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An Experiment In Coordinated Investment

A PROGRESS REPORT ON THE EDNA McCONNELL CLARK FOUNDATION'S GROWTH CAPITAL AGGREGATION PILOT

FOR THREE DECADES, the Edna McConnell Clark Foundation has devoted its resources to improving the lives of people in poverty. In 2000, it began to concentrate on funding U.S. organizations whose programs have been proven effective in helping low-income youth, ages 9 to 24, become independent, productive adults by acquiring education, skills, and employment, and avoiding risky behaviors such as criminal activity and teenage pregnancy. This funding has consisted largely of long-term support for business planning, capacity building, and program evaluation, so that these organizations can grow significantly while maintaining and improving the quality of their evidence-based programs, become financially sustainable, and make a positive impact on the life trajectories of greater numbers of young people.

Funding experiences over the past seven years convinced the Foundation that its most successful grantees required more support than EMCF alone could provide if they were to help solve at sufficient scale some of the nation's most intractable social problems. High-performing grantees with proven programs encountered difficulty attracting the additional capital and investors they needed to support their plans to expand and achieve sustainability. It was even more difficult to secure these commitments expeditiously so that a grantee with a good plan could begin to implement it. Seeking to support such organizations more effectively, the Foundation launched a pilot program in June 2007 to raise, with co-investors, $120 million in upfront growth capital for three of its most promising grantees.

The purposes of this **Growth Capital Aggregation Pilot** (GCAP) are to:

1. Deliver programs of proven effectiveness to more low-income youth
2. Demonstrate that a large infusion of philanthropic capital, committed in full before the implementation of a sound business plan, can propel the growth of a nonprofit organization with evidence-based programs and leverage the additional, more reliable funding, public as well as private, that can sustain the organization at its new, greater scale
3. Test a new model of collaborative philanthropy that coordinates the resources and oversight responsibilities of co-investors and provides a clear road map for grantees to reach long-term sustainability by securing reliably renewable public and private funding, and thus ultimately a pathway for funders to exit responsibly

EMCF believes that this initiative has the potential to make an impact greater than an increase in the numbers of youth directly served. If it succeeds, it could serve as a model for how funders can collaborate strategically to leverage additional public and private investments and expand dramatically the reach of programs proven to improve the lives of people in need.

In June 2008, EMCF succeeded in reaching its funding goal in a little under a year. Over and above the Foundation's investment of $39 million, EMCF partnered with its three grantees to secure commitments of $81 million from their boards and 19 co-investors, including other foundations, corporations, and individual philanthropists. (A list of co-investors appears on the last page of this report.) As the three organizations implement ambitious growth plans over the next few years, EMCF will be helping to coordinate a network of co-investors in an engaged investment management strategy with an extensive learning agenda.

The progress report that follows describes:

1. How the GCAP originated
2. How these investments are structured
3. What the Foundation and co-investors hope to learn
4. What EMCF hopes the GCAP will accomplish

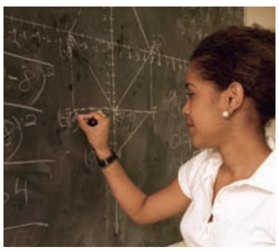
Origins

Since 2001, EMCF's emphasis on business planning, capacity building, and program evaluation has demonstrably benefited 27 organizations and the low-income young people they serve. For example, the 19 grantees it supported in 2005 and 2006 reached 18 percent more youth during that year alone. Over four years, the total revenues of EMCF grantees increased by 19 percent while they improved the quality of their programs for youth, addressed critical organizational needs such as strengthening their boards and hiring key staff, implemented robust internal performance tracking systems, and undertook rigorous third-party evaluations to demonstrate their impact.

Despite this progress, most grantees had difficulty attracting enough additional funders to achieve their full potential for growth, while many potential funders were hesitant to make long-term commitments to grantees without a clear notion of how and when they could exit responsibly with a satisfactory social return on their investment.

Nurse-Family Partnership (NFP) was a case in point. This long-standing grantee had administered for 30 years a scientifically validated home-visitation program that improves the health, behavior, school readiness, and, eventually, the economic self-sufficiency of children born to first-time, low-income families. Three clinical trials had shown that children enrolled in the program were healthier, better socialized, and, as they grew older, less liable to become involved in delinquency and crime. Their mothers fared demonstrably better, too, proving less likely to be arrested or convicted of a crime, for example, and more likely to be employed. An evaluation by the Washington State Institute for Public Policy concluded that, in addition to the benefits it produced for poor families, NFP's program saved taxpayers over $17,000 per family served by reducing outlays for public support, foster care, law enforcement, criminal justice proceedings, incarceration, and the like. A RAND Corporation study found that NFP yielded $5.70 in savings in government expenditures and other social costs per $1 spent on higher-risk families, and $2.88 in savings for every dollar spent on the average participating family.

Clearly, NFP had developed a program with impressive, proven outcomes for the 12,700 poor, first-time families it served in 2007. But 650,000 such families are formed in the United States every year. How could EMCF help NFP achieve the scale that would make a significant national impact? NFP's business plan set a goal of expanding enrollment to 100,000 families annually by 2017, yielding a social return of over $5.4 billion. Implementing the plan would require an initial investment of $50 million in growth capital.



Although the Foundation had dramatically reduced the number of organizations receiving grants—from 160 in 1996 to 20 in 2007—and increased the total dollar amount from $24 million to $37.5 million, EMCF's resources were still insufficient for it to make so large a commitment to NFP or other promising grantees entirely on its own. The Foundation hypothesized, however, that if it assumed a facilitating role and developed a mechanism for aligning other major investors, it might be possible to syndicate full funding for such grantees' growth. EMCF developed a new model of coordinated philanthropy and an investment template that seeks to attract national foundations as well as new philanthropists by establishing common terms, milestones, reporting requirements, and management practices that ensure a maximum social return on their co-investments.

In addition to NFP, two other EMCF grantees had reached a stage in their development at which they were poised to take advantage of the upfront growth capital the GCAP was designed to aggregate:

- **Youth Villages**, which conducts cost-effective, evidence-based interventions, such as multi-systemic therapy, that help young people involved in the juvenile justice and foster care systems remain in or return to their homes.
- **Citizen Schools**, which improves the academic performance and college prospects of low-income middle schoolers by bringing them together with volunteers—"citizen teachers"—around a wide range of subjects. Staff members also provide help with study skills and homework and conduct field trips, college visits, and civic activities.

All three organizations were promising candidates for the GCAP because they had:

1. Programs that rigorous evaluation had proven highly effective, and systems in place to track ongoing performance and ensure program fidelity
2. Track records of strong performance and leadership, including active, committed boards of directors
3. Prominent private and public partners capable of providing additional funding
4. A realistic potential and sound business plans to expand significantly and achieve financial sustainability at greater scale

Currently, these three organizations serve 27,000 youth with proven programs in more than 150 locations in 27 states and the District of Columbia. GCAP's goal is to help them extend their combined reach to more than 65,000 youth by 2012, while leveraging approximately $700 million in public funding. If the GCAP succeeds, it will achieve the kind of scale, sustainability, and impact that the Foundation has aspired to realize for nearly a decade, in the belief that building larger, stronger, national youth-development organizations is the most effective, efficient, and expeditious way to change the destinies of low-income young Americans. Reaching this goal will require private and especially public funders to make it a priority to support organizations with proven programs, and to do so on a long-term basis that ensures the sustainability of these youth-serving organizations.

How These Investments Are Structured

EMCF got the GCAP under way by reaching agreements with NFP, Youth Villages, and Citizen Schools on the initial terms of the Foundation's investments in them, contingent as they were on these organizations' raising additional funds to reach the goals they set in their growth plans. The Foundation worked closely with their leadership and boards to strengthen their fundraising capacity and create compelling fundraising tools and materials. It helped identify prospects and sometimes accompanied the organizations on calls to potential donors—or EMCF approached likely co-investors on its own.

Once co-investors made verbal commitments to invest in a particular grantee, EMCF consulted with each grantee and the co-investors to craft a Joint Terms Agreement, an Investment Management Plan, and a Memo of Understanding. These documents outline common values, terms, conditions, payment schedules, performance metrics, and reporting and communications procedures, and define the roles and responsibilities of the grantee, the co-investors, and, as lead investor, EMCF. The Foundation's responsibilities as lead investor include:

1. Helping each grantee implement its growth plan by providing or facilitating access to assistance in areas such as executive coaching, board development, talent recruitment, program evaluation, and communications
2. Overseeing quarterly performance reporting and the grant payout schedule
3. Managing investment-related information, communications, and expectations on behalf of co-investors

Several features distinguish the GCAP. None of them is unprecedented, but their combination is unusual and, EMCF believes, promising:

1. Raising upfront, unrestricted growth capital in full is uncommon in the nonprofit sector, which generally makes grants on a pay-as-you-go and/or project basis. This should help organizations focus more sharply on executing their growth plans.
2. All three grantees' business plans outline how they will achieve or approach financial sustainability once they reach scale, without resorting to additional growth capital. If these plans are successful, co-investors who choose to do so will be able to exit successfully and responsibly at the end of the investment. Most co-investors, including EMCF, view their commitments as one-time in nature.
3. All funders have agreed to the same terms and conditions for investment, which should ease the reporting burden on grantees.
4. All co-investors have adopted a performance-based approach to payout that requires grantees to achieve key performance milestones and develop longer-term financing. Co-investors will monitor grantees' progress closely to ensure that they draw down growth capital wisely.
5. All co-investors are committed to sharing their learning and to being transparent with each other and the public about the pluses and minuses of this syndication model.

Organizations and individuals interested in learning more about the Growth Capital Aggregation Pilot or about the programs and expansion of the three participating grantees should contact Albert Chung at achung@emcf.org or 212.551.9100.

The Learning Agenda

The Foundation and its co-investors are eager to share all the knowledge they derive from both the successes and the shortcomings of the GCAP. As part of its commitment, EMCF will undertake external evaluations to measure and analyze what the Foundation, its co-investors, and its grantees accomplish. The learning agenda of questions that EMCF and co-investors expect to answer during the course of the pilot project includes:

1. Has this co-investment approach proven more successful—and swifter—than traditional funding in helping grantees achieve the goals of their growth plans, including securing sufficient public and private funding to ensure financial sustainability?
2. What value does this approach add to these particular grantees, and are there lessons to be learned that can be applied to grantees at different stages of organizational development?
3. What has been the experience of co-investors, and what can be learned from it? For what types of funders is this investment strategy most compelling and useful?
4. Have there been unintended negative consequences for grantees and other participants?
5. How must grantees, EMCF, and co-investors operate differently to succeed in such collaborative ventures? What old skills must they adapt, and what new ones must they add?
6. And, finally, once the growth capital is drawn down after three to five years, will EMCF and other investors be able to exit responsibly?

EMCF will make public on its website and in its annual report status and performance reports on the GCAP, and the results of an external evaluation of this initiative.

Conclusion

Although the Foundation is gratified that the GCAP has gotten off to a promising start, it recognizes that only the commitment of co-investors and the hard work of grantees will ensure that this experiment in coordinated, collaborative philanthropy leads to a successful conclusion. EMCF hopes that over the next few years the Foundation, its co-investors, and its grantees will have accomplished the following:

1. The GCAP will have demonstrated that aggregating upfront growth capital can help organizations to achieve growth and sustainability.
2. The three grantees will have improved the life prospects of more than 65,000 low-income youth, assured their own sustainability by leveraging $700 million in public funding, and helped form a cadre of organizations capable of addressing at scale the uncertain futures of economically disadvantaged young Americans.
3. Co-investors who choose to do so will be able to exit successfully and responsibly at the end of the investment period, collaborate in other partnerships, and help make the philanthropic sector a vigorous agent of large-scale social change.
4. Other nonprofits will be encouraged to adopt practices and systems that enhance their effectiveness.
5. Private and public funders will recognize and embrace the roles they can play in helping high-performing organizations reach the scale necessary to make an impact on society's most pressing problems: While private philanthropy provides the growth capital to build organizations, the public sector invests its limited resources in sustaining programs that work.

Growth Capital Aggregation Pilot Co-Investors

The foundations, individuals, and corporations investing alongside the Edna McConnell Clark Foundation are:

Nurse-Family Partnership
Bill & Melinda Gates Foundation
Robert Wood Johnson Foundation
W. K. Kellogg Foundation
The Kresge Foundation
The Picower Foundation
NFP Board of Directors

Youth Villages
Day Foundation
FedEx Corporation
Bill & Melinda Gates Foundation
The Jenesis Group
The Kresge Foundation
Strategic Grant Partners
YV Board of Directors

Citizen Schools
ArcLight Capital
The Atlantic Philanthropies
Bank of America Charitable Foundation
Josh and Anita Bekenstein
John S. and James L. Knight Foundation
Koogle Foundation, a donor-advised fund
at Silicon Valley Community Foundation
The Lovett-Woodsum Foundation
The Picower Foundation
The Samberg Family Foundation
Skoll Foundation
CS Board of Directors
Anonymous