

Nonprofit Intermediaries: An Untenable Situation?

by Rick Cohen

EVEN IF WE ASSUME THE BEST INTENTIONS in the Clinton administration's "reinventing government" initiative, George W. Bush's eight years in office left an utter mess of understaffed and demoralized agencies. This situation has virtually necessitated the use of nonprofit intermediaries to address certain critical social problems. Indeed, in some cases, these organizations have stepped in where government has failed. But whatever role nonprofits are to play in redressing social problems, they cannot simply supplant government responsibility. Here we examine the increasing trend of financing nonprofits to address communities' ills—and explore the implications of this approach.

We already know that nonprofits have a long-standing role in delivering government programs; that's not news. But now the federal government has moved toward increased levels of nonprofit design and delivery of major, high-profile social interventions.

Boiled down, there are two basic models in play, and both precede the administration of President Barack Obama:

- an increasing governmental reliance on nonprofit intermediaries to deliver big, government-scale programs through networks of local and

regional nonprofits; and

- an increasing government interest in providing public funds to model, replicate, and "scale" the programs of a small set of nonprofits, which are often described as "social entrepreneurs" and frequently involving education and youth development.

Both approaches typically combine government, philanthropic, and corporate financial support.

Each approach involves problems, and at least two problems afflict both approaches.

The first involves the excessive offloading of essential government functions onto nonprofit organizations partially supported by philanthropic dollars. The second involves the degree to which government—through funding and partnerships with philanthropy—has driven the sector's agenda and thus limited the development of more locally tailored approaches to a problem.

Turning to the Intermediaries

The early days of the financial downturn vividly illustrated the federal government's use of nonprofit intermediaries to mobilize quickly in place of relying on government agencies.

As the subprime mortgage crisis galloped into the nation's consciousness in 2007, Congress created the National

Foreclosure Mitigation Counseling Program, which was signed into law by President George W. Bush on December 26. The \$180 million emergency effort was designed to stem the tide of mortgage delinquencies and foreclosures. Congress designated NeighborWorks America (which Congress chartered in 1978 as the Neighborhood Reinvestment Corporation and has typical annual appropriations of more than \$100 million) to lead the design and implementation of the program, including the distribution of \$130 million to local and state housing counseling groups.

Almost immediately, this strained NeighborWorks' capacities. Congress told NeighborWorks to make at least \$50 million available to housing counseling agencies on a competitive basis within 60 days. On January 25, 2008, NeighborWorks issued a request for proposal to award \$50 million by the end of February and all \$130 million by the end of the calendar year. With applications from 148 organizations requesting \$348 million, NeighborWorks awarded the full \$130 million in February and gave the program another \$180 million in 2008 and \$50 million more in 2009. For those watching the events unfold, it looked like a fireman's ball, with NeighborWorks staff scrambling to design and implement a national program on an insane timetable.

Still, NeighborWorks achieved its goals. As of May 2009, the program has provided assistance to 400,000 homeowners.

Together, the emergency nature of the subprime crisis and the impossible timetable brought NeighborWorks rather than a government entity to the fore. As the organization's chief executive, Kenneth Wade, told the *Nonprofit Quarterly*, it wasn't a total surprise that Congress and the administration had selected NeighborWorks as the vehicle for the nation's first response to the subprime crisis. "One of the neat things about us . . . is that we have a long history of receiving direct appropriations from Congress." Programmatically, NeighborWorks already had a track record of delivering successful pre- and post-purchase homeownership, so this task of foreclosure counseling was not an ill-fitting congressional mandate. Given that these events unfolded at the tail end of the failing Bush administration, Congress was highly unlikely to assign responsibility for this task to the Department of Housing and Urban Development (HUD), which was mired in a free fall of shoddy ethics and serial incompetence under HUD Secretary Alphonso Jackson, who resigned in April 2008.

"With the rules that HUD has to operate under, HUD would not have been able to get the funds out in a timely manner," Wade added. Working through a national nonprofit, Congress bypassed the attenuated process of publishing and circulating draft regulations in the *Federal Register*, soliciting public comments, and giving program implementation responsibilities to federal staff. The NeighborWorks foreclosure counseling initiative is an example of a national nonprofit authorized for the soup-to-nuts design and implementation of a federal program—in this case, during a crisis that undermined the stability of the entire economy.

While the above example predates the Obama administration, the following are notable examples of Obama's use of intermediaries.

Launched in 1994 under the Clinton administration, the Community Development Financial Institutions (CDFI) program in the Department of the Treasury became an appropriations magnet in the American Recovery and Reinvestment Act (the stimulus program), which made \$98 million available to 69 CDFIs, and in the fiscal year 2010 budget proposal of the administration (slated by President Obama to increase from \$107 million in 2009 to \$243.6 million in 2010). The Treasury Department has certified 771 CDFIs located in every state and the District of Columbia. CDFIs are notable for the comparatively better performance of their loan portfolios, typically invested in very low-income neighborhoods, compared with the tanking Troubled Asset Relief Program-subsidized banks.

Established in 1991 as a national funders collaborative with initial funding from eight foundation and corporate partners, the National Community Development Initiative (NCDI) operated through two large national intermediaries—Local Initiatives Support Corporation (LISC) and the Enterprise Community Partners—to support community developers in roughly two dozen cities. In 1994, HUD began investing federal monies into NCDI, later renamed Living Cities, which expanded to become an annual appropriation during much of the Bush administration (from 2001 through 2008, HUD split more than \$216 million between LISC and Enterprise Community Partners). Beginning in 2001, additional NCDI monies went through Habitat for Humanity (which received nearly \$31 million in HUD NCDI funds between 2001 and 2008) and, for a time, YouthBuild (\$13 million between 2001 and 2006). President Obama's FY 2010 budget proposes

\$50 million for NCDI activities through LISC, Enterprise, and Habitat.

The Strengthening Communities Fund (SCF) was funded under the stimulus bill to replace the initial inclination of the House of Representatives to re-up \$100 million for the faith-based Compassion Capital Fund. Ultimately, SCF got \$50 million for the Department of Health and Human Services to build nonprofits' capacity to address economic recovery issues. The Nonprofit Capacity Building Program slice of the fund received \$34 million, slated to be distributed in 34 grants at a maximum size of \$1 million, through a lead organization and nonprofit partners. Much like CCF, this program will run through intermediaries to build local nonprofit capacities for economic recovery in distressed communities. Similarly, the much-touted Social Innovation Fund will search for replicable and scalable nonprofit innovations primarily through the use of regrantmaking intermediaries. Given the program's matching-grant requirements, these intermediaries are increasingly likely to be foundations.

Examples of the use of the replication model include the following:

Under Secretary Arne Duncan, the Department of Education's 2010 budget contains several new initiatives. Notably the Promise Neighborhoods program aims to replicate the Harlem Children's Zone (HCZ) program in various communities. Although initially slated for only \$10 million in one-year planning grants, Promise Neighborhoods capitalizes on the national profile of HCZ founder Geoffrey Canada and the success of HCZ as a model for making early-childhood education central to both social advancement and neighborhood development. HCZ began as an anti-truancy program but evolved to respond to additional community needs in the 97-block area of Harlem and provide opportunities,

such as charter schools, given massive support from Wall Street. Although it's not clear where future funding will come from, Promise Neighborhoods has states, cities, school districts, and nonprofits lining up as potential replicators.

Matching the Department of Education's efforts to replicate HCZ's focus on reducing educational disparities, the Department of Housing and Urban Development has promoted the Choice Neighborhoods program. Capitalizing on the successes of the HOPE VI program that demolishes and replaces very low-income public-housing projects with more economically diverse and integrated developments, HUD requested \$250 million for Choice Neighborhoods, which links public housing-oriented neighborhood transformation efforts with school reform and early-childhood education (similar to HCZ and Promise Neighborhoods). The glitch may be the recommendation of the Senate Appropriations Committee that the bulk of Choice Neighborhoods' dollars goes to public-housing authorities as opposed to alternative—read: nonprofit—entities.

And then, a hybrid model. One of the more notable and, by all accounts, successful recent federal interventions is YouthBuild, which combines job training in the construction trades with assistance to young people in earning a high-school diploma or GED certification. With origins in East Harlem during the late 1970s and early 1980s, YouthBuild has grown from 14 cities to some 225 local YouthBuild programs. YouthBuild's federal connection began in 1994 under a HUD program that funded 31 local YouthBuild affiliates. Shifted from HUD to the Department of Labor in 2006, YouthBuild became a centerpiece of the stimulus legislation (\$50 million) and President Obama's 2009 (\$90 million) and 2010 (\$100 million) budgets. The YouthBuild intermediary model, therefore,

is something of a "hybrid": the Department of Labor (DOL) directly funds various local nonprofits, some affiliated with YouthBuild, others independent, and YouthBuild partners with DOL as a support network, not as a designated intermediary operator of the program on behalf of DOL.

Points of Contention

The Obama administration may have nudged the plates to put more money behind the creativity of the nonprofit sector for nationally significant social interventions, but there will be bumps in the road. In the pushback that has greeted some of these initiatives, a few flashpoints are obvious.

Emergency stand-ins. The extraordinary performance of NeighborWorks in the subprime foreclosure response highlights the hazards of this changing government-nonprofit dynamic. Given the myriad failures of the Bush administration's governmental apparatus—including the pathetic FEMA response to Hurricane Katrina set against the stellar performance of many nonprofits—there is the possibility of putting nonprofit deliverers into impossible situations when a federal agency can't do the job. But having a nonprofit do the impossible shouldn't become the default option for governmental incapacity.

Intermediate through whom? Garnering the most strident criticism, the Social Innovation Fund's apparent reliance on private foundations to identify local innovations leaves observers puzzled. Describing the White House advisers as naive, Pablo Eisenberg wrote in the *Chronicle of Philanthropy*, "Foundations and their boards in general are the most elitist institutions in the country, often unfamiliar with their communities and frequently insensitive to the needs of the majority of citizens and immigrants." Foundations are thus dubious

intermediaries in finding and supporting innovation. Some nonprofits perceive intermediaries as yet another layer of government to pierce that has deprived them of direct connections to federal policy makers. To some extent, this insulates government from the pressures of applicants and recipients, funneling attention to and through intermediaries that do not necessarily have to respond to political pressures that affect public agencies administering these programs.

Replicability. A hallmark of the emerging Obama reliance on nonprofits such as Harlem Children's Zone and Teach for America (which was explicitly recommended by the White House for a \$15 million earmark in the 2010 federal budget proposals) is the notion that these models are scalable and replicable. Having benefited from huge foundation grants over the years—including several million dollars apiece from the Starr Foundation, Lehman Brothers (now defunct), the Atlantic Philanthropies, and the Edna McConnell Clark Foundation—is Harlem Children's Zone replicable in places without this kind of philanthropic capital investment? It may be a question not only of access to Wall Street dollars but also the presence of a visionary like Geoffrey Canada at the helm. The tectonic plate that motivates the Obama administration involves an assumption that innovation can be replicated and scaled up, whereas the success of many nonprofits may be rooted in specific community conditions.

Results. The Obama administration has emphasized its intended reliance on evidence-based planning and funding. There is clearly an appetite for demonstrable outcomes and results, thus the budget lines in programs such as the Social Innovation Fund, the Strengthening Communities Fund, and YouthBuild for R&D and evaluation. But will the Obama administration accept results that

suggest its high-profile social interventions may have not worked and, in some cases, have been predicated on faulty or geography-limited program assumptions? And will the nonprofits involved spend precious time and resources on federally mandated data collection rather than on delivering needed services?

So is the Obama tectonic plate shift different?

Certainly, many of the current players did quite well under Bush and have adapted to Obama. Throughout the Bush years, for example, mixed earmarks and other federal grants flowed to the same high-profile nonprofit organizations currently operating with Obama administration support. Examples of these organizations are Teach for America (the recipient of \$56.9 million in federal grants between 2001 and 2008), America's Promise (which received \$63.9 million between 2001 and 2007), and City Year (the recipient of \$25.5 million between 2001 and 2008).

But with programs such as the Social Innovation Fund, Promise Neighborhoods, and the Strengthening Communities Fund, the Obama strategy appears to put more of the onus for major social interventions onto a system of nonprofit intermediaries to design and deliver.

Intermediaries and the networks of nonprofits they represent have the potential to serve as powerful and important partners for the federal government. But nonprofit partners are not government agency replacements. If nonprofits are to play an important role under the Obama administration, partnerships had better be accompanied by money so that nonprofits do not starve while designing and implementing social interventions.

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