Rheedlen Center) to the multi-faceted education and service organization it is today—with a \$40 million budget. A contributing factor in HCZ’s success is that Canada, brilliant and charismatic, was situated near and able to attract financial support from major foundations and, during its pre-collapse boom years,



from Wall Street. Among his early supporters were the likes of George Soros and, more importantly, hedge fund billionaire Stanley Druckenmiller, who Canada says personally donated “well north of” \$100 million to the program. Unlike most nonprofits in the U.S., the Harlem Children’s Zone also landed regular multi-million dollar grants from major foundations, including \$2 million in 2003, \$2 million in 2005, and \$25 million in 2006 all from the Starr Foundation (financier Hank Greenberg’s foundation), more than \$9 million from Lehman Brothers (now defunct), \$2.7 million in 2008 from Atlantic Philanthropies, and \$7.5 million in 2004 and \$5 million in 2006 from the Edna McConnell Clark Foundation. The organization has an endowment reported to be of more than \$120 million.

While HCZ is unlikely to be funded through the Social Innovation Fund (HCZ will be the replicated entity in the Promise Neighborhoods program, which if the Department of Education wants success, will hire HCZ’s Practitioners Institute to provide expert training and technical assistance to PN grantees), the success stories of innovations like HCZ is clearly connected to capacities built up over a long period of time—in HCZ’s case, twenty years—with the help of access to substantial amounts of very patient and forgiving capital.

To its credit, the White House is trying to get out of Washington into the field to identify programs smaller and much less well publicized than HCZ-type programs as candidates for federal support as scalable innovations. Domestic Policy Council director Melody Barnes wrote movingly on a White House blog about her visit to EverybodyWins!, known for its “Power Lunch” volunteer reading programs serving public school students in sixteen states and the District of Columbia. Barnes wrote that “EverybodyWins! is exactly the type of community solution that President Obama asked me to identify when he called on his Domestic Policy Council to scour the country for the very best, most in-

novative, most successful programs in our communities.” But Everybody Wins! is also a good example of other factors in “innovation,” notably that the organization was founded in 1991 (its founder, New York corporate executive Arthur Tannenbaum, appears to have gotten involved in organizing Manhattan corporate types in reading aloud to school students sometime earlier than that date), and it was able to attract some high profile corporate and political volunteers (including Senators Tom Harkin and the late Ted Kennedy identified on the EW website as volunteer readers).

Barnes referred to Everybody Wins! as a “hidden jewel,” but these local hidden jewels that do not have origins near media and money often spend most of their time, as one innovation blogger noted, in the all-consuming tasks of “just keeping up with community needs...[with] little time for self-promotion” to get noticed by Social Innovation Fund program managers or selected intermediary regrants. In that blogger’s words, “It’s no wonder these [hidden jewel] organizations stay hidden.” As President Obama noted in his Community Solutions Agenda speech, “Ultimately, the best solutions don’t come from the top-down, not from Washington; they come from the bottom-up in each and everyone one [sic] of our communities.” But the “bottom” doesn’t feel well positioned to be visible enough to SIF decision-makers to attract attention.

### Issue #3: Overemphasizing Volunteers

Lodging the Social Innovation Fund in the Corporation for National and Community Service (CNCS) has meaning to the nonprofit sector. Although the corporation is in some ways something like the federal government’s generic “department for nonprofits,” its programmatic emphasis is the recruitment and placement of volunteers—or stipended volunteers—in nonprofit organizations engaged in solving critical social problems.

As seen by some observers, that leads to a po-



tential bias in the kinds of organizations likely to be emphasized by the corporation and the White House toward those with significant volunteer or semi-volunteer labor forces, much like the several thousand reading volunteers in the Everybody Wins! affiliates and the stipended employees of highly publicized groups such as Teach for America and City Year.

The SERVE America Act, which contained the authorizing language for the Social Innovation Fund, aims to quadruple the number of community service participants deployed through the various programs of the Corporation for National and Community Service (notably, of course, AmeriCorps). The corporation's mission is quite clear on this score: "The mission of the Corporation for National and Community Service is to improve lives, strengthen communities, and foster civic engagement through service and volunteering." In the corporation's initial budgeting for the program components created by the SERVE America legislation, the one component clearly addressing the skills and capacities of nonprofits as organizations—the Nonprofit Capacity Building Initiative, a long-sought nonprofit resource that was added to the legislation due to the lobbying of state and national nonprofit trade associations—was omitted, with sidebar explanations that specific funding for a capacity-building initiative wasn't really needed, that CNCS engaged in building nonprofit capacities through its regular program activities making specific funding for the NCBI superfluous—notwithstanding the legislative language.

Why would advocates place the NCBI in the corporation? Where else but the ostensible agency for nonprofits? Except that the corporation isn't really that kind of agency. Does this administration "get" and support nonprofits, or is it more interested in civic engagement and volunteer mobilization without the nonprofit infrastructure?

Candidate Obama's campaign platform on the nonprofit sector, "Helping All Americans

Serve Their Country," was heavily oriented to a range of stipended and volunteer additions to the AmeriCorps family of programs. But AmeriCorps jobs, with annual stipends of around \$10,000 or \$11,000, are not the equivalent of sustainable jobs in the nonprofit sector. They are generally below living wage, barely above the upcoming July 2009 federal minimum wage of \$7.25 an hour. Apparently, before the Obama administration, more than half of AmeriCorps participants were actually only part-time. Interestingly, prior to this expansion of community service jobs, already one quarter of nonprofit workers work part-time (compared to one fifth of the overall employed labor force).

The public impression that would be created by emphasizing innovations that are largely volunteer-based is that nonprofit jobs are low-paid, poverty-wage jobs in which enthusiasm and caring takes the place of technical skills and professional continuity. The downside risk of overly relying on substituting low-paid, stipended volunteers for nonprofit human-services jobs—particularly if they end up overly lauded as the epitomes of nonprofit social innovation—is that they lead to a dynamic of the "casualization of jobs" that Robert Kuttner of the *American Prospect* describes as jobs that pay low-wages, offer weak or no benefits, and provide little in the way of job protections, which he describes as the "industry standard" in the human service sector.

Fortunately, the corporation's stipended volunteers come with a solid array of health benefits, unlike much of the employment in the nonprofit sector, but other non-CNCS volunteer jobs do not. Building a nonprofit sector based on less than a professional workforce is not a way of building sustainable nonprofit organizations.

With the recruitment of Patrick Corvington to lead the Corporation for National Service, just this past month, the corporation will be led by someone who knows the importance of building strong, sustainable organizations.



One would hope that his stamp on the Social Innovation Fund will be one of investing in a strong nonprofit sector, something he knows from his experience in the foundation world as a program officer for the Annie E. Casey Foundation and his board service at one of the nation's capacity-builders' trade associations, the Alliance for Nonprofit Management. On the issue of recognizing the need for capacity rather than simply maximizing opportunities for volunteers, the concerns of some observers are alleviated by the substitution of foundation decision-makers for the volunteer-oriented CNCS. But the role of foundations in the Social Innovation Fund brings other concerns to the table.

#### Issue #4: Concerns about Foundations

This is a federal program that has positioned private foundations and perhaps community foundations as grantmakers for the bulk of the resources. As discussed in documents on the corporation's webpage, of the total \$50 million budget recommendation, 5 percent comes off the top for evaluation and R&D, and only 10 percent will go as grants awarded directly to "community organizations." The remaining 85 percent will go in grants sized between \$1 million and \$5 million to "grant-making institutions."

Both regrantors and the community organizations that receive re grants (at \$100,000 or more for three years) will each have to bring matching moneys to the table on a 1:1 basis. For example, if a foundation receives a \$1 million award, it must match the award with another \$1 million. For the moment assuming no administrative fee, that means the foundation would be granting \$2 million, and the organizations that receive those grants would also need to match them with \$2 million. Thus, the \$1 million from the SIF will be matched by an additional \$3 million in non-governmental funds.

The Corporation for National and Community Service sees grantmakers as attractive

partners, noting that "grantmakers know the nonprofit community and possess the skills necessary to find the most promising approaches and help develop them."

The \$50 million in SIF is approximately what foundations such as Surdna, Edna McConnell Clark, and the Minneapolis Community Foundation each grant out in a year. So for many foundations, the few millions in SIF money are relatively inconsequential. Why would large foundations be so interested in SIF? It's obvious, say the experts: Imagine taking your much ballyhooed foundation initiative and landing the imprimatur of Barack Obama's endorsement. People in the know have been quite aware of foundations' active engagement with the White House on the outline and development of the Social Innovation Fund (and, it should be added, other flagship Obama administration initiatives such as the Department of Education's Promise Neighborhoods program and HUD's Choice Neighborhoods effort, to name two).

The logical role of foundations as regrantmaking intermediaries for the program, particularly because of the matching funds requirement, raises concerns for some observers.

Most local nonprofits are neither funded by nor visible to private foundations. For example, in California where there are 146,000 501(c)(3) nonprofits, foundations with over \$250 million in assets (presumably a size level that would make them candidates for Social Innovation Fund regrantmaking intermediary status) gave out only 4,389 grants of \$10,000 or more to California groups in 2006. That doesn't mean 4,389 nonprofits, just 4,389 grants, as most of the grant-receiving organizations probably received more than one grant. It is easy to think of local foundations that have exceptionally strong knowledge of the nonprofits in their geographies, but even within those geographies, they still touch and fund a small slice of their nonprofit communities, not to mention the even smaller outreach of most national foundations. Remember, the ultimate beneficiaries of the Social Innova-



tion Fund as named in the SERVE America Act are “community organizations,” presumably with the term “community” having some meaning. Most foundations have very limited reach into the nonprofit sector, making them questionable candidates for finding “hidden jewels” of social innovation.

If the presumption that grantmakers know “the community” may not totally hold, the other question is whether foundation grantmakers know innovation. Presumably, they would be recruited for their roles as regrant-making intermediaries not only because they bring matching capital to the table, but because they can be relied upon to spot, fund, and nurture innovation. Pablo Eisenberg pulls no punches in his estimation of foundations’ abilities to identify and fund local organizations with innovative approaches addressing the legislation’s objectives of, for example, fighting poverty, increasing access to health care, and environmental improvement: “Foundations and their boards in general are the most elitist institutions in the country, often unfamiliar with their communities and frequently insensitive to the needs of the majority of citizens and immigrants. So why give them responsibility for running this pilot ship of innovation?” On this score, no one should think of Eisenberg’s observation as an off-the-charts extreme position. Others much closer to the foundation sector may not necessarily express themselves with quite that verve, but they do not fundamentally disagree. One not-for-attribution commentator added on this score, “Foundations are presumably in the business of funding some sort of innovation, but it makes a big assumption that foundations have succeeded in that and that they’re the best engines for doing that.”

Along the lines of Eisenberg’s concerns, the demographics of foundations might raise concerns about handing institutional philanthropy relatively unfettered decision-making power over Social Innovation Fund resources (plus their own matching dollars). Surveys on the racial composition of foundation boards

show a higher proportion of white board members (88 percent) than the composition of Fortune 500 boards (87 percent). Less than 7 percent of foundation board members are African-American/black compared to 9 percent of Fortune 500 board members and 10 percent of Fortune 100 boards. The larger foundations (assets over \$500 million) tend to do a little better in diversity, with African-Americans/blacks comprising 11 percent of board members, than smaller foundations. Citing statistics not publicly available on the Council on Foundations website, Rockefeller Philanthropy Advisors suggests that 13 percent of 515 board foundation board members responding to a Council on Foundations survey are apparently members of racial or ethnic minorities. For foundation chief executive officers and chief giving officers, the demographics are similar: 1 percent African-American/black men and a little less than 2 percent African-American/black women compared to 42 percent white men and almost 52 percent white women. According to a Rockefeller Philanthropy Advisors report of unpublished Council on Foundations data, less than 6 percent of surveyed foundations had minority CEOs.

These are statistics reflecting responses from foundations voluntarily responding to trade association surveys, a minuscule and generally quite unrepresentative proportion of the foundation universe, certainly less representative in governance and staffing than the federal agencies they would be representing as regrantmaking intermediaries. There is no guarantee that racial/ethnic characteristics automatically lead to specific grant-making behaviors and outcomes, but the extreme demographic distance (not even referencing the issue of socio-economic class) between foundations and the communities and issues that they would be addressing through this fund is somewhat disconcerting. Recent data from the more racially and ethnically diverse metropolitan New York City region found more than 80 percent of foundation board members and 80 percent of foundation CEOs were white—in a survey that got the responses of



less than 1 percent of the region's foundations. Aaron Dorfman of the National Committee for Responsive Philanthropy summed up a concern in this way: "This is of concern for three reasons: 1) Research has shown that diverse groups are better problem-solvers, so a lack of diversity on foundation boards likely diminishes effectiveness; 2) The study shows a correlation between board diversity and other diversity indicators, so a lack of diversity at the board level may contribute to a lack of diversity in other foundation practices; and 3) What does it say about inclusion, privilege, and fairness when non-whites are so underrepresented in the most powerful positions?"

As noted earlier, the Social Innovation Fund is one of an increasing number of federal programs being planned and delivered through intermediaries. In some cases, government's reversion to intermediaries may be because of the debilitated condition of federal agencies after some years of disinvestment and neglect, for example, as in the reliance of the United States Agency for International Development on large NGOs to deliver programs and pick grantees because of AID's shrunken professional capacity. Although started long before the advent of the Obama administration, intermediaries play increasingly important roles in federal programs, including in the areas of community development, workforce development, youth programs, and more. Although bringing in intermediaries' grantmaking expertise to supplement federal capacities—and given Inspector General reports on the Corporation for National and Community Service, there may be some internal management challenges there for the new CNCS CEO-nominee to address—the downside of regrantmaking intermediaries, particularly foundations, is their opaqueness to oversight and relative immunity to administrative review and redress.

Some nonprofits perceive intermediaries as yet another layer of government to pierce, depriving them of direct interaction with federal policy makers, making their community

connections to government decision-makers all the more difficult to fashion and nurture, and immunizing federal agencies from direct criticism and review. Herbert Rubin's 2004 book, *Renewing Hope within Neighborhoods of Despair*, cites several apparently community-based activists with a litany of criticisms of the government-funded intermediaries, not only the perception that they might be absorbing governmental and charitable funding that CBOs themselves might have otherwise gotten. In the case of the Social Innovation Fund's reliance on foundations, nonprofits probably do not have to worry much about foundations with nine- and ten-figure endowments grabbing money off the top for overhead costs. But intermediaries are also sometimes an attractive way for federal agencies to bypass administrative rule-making and the strictures for review that come with them.

For example, when the federal government turned to NeighborWorks for the rapid, emergency distribution of \$130 million in subprime mortgage foreclosure counseling resources, part of the reason was that NeighborWorks, despite being Congressionally-chartered, was not government. Its executive director explained that because of "the rules that HUD has to operate under, HUD would not have been able to get the funds out in a timely manner," citing challenges such as developing and publishing rules in the Federal Register, soliciting comments, and operating a federal program through federal staff. The possible upside of foundations running 80 percent of the Social Innovation Fund is that they can be more creative and flexible than government decision-makers. The downside is that as non-governmental agencies, SIF foundations' grantmaking choices may be somewhat immune from the public oversight and accountability that we expect of government agencies—especially since the grantmaking choices of foundations with their own tax-exempt moneys have always been immune from public oversight and challenge on their substance.

Structuring creativity, responsiveness, and



accountability into foundations as they begin to play quasi-public decision-making roles is something for CNCS, the nonprofit sector, and Congress to consider.

### **Issue #5: Supporting and Sustaining Non-profits**

One might think that the upside of using foundations in grantmaking roles like these is that they might “get” the issue of how to build and sustain nonprofits as organizations—or that some people in the White House see foundations’ concerns about nonprofit sustainability as important to build in as an antidote to enthusiasm for individual volunteerism.

The Social Innovation Fund itself is structured as investment in organizations rather than programs. The intent is to build and scale up organizations, not simply specific programs of the organizations, that can be expanded and replicated. Hopefully, that means building organizations’ strength and capacity, not simply funneling money into projects and programs.

Government agencies haven’t been particularly good on funding nonprofits for sustainability, and foundations haven’t done well either. Government agencies typically under-reimburse nonprofits for service delivery costs and frequently compel nonprofits to take lines of credit to cover for government agencies’ contract reimbursement delays, typically weakening rather than strengthening the organizations. Foundations have not been particularly good on this score. With less constraints on their grantmaking than program-focused governmental agencies, foundations still provide nonprofits little in the way of general operating support dollars—only 16 percent in the aggregate, 13 percent as the median per foundation grantmaker in a recent study produced by the National Committee for Responsive Philanthropy.

Is the White House thinking about how to sustain nonprofits capable of fomenting and

expanding innovative approaches? We have some concerns that there is still a great deal of learning to occur in this administration about the nonprofit sector despite the impressive nonprofit credentials of so many significant leaders in the executive branch.

For example, in its analysis of health reform, the White House’s Council of Economic Advisors issued a report on the health insurance challenges facing small business employers and possible solutions—and completely omitted the challenges facing nonprofit employers. Remember that 93 percent of 501(c)(3)s had annual revenues in 2007 of less than \$1 million; 73.2 percent of filing public charities had revenues below \$300,000; 60.8 percent of (c)(3)s actually filing 990s and 78.7 percent of all registered (c)(3)s had revenues less than \$100,000. Public charities are predominantly a sector of small and very small employers. With assets and revenues that small, most nonprofits are small businesses—except that their missions are public service, not profit, their deliverables measured in people helped and communities uplifted.

It came as a surprise to the CEA when nonprofit leaders convened by the National Council of Nonprofits reminded them that (a) most nonprofits are small employers, and (b) nonprofits cannot benefit from proposals to apply tax credits against firms’ income taxes since nonprofits don’t pay income taxes. According to a policy alert issued by the National Council of Nonprofits at the end of September, “When asked why nonprofits were excluded from the White House’s plans, the Chair of the Council of Economic Advisers agreed to find out and get back to us. That was on July 28. We sent a follow-up letter to the Chair so she would know where to reach us. But more than sixty days have now passed without an answer to the basic question about why nonprofits have been excluded.”

The reality for most nonprofits is that they innovate all the time—but face very tough financial challenges in the recession. Charitable giving and foundation grantmaking



began plunging in 2008. *The Index of National Fundraising Performance*, published by Target Analytics, reported declines in charitable donation revenue per donor for the first quarter of 2009 (down 2.1 percent compared to the same period in 2008), the first such decline since these studies started in 2002. Indiana University's Philanthropic Giving Index reports fundraisers' charitable fundraising confidence is "at an all-time low" since its inception in 1998, having dropped 27 percent since December of 2007 and 21.7 percent alone since July 2008. Due to endowments that have lost one-third of their value in this recession, grantmaking has been cut and, with multi-year averaging of endowment values, will decrease further in 2010. The most recent negative for America's communities is the news that more than half of United Ways report declines in their current campaign fundraising totals compared to last year.

The small nonprofit hidden jewels that the Social Innovation Fund might want to find will likely be hard-pressed to maintain their programs while facing increasing recession-related service demands. Few nonprofits report having much excess cash to use as matching funds for \$100,000-or-more Social Innovation Fund grants. Most nonprofits actually report dipping into their reserve funds to stay alive—if they even have reserve funds, since one third or more have reserves or even fund balances of less than three months of operating costs.

Either the Social Innovation Fund will end up picking relatively well-heeled nonprofits—which is what we suspect will happen simply because of nonprofit economics—or there will be provisions made to ensure that smaller nonprofits get to participate by thinking about how to fund and support financially strapped but innovative nonprofit jewels.

### Issue #6: Challenges in Finding Innovation

Some critics have suggested that picking non-

profits with long track records—the two decades of Everybody Wins!, for example—is not supporting innovation, but the opposite. What is so innovative about investing in nonprofits that engage in proven practices honed over the years as opposed to supporting groups that are attempting something “new”?

There are streams of thinking about whether to support innovative programs or innovative organizations, with good arguments on both sides. Observers complain that in listening to people speaking for the Social Innovation Fund, their definitions of “innovation” are hard to understand, difficult to track, and inconsistent over time.

Let's accept the truth that there is no hard-and-fast, unchallengeable definition of what constitutes innovation. Unlike the other Obama administration program initiatives listed earlier—on education, housing, employment, etc.—the Social Innovation Fund is topically unfocused (the legislation actually lists potential topical areas for innovation to include child and youth development, poverty reduction and increases in economic opportunity for economically disadvantaged persons, access to health services, environmental quality, energy efficiency, civic engagement, and crime reduction).

But scattering \$50 million (or with foundation and grant recipient matching funds, maybe as much as \$150 million minus whatever is pulled out by CNCS for evaluation and R&D) across this range of topics could result in frittering away opportunities. If the emphasis is going to be on “proven” approaches with demonstrable, evidence-based potentials for “significant impact,” Social Innovation Fund managers might realize what many nonprofits really know—that, in the words of one prescient observer, “a lot of problems don't require innovative solutions, but require the public will and money to do it.” That may be the reason for the reported creation of the What Works Collaborative, gathering the evidence-based knowledge of what really does work that can be adapted for implementation



in various local settings.

One might add, also required are the systems and infrastructure to support these innovative nonprofits. How can the Social Innovation Fund move from searching for a variety of innovative organizations (the SERVE America legislation refers to them as “new initiatives”) to supporting the infrastructure for stimulating and making progress with the implementation of innovative solutions to social problems? By building the infrastructure for supporting innovative nonprofits at the community level so that creative, innovative organizations can be sustained to apply their energies to the solution of social problems. The strongest organizations in responding to social problems are those that have networks of support. For example, in community development, the Local Initiatives Support Corporation pioneered “innovations” such as low-income housing tax credit syndication, secondary markets for nonprofit multi-family mortgages, and investment pools for inner city supermarket development, but all of those “innovations” emerged from field experience, from local program operators (tax credits in Chicago, secondary market in Hartford, etc.) and then were supported, nurtured, and sustained in the LISC system and more broadly through community development networks.

Allison Fine’s critique of the Social Innovation Fund called for government investment in “networks of problem-solvers,” an approach that suggests the importance of governmental support for an infrastructure that supports innovative nonprofits, not just putting money into specific scattered groups. For example, LISC, Enterprise Community Partners, and NeighborWorks are three examples of problem-solvers’ networks, supporting creative organizations and their leaders in communities across the nation.

In the pages of *Nonprofit Quarterly*, Ruth McCambridge describes the innovativeness of the Colorado Rural Housing Development Corporation, both generating “innovations

[on its own] and mak[ing] use of innovations piloted elsewhere.” Her analysis is that CRH-DC’s innovativeness is substantially aided by its relationship with national intermediary organizations that highlight “practices that are showing good results in particular communities where they were originated...[and] tracking...whether or not that particular model plays well elsewhere.”

A professor from Rensselaer Polytechnic Institute (RPI) has suggested that innovation occurs when nonprofits (or perhaps any organizations) join with others—nonprofits and government agencies, corporations, and community residents—to generate and adapt solutions through going outside individual organizations’ boundaries. Strikingly, that is a consistent element of feedback received by this author from groups in the field, exemplified by this response by one activist: “I think innovation is going to most often come when there is a true—and functional—collaboration between at least two disciplines. For example affordable or workforce housing and transportation; green housing and green job creation and training; revitalization and education reform; land use planning and health. I think we have good one-dimensional practices, but that we miss opportunities in the intersections to impact culture shifts required to support innovative solutions.”

Strikingly, that is exactly the model of innovation at HUD with an interagency program involving HUD, the Department of Transportation, and the Environmental Protection Agency in a partnership to build “sustainable communities.” The intersectoral approach is also built into the Choice Neighborhoods program that links public housing redevelopment to HCZ-like educational programs (including charter schools).

But the examples of exploration, experimentation, and education platforms cited by the RPI article reference groups that engage in civic engagement in the form of local problem-solving, community mobilization, and policy advocacy. Eisenberg’s article on the



Social Innovation Fund indicated a perception that the leaders behind the launching of the fund were relatively disinterested in the nonprofit role in public policy advocacy. It would be unfortunate if the government's support of nonprofit innovation, whether through individual organizations or through networks or multi-sectoral platforms, ends up emphasizing not only a model of the nonprofit sector built on volunteer labor, but a service-oriented nonprofit model that fails to capture the advocacy and mobilization functions that are at the root of nonprofit successes for social change.

Blogger Andrew Wolk calls for something similar: “[T]he money should be seen as a way to influence the actions of all sectors and thus achieve greater systemic change. And, in my view, this can only be done if recipients of these funds are actually interacting with the public systems (i.e. education, transportation, economic development, etc.) that have a far broader reach than any nonprofit ever will.” Wolk makes it clear that he favors the fund looking to support collaborative efforts that can nurture and incubate innovative models.

Is the Social Innovation Fund going to be a program of funding a series of innovative one-offs? Or will it support systems or networks that sustain innovative nonprofits, help them consistently access resources and build political will to support their innovative work, and back-stop their local partners and affiliates? One would hope that as the fund and its foundation regrants search for innovative nonprofits, they also make provision to build such systems.

### Issue #7: Concerns about Scaling Up

The vernacular about “scale” has come to mean getting bigger and bigger. “Growing to scale” is frequently used to connote something like a diesel engine imperative to grow. The fear is that without constant growth and achievement of (large) scale, the result is organizational entropy; the organization inexorably declines and withers in the absence of growth.

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Scalability is actually a more dynamic concept of balance and equilibrium, the ability of an organization to grow in response to constituent needs or environmental demands without doing damage to the organization's mission and purpose. There are some limitations to the impulse for scale:

1. Difference in size is frequently difference of kind: We don't mean to sound like E.F. Schumacher (legendary author of *Small Is Beautiful*) here, but it is true that organizations pass thresholds in their growth that make them de facto different than they were before growth. They may retain the same name as of old and tout the same mission statement, but they are different organizations nonetheless, different by organizational culture and community function.
2. Increasing and unending appetites: The experts talk about growing to scale as generating economies of scale, achieving efficiencies in fundraising, branding, and administrative services foreign to smaller organizations. But sometimes, the growth imperative overcomes its rationales, as organizations simply grow for the sake of growth. In such instances, big is not beautiful.
3. Fixation on quantitative measures: Because growth is measurable (revenues, expenditures, service units, people), for those looking for solid measurement benchmarks, “growing to scale” is an easy all-inclusive impact avatar, as the presenters on scale in community development finance suggested: “We only keep track of things we can measure. Scale is a proxy for our success.” Growth may be measurable, but it may not be a measure of what nonprofit constituents want or need.



4. **Accountability:** Big isn't necessarily bad, but it is difficult to imagine that a small organization, closer to the constituencies it serves, would be less accountable to them than a much larger, more distant, more professional, more bureaucratic nonprofit. While the common currency of nonprofit accountability is that small organizations are somehow more prone to ethical and financial mismanagement, it hasn't escaped the attention of many people that the congressional investigations into charitable accountability focused on large groups like the United Way, the American Red Cross, and the Nature Conservancy, all showing behaviors that looked to many like they thumbed their nose at the notion of being accountable to the public—until they were made star performers in Senate Finance Committee hearings.
5. **Responsiveness:** When the motivation of growing to scale is efficiency and productivity, what gets lost is often the openness of organizations to craft and deliver products and services specially fitted to specific communities and populations. Smaller community-based organizations we think tend to give a higher priority to delivering products that respond to the needs of their immediate constituencies, while larger organizations that are trying to produce and deliver “at scale” often have little choice but to generate mass commodities that don't reflect constituency niches.

Nonprofits and the Social Innovation Fund should be wary about the siren's call of “growing to scale” as the foremost prescription for the sector. Fortunately, the SERVE America Act includes language (calling for a proposed focus on “serving a specific local geographic area”) that could be interpreted as encouraging a place-based approach to the selection of nonprofit innovations and innovators. The direction of the Obama administration's other

nonprofit initiatives such as Promise Neighborhoods and Choice Neighborhoods is an emphasis on place-based activity.

Both of these programs sound much like the place-based “comprehensive community initiatives” (CCIs) long sponsored by foundations such as the Annie E. Casey Foundation (the Making Connections, Family Economic Success, and Rebuilding Communities Initiative programs), the Surdna Foundation (the Comprehensive Community Revitalization Initiative in the South Bronx), the Edna McConnell Clark Foundation (Neighborhood Partners Initiative), the Robert Wood Johnson Foundation (Urban Health Initiative), and more recently the William and Flora Hewlett Foundation (the Neighborhood Improvement Initiative in West Oakland, San Jose, and East Palo Alto). All of them, by the way, successful or otherwise, were locally-focused intersectoral initiatives.

The intersectoral approach at the local level is a mechanism for the legitimate engagement of small and very small nonprofit organizations. Much of the strength of the nonprofit sector lies in its small nonprofit organizations that are internally tied to, responsive to, and governed by the neighborhoods and constituencies they serve. But typically, rather than congratulating small nonprofits for their entrepreneurship and creativity, many people bemoan the existence of too many small nonprofits—too difficult to sustain, too small to validate and document for their impacts on communities.

It would be a serious error for the nation's interest through the Social Innovation Fund in scaling up services to underplay the important roles of small, community-based organizations in articulating community priorities and delivering resources to community needs. One of the potential successes of using intermediaries is that they might in theory be able to distribute resources to place-based collectivities of small organizations. That would retain the most important proven yet consistently rediscovered innovative func-



tion of nonprofits as mechanisms for the delivery of grassroots democracy.

Based on the feedback received for this essay combined with this author's forty years of experience in working with grassroots community improvement organizations, there is much to be said for faith and trust in communities being able to devise their own solutions fitted to their own needs. What they often lack are the resources to realize their visions and to wield political will to give them the room to implement. If the Social Innovation Fund also provides resources to allow communities and the small, locally-

based nonprofits that serve them to incubate intersectoral innovations to social problems, that will be an important contribution to nonprofit sector innovation. When people who know and associate with small nonprofits report that their members and constituents are not talking about the Social Innovation Fund because they presume that the funds are not going to reach small organizations without PR machines and connections, that should be seen as a serious concern not just for the fund, but for the perception or message that may be unfortunately attached to the Obama administration's nonprofit vision.

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