

The Obama Administration's Social Innovation Fund

By Neil Maghami

Summary: In May 2009, the Obama administration announced that its newly-created Social Innovation Fund (SIF) would make \$50 million in grants to innovative social service nonprofits. The president said his initiative aimed to uncover new solutions to some of America's most difficult social problems. It was a tiny sum for a great undertaking, but it generated instant controversy in the nonprofit world, and for good reason. Who would decide who gets the money? And how will it be spent?

Let's face it: in an age of billion-dollar bailouts for banks and auto companies, \$50 million is small potatoes ... chicken feed ... peanuts. That's how much money Congress has authorized for fiscal year 2010 to fund the Obama administration's new Social Innovation Fund (SIF). This government initiative (i.e. grant program) aims to jump-start "breakthrough" ideas to transform how we solve the nation's most pressing social problems.

SIF is run out of the Corporation for National and Community Service (CNCS), the federal agency established by the elder President Bush in 1993 to oversee three grant programs promoting community service: AmeriCorps (mostly young people), Senior Corps (over 55s) and Learn and Serve America (grants to schools). In April 2009 President Obama signed the "Edward M. Kennedy Serve America Act." Passed by large bipartisan majorities in Congress (321-105 in the House, 79-19 in the Senate), it reauthorized CNCS



First Lady Michelle Obama and CNCS CEO Patrick Corvington announce the initial phase of commitments to match the Social Innovation Fund at the White House in May of this year.

and its \$1.1 billion budget. However, the President said this was just the beginning. He promised to dramatically increase spending on community service.

* The Administration said AmeriCorps will grow dramatically from 75,000 youthful participants in 2010 to 250,000 by 2017. Beyond its regular \$450 million budget the program received an additional \$200 million from the federal stimulus program.

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* Senior Corps will tap into the aging baby boomer generation to create more senior mentors and companions. (The 2010 budget for about 31,000 participants in the foster grandparents program was \$111 million and \$47 million was budgeted for 15,000 participants in the senior companion program.)

* The Learn and Serve America program gives \$40 million in grants to states for distribution to schools and community groups. The grants create opportunities to embed the concept of “service learning” into the school curriculum, alongside English and math.

The Social Innovation Fund was launched more than a year ago, but little can be said so far about its accomplishments. Its \$50 million budget is supposed to fund grants to “leverage” (to use a verb beloved by nonprofit consultants) contributions by private foundations and nonprofits working together on three priority areas: “Economic Opportunity, Youth Development/School Support, and Healthy Futures”

SIF is governed by a “big idea”: Let Washington put up \$50 million to be shared with clusters of philanthropic foundations

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and nonprofits working on pressing social issues. Stipulate that the groups that are selected make additional financial contributions—\$3 for every \$1 from the government is suggested—and have them act as intermediaries to work closely with more localized nonprofits whose goal is to “produce measurable outcomes within a specific issue area or geographic region.” Then give these community nonprofits sub-grants to promote new thinking on issues like joblessness, education and health quality. *Voilà!* Problems solved.

SIF and the Glitterati

First Lady Michelle Obama formally announced SIF in May 2009 at (to quote American Prospect magazine) “Time magazine’s 100 Most Influential People Gala, a star-studded, black-tie event at Lincoln Center.” Surrounded by Oprah Winfrey, Barbara Walters, Charlie Rose, Diane Sawyer and scores of other celebrities, the First Lady described successful examples of community service across the nation.

“The idea is simple: find the most effective programs out there and then provide the capital needed to replicate their success in communities around the country.”

The American Prospect noticed that the gala was an ironic backdrop for the announcement, “considering the fund is an anti-poverty program.”

Or perhaps not so ironic. SIF enables very wealthy individuals and private foundations to become partners with the President and First Lady, mixing private money with taxpayers’ money on programs selected by a government grant selection process. Bill Clinton had waited until he was out of office before his foundation established the Clinton Global Initiative, which also partners with the mega-rich. The Obamas did not want to wait.

In May 2010, Mrs. Obama announced that five large foundations had initially committed matching grants totaling \$45 million

to match SIF’s grants. They are the Eli and Edythe Broad Foundation (\$10 million over 2 years); the family foundation of venture capitalist John Doerr and his wife Ann (\$5 million over 2 years); Omidyar Network, the “philanthropic investment firm” of eBay founder Pierre Omidyar and wife Pam (\$10 million over 2 years); George Soros’s Open Society Foundations’ Special Fund for Poverty Alleviation (\$10 million over 1 year); and the Skoll Foundation, created by eBay’s first president Jeff Skoll (\$10 million over 2 years). (For more on Jeff Skoll see CRC’s *Foundation Watch*, March 2006.) An additional 130 foundations, led by the Council on Foundations, signed a letter endorsing the Fund.

Initial public reaction was mixed. Some commentators pooh-poohed that several hundred million dollars over two or three years was hardly enough to solve the country’s problems. But others noted that the donors listed were not just wealthy. They aspired to be “social entrepreneurs” who would use their money to promote social reform through business investment and public policy. The Social Innovation Fund was just a small part of a much larger financial commitment. For the very wealthy the lines between government spending, capital investment, and philanthropy would be all but erased. Indeed, in October John Doerr announced that his venture capital firm Kleiner Perkins would collaborate with Facebook, Amazon and Zynga in a similarly named “social innovation fund” that would invest \$250 million in new social applications of the Internet. (For more on Doerr and Kleiner Perkins see “Al Gore’s Carbon Empire” in CRC’s *Foundation Watch*, August 2008.)

Stonewalling and Lobbying at SIF

Every new government program endures initial fumbles and missteps, but it is noteworthy how quickly SIF became caught up in public controversy.

On July 22, 2010, SIF announced its first 11

grantees. Almost immediately there was an outcry over the program's refusal to release information about how the program rated the grant applications it received and how it picked the first grant recipients.

SIF responded that it had engaged "more than 60 recognized experts in nonprofit leadership, social innovation and program evaluation to rate and provide other input on the applications." *Unacceptable* was the response from the nonprofit community, a reaction that perked up the mainstream media, which heretofore had shown little interest in the process of government grantmaking.

One of the reviewers, New York University professor Paul Light, a former Brookings Institution fellow wise to the ways of Washington, accused SIF of "stonewalling." "SIF is not a secret agency and these are not national security grants," he wrote on his Washington Post blog. Light added that sooner or later Senator Charles Grassley (R-Iowa) and Rep. Darrell Issa (R-Calif.) would take a watchdog's interest in the process.

Light noted that one organization, which he did not name, won a grant even though it received a low rating from his panel in the first round of the application process. He observed that the group had engaged in "an impressive lobbying effort." However, in Light's opinion the applicant provided insufficient information, "showed serious weaknesses in its capacity to manage federal dollars, and submitted meager assurances on cost-effectiveness and budget accuracy. I have no idea how this applicant reached the winner's circle."

Hoping to end negative media coverage, SIF officials posted online the complete applications received from the 11 winning organizations. It also released the names of all 43 grant applicants and the 63 reviewers. The rejected applicants included the National Council of La Raza, the Points of Light Foundation and Social Venture Partners. Of

course this only fueled further interest in the grant selection process.

Light's remarks were subsequently interpreted as criticism of New Profit, a Cambridge, Mass., nonprofit that received \$5 million from SIF. Its application promised to work with "five to six innovative youth-focused nonprofit organizations with existing evidence to yield significant improvements in helping young people navigate the increasingly complex path from high school to college and productive employment."

News reports indicated that SIF president Paul Carttar, who recused himself from the selection process, had been a partner at New Profit. Carttar is a cofounder of Bridgespan, the nonprofit management consulting firm.

New Profit founder Vanessa Kirsch denied that SIF had ever asked her organization "to resubmit or strengthen its application in any way." Interestingly, the November 2009 American Prospect article on SIF documents Kirsch's ties with the President and the First Lady, noting that "both Barack and Michelle Obama go way back with Kirsch. Barack served on the founding advisory board of Public Allies, a nonprofit Kirsch co-founded in Washington, D.C., in 1992, with the goal of directing low-income teens toward public-service careers. In 1993, Michelle left her corporate law firm job to found a Public Allies branch in Chicago and later joined the organization's board of directors."

Conflict of interest? Favoritism? Special treatment? On November 12 the CNCS inspector general announced that he would audit the SIF grant process and interview some the grant reviewers. He said his intention was to make recommendations to Congress on how to improve the way the program uses public money.

Why Today's Big Foundations Fail

The sociologists Robert Lerner and Althea K. Nagai have explored the relationship of

nonprofit activity to the activities of government. In the "traditionalist" view, they note, "nonprofits are 'crowded out' by the activity of government. In this view, the work of traditional charity, education, and civic improvement is at some level at odds with government welfare programs. If nonprofit activity and government activity are essentially substitutes for each other, then they are competing for the people's resources."

By contrast, so-called progressive philanthropy treats nonprofits as partners of the welfare state that complement the activities of government. "Nonprofits may serve as the laboratory for future public solutions to social problems, they may contract with government to administer its public welfare programs, or both. In any case, the 'independent sector' will not be as independent as some might hope, or others fear, because it will act in collaboration with government or even be the government's agent." (See Lerner and Nagai, "Explorations in Nonprofits Part I: Trends and Disparities," June 2002 *Foundation Watch*.)

In this respect, there is nothing new about federal government grantmaking to nonprofits. However, the SIF program is precedent-setting in one important way: it proposes to have government collaborate with private foundations on setting goals and picking winners.

"It's no secret that the major American foundations are madly in love with the Obama administration," observes William Schambra, director of the Bradley Center on Philanthropy and Civic Renewal at the Hudson Institute. In an essay in the *Chronicle of Philanthropy*, Schambra warns private foundations that they will expose themselves to political scrutiny by supporting the policy initiatives of the current administration. If they turn a blind eye to the partisan implications of their gifts, they will have no one to blame but themselves.

Schambra imagined what might go on in the mind of a newly-elected budget-cutting politician:

“Hey, I thought American philanthropy was supposed to fund charitable activities, not PR campaigns for big government. How come we’re giving foundations all these charitable tax deductions, if all they’re doing is trying to replace charity with government money? We better hold us one of them congressional hearings.”

As long ago as 1955 the American journalist Dwight MacDonald quipped that no ambitious young scholar ever wants to say “anything unfavorable about a large foundation; he is either grateful for past favors or hopeful of future ones.” MacDonald wrote these words in his wry book *The Ford Foundation: The Men and the Millions*. (It contains the memorable opening sentence, “The Ford Foundation...is a large body of money completely surrounded by people who want some.”)

A similar type of self-censorship might have worked for SIF but for a few brave souls like Light and Schambra who dared to speak out about the Obama/foundation scheme. Another critic is Rick Cohen, correspondent for *The Nonprofit Quarterly*, who observed:

“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.”

At an October 2009 Bradley Center event on SIF, Cohen complained that despite its

intentions the program was not set up to fund small nonprofits with truly innovative ideas: “A program that gives out grants...in 2010 means that there [are] only a couple of years left in the administration to show [an] impact. If the administration wants [SIF] to show results, scaling, and replication, it might as well give the money to groups that are pretty far along.”

Cohen implied that the pressure of politics and the nature of big foundation bureaucracy would frustrate efforts to support small innovative non-profits.

One would think that foundations are in the business of finding hidden jewels. The reality is that many hidden jewels at the community level are not in the orbits of most foundations – sometimes surprisingly so. Some people I know might suggest that foundations have been particularly less expert in their mission-related searches for innovation than other sectors. I think there are some small foundations, local foundations that know their communities quite well and can bring a lot of granular knowledge of their communities to the program. But I’m not quite so sanguine about national foundations, whose fine-tuned knowledge of localities is often, in my experience, a bit suspect.

How to Pick Winners in “Social Innovation”

New Profit is the only SIF grantee to generate much public comment. The other ten grantees are organizations with a largely liberal policy agenda: Jobs for the Future Inc. (\$7.7 million; 2 year grant); Local Initiatives Support Corporation (\$4.2 million; 1 year grant); Mayor’s Fund to Advance New York City (\$5.7 million; 1 year grant); Roberts Enterprise Development Fund, or REDF (\$3 million; 2 year grant); Foundation

for a Healthy Kentucky (\$2 million; 2 year grant); Missouri Foundation for Health (\$2 million; 2 year grant); National AIDS Fund (\$3.6 million; 1 year grant); Edna McConnell Clark Foundation (\$10 million; 1 year grant); Venture Philanthropy Partners (\$4 million; 2 year grant); and United Way of Greater Cincinnati (\$2 million; 2 year grant).

These grantseekers diligently avoid controversy by using obfuscating jargon about their programs. To read through the winning grant applications (as posted on SIF’s website) is an exercise in frustration. The documents are written in English, but in ways that are understood only by those who work in the high councils of big dollar philanthropy.

Dwight MacDonald referred the way grantmakers (and grantseekers) talk to the outside world as *foundationese*. MacDonald writes that it “is, like Latin, a dead language, written rather than spoken, and designed for ceremony rather than utility.”

Take this excerpt from the winning application from Jobs for the Future, Inc.:

Subgrants and local match will enable workforce collaboratives to develop and expand activities that will result in robust participant outcomes and systems change. Intermediary-level budget allocations adequately support program and fiscal oversight, plus a comprehensive strategic and technical assistance platform to support subgrantee implementation.

Here’s how the Edna McConnell Clark Foundation describes how it will use SIF funding to prepare youth for the job market:

“To succeed, the programs we support have to make a real difference in the lives of disadvantaged youth. Too often, philanthropists, policymakers and program administrators rely on outcome data alone to assess effec-

tiveness. But as they mature, many young people are able to find their way even without program intervention. The challenge for evaluators and program administrators alike is to learn what net differences programs make above and beyond what young people would have done on their own or as a result of the existing infrastructure of options.

New Profit describes how it will work with a subgrantee named Year Up:

New Profit supported Year Up in identifying critical program structures that would allow individual sites to scale while maintaining or improving programmatic outcomes. These structures included the creation of smaller-scale learning communities within each site and the development of a consistent learning community leadership model...Building on that effort, [Year Up] currently pursues an influence strategy aimed at systemic change that targets deepening employer engagement and policy and advocacy efforts on social innovation in workforce and education funding mechanisms at the federal, state and city level.

The humanities scholar Jacques Barzun, another critic of foundations, understood the problem. In *The House of Intellect*, written long ago in 1959, Barzun noticed that writing a foundation grant is an act of truth evasion. If the grant applicant “does not use the accepted language [foundationese] his most commonplace ideas will seem wild or barren. They will shock and not be receivable. It would be rude, for instance, to say that you ‘expect to finish the work in three years.’ You must say: ‘It is anticipated that the work will be completed within a three-year period...’

Conclusion

In its brochures and releases, the Social Innovation Fund often cites a quotation from President Obama: “Solutions to America’s challenges are being developed every day at the grassroots. And government shouldn’t be supplanting those efforts, it should be supporting those efforts.” SIF’s contribution to the president’s vision is clear. The \$50 million that SIF makes available to help non-profits is intended to encourage new thinking that will produce innovative solutions to social problems.

Despite its nod to grassroots problem-solving, this is an example of what the economist Thomas Sowell calls the “unconstrained vision”: the belief that the political process can isolate problems, identify solutions, and prescribe remedies that are fair for everyone and that everyone (who is fair-minded) can agree upon.

In fact, SIF gives the federal government the authority to select favored grantmakers to work with favored grant recipients on projects the government deems innovative. Perhaps some of these programs will be innovative. But is it the role of grant reviewers selected by government officials (and, in the case of Paul Light, second-guessed by these officials) to decide which programs should be designated as social innovations?

At the Bradley Center discussion on SIF the Heritage Foundation’s Matthew Spalding observed that there are better ways for government to help nonprofits become innovative. Struggling nonprofits look to government for tax policies and regulatory practices that can improve the environment for giving, Spalding said.

“The surest way to increase charitable donations is to increase personal income. All of the studies point to that; they make it

very clear. That would be an innovation, it seems to me.”

The Obama administration has the wrong ideas about “social innovation.” It’s not what is produced by a government grant selection committee.

A freelance writer, Neil Maghami’s last article for CRC focused on the environmentalist campaigns against British Petroleum (Green Watch, September 2010).

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Many thanks.

Terrence Scanlon
President

PhilanthropyNotes

Weeks of criticism of **George Soros** by TV host **Glenn Beck** has produced a response from the billionaire philanthropist. Soros is firing back with a video of his own. Beck accused Soros of devaluating foreign currencies and working to destabilize governments, including the United States. Soros's **Open Society Institute** has responded by releasing its own video defending its benefactor and arguing that his philanthropy helps persecuted minority groups and democratic movements around the world. The video studiously avoids mentioning Soros's support for the ultra-radical **Tides Foundation**, **ACORN**, **Media Matters for America**, and **Center for American Progress**.

Uncertainty over whether Congress will extend the Bush-era tax breaks before the end of the calendar year may curtail year-end charitable contributions, according to USA Today. Would-be donors worry about the effect on their tax breaks. One example: seniors 70½ or older are allowed to transfer \$100,000 from their individual retirement accounts to charities without a tax penalty. But that provision expired on Dec. 31, 2009. Will it be extended? Similarly, the death tax is currently at zero but is on track to return to pre-Bush levels on Jan. 1. If Bush tax rates expire and taxes are hiked across-the-board in January, donors will need to recalculate the value of their charitable deductions. "People give because they care about a cause or for other reasons, but certainly, tax conditions affect the timing of the gift, the level of the gift and the manner in which they give," said **Una Osili**, research director at the **Center on Philanthropy**.

The chiefs at 30 private colleges took in more than \$1 million in salary in 2008, up from 23 the prior year, the Chronicle of Higher Education reports. Topping the list was the late **Bernard Lander**, president of **Touro College**, whose pay package was worth almost \$4.8 million. Lander passed away in February at the age of 94.

Erskine Bowles and **Alan Simpson**, co-chairmen of the president's bipartisan commission to reduce the federal debt, say the government could save big bucks by charging admission to the **Smithsonian Institution's** 19 museums and the Washington National Zoo. The controversial trial balloon calls for the government to slash \$225 million from the Smithsonian's budget and start charging \$7.50 per person for admissions.

Goldman Sachs WATCH

The Financial Industry Regulatory Authority fined Goldman Sachs \$650,000 for failing to let regulators know that two of its executives, including infamous trader Fabrice Tourre, were going to be investigated by the Securities and Exchange Commission. Goldman Sachs was required to notify regulators within 30 days of learning that the SEC was investigating it, but the bank waited an extra six months to do so. (A few months earlier Goldman reached a record-breaking \$550 million settlement with the SEC to end its lawsuit that claimed the company misled investors about a subprime mortgage product.)

Goldman is lending \$25 million to the nonprofit Local Initiatives Support Corp. to finance 16 charter schools in New Jersey and New York. Robert Rubin, former president Clinton's treasury secretary, is chairman of LISC. LISC is one of eleven nonprofits named as the first grant recipients of the Obama administration's Social Innovation Fund.