

Noel, Laura

From: Jim Powell [jamesdpowell@yahoo.com]

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To: Noel, Laura

Subject: "The reason the nonprofit sector exists at all is because it can fund and invest in social issues that the for-profit market can't touch"

Laura - Happy New Year! JIM

"The reason the nonprofit sector exists at all is because it can fund and invest in social issues that the for-profit market can't touch because they can't be measured," said Paul Shoemaker, executive director of Social Venture Partners Seattle and a GEO board member. "The nonprofit 'market' is not designed to be efficient in that way. Yet, we're applying the same efficiency metrics to both sectors."

More Foundations Questioning Project-Based Funding Approach

<http://foundationcenter.org/pnd/news/story.jhtml?id=199600011>

As directors, trustees, and advisors from corporate America continue to urge foundations to do more to measure the return on their charitable investments, a small but increasingly vocal group of foundation leaders is challenging the rationale behind that approach, the *New York Times* reports.

"In the 1980s and early 1990s, there was a huge push for private philanthropy to be more accountable and to spend more time being goal-driven," said Kathleen Enright, executive director of Grantmakers for Effective Organizations (GEO), a Washington, D.C.-based coalition of foundations that promotes effective grantmaking. As a consequence, added Enright, many nonprofits were forced to sacrifice long-term effectiveness and a focus on strategic activities for short-term efficiency.

"The reason the nonprofit sector exists at all is because it can fund and invest in social issues that the for-profit market can't touch because they can't be measured," said Paul Shoemaker, executive director of Social Venture Partners Seattle and a GEO board member. "The nonprofit 'market' is not designed to be efficient in that way. Yet, we're applying the same efficiency metrics to both sectors."

And there are other downsides to the approach, say its critics. According to a 2006 study from the Center for Effective Philanthropy, many foundations allow nonprofits to count only 10 percent to 30 percent of direct project costs toward overhead, while some refuse to support operational costs at all. The resulting financial strain can challenge even the most efficient nonprofit, forcing them to take on additional projects, which in turn increases the amount of capital they need — "a vicious cycle," says Thomas Tierney, chairman and co-founder of the Bridgespan Group, "that perpetually starves them of capacity."

A number of recent studies have concluded that providing general operating as opposed to project support yields better results for foundations and grantees alike. Those findings echo the experiences of funders like the William and Flora Hewlett, Edna McConnell Clark, and Philadelphia foundations, which are at the vanguard of the movement to provide more operating support to their grantees.

Still, the majority of grantmakers continue to focus on project support, preferring its ability to generate

concrete results and demonstrate a funder's impact in a specific funding area. "The presumption is that the donor knows more about how to address a given problem than its grantees, and I think that's usually not a correct presumption," GEO's Enright said. "More operating support can shift the locus of action and ideas to the people who are closest to the problem."

Caruso, Denise. "Can Foundations Take the Long View Again?." New York Times 1/06/08.