

An Experiment in Scaling Impact:

ASSESSING THE
GROWTH
CAPITAL
AGGREGATION
PILOT

by William P. Ryan and Barbara E. Taylor

for The Edna McConnell Clark Foundation
December 2012

Growth Capital Aggregation Pilot Co-Investors

CITIZEN SCHOOLS*

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

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A national leader in Expanded Learning Time, Citizen Schools brings low-income middle school students together with volunteers—“Citizen Teachers”—who provide hands-on learning experiences to expose young people to new experiences and potential career paths. In addition, trained staff members provide homework help, study skills instruction, inspirational field trips, college campus visits, and civic activities, so that students enter high school on time and on-track, providing hope for a better future. Evaluators found that participants outperformed peers on six of seven academic measures, including school attendance, number of suspensions, and academic attainment. Its former participants go to college-track high schools at more than twice the rates of matched comparison groups.

NURSE-FAMILY PARTNERSHIP

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

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With a 30-year scientifically validated track record, Nurse Family Partnership (NFP) sends trained nurses on bi-weekly home visits to help first-time, low-income families beat the odds by improving early childhood health and development, and economic self-sufficiency outcomes. Three separate randomized, controlled trials and a 15-year follow-up prove that families experience dramatically fewer arrests, convictions, and instances of child abuse and neglect. Results also show that NFP families are more likely to find employment and become economically self-sufficient. The RAND Corporation calculated that for every \$1 invested in its high-risk population, Nurse-Family Partnership returns a net savings of \$5.70 to society. Today, this home visitation program annually serves 22,000 mothers under the age of 25 across 22 states, leveraging \$52 million in public funding annually. By 2018, it aims to serve annually 60,000 of the 650,000 eligible families in the country and to be able to continue growing with earned revenues. At scale, this single intervention alone could crack the persistent poverty problems for this population of young adults and their families.

YOUTH VILLAGES

- Anonymous
- Mike Bruns
- Day Foundation
- The Duke Endowment
- FedEx Corporation
- The Paul and Phyllis Fireman Charitable Foundation
- Bill & Melinda Gates Foundation
- The Greenlight Fund
- Jenesis Group
- The Kresge Foundation
- The Robertson Foundation
- Strategic Grant Partners
- Youth Villages Board of Directors

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Youth Villages serves young people ages 6–22 with emotional and behavioral problems, many of whom are involved in the juvenile justice and foster care systems. It provides alternatives to expensive, less effective, traditional child welfare services by offering a continuum of care that includes evidenced-based models such as multi-systemic therapy. These cost-effective approaches are designed to keep young people in their homes and help them transition as they age out of foster care and state custody. Results show that 80 percent of Youth Villages participants stay in their homes two years after exit (versus a 40 percent national average), saving the government roughly \$31,000 to \$130,000 per participant. From its beginnings in Tennessee, where it provided services to 2,000 youth in 2001, Youth Villages has grown to serve 18,000 youth in 11 states, plus Washington DC. Achieving a significant presence in other states is positioning Youth Villages to influence federal child welfare and juvenile justice policy.

Preface

When the Edna McConnell Clark Foundation launched the \$120 million Growth Capital Aggregation Pilot in 2007, we were making big bets in more ways than one. We were betting on our three grantees. Could they take full advantage of a major infusion of capital and further strengthen their organizational capacity and evidence base to the point where they could lift the life prospects of much greater numbers of vulnerable youth? We were betting on the philanthropic community. Would other funders be interested in partnering with us in this experiment in coordinated, collaborative investment? And we were betting on ourselves. Could a foundation with no experience of working on such a scale or working closely with co-investors manage this initiative and guide it to success?

We did not realize it at the time, but we were also betting on the continuing strength of the U.S. economy, and were we in for a surprise!

Five years later, the Growth Capital Aggregation Pilot (GCAP) has come to a close, and I am pleased to report that, according to William Ryan and Barbara Taylor, our bets have paid off.

Summarizing the findings of their qualitative assessment, they write: *All three grantees made impressive progress toward the goals they set at the start of GCAP, increasing dramatically the numbers of youth they serve and improving the sustainability of their revenue structures. And they accomplished all of this in the midst of the worst economic downturn the U.S. has seen since the Great Depression.*

Most of the credit for these outcomes, I must emphasize, belongs to the grantees, who showed great resilience, and to our co-investors, who showed great commitment, even when the going and the economy got rough.

Heartened by the success of the GCAP, and learning from those instances where it failed to meet expectations, the Edna McConnell Clark Foundation is now adapting, refining and expanding growth capital aggregation. An experiment limited to three grantees is evolving into an investment approach we are integrating into our core enterprise.

By identifying the strengths and weaknesses of the GCAP, and pointing out the challenges that lie ahead for growth capital aggregation, Bill Ryan and Barbara Taylor have made an important contribution to this work in progress.

I hope their findings will also interest policy-makers and practitioners as well as philanthropists and other funders who are committed to channeling more resources to programs that can most effectively turn around young people's lives.

Nancy Roob
President, EMCF

Introduction

This report presents an assessment of the Growth Capital Aggregation Pilot. It was commissioned by the Edna McConnell Clark Foundation, founder and lead investor of the grantmaking initiative.



Nurse-Family Partnership
Denver, CO

EVOLUTION OF A GRANTMAKING APPROACH

Starting in 2000, The Edna McConnell Clark Foundation (Clark) adopted an investment approach to grantmaking that focused on providing growth capital to youth-serving organizations with demonstrated commitments to evaluation and measurable outcomes. For grantees, the strategy meant larger, longer-term, unrestricted investments, complemented by extensive access to consulting and technical assistance to strengthen their organizations.

This approach helped Clark grantees across the portfolio increase the numbers of youth they served (for example, by 18 percent between 2005 and 2006) and achieve annual revenue gains (averaging 19 percent over the four years prior to the founding of GCAP). At the same time, the Foundation concluded that more capital would be required if its grantees and other promising youth-serving organizations were to realize their ultimate scale and sustainability potential.

GROWTH CAPITAL AGGREGATION PILOT (GCAP) IN BRIEF

Bolstered by its belief in this investment model, and aiming to raise more funds to further it, Clark launched GCAP in March 2007. GCAP set out to support Clark's most promising grantees—those that had demonstrated through rigorous evaluation their effectiveness in changing the life course of vulnerable young people. The Foundation intended to help these organizations

attain scale, serving many more young people. And it wanted to aid them in developing sustainable economic models so they could work at large scale over time. It concluded that to do so would require large sums of flexible, up-front funding that the organizations—guided by carefully crafted business plans that chart a course toward scale and sustainability—could spend as needed. Clark also concluded that the monies needed for dramatic growth would outstrip its own giving capacity.

In response, the Foundation created GCAP so that other foundations and individual donors could contribute unrestricted funds that, together, would be equal to the challenges a grantee faces in seeking scale and sustainability. In this pilot phase of the growth capital approach, the Foundation aggregated \$120 million between 2007 and 2008 (including \$39 million of its own funds) to invest in three grantees over a five-year period. The three grantees differed in many ways but were alike in that they offered effective models, a history of outstanding performance, aggressive growth plans, solid executive and board leadership, and access to public and private resources critical to successful growth. The Foundation believed that these grantees, already shown effective in so many ways, were well situated to test GCAP's promise of even faster, stronger growth. With the support of GCAP, Citizens Schools, based in Boston, secured \$30.3 million; Nurse-Family Partnership, Inc., based in Denver, secured \$50 million; and Youth Villages, Inc., based in Memphis, secured \$40.6 million.

As “lead investor,” Clark’s role has been to help the grantees create an investment prospectus and solicit funds from other foundations and donors. Although technically each funder independently makes its own grant to the grantee, all of them execute a memorandum of understanding committing them to work within the GCAP framework. Once all funding has been secured upfront and this “co-investor” group is formed, Clark monitors the performance of the grantee, updating investors through a system of quarterly reports and calls as well as annual meetings. Co-investors waive their normal grant reporting requirements, allowing grantees to make a single report to the lead investor, which is the primary point of contact between the investors and the grantees.

STUDY ORGANIZATION AND METHODS

This report summarizes in-depth case studies prepared on each of the three GCAP grantees in fall 2011. It is organized in three sections that explore the following questions:

How did the grantees do? Were they successful?

What did the grantees do? Working in the “laboratory conditions” of GCAP, how did they invest their large sums of flexible capital? What strategies did they pursue? How did they invest in their capacity to advance them?

How did the GCAP model work? What did grantees and co-investors consider the strengths and weaknesses of this funding approach? What did grantees invest in?



Youth Villages, Memphis, TN

How did the grantees do?

In GCAP's logic, neither scale nor sustainability alone constitutes success. To be more than a passing bright spot, large-scale service delivery has to be sustained over time. And to be more than an interesting experiment, sustainable operations have to support large-scale service delivery. With scale and sustainability thus defined as the pillars of GCAP's success, we consider grantees' progress as a function of each, treating them in turn below.



Citizen Schools
Boston, MA

But first we offer a framework for considering the different experiences of the grantees. Each faces its own challenges, opportunities and prospects. On some points, it is therefore more accurate to speak of three GCAP stories, not one. Most important, grantees' access to public funding—essential to their scale and sustainability success—varies in important ways. As an aid to understanding GCAP as a model and the progress and prospects of each organization, we distinguish the grantees by noting the relationship of government to the youth they serve. For example:

» When the youth is a ward of the state, some measure of government funding is assured, since public agencies—directed by legislatures or ordered by the courts—have little choice but to serve them. The children and young people served by Youth Villages usually come from unsafe homes, have no family to care for them, have been charged with criminal offenses, or suffer serious mental illness or behavioral problems. These unfortunate circumstances produce reliable, if not sufficient, funding for Youth Villages-type services. Government must provide a safety net, however tattered. Thus there is both a need and a market for Youth Villages services. Its challenge is to reach more youth with its programs on the strength of its claim to produce better outcomes for them and savings for public funders.

» In the case of Nurse-Family Partnership (NFP), single mothers and their infants may be thought of as dependents of the state. If they lack the resources associated with successful child-rearing today, they are likely to impose higher costs on government later. So the choice for public policy-makers is to pay now, by investing in prevention, or pay later, for public services that families in NFP's control groups tend to incur at far greater rates. (These include public assistance, remedial school supports, emergency room treatments, and even incarceration.) NFP has already proved successful in making this case to public funders, and its prospects for continued success have improved significantly. Between 2007 and 2012, it expanded from 23 to 41 states and one U.S. Territory. This geographic breadth gives it a strong base from which to increase the number of families it serves in coming years, as much of the initial investment required to enter new states has already been made. More important, during its GCAP term it helped win inclusion of home-visitation programs in the health care reform act of 2010, opening an enormous funding opportunity that could radically change its scale and sustainability prospects.

» Citizen Schools, unlike Youth Villages and NFP, is ineligible for federal entitlement funding. Rather, the children it serves are beneficiaries of discretionary programs aimed at enriching their lives and promoting their success in school and beyond. It is also the youngest of the three grantees—earlier in its path to tapping dedicated funding streams. It has to argue its case—repeatedly—to a changing cast of school administrators, state officials, and federal policy-makers, all of whom face competing demands, often for mandated or essential services. Education reformers are promoting a mandatory, longer school day—or “Expanded Learning Time” (ELT)—as a way to improve student performance, and Citizen Schools programs have been an early example for the power of expanded learning time. Its ELT partnerships demonstrate significant student/school achievement gains at a lower cost than teacher-led ELT. As school districts look for the highest “returns” on constrained funding, more may be willing to invest public funding to partner with Citizen Schools.

To the extent that sustainability is dependent upon reliable-renewable public funding, this analysis would suggest highly favorable prospects for Youth Villages; promising prospects for NFP; and uncertain but improving prospects for Citizen Schools. Situated differently in these ways, both GCAP’s expectations for these grantees, and their track records, vary significantly.

To summarize the findings detailed below:

All three grantees made impressive progress toward the goals they set at the start of GCAP, increasing dramatically the numbers of youth they serve and improving the sustainability of their revenue structures. And they accomplished all of this in the midst of the worst economic downturn the U.S. has seen since the Great Depression.

PROGRESS TOWARD SCALE

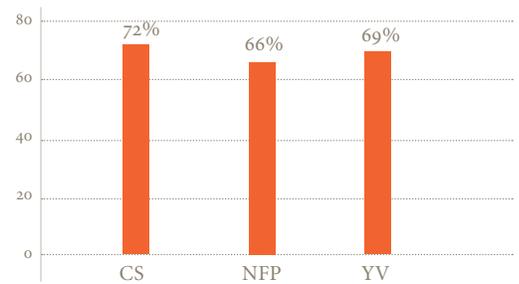
There are several ways to consider grantees’ progress in attaining scale: by comparing their pre- and post-GCAP service numbers; by measuring their progress toward their own goals; and by considering their progress in light of recent economic conditions.

By way of context—rather than as a reasonable basis for judging grantee progress—we note the gap between youth served and the estimated number of youth in need. On that score, Youth Villages served about 18,000 youth in 2011, while an estimated 500,000 of the three million youth who become involved annually in juvenile justice, child welfare, and mental health programs could be “better served at home”—like with Youth Villages’s service model—than in institutional settings. NFP served about 22,000 first-time mothers in 2011, while more than 650,000 children eligible for its services are born each year. Even these fast-growing organizations touch only a fraction of the problem.

EXHIBIT 1

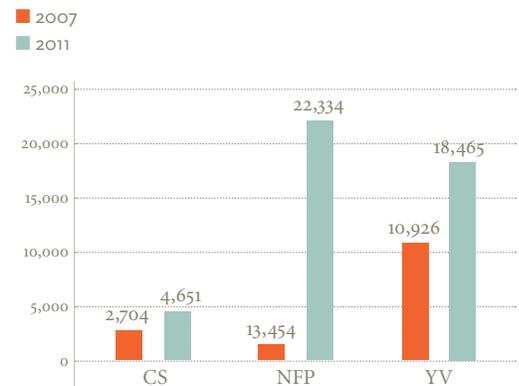
Percentage Growth in Youth Served, 2007–2011

On average, the organizations increased the number of youth served during GCAP by 69 percent.



Numbers of Youth Served

NFP achieved the greatest growth, with an increase of 8,800.



1. Simple before-and-after numbers provide a more reasonable way of understanding grantees' performance. On average, the organizations increased the number of youth served during GCAP by 69 per cent between 2007 and 2011. Although it serves the fewest youth, Citizen Schools saw the greatest growth, at 72 percent, with Youth Villages and Nurse Family Partnership following at 69 and 66 percent, respectively.¹

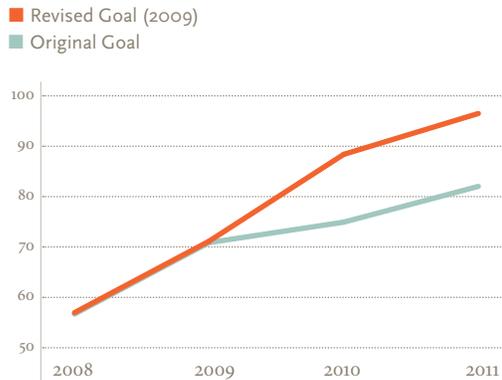
¹Citizen Schools launched its growth plan in 2006 and received its first GCAP funding in 2007—one year earlier than the other two organizations. Over that longer period—from 2006 to 2011—Citizen Schools's growth in youth served was 178 percent.

Simple percentages, however, do not tell the whole story. Another perspective is offered by the absolute increase in numbers of youth served. In this case, NFP achieved the greatest growth, realizing an increase of 8,880, with Youth Villages close behind at 7,539 and Citizen Schools at 1,947.

offered by both organizations. In contrast, Youth Villages did not revise its growth goals and, in fact, exceeded its original goals by almost 20 percent. Its greater success may owe partly to the fact that its services are less discretionary than those of Citizen Schools and NFP, as outlined above.

EXHIBIT 2
Youth Served as a Percentage of 2012 Goals:
GCAP Grantee Average

Judged against the original goals, the overall picture is positive, with an average goal attainment of 82 percent; judged against revised goals, attainment was 96 percent.



2. Measuring the grantees' actual growth against their growth goals—established at the outset of GCAP, and regularly monitored by investors—provides another, comparative, basis for assessment. That picture is complicated somewhat by the fact that two of the grantees—NFP and Citizen Schools—revised their growth goals downward in response to the Great Recession, which took an enormous toll on state budgets and private philanthropy, particularly for discretionary services like those

EXHIBIT 3
GCAP Grantees: Youth Served as a Percentage of 2012 Goals

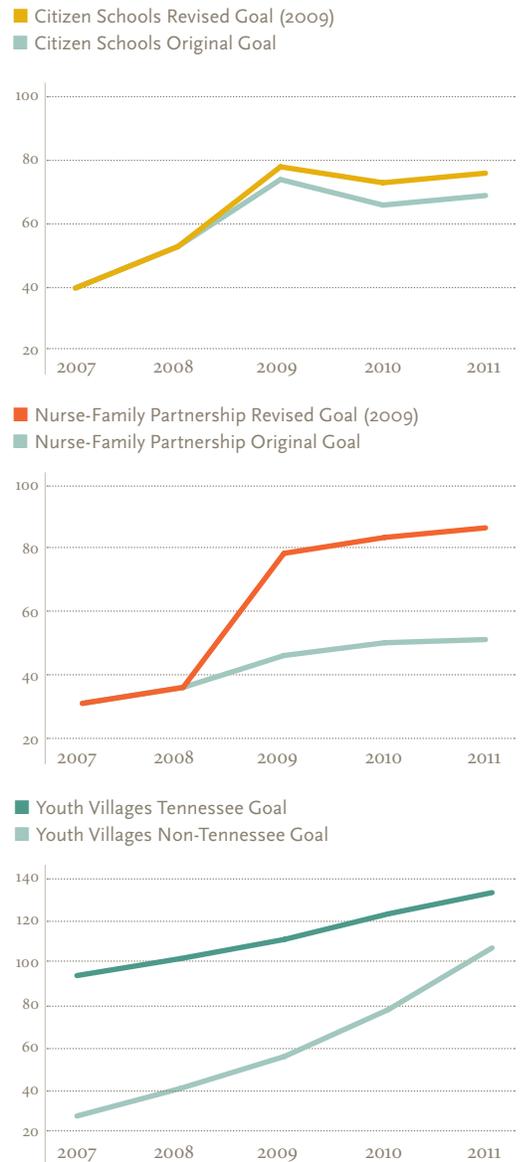


Exhibit 2 shows the number of youth served as a percentage of the two goals: the original goals for 2012 set at the beginning of GCAP; and the revised 2012 goals established for Citizen Schools and NFP in 2009. Even judged against the original goals, the overall picture is positive, with an average goal attainment of 82 percent by 2011. Judged against the revised goals, the grantees overall had an impressive goal attainment of 96 percent. Their progress is all the more notable considering that their GCAP terms had not yet concluded, leaving more gains likely. Exhibit 3 presents a more detailed picture, showing the goal attainment for each organization.

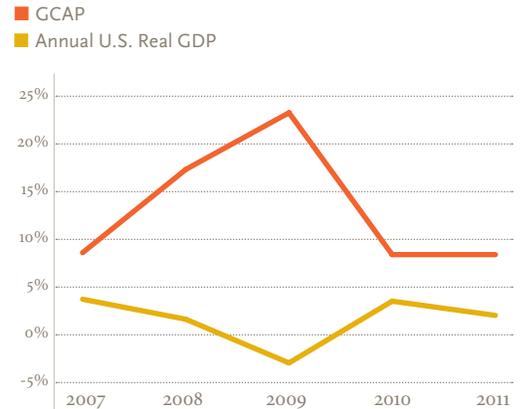
During this period, Citizen Schools expanded its geographic footprint from six to eight states; Youth Villages from six states and Washington, D.C. to 11 states and Washington, D.C.; and NFP from 23 to 33 states.

3. By way of additional context, we considered the growth gains of the three grantees and changes in U.S. Real GDP together. This comparative view provides confirmation of the accounts given by the grantee leaders—particularly at Citizen Schools and NFP—about the effects of the recession. At first glance, the diverging GDP and grantee growth lines in Exhibit 4 confound expectations. They show grantee growth climbing when GDP is sinking. But the diverging trends confirm exactly what grantee leaders explained about the recession: Because the state budgets they largely depend on are funded by the previous year's tax revenues, budget cuts trail economic downturns by a year. Thus, grantee growth peaked in 2009, right when GDP was at its lowest, and then declined as GDP recovered, until the two moved in tandem as the recession ended in 2010. Although crude, the GDP-grantee-growth measure suggests that economic factors may be most decisive in explaining the missed original growth targets of NFP and Citizen Schools. The correlation is not surprising, but its tightness is striking and provides useful context for judging grantee progress.

EXHIBIT 4

Growth in GCAP Youth Served Compared to Growth in Annual U.S. Real GDP

The GDP/grantee-growth measure suggests that economic factors may be most decisive in explaining the missed original growth targets of NFP and Citizen Schools.



PROGRESS TOWARD SUSTAINABILITY

In proposing a construct for conceptualizing and measuring sustainability, GCAP has eschewed complex economic models in favor of a simple proposition: The greater the share of an organization's budget coming from reliable-renewable funding sources, the more sustainable it is. As explained below, each GCAP grantee defines reliable-renewable funding differently.

Of the three GCAP grantees, Citizen Schools uses the most expansive definition of reliable-renewable funding. Except for large, one-time infusions like its GCAP grant, Citizen Schools counts almost all philanthropy as reliable-renewable. In fact, it hopes that in 2014, 60 percent of its operations will be funded by philanthropy, as compared to the 5 to 10 percent share envisioned by the other two grantees. Exhibit 5 shows Citizen Schools's progress over the course of GCAP in attaining its 2012 sustainability goal. In 2009, because of the national economic crisis, the 2012 goal was lowered from 95 percent to 74 percent. By the end of 2011, the organization had achieved 99 percent of that revised goal, demonstrating a credible case for its own sustainability logic. For one, its discretionary, affirming program,

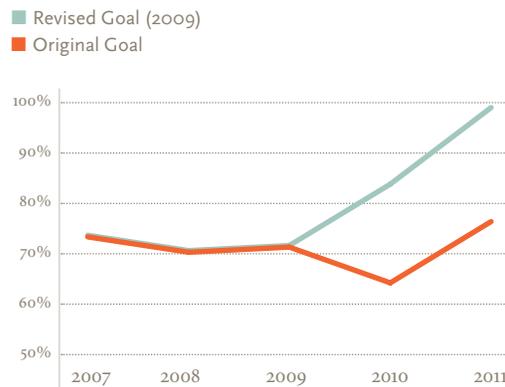
driven by volunteers, has demonstrated appeal to philanthropists. Especially as Citizen Schools secures increasing support from corporate partners that commit to provide both citizen teachers (lawyers from a law firm, designers from a software company, etc.) and philanthropy, its non-government funding might become both large-scale and sustainable. In this way, Citizen Schools actually has an advantage over the other two grantees. Precisely because their services are likely to be viewed as government’s purview, philanthropists may be less likely to contribute to NFP and Youth Villages, which they might see as well funded already. Finally, as explained earlier, Citizen Schools continues to hone its sustainability strategy around the emergence of the longer school days associated with the Expanded Learning Time model. If that model becomes widespread, and Citizen Schools programs are embedded in the school day, its prospects would be more like those of NFP and Youth Villages.

sustainability results have been disappointing in the short term, the organization has reason for longer-term optimism. In fact, NFP projects that more than 60 percent of its expenditures will be covered by reliable-renewable revenues in 2014, and 80 percent in 2017.

One key to NFP’s improving prospects is the link between scale and sustainability in NFP’s model: By expanding the number of mothers served, it attains economies of scale that apportion operating costs over an expanding base of “customers,” until break-even is reached. Developments at the federal and state levels are affecting the numbers of mothers participating in the NFP program. Medicaid already reimburses providers for some home visitation services, and the inclusion of such programs in the federal Affordable Care Act (ACA) promised to further increase participation in the program. The U.S. Supreme Court’s 2012 decision to strike down the portion of the ACA that required states to expand Medicaid coverage leaves prospects for NFP’s growth less certain than they would otherwise have been. In states that do participate, however, expansion of Medicaid will increase funds available to agencies that deliver the NFP program, thereby enhancing the stream of reliable-renewable funding to NFP.

EXHIBIT 5
 Citizen Schools: Sustainability Attainment as a Percentage of 2012 Goals

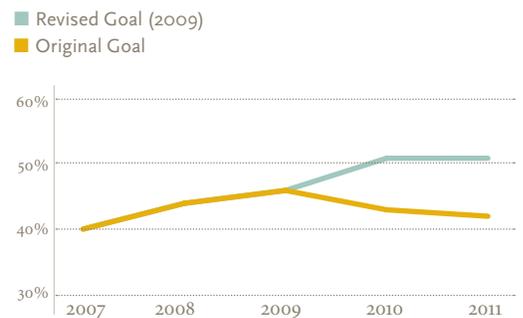
The greater the share of an organization’s budget coming from reliable-renewable funding sources, the more sustainable it is.



For Nurse-Family Partnership, reliable-renewable funding consists almost entirely of fees for service collected by the National Service Office from front-line agencies that deliver its program to mothers and children, with the remaining 5 to 10 percent coming from philanthropy on a reliable-renewable basis. As shown in Exhibit 6, NFP achieved in 2011 just over 50 percent of its 2012 sustainability goal, which had been revised downward in 2009 in response to the economic crisis. While its

EXHIBIT 6
 Nurse-Family Partnership: Sustainability Attainment as a Percentage of 2012 Goals

By 2011, NFP achieved just over 50 percent of its 2012 goal, which had been revised downward in 2009 in response to the economic crisis. NFP projects that more than 60 percent of its expenditures will be covered by reliable-renewal revenues in 2014.



NFP also has revisited its pricing structure with a view toward significantly increasing its earned revenue per participating agency. NFP's leaders consider its services underpriced, and research and consultation with state government and provider decision-makers suggest that their customers will pay more for NFP services they already value highly.

For Youth Villages, reliable-renewable funding is almost entirely synonymous with public funding, which in its case is largely non-discretionary. The services it provides are essential to the welfare of young people whose own families and other supports are not equal to the task of caring for them properly. As a result, states typically see these child welfare services as essential, and when they fail to appropriate sufficient funding for them, courts often intervene to order them to do so. As Exhibit 7 shows, even in 2007, the year before receiving its first GCAP funding, Youth Villages had achieved 96 percent of its 2012 sustainability goal. That percentage rose to 102 percent in 2008 and declined to 92 percent in 2009, the year following the economic collapse. Since then, it has stood at 97 percent.

In addition to a dependable flow of public funding, Youth Villages counts a small share of philanthropy as reliable-renewable for two reasons. Philanthropic grants can sometimes cover expenses that government contracts or grants will not, and are thus worth seeking. And while any one donor or foundation may be fickle, it is safe to assume that the grantee will always have appeal for some of them at any given moment, meaning they are reliable in the aggregate. So, like NFP, Youth Villages anticipates raising about 5 to 10 percent of its funds from philanthropy on a reliable-renewable basis.

EXHIBIT 7

Youth Villages: Sustainability Attainment
as a Percentage of 2012 Goals

Even before receiving its first GCAP funding, Youth Villages had achieved 96 percent of its 2012 sustainability goal.



What did grantees do?

Having explored the objectives of GCAP—grantees’ progress in attaining scale and sustainability—we turn to its methods. Specifically, in what capacities did grantees invest their unrestricted GCAP funds? And how did they fare in those efforts? In the extensive accounts they offered in the case study interviews, grantee leaders described two sets of investment strategies. In one, they focused internally, building their organizational capacities. In the other, they focused externally, aiming to reshape the policy environment that drives their public funding.

BUILDING ORGANIZATIONAL CAPACITY

Based mostly on the business plans against which GCAP made its investments, each grantee identified discrete organizational capacities it considered essential to its success. As grantees allocated GCAP funds to support their work, investors monitored grantee progress in building these capacities through the same quarterly reports that tracked grantee performance on scale and sustainability. Exhibit 8 provides a summary of the grantees’ capacity-building priorities and gains, as reported by their leaders.

As exhibit 8 indicates, the three grantees identified virtually the same priorities, ones most nonprofits consider necessary for long-term success. Evaluation was a natural focus, since it is central to the logic of GCAP: Clark, in partnership with its grantees, set out to raise growth funds to help scale nonprofits whose programs have been demonstrated by rigorous evaluation to be effective. Prior to GCAP, NFP had proven the effectiveness of its program via randomized controlled studies, considered the “gold standard” of evaluation. So rather than invest in impact evaluation, it invested heavily in an infrastructure for collecting real-time data to pinpoint areas for improvement. Citizen Schools and Youth Villages also had extensive data demonstrating their effectiveness, but GCAP enabled them to pursue more rigorous evaluations

of their newer programs. Citizen Schools is conducting a time-series evaluation of its Expanded Learning Time sites. Youth Villages is undertaking a randomized controlled trial (RCT) evaluation of its Transitional Living program, which helps young people who are “aging out” of foster care gain the skills they will need for independent living. (After GCAP concludes, Youth Villages will undertake a randomized controlled trial evaluation of its Intercept program, which provides in-home services to children and families.)

A commitment to leadership development arose organically from GCAP’s emphasis on scale. All three grantees focused on developing the leaders and leadership structures critical to success at vastly increased scale, nationally and at the state and local levels. For the same reason, all three focused on board development, building boards with national reach and, in the case of Citizen Schools, creating regional boards to focus on local concerns, especially fundraising.

Ambitious nonprofits commonly focus on internal capacity building in areas such as evaluation and leadership development. But, in addition to these, the GCAP grantees pursued amply funded external efforts aimed at bolstering their ability to influence public policy.



Nurse-Family Partnership
Denver, CO

BUILDING PUBLIC POLICY CAPACITY

All of the grantees had long understood that influencing public policy would be essential to their success over time. But having committed to specific, ambitious growth goals for the short term, building the capacity needed to do this became central to their strategies.

For two of them, this involved a new mindset. Before they embraced the growth imperative of GCAP, they had kept a distance from the politics that drive policy and public funding. Partly, they felt their work spoke for itself. They had demonstrated the efficacy and cost-effectiveness of their programs through rigorous evaluation, and presumed that policy-makers and politicians using cost-benefit analysis to allocate public resources would reward them. “It’s proven and it’s cheaper,” said one leader of his program. “What else do you need?” Politics, moreover, simply did not appeal to most of the grantee leaders, who considered it a tainted business. That attitude changed with GCAP. The grantees still pursued the conventional nonprofit approach of “expanding the funding pie”—advocating for the vulnerable young people who are their constituents—but they also

advocated more aggressively for themselves as each tried to claim a bigger piece of the pie.

Instead of hoping their demonstrated successes—both in program efficacy and cost-effectiveness—would attract the notice of policy-makers and legislators, they drew on their flexible pools of GCAP funding to communicate their records more widely. They expanded their policy and communications staffs. They hired governmental relations consultants to help them track and access emerging funding streams in Washington and state capitals. And two of them invested in the technical skills needed to influence arcane regulatory processes where a minor change in Medicaid reimbursement codes, for example, could have enormous financial implications.

Their timing was fortuitous. They were well positioned to take advantage of an increasing interest, at both the federal and state levels, in targeting funds on “what works.” Since by definition GCAP was funding organizations with demonstrated effectiveness, it enabled grantees to leverage their track records with well-funded advocacy.

EXHIBIT 8. Grantee Organizational Capacity Priorities

	Citizen Schools	Nurse-Family Partnership	Youth Villages
Leadership Development — Senior Leadership	<ul style="list-style-type: none"> • Succession planning • Enhancement of managerial and leadership skills among national staff 	<ul style="list-style-type: none"> • Succession planning • Appointment of several new senior leaders • Creating a “leadership team” culture 	<ul style="list-style-type: none"> • Succession planning • Reconceptualization of the CEO role • Organization-wide commitment to leadership development
Leadership Development — State and Local	<ul style="list-style-type: none"> • Enhancement of managerial and leadership skills among regional staff 	<ul style="list-style-type: none"> • Restructuring of Program Developer role 	<ul style="list-style-type: none"> • Development of a decentralized “state CEO” model • Transmitting and embedding the Youth Villages culture in new sites
Board Development	<ul style="list-style-type: none"> • Recruiting education and policy experts and leaders with experience building businesses to the national board • Creation of regional boards 	<ul style="list-style-type: none"> • Enhanced board diversity and geographic reach • Collaborative and productive board-staff working relationships 	<ul style="list-style-type: none"> • Progress toward a more national board • Creation of regional boards/ leadership councils
Evaluation	<ul style="list-style-type: none"> • Quasi-experimental study of Expanded Learning Time program • Randomized controlled trial of 8th Grade Academy 	<ul style="list-style-type: none"> • Ongoing research and evaluation by David Olds; Prevention Research Center for Family and Child Health; University of Colorado, Denver 	<ul style="list-style-type: none"> • RCT evaluation of the Transitional Living Program • Planning for an RCT evaluation of the Intercept model
Technology		<ul style="list-style-type: none"> • Information technology system to support quality improvements in programs and practices 	<ul style="list-style-type: none"> • Make major upgrades to clinical, financial and development IT systems

How did the GCAP model work?

Interviews with 17 leaders (including board chairs) at the three grantees and with 24 of the 31 co-investors reveal nearly universally high satisfaction with the GCAP funding model, which the grantees, particularly, cite as a unique and refreshing philanthropic approach. Their accounts focused on several features of the model and their related benefits.

VERY LARGE UPFRONT INVESTMENTS

The sheer magnitude of GCAP's grants—committed at the outset of their scale and sustainability efforts—sets it apart from all other funding in the grantees' experience, delivering \$30 million to Citizen Schools, \$40 million to Youth Villages, and \$50 million to NFP. The leaders offered copious, consistent testimony to the benefits of the large sums, particularly for providing predictability for a five-year stretch. In a typical account, one leader recounted his announcement of the grant, and its import, to staff:

I met with the staff and said, "We're going to be here for the next five years [with the benefit of stable funding]. So you're fighting for resources for the long term. No more fighting for earmarks, for the short-term fix, for the iodine and Band-Aids. No more, "Which legislator would swallow an earmark for us?" Today you have a different direction: Put together a long-term strategy for getting federal money and keeping it over the long haul. Keep your eye on the big goal." You should have seen the smiles. It was one of the more dramatic organizational moments I've ever had. The message was, "You're going to be here. The question is how long and how far you're going to go." That was the shift. This symbolized the whole GCAP gift.

As the account above indicates, grantees highly value the timing of the investments, which are committed at the outset of their efforts to implement their scale strategies. Having this assurance of ample funding enables them to invest in systems and people that may take several years to deliver their full intended impact. Nonprofit leaders are less likely to make such investments—even though their pay-off can be great—when they are 'living grant-to-grant.' These capacities, particularly those that enable grantees to collect more evidence of effectiveness and expand their fundraising reach, may also make the grantees more attractive to prospective funders. The up-front investment can thus indirectly leverage additional funds.

It is not possible to know how many funders would have contributed to the grantees were it not for GCAP. First, not all of the GCAP investors were new to the grantees. Notably, eight of the 12 Citizen Schools co-investors had given to the organization previously. But, across the three GCAPs, of the 13 co-investors who had previously supported any of the three grantees, 11 gave more to GCAP than they had the previous five years. Together, they invested \$20 million in GCAP, more than double their combined giving of \$8.8 million from 2002 to 2006. Grantees credit GCAP for motivating these familiar funders to give significantly more money and to become more invested in their organizations' growth ambitions.



Youth Villages, Memphis, TN

FLEXIBLE FUNDS

Grantees and co-investors alike value not just the size of the grants but their flexibility. Many contrasted GCAP to their typical foundation funder. They complained that foundations encumber their grants, restricting them to preferred locales and favored programs. As one leader put it, restricted funding forces difficult choices: “Do we change our program to get the money? Or remain pure without the money? How do we get the maximum benefit for the people we want to serve? That tension comes up every day.”

In contrast, GCAP invests in the grantees’ business plans, leaving them the freedom to spend their money as they see fit, as long as they make sufficient progress toward their goals. The investors rely on reporting systems that focus on that progress rather than on uses of money. The business plan forms the core of the organization’s scale efforts, both internally as a management tool and with the co-investors as an accountability device.

GAINS IN “MINDSHARE”

For all of the grantees, GCAP’s large, flexible grants and uniform reporting requirements lift many of the burdens of finding and reporting to multiple funders. They gain “mindshare”—the time and freedom to focus on their strategic objectives and management challenges. One leader summed up the nearly universal sentiment of his peers in describing GCAP:

I think, in the history of philanthropy, there’s an excellent chance this approach will be viewed as very pivotal. Part of the tremendous power is that it allows us to go about our business. That’s incredibly energizing. Fifty percent of board time would [otherwise] be about raising funds. This allows us to recruit a different caliber of people who can help us with strategy. [Our CEO] doesn’t have to wake up every morning saying, “How am I going to raise my money today?” But instead can be asking, “What do I need to do execute on my plan today?” It’s vastly different. It’s groundbreaking.

As valued as it is, the uniform reporting is neither pure nor perfect. For example, because their charters restrict their funding to specific locales, a few investors still require supplemental reports to verify that the funds meet these requirements.

And the senior leaders at one grantee organization say the lead investor has sometimes been exacting to a fault in overseeing preparation of reports and presentations to investors. Almost all of the grantees and co-investors faulted the format of the quarterly investor calls, which do not make enough room for discussion, but they considered this the least consequential of the GCAP features.

STRATEGIC COUNSEL FROM THE LEAD INVESTOR

Most of the grantee leaders value Clark, the lead investor, as a partner that enriches their thinking. They offered a number of examples in which the lead investor’s program officer was central to their success. In a complex, high-risk merger project, for example, grantee leaders valued him more than their own board members and attorneys. Grantees repeatedly cited his acumen, understanding of public policy and politics, and willingness to constructively challenge grantee assumptions, attributes they value in other Clark staff as well.

BILATERAL RELATIONSHIPS

Grantee leaders cited a trade-off resulting from one element of the GCAP model. On the one hand, the lead investor produces efficiencies and contributes to their increased mindshare for strategy. On the other hand, this reduces their opportunities for developing relationships with new funders that might yield post-GCAP funding support. But a number have discovered that the model can accommodate bilateral grantee-funder relationships with co-investors that welcome such contact. In those cases, the grantees and co-investors alike have been careful to respect the lead investor’s authority by exploring topics that will not have an immediate bearing on the work. Some funders, as well, appreciate the opportunity to learn more about the grantees’ work through direct contact.

THE CO-INVESTOR EXPERIENCE

Feedback from co-investors about their GCAP experience has been overwhelmingly positive. They speak favorably about the structure of GCAP and the leadership Clark has provided.

Like grantees, co-investors value GCAP's efficiency, the chief sources of which include the time-saving single reporting system and the functions managed on their behalf by Clark as lead investor. As they have for grantees, these features have delivered gains in "strategic mindshare" to funders—more time available to focus on the grantees' big-picture challenges, as well as time gained to focus on their other, non-GCAP, grantees.

Co-investors had differing motivations for participating in GCAP—including the desire to learn about this form of grantmaking, long-term interest in a particular grantee, or a wish to leverage their funds. Regardless of their motivation, most co-investors reported that they would not have agreed to invest in GCAP had they not had high confidence in Clark and its leadership. Several years into the pilot, co-investors consider that confidence justified. They continue to cite very high levels of satisfaction with the Foundation's integrity, vigilance, and strategic judgment.

Co-investors also express appreciation for the skill with which Clark manages a complex set of relationships among funders and grantees. While most respondents refer to Clark as the "leader" of GCAP, many also use terms such as "convener" and "facilitator" to describe the way Clark goes about exercising that leadership role.

The leadership challenge is especially complex for Clark staff because they play two roles that are inherently in tension: grantees' advocate and co-investors' agent. All of the co-investors value the agent role, which entails overseeing and managing funds on their behalf. Clark staff identify risks and opportunities, using their own judgment to decide when to involve co-investors, while at the same time inviting and responding to their concerns. Simultaneously, as grantee advocates, Clark staff seek to build and maintain support for grantees among the co-investors. Co-investors' confidence in Clark's judgment explains why, in practice, these functions coexist quite comfortably: Co-investors have concluded that the foundation for Clark's advocacy is its due diligence and critical oversight of grantee performance. In short, Clark would not be an advocate had the grantee not earned the Foundation's confidence.

CONCLUDING THOUGHTS

By way of conclusion, we offer our own characterization of several distinctive features of GCAP, informed by the views of grantees and co-investors, a review of other aggregation models, and our work studying and consulting to other foundations.

1. **Big bets.** Along with philanthropy's growing interest in scaling nonprofit organizations have come calls for "big bets"—large investments in a small number of organizations that could radically improve their scale prospects. Among the big bets being wagered, GCAP's are perhaps the biggest. We identified more than a dozen philanthropic approaches to aggregated funding. In contrast to GCAP, about half had a broad-and-shallow strategy, coordinating multiple investors but spreading their funds across many more organizations in order to influence an entire nonprofit field or a community. Five made more targeted big bets like GCAP's, focusing on a few organizations. Of these, GCAP made the biggest of the big bets: Its average grant was \$40 million, in contrast to the \$3 million average grant of its closest counterparts.
2. **Big accountability footprint.** Virtually all foundations rightly hold their grantees accountable by requiring reports about the progress, setbacks and impacts associated with their grants. As a result, grantees are subject to high accountability demands in the aggregate. But when a nonprofit deals with so many funders, grants, programs, and reporting methods, the accountability whole may be smaller than the sum of its parts: Very few funders have the interest, information and standing to monitor the overall performance of any given nonprofit. And very few nonprofits can (or need) to take the accountability priorities of any given funder to heart.

GCAP may not be alone in this regard, but is certainly distinctive for its "accountability footprint." It has a deep understanding of and exacting metrics for monitoring its grantees' overall performance. To test whether its elaborate accountability structure was more robust in its own mind than in the life of the grantees, we examined the documents—including the agendas, presentations, dashboards, minutes—that

the grantees' own boards of directors use in monitoring their organizations. Often they used the very reports submitted to GCAP as their own accountability framework. When documents differed, their frameworks did not. We conclude GCAP's accountability demands are both highly comprehensive and consequential.

3. Funder-to-funder accountability. With varying degrees of success, public policy-makers, scholars, the courts, attorneys general, the IRS, and foundations themselves have proposed or tried many ways of holding foundations to account for their work. They all face the challenge of holding accountable the institutions that are themselves so busy holding others to account. GCAP's structure offers an interesting approach to this problem: It subjects Clark to an unusual degree of sustained scrutiny by a highly vested group of external stakeholders—the co-investors. When co-investors monitor the grantees through quarterly reports, calls and meetings, they are in effect monitoring Clark. With this feature, GCAP has raised the bar for foundation accountability in a very consequential way. Few foundations are subject

to anything like it. Moreover, because of GCAP's size and growing visibility, Clark finds itself highly and more broadly exposed to the judgments of its foundation peers, since they can judge its performance at least partly by observing how the grantees themselves are faring.

Interestingly, grantees are sensitive to Clark's position in this regard. They occasionally complain about its exacting reporting, but also express sympathy for Clark's exposed position vis-à-vis the other funders. And the grantees shrewdly welcome the idea of Clark's performance being judged by their own performance, as they feel Clark will work all the harder to help them succeed.

Judging it as we have by examining the scale and sustainability results of the grantees, we regard GCAP as a successful experiment. But if it seeks the large scale it encourages for its grantees, it will also need to engage others in philanthropy in examining the dynamics and effects of aggregated funding, sharing with them the results of studies like this and increasing even more its own exposure and leadership in aggregating funding approaches.

Citizen Schools
Boston, MA

