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Lessons in Philanthropy: A Case Studies Approach

Center for Urban Research and Learning
Loyola University Chicago

Louis T. Delgado
Philanthropy & Nonprofit Sector Program

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Coordinated and Edited by Louis Delgado

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INTRODUCTION

Over the past twenty years, academic institutions have increasingly developed programs of study on the nonprofit sector, most of which emphasize nonprofit management or fundraising. The study of organized philanthropy in general, and foundation giving specifically, is still at a relatively early stage of development. Accordingly, the development of research and teaching materials available for use in formal academic settings is largely an unmet need. There are numerous experiences in the grant making process that simply go unreported and unavailable for educational purposes. These experiences, however, can prove extremely educational and should not be overlooked. The cased studies that follow serve as a model for capturing, analyzing, and sharing these important lessons. These case studies are designed to increase the relevance of philanthropy teaching curriculums and better prepare future leaders that are engaged in philanthropy and nonprofit sector work.

The overall goal of the present project was to develop case studies that would serve as teaching/learning tools about philanthropy by providing in-depth examination of critical issues and experiences related to foundation decision-making, governance and fund-distribution. Throughout the development of these cases, a special emphasis on philanthropic involvement in communities of color and other under-served communities was maintained in order to improve philanthropy's work in relation to these populations.

A core team of faculty and other professionals were assembled and trained on key aspects of case study research and development, as well as case study teaching methods. These individuals brought with them a wealth of experience in the field of philanthropy as researchers, foundation program officers, and directors of non-profits.

Interviews were conducted among a diverse group of 35 foundation and nonprofit executives across the country to identify significant issues in the field. The information from this survey was compiled and analyzed, and led to the identification of over 40 potential cases to be researched. This list was later further narrowed based upon the learning opportunities associated with each case. There were several themes that emerged from the interview data that helped inform the selection process. These themes cover a range of topics from diversity to power imbalances.

The cases are grouped into three broad categorizes that organize the cases according to their over-riding theme: Systems Change, Governance, and Fund Distribution. The case studies of the Chicago Annenberg Challenge and the Marguerite Casey Foundation fall into the systems change category with the focus of the development of an organization's strategies to promote educational reform and social change. The Chicago Community Trust, Catholic Campaign for Human Development, and the John D. and Catherine T. MacArthur Foundation case studies describe the governance, organization and decision making structures within foundations. Lastly, the "Immigration Fund", the NorthWest Area Foundation, the Rosenwald Foundation and the Global Fund for Women case studies relate to issues involved with funding decisions such as equity and social justice. These categories serve to highlight some of the more pressing issues to be study by students of philanthropy.

We hope that these case studies in philanthropy will have an effect in the classroom and on students' learning, which will ultimately inform the decision-making and grant-making of philanthropic organizations. Many of the philanthropy students ultimately fill positions in nonprofits as well as foundations and will be better prepared to positively influence the work

of those institutions. This is particularly important when considering the tremendous amount of improvement needed with respect to philanthropy's work in under-served communities and communities of color. The research on this subject has consistently shown a tremendous gap between resources of philanthropic institutions and the needs in those communities. We hope that the availability of these cases will strengthen the work of universities and training centers that have an interest in teaching about philanthropy.

The case studies can be used in whole or as individual pieces. Each is accompanied by suggestions (Teaching Notes) as to how the case study might best be used in classrooms. We have intentionally allowed both the case studies and the teaching notes to vary in format and content in order to reflect the differences of each situation. We hope that such flexibility will encourage teachers, students, and others who use these studies to bring own unique insights, questions, and approaches to this important material.

The Chicago Annenberg Challenge: The Messiness and Uncertainty of Systems Change

A Teaching Case
Christine C. George

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

This was a messy democratic process.
(Ken Rolling, Director, Chicago Annenberg Challenge)

ABSTRACT

In 1993, three veterans of Chicago school reform saw an opportunity in the recent announcement of the Annenberg Challenge, a national $500 million funding effort to revitalize public education and promote school reform nationally. This opportunity grew into the Chicago Annenberg project, which received $49.2 million from the Annenberg Foundation for re-granting to Chicago public schools and non-profit organizations for improving Chicago Public Schools. This money, while sizable, was dwarfed by the $3 billion annual Chicago school budget. Yet, its scope was broad and by the end of the project in 2001, nearly 40% of local schools, mainly primary schools, had received Annenberg funding.

This is a case study of that local effort at systems change. It focuses on two contextual aspects of that effort. First, it describes the ramifications of embedding grant making within the dynamics of a movement. Second, it looks at how a "dynamic" shift in school district leadership and policies impacted the implementation of the Chicago Annenberg Challenge.

THE OPPORTUNITY: THE NATIONAL ANNENBERG CHALLENGE

> *Their whole process was very decentralized. Nationally it said, "You all*
> *come and tell us what you want to do." By and large, if there was a theme,*
> *it was progressive education…As a philanthropy it was a lot of money with*
> *very few strings. (Anne Hallett, Chicago School Reform leader)*

In the White House Rose Garden in December 1993, flanked by President Bill Clinton and US Education Secretary Richard Riley, Walter Annenberg, the 85-year-old media magnet and former ambassador to England, announced his giving $500 million to pre-college public school reform. The goal of the Challenge was to stimulate, transform, and bolster the public educational sector. The Challenge came in the midst of—and was responding to—an over decade old debate in America about the failure of the public school systems to provide an equal quality of education for all children. In particular, urban schools, which educate one-third of America's children, were seen as failing to provide basic educational skills to poor children.

This national challenge had a tone of urgency and activism. The Annenberg Foundation, in describing the Challenge, stated that allowing public education to fail would "would destroy our way of life in the United States." The Challenge was seeking a change in system and policy. The challenge was looking to fund efforts that, in addition to specific goals of educational programming and resulting student educational outcomes focused on systems building: building and supporting intermediary organizations that would bring important stakeholders—civic leaders, foundations and corporation—to support, augment, prod and change the public school bureaucracies (The Annenberg Foundation and Annenberg Institute for School Reform, 2002).

While the talk was about systems change, it is perhaps better to understand the approach as one of reform or restoration. Annenberg wanted to maintain publicly delivered public

education and to ensure that this system delivered on America's democratic obligation to provide an excellent education to all America's children (Domanico, 2000). As they wanted to create an impact on how a school system as a whole approached education, the Challenge was less interested in "demonstration projects" or developing a particular "model."

The Challenge project funding began in 1994 and ended in the School Year 1999-2000. Ultimately, the $500-million Annenberg Challenge provided direct support to 18 reform projects, directly affecting some 2,500 schools. The project beneficiaries ranged from rural schools to the nation's largest urban systems. The Challenge generated an additional $600 million in matching grants from private and public sources, ultimately spending $1.1 billion on its initiatives. The biggest portion of the money funded challenge grants in the some of the largest U.S. cities, among them, Chicago, Illinois.

To Chicago School reform veterans, the Annenberg Challenge seemed a perfect fit. It was an opportunity to continue the activities of a movement that had dramatically affected the policy and operations of one of the major school systems in the nation and to craft a project based on local realities.

CHICAGO SCHOOL REFORM: DECENTRALIZING THE SCHOOL SYSTEM

When Walter Annenberg was making his 1993 announcement in the Rose Garden, Chicago was in its sixth year of a dramatic restructuring of the governance of the Chicago School system.[1] And it had—in some ways—reached an impasse.

This restructuring—known as Chicago School Reform—was a response to what seen by many as the failure of the Chicago Public Schools to educate its students. Chicago had been the national poster child for school failure, having been singled out in 1987 by then U.S. Secretary William Bennett as the worse school system in the nation. The school system was seen as a failure, both in terms of educational outcome and in terms of administration or governance.

A failing centralized system

At the beginning of the 1980's, the system failed to meet its payroll and required a financial bailout and the establishment of a financial oversight board. The school budget reflected increasing students' needs an aging and decaying school infrastructure, poor management, and inadequate city property tax revenues. This failure was but one of the lowest points in a system that had been under siege for quite some time. Its neighborhood school system, reflecting the neighborhood racial segregation of the city, was under federal court order to achieve racial integration. It had been unable to keep up with the changing demography and concentration of inner city poor in certain areas of the city. This led to over-crowded schools in African American and Latino neighborhoods.

The Chicago Public Schools system was governed by a centralized school bureaucracy led by school superintendents and school boards who were insensitive or unable to deal with the demands and needs of a school system that primarily served poor inner minority youth. The School Board and top school board officials, reflecting the city's civic elite and Chicago white ethnic political machine, were seen by the African American community and the

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[1] See http://www.catalyst-chicago.org/guides/index.php?id=46 for a detailed timeline of Chicago school reform from 1985 to present.

Latino community as insensitive and unresponsive. Issues of racial inequality and the lack of political power of black communities framed and interacted with school issues. Adding to the deteriorating community school relationships was a series of nine teachers' strikes in a span of 18 years—that is, from 1969 to 1987.

Educational outcomes were abysmal. By the 1980's, over half of the students in the Chicago Public Schools failed to graduate from high school and of those who did, two-thirds read below the 12th-grade level. In some schools, in minority and poor communities, the dropout rates were as high as 67%.

Community Power and Decentralizing the System

No one was happy with the state of schools, and parents groups, business leaders, civic and community organizations, and educational activists all started to mobilize and promote ideas for change. By the mid-1980s, a number of reform proposals were being promoted by various groups of educational advocacy organizations and civic organizations (Hess, 1993). Under the administration of the reform minded insurgent Mayor –Harold Washington, the first African American elected to that office—many initiatives to bring together parents, community leaders, education policy activists, and business leaders to coalescent in a mutual strategy of reform were initiated. After many starts and turns—including a disastrous 19-day teachers' strike in 1987 and later that year, Washington's death—a cohesive coalition/network of business leaders, reformers, parents, and community leaders had developed a consensus plan for reform.

In 1988, that coalition was able to get comprehensive reform legislation introduced and passed in the Illinois state legislature that restructured the Chicago school system. In essence, this legislation took power away from the centralized authority of the Chicago School Board, and put authority in elected localized school councils. Locally elected Local School Councils (LSCs) had the ability to hire and fire principals and to approve local school budgets that included significantly increased discretionary sums in most of the schools. In October 1989, 313,000 people voted to elect 5,420 members of LSCs to begin school-based management at 542 Chicago public schools (Hess, 1993).

Six years into the reform, the impact and implementation were mixed. Thousands of parents and community leaders had been brought into local school decision making for the first time in three system-wide LSC elections. Councils were exercising their decision making power, reflected in the fact that in 38 percent of the schools new principals had been hired (Shipps & Sconzert with Swyers, 1999). Chicago-based foundations included funding for reform-based efforts as part of their giving portfolio. Organizationally, one-third of the elementary school was assessed to have developed collaborative cultures of teachers, parents, and administrators working together with an increased focus on improving students' learning opportunities (Bryk, Easton, Kerbow, Rollow, & Sebring, 1993).

On the other hand, each cycle of the local school elections was drawing fewer candidates and voters, and school achievement was hard to measure. The media was still filled with stories of budgetary shortfalls and impeding labor action. The business leaders were impatient with the lack of change in outcome and had retreated from the coalition process.

So, the Annenberg Challenge could not have come at a better time. Its goal of revitalizing reform, its support of public schools, its emphasis on coalitions of all the stakeholders and intermediary organizations was just the "injection" needed by Chicago School reform.

THE PROJECT: THE CHICAGO CHALLENGE

The Chicago Annenberg project's systems building approach immediately caught the interest of Chicago School reformers. Reflecting the activist spirit of the Chicago school reformers, Hallett (personal communication, August 30, 2004) recalls:

> Well, when the gift was first announced in 93, Bill Ayers and I and …Warren Chapman[2] thought this is one of the biggest cities, Chicago's got one of the most interesting urban school reform going on, so we don't need to wait from someone to invite us, or bring us, to the table… Why don't we just get active immediately and write up we think needs to happen, because we have a whole thing going on here. And we don't need …we know what we would like it to do next. So we were the only city that seized that kind of initiative and put ourselves together and just wrote the proposal.

To Hallett and the other organizers Annenberg was a "wonderful" opportunity to keep the momentum of Chicago decentralized school reform going, and "take it to the next level," moving the Chicago School System to "where we want it to go next." And where they wanted to go was to strengthen a local school's capacity to be a community of learning. As Ken Rolling (personal communication, March 12, 2004), then a Chicago foundation staff person who was later hired as the Director of Chicago Annenberg Project, described the thinking of the organizers:

> We are taking a step from governance to the classroom. This was going to be the next stage. We figured out how to get local control, we figure out to break apart the system, how to get some handle on money being used… but now the next stage, are kids learning, are teachers teaching? What happening in the classrooms, what is happening to the kids who don't seem to be achieving or learning any more than the eight years before?

The design of the Chicago effort was centered on three broad themes: 1) time, 2) isolation, and 3) size. The designers of the effort felt that time structured the school environment, limiting what teachers could do. As Hallett recalled, they wanted local grantees to focus on how to give "teachers enough time to focus on their work... [ensure] professional development, [and] create learning communities in schools." At the same time, the designers felt that teachers and schools were often isolated from each other and the communities they served. A key factor in the design of the Chicago Challenge was to ensure that external organizations worked in partnerships with the schools, and that schools were motivated to develop partnerships with parents and community organizations. The concept of size underscored the nascent work around school size, more than class size. The founders wanted local grantees to think about how learning communities could be made smaller so that they could work better.

The organizers quickly put together a very broad group of around 70 individuals that presented, as Rolling put it, "the whole scope of Chicago school reform movement" community veterans of school reform, school board officials, union officials, and business leaders. More than half of this Working Group, as it was called, was activists from

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[1] Hallet and Chapman worked for local foundations. Meanwhile, Ayers was a professor at the University of Illinois Chicago.

community organizations and school reform organizations (Shipps et al., 1999). For over one year, around 30 members of this ad hoc group met regularly in a year-long planning process—much of it around Hallett's dining room table.

This long process ensured that the organizers had all the bases covered so that a strong and united proposal was in place. First, the process, reflecting the coalition building that had been a key ingredient in the school reform campaign, was inclusive. It was important that the process move by consensus and build organization and unity as the plan solidified. At the same time, this inclusiveness ensured that the Working group would preempt other possible competitors—read: the Chicago School Board—for the Annenberg monies. Secondly, there was constant communication with the Annenberg Challenge staff in Rhode Island, with concept papers and comments being exchanged. This iterative process both refined the Chicago proposal and again ensured the centrality of the Working Group's efforts. It also influenced the thinking of Annenberg staff regarding the national design (Shipps et al., 1999).

From the start, the group wanted to ensure that the funding for the new project was controlled within the "reform movement" and was not centered in any established political entity, such as the school board, union, university, or municipal government. They reached out to leaders in Chicago's philanthropic foundations all of whom knew and respected (and funded) the Chicago reform movement and knew the Annenberg folks to help communicate their message.

Their efforts succeeded. Agreeing to incorporate their ad hoc organization/network into a full-fledged non-profit organization, the newly minted Chicago Annenberg Challenge received 49.2 million dollars. The Chicago Challenge raised $5 million as part of the match to the $49.2 for grant giving. This was the amount from which the Chicago Challenge directly funded over five years, ending in 2001. To this amount was joined another almost $100 million in required matching funds. The rest of the match was composed of concurrent giving already targeted to school reform by local foundations and corporations that met Challenge goals and from Title One –public money already allocated to the low income schools that received Chicago Challenge funding.

The Chicago Challenge grant making process had three waves, in 1995; 1996 and 1997. The initial RFP (Request for Proposals) was written by local activists who comprised the Chicago School Reform Collaborative, a body that was an offshoot of the working group and a component of the newly meeting Chicago Challenge organization. This first RFP generated 177 letters of intent. Ultimately 89 applicants were invited to submit full proposals, from which 35 planning and implementation grants were awarded. Each of the next two waves of local grant making further refined the application process, renewing current grantees and adding new ones.

Scope of the grant and assessing impact

Ultimately the Chicago Annenberg Challenge awarded $32,720,800 from 1996 through 2001 to 45 external partners and their network of schools, affecting 210 schools (about 40% of the Chicago system). In addition, about $2 million of Chicago Challenge funding went to local leadership development and organizing. Also, the Chicago Challenge funded what Rolling described as the "largest urban reform research project, [which was] very costly, $3.5 million."

The size of the networks varied, ranging from three to 15 schools. The vast majority (nearly 90%) of these were elementary schools. Of the 45 external partners, 35% were Chicago-area universities and colleges; 28% were educational reform and/or services organizations; 23% were cultural institutions, and 14% were neighborhood and community-based organizations. The goals of these networks were very diverse. A little over half (55%) focused primarily on improving curriculum and instruction. 16% of the networks concentrated primarily on social services and improving the student-learning climate. Another 13% targeted developing parent and community support. Finally, the remaining 16% had broad and comprehensive strategies that touched on all of the above (Smylie et al, 2003).

There were two waves of implementation grant awards. A little over two thirds of the Networks (34) were funded at the end of 1995, with the remainder receiving funding in 1997. While ultimately the participating schools reflected the schools with the CPS system as whole, in the first funded group were schools that were slightly larger in size, with higher proportions of low-income, low-achieving students and that were more than 85% Latino or African America than schools in the CPS system as a whole. (Smylie et al, 2003).

The Chicago Challenge's funding strategy reflected both the "broad tent" culture of the school reform movement—the roots of the Chicago Challenge-- and the Challenge's system-changing mission. It also led to a myriad of practical and conceptual problems.

Rolling (personal communication, March 12, 2004) recalled his first day on the job: "I inherited all this outreach and all this expectation." He and the new staff found the 177 letters of intent waiting to be evaluated. Requests for proposals and guidelines had already been issued and readers were already in place. Getting the first round of grants up and running was a messy process: an organizing process. As Rolling stated:

> People had to learn that this is an organizing process. People had to learn how to trust. We had a lot of forced marriages; shotgun marriages. These networks that pulled together, but the only reason they pulled together not because they knew each other, or wanted to know each other, or learn from each other, but because somebody said, "Let's work together and I can get you some money." I get a grant, I get $20,000 and you get $50,000...and so they came together prematurely. Our hope was that they would come together, figure out what their neighborhood needed, and then start working together, and then comes for money. But no, they would come for the big money right up front, and then ...so some of networks just fell apart. You know, I don't want to teach my kids the way you teach your kids over there. They didn't get along. It was very hard for people to understand what we were talking about in terms of change...the long-term trust and building relationships and then you move into work.

This multi-project funding strategy raised some serious questions within the reform movement and among educational professionals related to impact and assessing results. The budget of the Chicago Public Schools was over $3 billion annually. How could this philanthropic effort, which at its height was just under $10 million in a year, hope to impact the system? Also, there a very diverse set of programmatic goals among the school networks. How could a system evaluation capture and measure this breath? And what was the lens that should be used to ultimately evaluate such an effort?   What were the educational outcomes? What goals were there for organization building?

For example, when the Challenge was winding down, G. Alfred Hess Jr. a participant around Anne Hallett's dining room table, was quoted in *Catalyst*, a journal covering Chicago Schools and school reform (Richards, 2000):

> One of my themes from the beginning was lets not get overly exited, …ten million dollars [a year] seems like a huge amount, but when you think about its effect on our school system, its a small piece. State Chapter 1 funds are $300 million per year (page 3).

The evaluators for the project, in their final technical report, began by admonishing:

> First, while it might be important to encourage local pluralism and self-determination in developing, adopting and implementing initiatives to improve schools, it may be equally important to provide guidance for local initiatives in the forms of well-researched and well-thought out maps of change. Second, it might be more effective to concentrate greater amounts of resources on a relatively small number of schools that are selected as part of their capacity to implement the particular reform at hand (p. 5).

Hallett was much more sanguine and looked at the results with a very different lens. While she acknowledged the limitation of the funding, she asserted:

> Well, a problem with philanthropy is getting enough money on the table to make a difference. And having enough…Even Annenberg seems like a huge amount of money, but then you divide by 5 years and then by the number of schools and it ends up being not very much money….like Renaissance 2010 is trying to get million per school, but we had $20,000 (A. Hallett, personal communication, August 2004).

She assessed outcomes in the light of organizational and advocacy goals:

> I think that Annenberg worked. It kept the light of positive, progressive education shining. I always think of it as the torch and keeping just below the surface (I am mixing my metaphors),,,Annenberg was really about investing in teaching, investing in schools working together, and trying to focus on educational improvement issues.

And, Rolling's assessment of systems building again displays this different focus. The evaluators' assessed that external partners were not "particularly successful in promoting improvement across large number of schools." From Rolling's perspective:

> We left in place at least 25 organizations out of 50, that have quantitatively and qualitatively had grown that they could influence school change at the school level. They had become smart about identifying problems and addressing problems. (personal communication, March 12, 2004)

A CHALLENGING CONTEXT:
FROM DECENTRALIZATION TO RECENTRALIZATION

A contextual issue that impacted the implementation of the Chicago Challenge literally shook the foundation of its program design: suddenly just as it was to get off the ground, the decentralized structure of the Chicago school system and local control were not longer

givens. Hallett (personal communication, August 20, 2004) describes the cataclysmic change:

> 1994 was the year of writing and negotiating and whatever, whatever. Just right before the mayoral takeover, which was like May of 1995. So Annenberg was just getting up and going, getting some grants out the door and suddenly **our whole context changed** (emphasis hers).   Yes, just when we were getting off after the gun, the rules changed…We had built on one whole foundation and suddenly the energy shifted over here.

While the Chicago Challenge was hiring an Executive Director, the Illinois legislature was drafting legislation that would dramatically impact the recent decentralization of the system. Mayor Richard Daley, frustrated with the quality and efficiency of the schools system, was lobbying in Springfield, the state capital, for more control of the school system. The legislators gave him that control, increasing his power over the school administration.

While the Local School Councils were still in place, their abilities to influence and shape the central office and school board were weakened. Previously, under the decentralized model, a committee composed of representatives elected from local school councils had developed a short list from which the Mayor made his appointments to the school board. Now, the mayor was authorized to appoint five people to a Chicago School Reform of Trustees[3].

In addition, the legislation authorized the mayor to put in place a new administration team and structure. Initially, the mayor appointed a chief executive officer (CEO) and set his salary. Using a corporate administrative model, the CEO then appointed a chief operating officer, a chief purchasing officer, and a chief educational officer.

The new legislation concentrated the systems power in that new management team. Under the school reform model, there had been very developed systems of sub districts and sub district councils. They were abolished and all their powers and duties were transferred to the new CEO. These included initiating action against failing schools, break LSC deadlocks over principal selection, and evaluation principals.

It also centralized fiscal authority, freezing LSCs' share of Chapter 1 funding at 1994 levels. Finally, central management authority over teachers was dramatically increased and the power of the union to negotiate decreased. No longer could teachers negotiate over a myriad of educational issues including class size and teacher assignments.

Not only was the authority of the central school administration dramatically strengthened by these new laws, but Mayor Daley moved his political allies and most trusted former managers into the leading position in the new CPS structure, replacing CPS officials and outgoing board members. The outgoing Superintendent, an educator and a participant in the Annenberg planning process, was not offered a new position.   Daley appointed his former chief of staff, Gary Chico, as president of the Reform Board of Trustees and appointed city hall officials and business allies to the other four trustee positions. And, he appointed his budget director, Paul Vallas, to the top Executive position of the school system. A professional educator filled only one of the top positions, Chief Education Officer

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[3] Beginning in 1999, the mayor was authorized to appoint seven members to serve four-year overlapping terms. City Council approval was not needed either for the initial five person Trustee group or the permanent 7 person board.

(Lenz, 1995).

The Chicago Annenberg Challenge and Vallas, immediately butted heads. As Hallett (personal communication, date) described it: "And Vallas came in and it was very much 'my way or the highway.'" The first issue, not surprisingly, was control over the Annenberg money. Rolling (personal communication, date) recalled:

> There were two or three attempts from them to just "get the money." Even the mayor got into at one point. The mayor asked the ambassador [Annenberg, ed.] to come into Chicago and he wanted to tell him, "You are wasting your money. You should give it to me." The ambassador never responded to him and never agreed to a meeting. But Vallas tried it, his staff worked on how to wrest that money away from us.

Second, the new school administration made a series of attempts to control Title 1 monies, for which the LSCs had discretionary power. The issue, not an easy one, was a fight that the Challenge was drawn into due to plans for these local pots of money to be used to as the local match[4]. Rolling (personal communication, March 12, 2004) recalled:

> That was some of the fights during the Vallas years. First of all, one of the things that I discovered my first year was that a lot of the schools, a lot of the schools— were not using their state Title 1 money, they were $10's of millions of dollars of Title 1 sitting in school accounts that the schools had never drawn down. One of thing Vallas understood was budgets. He and others pushed: "You are screaming poverty; you are screaming that you can't do things, yet the State Title 1 is all about the poorest of the poor and schools reform." Well anyway, that got drawn done. And then what Vallas tried to do his last year, there were a couple of times he went to the state legislature …basically he wanted to use it to balance the budget, he wanted to control it centrally. Put it in the central budget. And saying, what the hell, it is going to the schools anyway. And that was part of the fight. It would have taken away one of two powers of the LSC.

Mixed messages to schools

The most critical issue was the clash in program objectives between the Chicago Challenge and the Chicago schools central administration at the local school level. As Rolling (personal communication, March 12, 2004) put it, the school system and the Challenge, were on "two tracks," perhaps parallel, but not necessarily compatible. Two conflicting messages were being delivered on to the local school level. The Annenberg Challenge was emphasizing innovation, networking and teachers skills. Vallas was emphasizing control of spending and operations, rout education, and testing. These "two tracks" were not joined.

Rolling (personal communication, March 12, 2004) asserted:

> Programmatically, though, what happened was a lot of our work got pushed off to the side or overcome by this constant demand for corrective actions that Vallas and his people just laid on these schools. So like, the schools in those days that were named probationary schools, we had a bunch of those in our various networks, and

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[4] This issue was partially solved by Chicago foundations, whose endowments were flourishing in the good economic times of the late 90's, being able to fill any gaps in the match.

those schools had to answer to a different trumpet coming out of central office. They (were) plastered as a probationary school. They had to accept a certain kind of outside partner that would come in, they were beaten up with some new regulations from the central office. The work that they were trying to do within these (Annenberg funded) networks of schools that they were trying to figure out, what to do, or was part of some joint project, they had to junk; they had to pull out of that. So it disrupted, these were things over which we had no control…We were not consulted and we never figured out how to get consulted.

CONCLUSION

Looking at the Chicago schools nearly a half a decade after the end of the Annenberg Challenge—and ironically three years after the departure of Vallas—the same tension exists between centralization and decentralization, with centralization in the driver's seat. Local school councils have much less control over their budgets. School councils select principals from a list vetted by a central office review board. A combination of factors, not the least of which is the No Child Left Behind Act, has brought local school autonomy to a new time low.

Yet examples abound of organizations formed or sustained during that period, of relationships, organizational and professional, that were built during that period, and ideas that were—as Hallett (personal communication, August, 2004) put it—"planted" by the Challenge. Many of the leaders currently involved in developing new charter and/or model schools for the Renaissance 2010 plan were involved in the Chicago Challenge, as are the critics of Renaissance 2010. A local education foundation was established at the end of the Chicago Challenge with seed money from the Challenge. This has ensured that private funding focus on educational reform efforts continue, even as other issues might capture other local foundation attention.

So how should we look at the experiences of the Challenge and its lessons for funding systems change? What does it mean that there are no explicit student outcomes that can be pointed to? Is it enough, as Hallett concluded, that the Annenberg years was part of a process of change and reform: "It is part of laying the groundwork. Some seeds fall on infertile soil and some blossom and some fall."

The handle to look at the process, I would suggest, is not an educational evaluation model to which Annenberg eventually retreated. While this programmatic evaluation model is important and valuable in increasing knowledge in what programmatically worked and which models to pursue, it does not capture the issues of systems change.

Rather, we need to look at the Chicago Challenge as a policy process. It is a long-term process, with many twists and turns. We need to understand the context and power relationships. Then we can ask the question, just how do grant makers handle the "real world" of change, multiple actors, and far from controlled conditions? Do you think philanthropy actually does systems change?

ASSIGNMENT QUESTIONS

1) There are two conflicting scripts for assessing the Chicago Annenberg Challenge:

    a) Script 1: It failed:

        i. Its design meant it had little direct interaction with the schools it was supposed to impact;

        ii. It lacked programmatic focus and pursued too broad initiatives with too many partners; and

        iii. It limited its success without strong links to an increasingly powerful school district.

    b) Script 2: It succeeded:

        i. It kept the flame alive for a decentralized, community based reform even as the system was moving in another direction;

        ii. It had a significant impact on some of the most disadvantaged schools in the city; and

        iii. It laid the groundwork for some the innovations of the current administration.

    Which of these scripts do you think best assess the Chicago Annenberg effort? Explain your answer, focusing in particular on your assumptions of systems change.

2) Imagine a process in which the Board of Education had been the lead sponsor of the Chicago Annenberg Challenge. What are the pros and cons of this? How would the process have been better? How would it have been worse?

3) A national political organizer observes that the ultimate positive of the Chicago Challenge was it "kept the voice of the community involved in school reform." First, what do they mean by "community." What assumptions are behind this statement? Second, is including certain voices or constituencies enough? What is necessary and what is sufficient for changing this system?

4) Conflicts around race and community empowerment were very prominent and visible in public debate and discussion in Chicago. How did Annenberg fit into these discussions? Is there are way to make an accurate assessment for grant making in which the power dynamics/conflicts which define a community are not taken into explicit consideration?

5) Everyone agreed that $50 million was a "small amount" to affect a whole system. Can it ever be realistic to think that private philanthropy grant making ever directly impact a large system? In the short run? The long run? What are ways to measure/monitor its effect? Is that even feasible? If not, does it matter?

6) National Annenberg was described as "a lot of money with few strings." How usual is this for national funding efforts of this scope? What are various structures of other large national granting initiatives?

7) What other initiatives are you familiar with that have the intention of effecting system change/policy? What similar problems have they encountered?

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ABOUT THE AUTHOR

Christine George (Ph.D., Human Development and Social Policy, Northwestern, 2001) is an Assistant Research Professor at the Center for Urban Research and Learning (CURL) at Loyola University Chicago. As such, she is the principal investigator of a number of research projects. She works with teams of community partners, faculty, graduate and undergraduate students to develop, conduct research projects, and disseminate findings. Much of her research focuses on policy research. From earlier research on public assistance and welfare reform, much of her recent research has been related to domestic violence policy and homelessness policy.

The Chicago Annenberg Challenge: The Messiness and Uncertainty of Systems Change

A Teaching Note
Christine C. George

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

In 1993, three veterans of Chicago school reform saw an opportunity in the recent announcement of the Annenberg Challenge, a national $500 million funding effort to revitalize public education and promote school reform nationally. This opportunity grew into the Chicago Annenberg project, which received $49.2 million from the Annenberg Foundation for re-granting to Chicago public schools and non-profit organizations for improving Chicago public schools. Yet, its scope was broad and by the end of the project in 2001, nearly 40% of local schools, mainly primary, had received Annenberg funding.

This case study focuses on two contextual aspects of that effort. First, it describes the ramifications of embedding grant making within the dynamics of a movement. Second, it looks at how a "dynamic" shift in school district leadership and policies impacted the implementation of the Chicago Annenberg Challenge.

AUDIENCE

The intended audience for this case study includes:
1) Professionals in the field;
2) Graduate level students of philanthropy or non-profit organization; and
3) Graduate level students of educational, social and/or urban policy.

PREREQUISITES

Students are expected to have:
1) General knowledge of the role and purpose of private grant making foundations;
2) General knowledge about contemporary urban public education in the United States; and
3) Basic knowledge about the policy process.

ASSIGNMENT QUESTIONS

8) There are two conflicting scripts for assessing the Chicago Annenberg Challenge:
   a) Script 1: It failed:
      i. Its design meant it had little direct interaction with the schools it was supposed to impact;

      ii. It lacked programmatic focus and pursued too broad initiatives with too many partners; and
      iii. It limited its success without strong links to an increasingly powerful school district.

   b) Script 2: It succeeded:
      iv. It kept the flame alive for a decentralized, community based reform even as the system was moving in another direction;
      v. It had a significant impact on some of the most disadvantaged schools in the city; and

vi. It laid the groundwork for some of the innovations of the current administration.

Which of these scripts do you think best assesses the Chicago Annenberg effort? Explain your answer, focusing on your assumptions of systems change, in particular.

9) Imagine a process in which the Board of Education had been the lead sponsor of the Chicago Annenberg Challenge. What are the pros and cons of this? How would the process have been better?

10) A national political organizer observes that the ultimate positive impact of the Chicago Challenge was that it "kept the voice of the community involved in school reform." First, what do they mean by "community?" What assumptions are behind this statement?   Second, is including certain voices or constituencies enough? What is necessary and what is sufficient for changing such a system?

11) Conflicts around race and community empowerment were very prominent and visible in public debate and discussion in Chicago. How did Annenberg fit into these discussions? Is there a way to make an accurate assessment for grant making in which the power dynamics/conflicts which define a community are not taken into explicit consideration?

12) Everyone agreed that $50 million was a "small amount" to affect a whole system. Can it ever be realistic to think that private philanthropy grant making ever directly impacts a large system? In the short run? The long run? What are ways to measure/monitor its effect? Is that even feasible? If not, does it matter?

13) National Annenberg was described as "a lot of money with few strings." How typical is this for national funding efforts of this scope? What are various structures of other large national granting initiatives?

14) What other initiatives are you familiar with that its intention is to impact system change/policy? What similar problems have they encountered?

ANALYSIS

There are several important issues that are raised by this case study. These issues can be approached as individual topics, or as part of the discussion of the assignment questions. Two key issues to consider are approaches to systems change and the context of urban politics.

Approaches to Systemic Change

At the most basic level, *system change* addresses transforming a whole structure, in this case a public school system. It implies that the very way that an organization operates will change. This can happen on many different levels: the cultural level of how things are done and what things are valued; the political level of power relationships; and the organizational level of how things operate.

When people look at a system and propose to change it, they usually have a model—a causal model, if you will—that informs the proposed changes. For example, the Chicago school reformers of the mid-1980's clearly thought that one of problems of education was that too much power was centralized in the hands of the central school administration. Their answer was to democratize the structure, putting the power to make decisions in the hands of locally elected school councils.

The proposal by the Chicago working group also had an underlying causal model. First, their broad strategy of inclusion continued the focus on democratizing the process. Second, their three goals of time, size, and isolation moved the focus from one of power relationships to one that stressed the need for change in the culture and operations at the local level.

The comments of some of the observers show a strikingly different approach, one that stresses technical rather than cultural or political change. In stressing the need for more "guidance for local initiatives in the form of well-researched and well-thought out maps of change," there are underlying assumptions that the lack of technical skills and/or knowledge by educators and the lack of authoritative leadership are factors that best explain the problems facing the school system. There is an assumption here that the power relationships and basic organization cultural values are in place, are effective, and do not need to be changed.

When discussing this case, invite the students to diagram the assumptions behind different suggestions for changing an organization. Have them think of systems or organizations for which they are familiar: their places of employment, their community, or an organization that they belong to.

Urban Politics and Race/Ethnicity

Nowhere in the goals of the Chicago Annenberg project is the politics of race or inequality explicitly mentioned, except in references to the preponderance of adverse education outcomes to children of color in the Chicago Public Schools. Yet, pivotal to understanding the dynamics of the Annenberg Challenge is that it happened in a large urban center in which the inequality of power and resources between the whites and African Americans—and most recently Latinos, as well—has been and arguably still is a key defining issue.

Chicago is one of the most residentially racially segregated urban centers in the United States. For many years preceding the initiation of school reform in the 1980's, resources have long been focused on the downtown center on one hand and the middle class and ethnic white areas of the city on the other. The election of a black mayor in 1983 was accompanied by the redistribution of resources to improve local community infrastructures and an increase in community voice as to the allocation of those resources. School reform can be seen within that context of redistribution of power from the white elite center to the African American/Latino local communities.

The "reform" of school reform in 1996 can be seen within the larger context of a "gentrifying" Chicago. In the 1990's, a key focus of Mayor Richard Daley—son of the white ethnic machine mayor who controlled Chicago politically for close to 30 years—has been to position Chicago as a "world class" city in which the finance industry and corporate headquarters, tourism, and high end residential development define the city. Chicago

schools need to work for three reasons, one symbolic and two functional. First, the largest unit of city government cannot be seen as a failure, or the city managers will be seen as inept and unable to deliver this "world class" environment.   Second, the school system needs to provide sufficiently educated service and administrative employees to staff the destination stores, cultural institutions, and corporate offices of the center city. Finally, there needs to be a core of schools that can attract middle class families to stay in the city. The schools then become neither a resource for the community and the aspirations of individual families, nor a vehicle for democracy and redistribution, but rather as part of the strategy to remake and expand the downtown center of Chicago.

Involve the class in a discussion of the challenges to grant making in which race and/or economic inequality are a sub-text, rather than an explicit part of the proposal. In addition, students can discuss situations they have experienced with group decisions making and organization interactions in which race is either explicitly "at the table" or "the elephant in the room."

Marguerite Casey Foundation: Movement Building Helping Low-Income Families Strengthen their Voices and Mobilize their Community

A Teaching Case
Maria Vidal De Haymes

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

In October 2001, the Marguerite Casey Foundation was established as an independent, private grantmaking foundation with an initial endowment of $600 million The Foundation began its grantmaking operations in early 2002. Casey Family Programs officially created this new foundation to help expand Casey's outreach and advance its 36-year record of leadership in child welfare and family support. The goal of the Foundation is to engage low-income parents in efforts to improve conditions for their families. Towards this end the Foundation supports community-based leadership and promotes education, activism, and advocacy among families, parents, caregivers, and youth. Since December 2002 they have made $65 million in grants to more than 170 organizations. This case study presents an overview of the initial years of the foundation, focusing on the Foundation's philosophy, mission, and process for grantmaking. This discussion is placed in the larger context of several issues in contemporary philanthropy which include diversity of approaches and strategies employed in philanthropy to promote social change and the effectiveness of various philanthropic approaches to promote social change and influence social policy.

HISTORY AND BACKGROUND

In 1907, a young James E. ("Jim") Casey borrowed $100 from a friend and established the American Messenger Company in Seattle, Washington. This initial investment of the 19 year-old Casey grew from a small local messenger service to the world's largest package delivery company, the United Parcel Service (UPS). Today UPS is a $30 billion global package delivery company and provider of specialized transportation and logistics services, managing the flow of goods, funds, and information in more than 200 countries and territories worldwide on a daily basis. The wealth derived from UPS has funded the foundations created by the Casey family.

Jim Casey was one of four children born to Henry J. and Annie E. Casey. The Casey family believed deeply in the importance of family and community and worked to create opportunities for children to succeed and thrive. This commitment is reflected in the philanthropic spirit and legacy of the family. In 1948, the four Casey siblings established the Annie E. Casey Foundation in honor of their mother. The mission of the Annie E. Casey Foundation is to meet the needs of vulnerable children, youth, and families by encouraging supportive public policies, human service reforms, and community supports.

In the 1960s, Jim Casey gave up his administrative responsibilities as chief executive officer of UPS and turned his attention to sharpening the programmatic focus of the Foundation. Towards this end, he consulted with child welfare and family support experts and concluded that many troubled adults had grown up unhappily in foster care, often being moved from one foster family to another. This realization led Jim Casey to establish Casey Family Programs in 1966, almost two decades after the founding of the Annie E. Casey Foundation. The Casey Family Program is an independent operating foundation in the family's hometown of Seattle.

In 1976, Jim Casey established Casey Family Services in Connecticut as the direct operating unit of the Annie E. Casey Foundation. Casey Family Services, headquartered in New Haven, has grown to include eight operating divisions that offer an array of foster care and programs for vulnerable children and families in New England and Maryland.

In 2001, eighteen years after the death of Jim Casey, two new organizations were launched to broaden the Casey legacy of commitment to children, youth, and families: the Jim Casey Youth Opportunities Initiative and the Marguerite Casey Foundation. The Jim Casey Youth Opportunities Initiative, started by Casey Family Programs and the Annie E. Casey Foundation, is based in St. Louis, Missouri and has a national focus of helping youth in foster care make a successful transition to adulthood. The Casey Family Programs established the Marguerite Casey Foundation as an independent, private foundation headquartered in Seattle.

THE MARGUERITE CASEY FOUNDATION

This Marguerite Casey Foundation was named after the youngest of the four Casey children. Marguerite Casey was born in Seattle, Washington, on September 5, 1900. As an adult, she shared her brother Jim's passion and vision for improving the foster care system and the lives of vulnerable children and families, and she demonstrated a commitment to the family's hometown of Seattle. These commitments were reflected in her service as a board member for Casey Family Programs, her support of Seattle University, and her annual gift of a Christmas tree for the Seattle Waterfall Garden.

Casey Family Programs officially created the Marguerite Casey Foundation to help expand Casey's outreach and advance its 36-year record of leadership in child welfare and family support. The goal of the Foundation is to strengthen the voices of low-income families across the United States by engaging parents in efforts to improve the lives of their communities. Towards this end the Foundation supports community-based leadership and promotes education, activism, and advocacy among families, parents, caregivers, and youth.

In October of 2001, the Marguerite Casey Foundation was established as an independent, private grantmaking foundation. It began operations in early 2002 with an initial endowment of $600 million and in 2003 recorded a 121 million dollar growth in its endowment, attributable to the start of a market rebound (Vega-Marquis and Massinga, April 15, 2004). The Foundation is a national one, serving four primary regions: the nation's West (beginning in California); the Southwest and the US/Mexico border; the Deep South; and the Midwest, beginning in Chicago, Illinois. As a sister organization to the Casey Family Programs (CFP), Marguerite Casey Foundation has developed joint projects with CFP in Massachusetts, California, and Washington.

The Foundation primarily makes grants in the range of $100,000 to $300,000, but also makes smaller grants in the state of Washington where it is based. Since December 2002, the Foundation has made more than $70 million in grants to more than 230 organizations (Marguerite Casey Foundation, 2003b). The Foundation's grants are usually multi-year and provided in the form of general/core support. By providing these long-term general support grants, the Foundation believes that grantee partners will have more flexibility to build internal capacity and refine their programmatic strategy in response to changing conditions.

**MOVEMENT BUILDING: THE PHILOSOPHY, MISSION AND VISION
OF THE MARGUERITE CASEY FOUNDATION**

> *"The struggle for a more just and equitable society is a marathon rather than a sprint.*
> *That's why our grantmaking strategy is focused on not providing temporary assistance*
> *to those in need, but on leadership development, strengthening the operations and*

capacity of nonprofit groups that serve the poor, promoting efforts to get all citizens involved in policy making, and other long-term strategies to improve and permanently change systems and institutions that serve the public" (Vega-Marquis and Massinga, April 15, 2004).

The mission of the Marguerite Casey Foundation is to "help low-income families strengthen their voice and mobilize their communities in order to achieve a more just and equitable society for all" (Marguerite Casey Foundation, 2005, Who We Are, para.1). It is based on a vision of a society "where all children are nurtured to become compassionate, responsible and self-reliant adults; where families are engaged in the life of their communities, the nation, and the world; and where people take responsibility for meeting today's needs as well as those of future generations" (Marguerite Casey Foundation, 2005, Who We Are, para.12). Towards this end, the Foundation promotes two primary goals:

> Engage low-income parents in efforts to improve conditions for their families; and

> Hold themselves accountable for excellent stewardship of Foundation resources

The process by which the Foundation advances its vision is through the building of a movement comprised of an engaged constituent base of working poor families and natural allies who share their interests. The Foundation believes that focusing on movement building will ultimately result in stronger families and communities. Towards this end, the Foundation's grantmaking seeks to nurture such a movement in low-income families and communities:

> ***Building a highly engaged base of constituents*** comprised of skilled parent and youth leaders from low income neighborhoods and communities of color who act on self-interest and education in community issues. Such a constituent group should be marked by consistent renewal through the identification, training, and promotion of new leaders.

> ***Strengthening cornerstone organizations*** in low-income communities that: work with a base of low-income families and have a desire to expand their base; are engaged in training local parents as leaders, advocates, and/or organizers; and have been successful in helping families achieve policy changes.

> ***Connecting grantees across geographic regions and across issue areas*** to enhance the collective capacity for regional and national movement building and cross-system change efforts leading towards successful policy reforms. These reforms are driven by working poor families using facts based on action research, the strategic framing of issues, and institutional relationships (Marguerite Casey Foundation, n.d.).

**WE MAKE THE ROAD BY WALKING: THE INITIAL YEARS OF THE
MARGUERITE CASEY FOUNDATION AND THE GRANTMAKING PROCESS
AND ORGANIZATIONAL CULTURE**

The Marguerite Casey Foundation has been very deliberative about the process it has developed to make grants. A comprehensive planning process was followed to launch the Foundation. In the Spring and Summer 2002 the overall direction of the Foundation and its funding priorities were framed through a richly consultative and reflective process that involved: the solicitation of discussion papers from leaders in the field of child and family welfare; a review of the literature and demographics of the field; key informant interviews with practitioners and grantmakers; and listening circles to gather the ideas of a large group of stakeholders (Marguerite Casey Foundation, 2003a). The listening circles, which drew together more than 600 stakeholders, were conducted in six cities across the nation: Los Angeles, California, Baltimore, Maryland; Mobile, Alabama, Rapid City, South Dakota, El Paso, Texas, and Yakima, Washington. In an attempt to "develop a responsive and informed approach to grantmaking" the Foundation staff and board members reflected on the listening circle responses to the three questions they posed:

> What creates healthy, well-developed children?

> What would it take to change the child welfare system and other systems that impact the lives of families and children?

> How would you leverage $30 million to ensure the wellbeing of children, families, and communities? (Hill, 2002: p.2).

The result of this inclusive information gathering process was a realization that:

> "The Marguerite Casey Foundation needed to focus on a complex set of challenges facing low-income families. We needed to help them strengthen their voice and mobilize their communities in order to effect lasting systemic and social change. We were told that there was a movement building among families in disenfranchised communities across the country…and that we had an opportunity to help nurture and support that growth" (Marguerite Casey Foundation, 2003a: p. 26).

This planning and agenda setting process led to the development of the aforementioned mission and primary goals of the Foundation, setting the stage for the next phases of the grantmaking process. The next set of decisions to be made by the Foundation concerned the process whereby the grantmaking would be done. One of the most important decisions made in the initial year of its operation was only to accept invited proposals. Chantel Walker, the Foundation's Director of Programs and Evaluation, indicated in an interview that this decision was based on a desire to maintain a small staff in order to maximize the dollars available for grants. Non-acceptance of unsolicited proposals means a smaller number of proposals coming in to the Foundation, which necessitates fewer people processing and responding to grant applications. Accepting only invited proposals also reflects the Foundation's clear understanding of its grantmaking priorities.   Foundation staff and consultants strive to understand the communities in which the Foundation funds, and this, coupled with clear grantmaking priorities, allows Foundation representatives to identify

organizations that meet the needs of the communities funded, and whose work strongly parallels its grantmaking priorities. Employing an open request for proposals would unlock the door to proposals from organizations whose work is not a strong match for the Foundation's priorities. In the first year if the Foundation's operations, the decision to accept only invited proposals allowed Foundation staff to initiate the grantmaking process as quickly and carefully as possible with an organization that was still in development.

As such, organizations that were invited to submit proposals were selected on the following basis:

> They were established "cornerstone organizations" with experience in organizing low-income families;
>
> The organization expressed a commitment to leadership development and the building of their constituent base;
>
> The organization had a track record of success in policy change or was clearly moving in the direction of policy change efforts; and
> The organization had connected formally and informally to peer organizations in the local community (C.L. Walker, personal communication, October 26, 2004).

The Foundation has a small staff, approximately 13 full-time staff members, and a limited consulting budget. The staff size is intentionally small to encourage collaboration with other foundations, intermediary organizations, and other Casey family organizations. This is part of a strategy to depart from traditional methods employed by foundations, by partnering with other organizations to address common goals effectively (Marguerite Casey Foundation, 2003b).

The work of this staff is guided by several organizational assumptions and principles. Furthermore, the Foundation vision is based on core principles and assumptions that permeate every aspect of the Foundation.

The major assumptions and principles include:

> Family focused programs are more effective than child and/or parent centered programs alone. This family-based approach is premised on the social science research that indicates that the strongest determinants of a child's success are the child's family economic conditions and the educational level of his/her parents, particularly the child's mother.
>
> When families are supported and provided opportunities, many individual and social problems are prevented. Furthermore, family-friendly organizing models employed by cornerstone community organizations can provide that support to develop a base for family-centric advocacy. Organizations that mobilize parents across a multitude of issues are the most effective lever to support system reform and public decision making. Finally, a non-categorical approach avoids the limitations and inefficiencies of "silo-based strategies" and thus is a more efficient, effective alternative (Vega-Marquis, 2004).

GUIDING ORGANIZATIONAL PRINCIPLES

The Marguerite Casey Foundation lists the following principles:

Diversity and Anti-Racism. We courageously confront racism and discrimination. We reflect the voices, experiences and interests of diverse cultural and social groups.

Equity. We believe in a bottom-up approach to social change, one that treats everyone fairly and equitably. We strive to share information and best practices broadly with all grantees and with the field as a whole.

Learning and Growing. We foster a driven learning community, where we learn from experience, each other, and the communities we serve. We believe that knowledge is powerful and that learning never ends.

Mutual Respect and Trust. We create an environment of teamwork and trust where acceptance and dignity are experienced by all. We are responsible for our actions, words and attitudes and are accountable to always follow through.
Stewardship. We are thoughtful, thorough and strategic in our grantmaking decisions. We make sound business decisions regarding the use of our resources, and we are committed to good results.

Sustained Connections. We seek to develop and strive to preserve permanent community connections for families. We believe in the power of strong relationships to effect community change.

Transparency: We are open and honest in all we do. We strive to conduct our business with the utmost clarity and directness, so that others will always know where we stand (Marguerite Casey Foundation, 2004a).

The Foundation is also committed to ongoing learning and creation of a learning organization ethos that involves planning, review of grantmaking procedures, candid self-assessment on the part of both Foundation and grantee participants, and the dissemination of the findings from these reflective activities. Evaluation ideas are evolving, but the Foundation staff is committed to evaluation at four levels: individual grants; clusters of grants; grantmaking programs/fields of interest; and performance of the Foundation (David, 2003a; David, 2003b; David, personal communication, March 24, 2004). Towards this end, the Foundation conducted a telephone survey of their grantees in 2003 to gain a better understanding of the place of evaluation, research, and communications in its organizations. The findings of this investigation were made available to grantees and others via the Foundation's website, with the dual goals of transparency and providing information to their grantees for organizational planning and development. The Foundation has also developed some assessment instruments, such as the Organizational Capacity Assessment Tool, that they are utilizing with their grantees to help support learning and planning for both their grantees and the Foundation's grantmaking. This instrument was designed to ascertain organizational leadership, adaptive management, and operational capacity (Marguerite Casey Foundation 2004b).

The Foundation has also been intentional in their approach to grantor/grantee relationships, so that these relationships are an "active partnership", based on the following principles:

> Clarity of priorities and procedures;

> Respect, manifested through timeliness and responsiveness;

> Equity, meaning equal treatment of grantees, with no grantee taking on the role of the insider; and

> Integrity, in that the Foundation will not use coercion as a condition of funding (David, 2003c).

The relationship between grantor and grantee, as well as between grantees, has been organized to involve active partnerships, characterized by serious and sustained dialogue between Foundation staff and grantees and among grantees as a group. Evidence of this ongoing dialogue can be seen in numerous communication and exchange activities, which have included the following: a grantee phone survey; a survey of foundation applicants; the sharing lessons and ideas through learning clusters of grantees; Foundation initiated convening of grantees; and the maintenance of an extensive website.

THE CONTEXT: LOCATING THE MARGUERITE CASEY FOUNDATION WITHIN CONTEMPORARY ISSUES IN PHILANTHROPY

Philanthropy is commendable, but it must not cause the philanthropist to overlook the circumstance of economic injustice which makes philanthropy necessary (Martin Luther King Jr. cited in Vega-Marquis and Massinga, 2004).

In the last three decades a number of social change foundations have been established to support community organization and system change efforts. The National Network of Grantmakers, a noted leader of progressive philanthropy in the United States, defines "social change" grantmaking, as "reaching those who are in greatest need of help by giving them the power and opportunity to solve their own problems" (Shaw et al., 1998). "Social change" philanthropy is the term used for grantmaking that targets the root causes of social and economic inequalities and promotes the empowerment of the less fortunate, marginalized, and oppressed sectors of U.S. society (Bothwell, 2003). In contrast, traditional philanthropy focuses resources on responding to human need, which is often symptomatic of the social and economic inequalities associated with a capitalist economy (Goldberg, 2002). David Hunter, widely recognized as the "godfather" of progressive philanthropy, concluded that "social change philanthropy" essentially differs from "traditional philanthropy" because it "aims explicitly to facilitate the changing of social institutions so that they don't produce the very problems that 'Charity' tries to alleviate" (What Has Philanthropy Done to Counter the Decline of Progressive Policy, Introduction, para. 3).

Social change foundations, while growing in numbers over this 30 year period, remain a relatively small sector within philanthropy. A recent study conducted by the National Network of Grantmakers estimates that less than three percent of all domestic, private, institutional grantmaking is distributed to social change causes. The National Network of Grantmakers indicate that the overwhelming balance of foundation resources are used

to support direct services, providing a sorely needed safety net, but not effecting policy changes aimed at solving the social problems that created the need (Goldberg, 2002).

Embedded in the mission of the Marguerite Casey Foundation is a goal of social change aimed at the achievement of a more just and equitable society for all, through the strengthening of the voice of low-income families and the mobilization of their communities. While the Marguerite Casey Foundation is not explicitly a social change foundation, it shares some common features with social change philanthropy. For example, its model for social change has three essential components: education, advocacy, and activism. Their approach contains elements of popular education and direct advocacy, tied to a notion of critical consciousness and direct action, the development of parent/ family-based leadership, and enhancement of the capacity and effectiveness of organizations in low-income communities.

However, the Marguerite Casey Foundation does not consider itself to be a social change foundation, nor does it consider itself a traditional foundation (C. Walker and S. Siquerios, personal communication, October 26, 2004). Rather, it shares common features with both types of philanthropy and draws on the elements of both.   For example, the two-fold goal agenda of the Marguerite Casey Foundation - self efficacy of parents/parent activism on community issues and accountability for stewardship of resources - coincides with goals often cited by those involved in social change philanthropy. Similarly, the inspiration of a vision of a just society is shared with social change grantmaking. Yet the movement-building approach of the Marguerite Casey Foundation, as well as some of the elements of the grant making process, reflect some aspects of traditional philanthropy. For example, the cross-issue funding, focus on messaging, and closed application process are common among some traditional and conservative foundations.

A number of observations and questions related to the Marguerite Casey Foundation follow. They are organized around several contemporary issues within the field of philanthropy regarding the role of foundations in social change and public policy. The format is intended to initiate a discussion that is extended to the reader through the posing of questions.

ASSIGNMENT QUESTIONS

How effective has philanthropy been in promoting policy agendas? Some have noted a decrease in progressive public policy in the U.S. in the last quarter century. Recent public policies have tended to benefit the wealthier segments of American society, at the expense of the interests of working class and low-income people, racial/ethnic minorities, women and the disabled (Bothwell, 2003). Is the decline in progressive policy due to limited support from social change and mainline philanthropy for progressive organizations and organizing activities? Is it because of failed strategy?

Some recent reports conclude that the way in which progressive philanthropic organizations fund social change activities hamper the development of broad based movements for change, and some even go as far as saying that progressive funders can learn from the strategies employed by their conservative counterparts. For example, Drabble and Abrenilla found that in California, the categorical nature of foundation funding of nonprofit advocacy created boundaries that served as "barriers to permeation and cross-issue connections" thereby thwarting collaborations across the traditional networks of organizations and their stakeholders, which had a narrowing effect of advocacy (Drabbel and Abrenilla, 2000). In

contrast, a recent report of the National Committee for Responsive Philanthropy, *Axis of Ideology: Conservative Foundations and Public Policy*, found that conservative foundations are more likely to provide their grantees general operating support. They conclude that this type of funding gives the grantee flexibility to respond quickly to current events and issues in a dynamic policy process. The authors argue that this funding strategy, along with several others, including longer-term funding commitments, focused funding on a small group of grantees, and public policy process expertise, converge with a broad ideological alignment across organizations to effectively advance a conservative policy agenda. The authors of the report conclude that conservative foundations have organized their nonprofits and political movement much more effectively than their progressive counterparts through this multi-pronged approach.

Where does the Marguerite Casey Foundation fit in this discussion with respect to its funding and grantee relationship approach? For example, they make both program and general operating support grants in the form of multi-year awards. They also promote ongoing dialogue across the organizations they fund and across issue foci through their convening of grantees and the development of learning clusters.

Could one conclude that the Marguerite Casey Foundation presents a "conservative" approach to a "progressive" social change agenda? Does it offer a hybrid model that employs a mix of "progressive" and "conservative" strategies? What does it draw from each tradition?

How effective has social change philanthropy been in changing the way grantmaking is done? Robert Bothwell (2002), President Emeritus of the National Committee for Responsive Philanthropy, has observed that while progressive philanthropy has been unsuccessful in turning the tide of conservative public policy formulation in the last twenty-five years, it has the promise of transforming the face of philanthropy. While many of the social change foundations grew out of a frustration with mainline philanthropy's neglect of progressive issues, frustrations extended to the process by which funders established priorities and the manner in which they went about making grants. Goldberg (2002) notes that "what distinguishes social change philanthropy from other forms of grantmaking is the central tenet that philanthropy's success is measured not only by where money is given, but also the process by which it is given." Thus, means are as important as ends. Not surprisingly, the Marguerite Casey Foundation has been intentional about the process it has developed to make grants.

Bothwell (2002) has noted that progressive philanthropy has spawned a number of significant alternatives to mainline philanthropy in the funding of progressive social change. These alternatives come in the form of diverse funding institutions that range in structure and foci from private foundations, social action funds, alternative community foundations, funding exchange foundations, faith-based funds, to environmental federations, Black United Funds, Women's Funds, Native American Foundations/Funds, Hispanic Funds, and Gay/Lesbian/Bisexual/Transsexual Foundations. These alternative funding institutions, Boswell argues, would generally describe their grantmaking or member distributions in the same way that the National Network of Grantmakers defines "social change" grantmaking: reaching those who are in the in greatest need of help by giving them the power and opportunity to solve their own problems. While the types of activities these alternative funds support can range from scholarships to direct action campaigns, Boswell (2003) concludes that they all support social change.

In addition to providing an array of organizational vehicles to support social change philanthropy, these alternative funding institutions operate differently with respect to a number of value and process dimensions, as previously discussed. For example, these progressive funding institutions typically address root causes rather than symptoms; they establish inclusive processes that emphasize accessibility to and transparency of their grantmaking processes for grassroots organizations. They strive to be accountable to marginalized communities as well as their board members; they view change as beginning with those directly affected (bottom-up). They promote community self-determination and self-sufficiency; and they support leadership development among traditionally marginalized groups. Together, these values and principles have the capacity to significantly alter funder/grantee relationships and the way grantmaking is done.
Where does the Marguerite Casey Foundation sit with respect to other funding institutions? How does their organizational structure present an alternative to mainline philanthropy? How is the Marguerite Casey Foundation positioned with respect to social justice philanthropy? How does their grantmaking process differ from or mirror social justice philanthropy? How does their grantmaking process differ from or mirror traditional philanthropy? Are institutions such as the Marguerite Casey Foundation significantly changing the way philanthropy is done?

How does social change occur and what role does philanthropy play in the process?
Typically, social change philanthropy has operated from bottom-up grassroots mobilization and empowerment approach that involves elements of advocacy, public education and leadership development. It is driven by a vision of economic and racial justice and participatory democracy. From this perspective, the basis of change lies with the transformation and mobilization of disenfranchised individuals and communities directly affected by the social issue under consideration. Strategies that are employed have elements of empowerment, such as developing effective community leaders, raising consciousness, and locating personal experiences in broader socio-political-historical context (Shaw 2002).

Grantee capacity building is typically an element of social change philanthropy. Increasing the capacity of disadvantaged communities through leadership development and institution-building activities is a central strategy for promoting social justice. Support can come in the form of technical assistance, training, research, networking, and organizational infrastructure development. The latter can include internal capacity building assistance concerning strategic planning, program development, fundraising and sustainability, fiscal and account controls, staff and board development, community organizing, and advocacy. External capacity building support can involve assistance with research, media and communications, conferences, and networking. Skill development assistance focused on community organizing, political organizing, citizen participation, advocacy, training on policy analysis, developing issue campaigns, and action research is also often supported by social change philanthropy (Shaw, 2002).

One can view this bottom-up perspective of social change advanced by progressive philanthropy as a "demand-side approach." In contrast, Sally Covington (1997) has argued that conservative foundations have advanced a "supply-side" approach to social change:

> First, heavy investments that conservative foundations have made in new right policy and advocacy institutions have helped create a supply-side version of American politics in which policy ideas with enough money

behind them will find their niche in the political marketplace regardless of existing citizen demand. Second, the multiplication of institutional voices marketing conservative ideas and mobilizing core constituencies to support them has resulted in policy decisions that have imposed a harsh and disproportionate burden on the poor (Conclusion, para. 5).

More specifically, the supply side approach that Covington describes involved institution building, leadership development, and networking strategy of a different nature. The leadership development that she found involved the grant-funded creation of a cadre of conservative intellectuals, supported through fellowships and scholarships while pursuing their studies, who upon completion are recruited into the leadership of conservative movement organizations. Institution building focused on the creation of conservative public policy think tanks, alternative media and media watchdog groups, pro-market law firms, and new religious and philanthropic associations. The networking strategies they employed included national assistance at the grassroots level in framing local issues and establishing on-going communication between national and local organizations through face-to-face and technology assisted conferences and meetings (Boswell, 2003).

There are probably as many understandings of how social change occurs as there are social change activists, activist organizations, and progressive and conservative grantmakers. However, as the previous discussion indicates, there are some broad principles and strategies shared across organizations. While it appears that the Marguerite Casey Foundation principally draws on the values and strategies of progressive philanthropy, it also seems to draw on some of the successful strategies of conservative foundations. Does it delineate any new ground or provide innovations in the area of philanthropy supported social change or movement building (e.g. families as the core unit of their base development, grantee clusters as a networking vehicle)? What are the merits and limits of the various strategies and principles in promoting constituent, organizational, and community capacity development and leadership? Do the different approaches contribute to transformative change or incremental reforms?

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ABOUT THE AUTHOR

Dr. Maria Vidal de Haymes received her Masters Degree from the University of Chicago in 1987 and her Ph.D. from Ohio State University in 1991. Dr. Vidal de Haymes joined the faculty of Loyola University-Chicago in 1992, where she is currently an Associate Professor in the School of Social Work. Dr. Vidal de Haymes teaches courses in areas of social welfare policy, community organizing, and multiculturalism. She has published research concerning the economic and political incorporation of Latino immigrants in the U.S., child welfare, and social work education. Dr. Vidal is co-editor of Latino Poverty in the New Century: Inequalities, Challenges, and Barriers (Haworth Press, 2000). She was the primary investigator of a HHS grant that brings together several Native American organizations, the Illinois Department of Children and Family Services, and Loyola University to collaborate in the development of training curriculum for culturally responsive child welfare practice with Urban Native American children and Families. Dr. Vidal de Haymes serves as a consultant to numerous local and state agencies and serves on the board of several Latino community-based organizations and the editorial board of the Journal of Poverty

Marguerite Casey Foundation: Movement Building Helping Low-Income Families Strengthen their Voices and Mobilize their Community

A Teaching Note
Maria Vidal De Haymes

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

In October 2001, the Marguerite Casey Foundation was established as an independent, private grantmaking foundation with an initial endowment of $600 million The Foundation began its grantmaking operations in early 2002. Casey Family Programs officially created this new foundation to help expand Casey's outreach and advance its 36-year record of leadership in child welfare and family support. The goal of the Foundation is to engage low-income parents in efforts to improve conditions for their families. Towards this end the Foundation supports community-based leadership and promotes education, activism, and advocacy among families, parents, caregivers, and youth. Since December 2002 they have made $65 million in grants to more than 170 organizations. This case study presents an overview of the initial years of the foundation, focusing on the Foundation's philosophy, mission, and process for grantmaking. This discussion is placed in the larger context of several issues in contemporary philanthropy which include diversity of approaches and strategies employed in philanthropy to promote social change and the effectiveness of various philanthropic approaches to promote social change and influence social policy.

THE AUDIENCE/PREREQUISITE

The primary audience for this case study will be students of philanthropy and professionals in philanthropy and nonprofit leadership. This case can also be used in courses focused on social change or advocacy with marginalized communities. It is appropriate for use in undergraduate or graduate level courses and staff development workshops.

TEACHING PURPOSES

The case is presented in the context of philanthropy aimed at promoting social change and social policy agendas The case provides for an opportunity to discuss the characteristics of social change philanthropy in contrast to traditional and conservative philanthropy.

The case presents three major related question areas:

How effective has philanthropy been in promoting a progressive policy agenda?

How effective has social change philanthropy been in changing the way grantmaking is done?

How does social change occur and what role does philanthropy play in the process?

Framing the discussion of the case in this broader context allows for an exploration of a number of decision areas for funders that range within philosophy, structure, and approach. The Marguerite Casey Foundation case materials provide opportunities to discuss a number of these decision areas and the corresponding context possibilities. Some of these areas include the following:

Nature of Funding (categorical funding vs. general operating support; short-term/demonstration or sustained funding);

Activities Funded (services vs. funding social change);

Limits of Social Change (reform or transformation of systems);

Accountability (to grantees /community and/or trustees);

Proposal Solicitation (general call vs. invitation only);

Target of Leadership Development Activities (at base [cultivation of grassroots leadership, including capacity development of community-based organizations] or at top [leadership development of intellectual vanguard and policy/research organizations]);

Core of Base for Social Movement Building (e.g. individuals, families and/or institutions at the local, regional, national level);

Issue Target for Social Change Efforts (merits and limits of single issue and more broad-based, social movement building foci);

Diversity of Organizational Structures in Social Change Philanthropy (e.g. private foundations, social action funds, alternative community foundations, funding exchange foundations, faith-based funds, environmental federations, Black United Funds, Women's Funds, Native American Foundations/Funds, Hispanic Funds, and Gay/Lesbian/Bisexual/Transsexual Foundations); and

Diversity of Activities Funded by Philanthropy to Promote Social Change and Policy Agendas (e.g. scholarships, direct action campaigns, popular education, organizational capacity development, voter registration drives, leadership development, research, economic development, direct action campaigns).

Community Foundations and Donor Intent: Learning from the Dispute between the Chicago Community Trust and the Searle Family

A Teaching Case
Joseph K. Hoereth

Philanthropy & Nonprofit Sector Program
Loyola University Chicago

ABSTRACT

Community foundations occupy a unique position among philanthropies. Created to serve the specific needs of a geographically defined community, community foundations are public charities that are legally accountable to the communities they serve. Many serve communities historically under-served by government and private foundations, often communities of color. They receive funding from multiple sources including private individuals, families, corporations, institutions, and even other foundations. Donors to community foundations enjoy greater tax benefits than do donors to private foundations. While community foundations are not legally accountable to their donors, most make an effort to at least be consistent with the "spirit" of their donors, and offer their donors the opportunities to be involved in the grantmaking process. This need to balance community accountability and donor intent offers a unique challenge to community foundations.

There is a growing trend in philanthropy with implications for community foundations—donors are seeking to exert more control over how their donations to foundations are used. Many donors are worried about an erosion of respect for their intent, or "foundation drift," which pertains to the tendency for foundations to stray from the original intent of their donors. In the last decade, some donors have legally challenged the use of their gifts, a trend that is cause for concern on both sides of the issue. Foundations are concerned about multiple lawsuits from unhappy donors, as well as the potential of lawsuits to infringe on the ability of staff and boards to make grants and set foundation policy. Community foundations seem particularly vulnerable to this trend, given that they receive funding from a wide range of donors, and the financial crises such conflicts can create for them.

This case highlights the significance of the issue of donor intent for community foundations, focusing on one dispute between the Searle family and the Chicago Community Trust (CCT). The case offers important lessons on the issue of donor intent, community foundations, and the implications of such disputes for communities of color and low-resource communities.

WHAT IS A COMMUNITY FOUNDATION?

History

The first community foundations emerged out of the welfare capitalism movement of the late 19th and early 20th centuries. During this time, corporations and wealthy industrialists sought to make social investments in their communities as a gesture of goodwill that would secure loyalty and improve the productivity of their employees. The community foundation structure emerged as industry, government, and other civic institutions came together to address long-term community needs, and began institutionalizing their efforts with permanent endowments (Lowe, 2004). The first community foundations were established in the old industrial centers of the Midwest and East coast. The Cleveland Foundation was founded in 1914 as the first community foundation. CCT was established in 1915, as were community foundations in Detroit, Milwaukee, Minneapolis, and Boston.

The community foundation movement grew steadily over the first half of the 20th century. During the late 1960s, the federal government took a close look at the philanthropic sector amid concerns about the involvement of philanthropy in the social movements of the time and concerns about abuse and the poor regulation of foundations. The openness and public accountability of community foundations was viewed favorably by congress. As a result, the 1969 Tax Reform Act gave community foundations much better tax advantages than private foundations. The tax benefits of the 1969 Act went into effect in 1976, sparking a new wave of growth in community foundations in the decades that followed.

As of 2002, community foundations numbered over 300 (Foundation Center, 2002). One study estimated the total assets of community foundations to be over $30 billion in 2001 (Foundation Strategy Group, 2003). While the generous tax benefits of the 1969 Tax Act are primarily responsible for this growth, the growth has coincided with a shift to a more donor-focused model for community foundations (Foundation Strategy Group, 2003). This model involves developing relationships and marketing the foundation to potential donors. Community foundations offer donors a wide range of options and many take care to educate potential donors about the different options available to them.

Another factor in the recent growth of community foundations has been an increase in funding from private foundations. Some private foundations have given as a way of more effectively supporting local efforts, using community foundations as intermediaries, connecting to communities and organizations with which private foundations may not be familiar. Rather than expecting a non-local program officer to develop a familiarity with local needs, a private foundation could make a donation to a community foundation that is already knowledgeable about local needs and maintains a high level of accountability to that community. Other private foundations have given private support as part of the programs they have designed to support and grow community foundations. These foundations have recognized the potential of community foundations for greater impact at the local level, particularly in the area of community development (Lowe, 2004). In the past 20 years, the Ford Foundation, the Lilly Foundation, the John D. and Catherine T. McArthur Foundation, the Charles Stewart Mott Foundation, and the Kresge Foundation have all launched initiatives aimed at helping to build the capacities of community foundations, some with specific community development goals. Together, these programs have helped to build the capacity of community foundations across the country.

Community Foundations versus Private Foundations

The basic differences between community and private foundations are rooted in the legal status of community foundations as public charities. The government grants public charity status to entities (such as a corporation, trust, community chest, fund, or foundation) that are structured to offer a direct public benefit. Public charities must either get one-third of their income directly from government or indirectly from the general public.

The tax advantages of public charities make them much more appealing to potential donors than private foundations. For example, cash donations to community foundations are tax deductible up to 50% of annual adjusted gross income per year, while such donations to private foundations are deductible only up to 30%. Donations of property, such as stock or real estate, to community foundations are tax deductible at full fair market value up to 30% of annual adjusted gross income. Property donations to private foundations are deductible at an adjusted value, and the deduction is limited to 20%. There are also tax benefits that community foundations themselves enjoy that private foundations do not. In general,

community foundations are subject to fewer taxes and regulations than private foundations (Lowe, 2004).

While the differences in tax benefits are important to understanding the income side of community foundations, their geographic focus better positions them to respond to the needs of a particular community. With no legal mandate of accountability to local communities, private foundations do not have the same built-in source of trust for relationships with communities.

COMMUNITY FOUNDATION STRUCTURE – THE CHICAGO COMMUNITY TRUST

Founded in 1915 as the second community foundation in the nation, CCT is currently the third largest community foundation with over $1 billion in total assets in 2002 (CCT, 2002). Although it is generally referred to as a community foundation, the CCT structure is actually an umbrella that includes a range of charitable vehicles and structures in addition to a community foundation. Most community foundations are not quite as large or complex as CCT.

CCT is structured as a trust governed by two committees, the Executive Committee and the Trustees Committee. The Trustees Committee includes executives from major Chicago financial institutions. The current membership includes executives who represent six of the seven financial institutions that manage $250,000 or more of CCT's assets. Their responsibilities include appointing up to five members of the Executive Committee, approving all appointments to that committee, and advising the committee on a wide range of issues.

The Executive Committee consists of volunteers who supervise grant making activities and operations of CCT. Individuals are appointed to the executive committee either by one of CCT's appointing authorities, which are key Chicago institutions and government offices, or by the Trustees Committee. The appointing authorities include: a federal judge who appoints two committee members; a county judge who appoints two members, the Mayor of Chicago who appoints one member; the President of Northwestern University who appoints one member; the presiding officer of the United Way who appoints one member; and up to five other members appointed by the Trustees Committee.

The CCT mission is broad, but clearly focuses the organization on being responsive to community needs and taking a leadership role in Chicago philanthropy:

To improve the lives of the people of Metropolitan Chicago, The Chicago Community Trust:

> Provides leadership that helps identify key issues and contributes to innovative approaches to address community challenges;
>
> Provides grants and related services that respond to specific needs and offer the potential to measurably improve the vitality and well-being of our diverse community; and

Promotes philanthropy and builds Chicago's philanthropic resources by identifying, attracting, informing, and engaging donors in supporting the community (CCT, 2002).

The CCT umbrella includes three branches: the Chicago Community Trust, the Chicago Community Foundation, and partnerships with supporting organizations. The Trust remains as it was founded in 1915 and is funded by individual, family, and institutional donations. Donors can contribute unrestricted funds or can set up individual funds within the Trust dedicated to a particular purpose or organization. As a public charity, donors to the Trust gain more generous tax benefits than they would from donating to a private foundation. Grants from the Trust are geographically limited to Chicago.

The Chicago Community Foundation is also a public charity and also offers donors more generous tax benefits than a private foundation. It was founded in 1985 and is managed by the Executive Committee. The community foundation allows CCT to make grants beyond Chicago in the broader metropolitan region. It also gives the trust flexibility in managing the investment of its funds; all of the community foundation funds are managed in a common investment pool.

The third structure within CCT is a set of partnerships with supporting organizations. Supporting organizations are philanthropic vehicles such as trusts or foundations accountable to separate boards. The organizations are affiliated with the CCT to gain access to its staff and administrative infrastructure. This structure allows individuals with considerable resources to set up entities that operate like private foundations within the overall CCT umbrella.

CCT Funding Options

Donors have multiple options available to them for contributing to one of the philanthropic structures of CCT. With the exception of unrestricted gifts, which may be used for any purpose, each type of donation has a different level of specificity of donor intent. Donors can give to a particular field of interest, restrict the use of funds to a single purpose, or designate funds for a specific type of organization. If donors want to make grant recommendations or designate others to do so on their behalf, they could set up donor-advised funds or consultative funds. However, to gain the full tax benefit of a gift to a public charity, the donor must agree that the trust or community foundation retains the authority for final grant-making decisions (Chicago Community Trust, 2006).

The wide array of donation options available to donors combined with the complex CCT structure presents a challenge for CCT as it strives to distribute each dollar in a manner consistent with the intent of its donor. Which dollars should CCT use to fund which program, organization, or institution? CCT is a public charity that must respond to what it believes are the needs of the community. What should happen if donor intent and the needs of the community are not compatible? What should happen if subsequent generations of donors lose faith in the work of CCT? The Searle-CCT dispute shows the crises that such issues can cause for community foundations.

THE SEARLE FAMILY VS. CCT

At the time of his death in 1978, John G. Searle divided the largest pieces of his charitable giving between the Searle Family Trust which is administered by the family and the trustees

of Harris Bank, and several other funds managed by CCT including the Searle Family Fund. Searle established the Searle Family Fund as a public trust that afforded his estate tax benefits and allowed a portion of his wealth to skip a generation. The Fund is fully controlled by the CCT for a period of 60 years. CCT administers grants from income generated by the fund and after 60 years the principal returns to the family, effectively skipping a generation.

Although Mr. Searle could specify family members or others to act as consultants who advise the CCT on matters related to the Fund, CCT retains the ultimate authority to make granting and investing decisions. As part of their status as public charities, CCT and other community foundations require that the donors explicitly acknowledge that the foundations has final say on the use of their gifts. Consequently, John Searle's will indicated that the Trust "shall be under no obligation to comply with any recommendation made by the consultants" (Yates & Cohen, 2002, p. 1). However, it is common practice for community foundations to allow for some input from donors despite the fact that they are not legally accountable to their donors, a practice that likely appealed to Searle. In fact many community foundations market the practice as a distinctive feature not available from other philanthropic vehicles.

In 1969, Searle established a "test" fund at CCT to model the fund specified in his will. One can assume that he was satisfied with the CCT management of the test fund given that he did not change his will to put the money to some other use during the test period. However, he included language in his will that provided for control of the money to return to the family if CCT "failed to operate in substantially the same manner as it did at the time of his death" (Yates and Cohen, 2002, p. 1). This language is the legal basis for the current dispute.

In 2001, after a decade of deterioration in the relationship between the family and the Trust the descendants of Searle voted unanimously to remove the Searle Fund from the CCT and transfer it to Northwestern University. The family took legal action in 2002 to freeze distributions from the fund and for approval from the Illinois Attorney General's Office for the transfer. Over the years, family members, in particular John's son Daniel, felt that the Trust was not considering the input of the family in its grantmaking decisions. He pushed to invoke the "failed to operate in substantially the same manner" clause (Yates and Cohen, 2002, p. 1) to give the family more input in how the funds are used.

If the Searle family wants more input in the way funds are used, one can presume that they are unhappy with the way funds are currently distributed, although they do not make that argument publicly. The family's distribution of funds from its other fund, the Searle Family Trust, of which it has full control, indicates a preference for fewer, larger grants to education, the environment, and conservative policy issues (Sharoff, 2003). CCT tends to spread moderate grants across a number of organizations that might not otherwise get funded. The family contends that this difference in philosophy has little to do with its current action, rather the lawsuit is based upon the failure of the Trust to treat the family as a true donor-adviser. CCT says that it has always considered the input of the family and does not operate the fund any differently than it did at the time of John Searle's death.

By late 2002 the dispute had become a major crisis for CCT. CCT awarded grants from the Searle Fund in May, but the Searle family froze distribution of the grants. Many Chicago organizations were in danger of losing $20 million in funding, much of which was critical support they relied upon for daily operations. The Office of the Attorney General had unsuccessfully tried to mediate the dispute. In September of 2002, the Trust filed suit to

force the release of funds, prompting the Searle family to counter with its own lawsuit. Only the threat of a loss of an annual tax benefit resulted in the release of the funds at the end of the year. As of January 2004, the dispute had yet to be settled in court.

INTERPRETING DONOR INTENT

For professionals in philanthropy, donors, and family members of deceased donors who have an interest in making sure that donor intent is followed, the gray area of interpreting donor intent can be a great source of confusion. Undoubtedly, this gray area leads to disputes and lawsuits that force the court to make a final interpretation, raising questions about how interpretations should be made. Should interpretation be done simply on the basis of "the letter," or the recorded words of the donor? Should interpretation be based on "the spirit" of the donor, such as allowing for reading additional meaning into the donor's words based on what he or she was commonly known to have intended? Do the political and philosophical beliefs of the individual matter when making such interpretations?

Not articulating intent with enough specificity can be a problem, particularly as more time passes after the death of the donor. A lack of specificity could allow future leaders of a foundation too much leeway in interpretation. This can be a very real problem for private foundation, as a legal expert on donor intent (as cited in Mayer, 2003) observes:

When most donors create a private foundation, they focus on defining and refining their vision for the private foundation's mission and activities. They often neglect, however, the issue of how to ensure that this mission and those activities remain consistent with their vision and values when they no longer control the foundation. The result is therefore often that the later stewards of the foundation, whether they be leaders of the community, family members or trusted advisors, depart, sometimes radically from the intent of the founding donor and use the foundation's wealth for purposes unrelated to or in opposition to that intent (page number).

In the CCT-Searle case, interpreting intent based on political and philosophical beliefs has come into play. The Searle family publicly denies that their challenge is based on a concern that many of the grants made by CCT are inconsistent with the conservative beliefs of Mr. Searle. An article in the Chicago Tribune Magazine explored this aspect of the dispute in depth, including quotes from both sides (Sharoff, 2003). The article quotes a spokesperson for the Searle family, who argues that the political differences between the family and CCT are not important: "When you talk about issues like education and community renewal, and biomedical research, there are no political boundaries to that" (as cited in Sharoff, 2003, p. 96). CCT admits that its philosophy differs somewhat from that of the family. The CCT executive director, Don Stewart, said in the same article that the instincts of the family "are more to the marketplace, to choice, to making the market, whether simulated or real, drive these outcomes" (as cited in Sharoff, 2003, p. 96)

Mr. Searle clearly reveals his political thinking in statements he made in private letters during the time he was writing his will. With regard to donations to Northwestern University, he wrote: "But if they ... run into a situation like the University of Chicago did and get a 'Hutchins' I would seriously question funds to them" (as cited in Sharoff, 2003, p. 94). He refers to Robert Maynard Hutchins, the very liberal president of the University of Chicago between 1929 and 1951. Searle also wrote:

With the present trend of things, the growing importance of government participation and communistic thinking on the part of many people, I wonder how much use there will be for private trusts over this long period of time (Sharoff, 2003, p. 94).

Cy Pres

While philanthropies strive to maintain donor intent, there are often cases when donor intent is impossible or impractical to maintain, regardless of how strictly it is interpreted. In such cases, the legal principle of *cy pres* allows foundations the flexibility to interpret intent more broadly and use the funds for a similar purpose. *Cy pres* means so near or as near, and allows the court to work with a foundation to determine a charitable use as close in purpose as possible to the donor's intent (Mayer, 2003, p. 13). The principle is law in many states, and becoming more generally accepted in most states. In invoking the principle, one court stated the principle in this way:

Where property is given in trust for a particular charitable purpose, and it is impossible or impractical to carry out that purpose, the trust does not fail if the testator has a more general intention to devote the property to charitable purposes. In such a case the property will be applied under the direction of the court to some charitable purpose falling within the general intention of the testator (as cited in Mayer, 2003, p. 14).

An attorney writing about ways donors can protect their intent suggests:

A donor seeking to ensure that the private foundation he creates will continue to pursue certain purposes may therefore want to tie that private foundation to one or more other types of organizations. The organizations need not be limited to charities…so a donor could, for example allow a for-profit company he founded to appoint representatives to the foundation's board. There are a variety of ways this can be accomplished (Mayer, 2003, p. 19).

CONCLUSIONS AND LESSONS

The Searle-CCT dispute and other recent challenges to donor intent highlight the significance of the issue of donor intent for philanthropy. Preserving donor intent is particularly important for community foundations and public charities that have long-standing relationships with the communities they serve. It is in the interest of both donors and charities to avoid such disputes, and there are lessons for both sides to be learned from this case.

When the dispute froze CCT grants, the resulting crisis revealed a dangerous vulnerability of community foundations. Many organizations and institutions in low-income communities and communities of color have come to depend on them as a main source of critical operating and program support that is not available from other sources. Such disputes put these organizations and the communities they serve in danger of losing key resources, and will be disproportionately affected by any loss of funding. The fundamental basis of the community foundation is challenged in these disputes: the responsibility and accountability of a community foundation to the community that it serves. By challenging the use of funding, a single donor can hamper the activities of a community foundation or even

ultimately remove funds from its control. Community foundations like CCT can have hundreds of donors, each representing a potential lawsuit.

Another lesson to be learned from this case is that over time there may be limitations on how well a foundation or non-profit can maintain donor intent. This lesson may be even more important for community foundations that need to balance donor intent with ever-changing community needs. Without explicit checks and balances for preserving donor intent, drift may be inevitable. The stronger a donor feels about wanting his intent to be strictly followed, the less he should leave up to interpretation. While the notion of *cy pres* may allow for some flexibility over time, the best protection of donor intent is clarity of the donor in communicating his intent. Donors should also clearly communicate their political, moral, or philosophical beliefs if they are relevant to understanding the meaning of their expressed intent.

Another step for donors to protect their intent is the practice of appointing outside organizations or individuals to act as a watchdog or protector of donor intent. To some extent, this option allows a private donation to work like one to a community foundation. A donor setting up a private foundation may choose to give a trusted outside organization the power to appoint some trustees. Expanding accountability beyond a few individuals can help to ensure that some consistency in beliefs or philosophy is maintained as turnover happens or board members age out.

For foundations and non-profits facing the challenges of preserving donor intent, there are also lessons to be learned from the Searle CCT dispute. Although there is no way to prevent lawsuits, the most effective approach is to be prepared. Community foundations like CCT may do well to prepare by adopting formal practices that help to preserve donor intent. The Council on Foundations (COF) established a set of National Standards for US Community Foundations in 2000 that includes standards of stewardship and accountability. A community foundation that meets these standards "honors the charitable intentions of its donors consistent with community needs and applicable laws and regulations," and keeps records of its procedures used to protect donor intent. If community foundations do not define what meeting donor intent means for them, the courts are likely to define it for them, which may not be in their best interest or in the best interests of the communities they serve.

ASSIGNMENT QUESTIONS

What are the characteristics of community foundations that set them apart from private foundations?

What are the tax benefits of donating to community foundations and other public charities? Do you think that the added tax benefit of a donation to a community foundation is warranted? Explain.

Why did the Searle family sue to have the Searle Fund removed from CCT?

Who has legal control over the use of donations to community foundations? Do you think they should have complete control of those donations? Explain.

What are some challenges of maintaining donor intent over time?

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ABOUT THE AUTHOR

Dr. Joseph Hoereth holds a B.A. from the University of California at Berkeley, and a Ph.D. in Urban Planning from Rutgers University. He was born in Ghana, and was raised in Long Beach, California. Currently, he is the Associate Director at the Great Cities Institute at the University of Illinois Chicago. He lives in a Chicago suburb with his wife and children.

Community Foundations and Donor Intent: Learning from the Dispute Between the Chicago Community Trust and the Searle Family

A Teaching Note
Joseph K. Hoereth

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

Community foundations occupy a unique position among philanthropies. Created to serve the specific needs of a geographically defined community, community foundations are public charities that are legally accountable to the communities they serve. Many serve communities historically under-served by government and private foundations, often communities of color. They receive funding from multiple sources including private individuals, families, corporations, institutions, and even other foundations. Donors to community foundations enjoy greater tax benefits than do donors to private foundations. While community foundations are not legally accountable to their donors, most make an effort to at least be consistent with the "spirit" of their donors, and offer their donors the opportunities to be involved in the grantmaking process. This need to balance community accountability and donor intent offers a unique challenge to community foundations.

There is a growing trend in philanthropy with implications for community foundations—donors are seeking to exert more control over how their donations to foundations are used. Many donors are worried about an erosion of respect for their intent, or "foundation drift," which pertains to the tendency for foundations to stray from the original intent of their donors. In the last decade, some donors have legally challenged the use of their gifts, a trend that is cause for concern on both sides of the issue. Foundations are concerned about multiple lawsuits from unhappy donors, as well as the potential of lawsuits to infringe on the ability of staff and boards to make grants and set foundation policy. Community foundations seem particularly vulnerable to this trend, given that they receive funding from a wide range of donors, and the financial crises such conflicts can create for them.

The case highlights the significance of the issue of donor intent for community foundations, focusing on one dispute between the Searle family and the Chicago Community Trust (CCT). The case offers important lessons on the issue of donor intent, community foundations, and the implications of such disputes for communities of color and low-resource communities.

THE AUDIENCE

The primary audience for this case should be students in philanthropy and professionals in philanthropy. This case would be suitable for undergraduate and graduate courses as well as for professional staff workshops.

TEACHING PURPOSES

There are several important themes in this case study for students to grasp. Students should have a basic understanding of the key features of community foundations, which are explained in the text. This understanding should include the difference between community foundations and private foundations; the requirements for public charity status; added tax benefits of such a status; and the issue of community foundation accountability to the community. The discussion on community foundations could be prompted by asking the students to identify the type of donor to whom they would recommend donating to a community foundation.

Other key themes of the case study center on the Searle dispute. The Searle case is only one of many recent examples of challenges to donor intent. It might be interesting to ask students to share any examples of these challenges that they know of. Students should have a sense of the reason why community foundations are theoretically more vulnerable to challenges to donor intent, compared to other foundations. There are also key lessons to be learned from the Searle-CCT dispute—that is, ways that donors can protect their intent, and ways that foundations can protect themselves from these challenges. Students should be asked to identify other lessons from the dispute.

The case should spark discussions regarding donor intent. The important point to make here is that the issue remains a very gray area legally and in practice. Many donors are taking the issue seriously, which has serious implications for philanthropy. How should charities and foundations respond to this trend? Should they push for policies limiting the ability of donors to challenge the use of their gifts? Should they respond with more ways for donors to be directly involved in the grantmaking process? Whatever direction the discussion takes, the issue is ripe for lively debate. The question of who should win/ should have won the Searle–CCT dispute should be brought up.

Finally, the themes that the case study discusses can be related to a core thread that runs through all of them, the issue of accountability. To whom are foundations and philanthropies accountable? Or, should these entities be accountable? On its surface, the answer to these questions seem simple—private foundations are accountable to their founders and donors, while public charities are accountable to the communities they represent. The discussion should center on the meaning of accountability for community foundations like CCT. For a community foundation, does accountability mean to the whole community, or just those most in need? Do community foundations have any moral responsibility to follow the intent of their donors? Should a single private donor be able to challenge a community foundation on the use of his or her gift?

ASSIGNMENT QUESTIONS

- Under what circumstances would you recommend a donation to a community foundation over a donation to a private foundation? Why?

- Did the Searle family have grounds to challenge the use of its funds? Who do you think should win, and why?

- How might community foundations protect themselves and the communities they serve from disputes like the Searle-CCT dispute?

- What does it mean for a community foundation to be accountable to the community it serves? Should community foundations be more accountable to certain segments of the communities they serve, such as neighborhoods or populations with greater need? Could residents file a suit against a community foundation, just like donors have?

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Preparing people to lead extraordinary lives

Catholic Campaign for Human Development Faith-Based Grantmaking:
The Challenge of Funding Non-Faith Based Organizations Whose Work Does Not Undermine Official Teachings of the Roman Catholic Church

A Teaching Case
Joel R. Schorn

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

Poverty in the United States is a cruel anachronism today. At a time when most Americans enjoy unparalleled material bounty, it is unthinkable that some Americans should still be condemned to live out their lives within the hellish circle of want. If we close our eyes to the continuing existence of poverty in our nation, we are vulnerable to the accusation of spiritual blindness and moral insensitivity. (Resolution on the Campaign for Human Development, adopted by the National Conference of Catholic Bishops, November 1970)

(NOTE: The Catholic Campaign for Human Development (CCHD) has had three names since its beginning in 1969. Originally called the National Catholic Crusade Against Poverty, the Crusade soon thereafter became the Campaign for Human Development (CHD). In 1999, the U.S. bishops changed its name to the Catholic Campaign for Human Development. For the purposes of this case study, the author will use "Catholic Campaign for Human Development" and "CCHD.")

ABSTRACT

The Catholic Campaign for Human Development (CCHD) is one of the largest funders of grass-roots community organizing in the United States. The grantmaking work of CCHD, however, has received criticism and opposition from conservative elements in the Catholic Church because of the perception that CCHD supports projects and organizations whose activities may be in conflict with Catholic teaching. One of the major challenges of CCHD is to manage its governance in order to make effective grants in accordance with its mission and values and to ensure that it funds organizations whose projects do not go against the official moral teachings of the Catholic Church.

This case is intended to explore how the governance of CCHD is reflected in its mission, values, and decision-making, and in the assumptions behind the criticisms of CCHD. It also examines how certain aspects of the governance of CCHD relate to the nonprofit sector as a whole in the areas of professionalization and leadership development, stewardship, and accountability. Finally, this case looks at how CCHD's activities relate to social change philanthropy in the service of communities of color and other underserved communities.

MISSION OF THE CATHOLIC CAMPAIGN FOR HUMAN DEVELOPMENT

The Catholic Campaign for Human Development is the "domestic anti-poverty social justice program of the U.S. Catholic bishops" (United States Catholic Conference [USCC], 1996: p. 144). The broad mission of CCHD is to "address the root causes of poverty in the U.S. through promotion and support of community-controlled, self-help organizations and through transformative education" (USCC, 1996: p. 144).

The basic elements of a national Catholic anti-poverty campaign came together at a meeting of activist Catholic clergy at Cumbermeare, Ontario, Canada in 1969. The Campaign was intended to be a national mechanism responding to the urban crisis, similar to Protestant efforts committing financial resources. The Catholic commitment would be $50 million, a sum matched by no other denomination to date. Funds would be designated specifically for "organized groups of white and minority poor to develop economic strength and political power in their own communities," (USCC, 1996: pp. 128-129) and "self-help funds" for such "projects as voter registration, community organizations, seed money to develop nonprofit housing corporations, community-run schools, minority-owned cooperatives and credit

unions, capital for industrial development and job training programs, and setting up of rural cooperatives" (USCC, 1996: pp. 128-129).

During its 30-year history, CCHD has funded more than 4,000 self-help projects developed by grassroots groups of poor people, including grants for job creation, affordable housing, school improvement, just wages, anti-crime efforts and criminal justice reform, and leadership development. Each year, CCHD distributes national grants to more than 300 projects based in local communities. In addition, dioceses fund hundreds of smaller projects through the 25% share of the CCHD collection they retain. The following procedure makes this possible: All monies donated to CCHD go to the national office in Washington, D.C.; after 10% is taken for CCHD administrative and fundraising costs, 25% of the funds returns to dioceses to fund local projects, and 75% goes to projects nationwide. Thus, as of the 1994 funding cycle of CCHD, grants to groups of mixed racial or ethnic constituencies had risen to more than 130 (60% of total grants administered). Also, 85% of grants in 1992 to 1994 went to community organizing groups. By 1996, CCHD had become the largest funder of self-help groups for the poor in the U.S.

The key aspects of the mission of CCHD are grantmaking, fundraising, and education. The first aspect has to do with breaking the cycle of poverty through grantmaking designed to promote economic self-sufficiency, thereby empowering the poor to create their own conditions of dignity and participation in the economic life of society. Such empowerment aims to foster greater self-esteem, self-confidence, self-reliance, and pride, as well as a sense of hope and opportunity. By funding community organizing and community development projects aimed at systemic change to benefit the poor, CCHD also tries to build solidarity among diverse groups engaged in the empowerment process. This funding goal especially comes into play, in that CCHD frequently funds projects and organizations over a period of time. As former CCHD executive director Joseph Hacala, S.J. said: "Politicians have party structures, corporations have large staffs, businesses work together on issues of common concern. Poor people can only win power and change unjust social structures when they, too, work together and build support" (Castelli, 1996: p. 23). Empowerment is reflected in CCHD's grants to projects conceptualized, planned, implemented, and monitored by low-income people. A key to the strategy of CCHD is leadership development of low-income people and their board-level participation in organizations.

The Campaign bases its educational mandate on the Catholic Church's mission to teach its social doctrine regarding concern for the poor. As Bishop Francis Mugavero, the first CCHD chairman, pointed out, CCHD responded to a "recognized need for education of the total Catholic community in terms of a more generous, sympathetic, and Christ-like attitude toward the poor and minority groups" (USCC, 1996: p. 10). Such an educational effort, he said, aims to promote solidarity between the poor and non-poor and to change attitudes about the plight of the poor among the more affluent members of society. By "transformative education," CCHD means converting the hearts and minds of Catholics to compassion and sensitivity toward those living in poverty, and educating Catholics about the root causes of poverty. It pursues this goal through publicity, published sources, seminars, workshops and retreats, internships, arts contests, and national initiatives, such as the Poverty USA awareness campaign.

WHAT CRITICS SAY

Since the beginning of CCHD in 1969, a small but vocal network of social and religious conservatives, made up of groups like the Washington, D.C.-based Capital Research Center

(CRC) and prominent individual Catholics like former U.S. Treasury Secretary William Simon, has criticized the mission and activities of CCHD. Almost every year, usually around the time of the Campaign's annual collection, these critics have attacked the Campaign in an effort to discourage Catholics from contributing. These criticisms fall into two distinct but overlapping categories: "doctrinal" objections and "political" objections.

In terms of doctrinal objections, critics have accused CCHD of funding projects that directly violate principles of Catholic teaching and of harboring a bias against what they deem the Catholic Church's traditional mission of charity. Examining CCHD grants, these critics offer what they see as clear evidence of CCHD grant funds going to support projects and organizations that promote abortion, gay and lesbian rights, the women's liberation agenda, and other issues they perceive to be at odds with Catholic moral and social norms. In some cases, they say, CCHD project funds are "fungible," in that they free up monies for funded organizations to spend on other activities at variance with Catholic teachings.

With respect to political objections, critics have argued that CCHD has departed from the traditional Catholic emphasis on direct charity as the primary means of helping the poor to a program of social, economic, and political change. Thomas Pauken (1984, as cited in USCC, 1996), director of ACTION during the Reagan Administration, distributed a 16-page unsigned draft document arguing that Catholics who give to CCHD think they are giving to direct-service charities when their contributions are actually going to "leftist political activists plotting to destroy our economic system" (p. 51). Pauken also co-authored with William T. Poole another well-known anti-CCHD report entitled The Campaign for Human Development: Christian Charity or Political Activism. The report states: "The institution of private property is the primary if unstated target of [CCHD's] efforts" (Pauken & Poole, 1988, as cited in USCC, 1996, p. 61), stressing that Catholics should contribute "to the many Catholic and other charities that work…to provide direct relief to those truly in need in our society" (Pauken & Poole, 1988, as cited in USCC, 1996, p. 61).

In addition, when former Nixon Administration Treasury Secretary William Simon sent a copy of the report to the U.S. membership of the Knights of Malta, an international Catholic humanitarian organization, he wrote that the report documents how CCHD "is a funding mechanism for radical left political action in the United States, rather than for traditional types of Catholic Charities" (sic; USCC, 1996: pp. 60-62).

CRC (2005), which published the 1988 report, describes itself this way: "Since the launch of the Great Society programs by President Johnson and Congress in the 1960s…many thousands of nonprofit advocacy groups have emerged, often promoting more government welfare programs in areas once considered the domain of families, charities, neighborhood associations, and other voluntary organizations" (About CRC, para. 2). As its website states, CRC (2005) "analyzes organizations that promote the growth of the welfare state—now almost universally recognized as a failure—and in identifying viable private alternatives to government welfare programs" (About CRC, para. 3). It also provides information on and evaluation of organizations that mix advocacy and direct action to pursue their own vision of the public interest, using their tax-exempt status and tax-deductible dollars (CRC, 2005). In its October 1989 newsletter, CRC (as cited in Conner, 1989) asserted: "Bluntly put, [CCHD] promotes not charity as many people understand the term, but a political agenda far to the left of mainstream America" (para. 6).

Others have voiced similar criticisms. Columnist Charlotte Hays (1985) once wrote: "In many cases, CHD beneficiaries are involved in activities that have only a tenuous

connection to solving the problems of poverty but quite solid ties to left-wing politics" (pp. 36, 38). The Campaign, Hays said, politicizes everything, dragging a previously unquestioned virtue—charity—into the ideological fray: "In creating the Campaign for Human Development, the American Catholic Church has tried to replace charity with social justice" (Hays, 1985: pp. 36, 38).

One can also pick up criticisms of CCHD by studying reactions to its related documents. Simon (1985) offered a critique of the U.S. bishops' 1986 pastoral letter, Economic Justice for All, which echoes the theory at work behind CCHD. While the bishops affirmed Catholic compassion for and commitment to the poor, Simon wrote, they also made a great leap from traditional Catholic social teaching. They did utilize such social teaching principles as the primacy and social nature of individuals and subsidiarity, but then veered off into "social engineering," the "politicization of the private economy," and other policies such as the transfer of wealth, advocated by the "secular socialist left" (pp. 29-31). Though the bishops' pastoral assumed free economic systems to be incompatible with Christian doctrine, and the American economic system, in particular, to be incompatible with what is morally acceptable, Simon charged that free economic systems are the best way to give the poor the opportunity to work, invest, prosper, and become rich.

Commenting on CCHD's publication entitled Poverty in American Democracy, Catholic political economist Michael Novak (1975) wrote that the report was "good and useful" (p. 168) but also "represents a fashionable left-wing 'study of social power'" (p. 188) and was out of touch with rank-and-file Catholics. Being out of touch with the sensibilities of the bulk of the Catholic public also touches on another charge critics make, that support among the bishops has eroded over the years, even leading to the absence of an annual CCHD collection in some dioceses.

Critics of CCHD have extended their accusations of the Campaign going beyond the traditional virtue of charity and selling out to left-wing socioeconomic strategies by pointing out its links to community organizing. In his article in the conservative Catholic periodical The Wanderer, Conner (1989) argued that by funding the Industrial Areas Foundation, ACORN, the Youth Project, and Citizen Action groups, CCHD was associating itself with "community-organizing projects in the Saul Alinsky radical-left tradition" (para. 10) and "political pressure groups, many of whose leaders have radical ties" (para. 18). Quoting the CRC newsletter, the article asserts:

> The extent of this support includes radical groups engaged in "community organizing, legal   action, homosexual rights, radical environmentalism, organizer training, the evils of corporate America [sic], American policy in the Caribbean and Central America [sic], anti-defense   campaigns in the name of "peace," or any other issue or campaign ripe for exploitation. No element of the present-day activist left is denied" (CRC, 1989, as cited in Conner, 1989: para. 16).

The article continues:

> The overriding consideration, however, that touches at the center of this entire operation…is the flagrant and obvious disregard of…the trust Catholic laity implicitly hold that offerings obtained for a specific purpose are to be used only for that purpose. Catholics should demand from their bishop a public explanation of why the money they have given to [CCHD] has been

spent to advance the agenda of atheistic social revolutionaries (Conner, 1989: para. 29).

CCHD'S RESPONSE

In response to this 30-year career of criticism, individual bishops, the conference of bishops, and local and national CCHD officials have directly rebutted specific charges. For example, in 1998, then-CCHD Chairman Bishop Ricardo Ramirez distributed For the Record…The Truth about CCHD Funding, a series of single-sheet handouts in which the leadership of CCHD responded to specific charges made against the Campaign. As part of the strategies employed by CCHD, each sheet stated an allegation and countered it with an explanatory fact. For example, CCHD argued that critics were simply wrong in charging CCHD-funded organizations to be in support of pro-abortion entities.

In the handouts, CCHD also restated its policies of strict financial controls of funded projects, quarterly reporting and on-site visits, and the discontinuation of funding if projects would deviate from initial objectives into areas inconsistent with Catholic moral teaching.

Addressing alleged erosion of support for CCHD among the bishops, Bishop Joseph Fiorenza of Galveston-Houston (1990), who was then the head of the bishops' CCHD Committee, stated in an interview:

> There is no division I know of among the bishops with regard to the Campaign. They are fully behind it. That is not to say, of course, that all the projects funded by the Campaign within a given diocese are equally pleasing to the bishop, but every CHD grant must receive the prior approval of the bishop before it is funded" (pp. 75-76).

As for CCHD-funded projects that may have violated Catholic teaching, Fiorenza (1990) continued:

> Considering all the thousands of projects that have been funded down the years, I cannot suppose they were all completely immune from criticism. Instead of looking at a few that might have been controversial, however, the critics ought to look rather at the massive good that has been done by the Campaign. And that is just what rank and file Catholics have done. They support it" (pp. 75-76).

In the same magazine containing Fiorenza's interview, Thomas H. Stahl (1990) took on the issue of the "politicization" of CCHD:

> It is not so much that the Campaign is political (the old charge) as that its traditionally conservative critics insist on seeing it negatively through the optic of their own politics. These are the same people who criticized John XXIII for Mater et Magistra (Christianity and Social Progress) and who criticize John Paul II for Sollicitudo Rei Socialis (On Social Concern; p. 76).

Eighteen years earlier, Stahl (1972) had also analyzed the distinction between charity and systems change. CCHD, he wrote, is not a "dole," in that "the emphasis in its works of mercy is on projects that show promise of promoting change and development among

communities of the poor—that which is most merciful, most human, and most Christian" (p. 413).

CCHD makes it a point not to be a charity program, an area covered by other Catholic agencies like Catholic Charities and Catholic Relief Services. Former CCHD Chairman Bishop James H. Garland wrote:

> There is a strong aura of suspicion about supporting community organizations devoted to social change. Many parishioners do not believe the church should be involved in the activities promoted by [CCHD]. Among many Catholics, and others as well, there is evidently an ingrained attitude about the priority of charity, i.e., the works of mercy, to the virtual exclusion of the pursuit of justice. In fairness to those who espouse what may be called "the preference for the works of mercy," it must be said that this traditional view of the church's mission has the strength of centuries of church teaching for its support…[But] the distinction between doing something for the poor or with the poor is fundamentally different (italics theirs; CCHD, 1996: pp. 124-125).

Moreover, CCHD makes no secret of its commitment to community organizing and economic development models. Lawrence J. Engel (1988) traces the influence of Saul Alinsky on what was then known as the Campaign for Human Development. Alinsky's Back of the Yards Council, founded in 1939, typified early community organizing. This "new type of organizing" was "focused on institutional power, in which the capacity of the poor to act was built through their leadership in neighborhood institutions" (Engel, 1988, p. 643). Alinsky (1941) once wrote: "Two basic social forces…serve as the cornerstone…to effect constructive changes in the Back of the Yards neighborhood…first, the Catholic Church, and second, organized labor" (p. 799).

As such, Engel (1988) asserted:

> The one social theory that connected organized groups of white and minority poor with power was Alinsky's. As [the activist priest Father P. David] Finks said…: "I was convinced that Alinsky's approach was the best there was. I didn't see anything else on the horizon" (p. 658).

In another move in 1999, the bishops altered the CCHD's moral guidelines for funding. The original guidelines, implemented in 1972, stated the following principles: Projects funded by the Campaign must conform to Catholic teaching; organizations must use allocated funds exclusively for the funded projects; and the primary mission and activities of organizations receiving CCHD funds must conform with Catholic teaching. In a significant qualification, the 1972 guidelines also said: "an organization's incidental programs may not conform to Catholic teaching (italics theirs); in other words, an organization may be involved with projects and programs that may not conform as long as those projects are incidental to the organization's mission" (CCHD, 1996: p. 135).

The 1999 guidelines restated the first three principles, but also contained some modifications. First, they underscored the centrality of the sanctity of human life from conception to natural death. Therefore, CCHD "will consider favorably only those projects which demonstrate respect for the dignity of the human person…[and] will not consider projects or organizations which promote or support abortion, euthanasia, the death penalty, or any

other affront to human life and dignity" (USCC, personal communication, March 23, 1999). Also new were guidelines mandating consultation with the local bishop in funding decisions and requiring applicants to adhere in the management of their funded projects to the basic principles of CCHD's mission.

The guidelines of 1999 also addressed the "incidental program" caveat of 1972. A footnote to the new guidelines stated: "CCHD may be asked to support a specific project of an organization that also incidentally participates in other activities or coalitions whose own activities may not always conform to Catholic teaching" (USCC, personal communication, March 23, 1999).

In these cases, "funding decisions will be made in accord with the traditional Catholic moral principles governing cooperation" (USCC, personal communication, March 23, 1999). These latter principles, the footnote indicates, refers to "cooperation, which in all other respects is morally appropriate," but "which may be refused because of the scandal that would be caused in the circumstances" (USCC, personal communication, March 23, 1999). An example of scandal would be cooperation that would generate confusion about Catholic moral teaching.

CATHOLIC SOCIAL TEACHING

Observers have seen the Campaign as Catholic social teaching in action. The late Cardinal Joseph Bernardin, a key figure in the early history of CCHD, called the Campaign "the living embodiment of Catholic social teaching" (USCC, 1996: p. xiv). Since Pope Leo XIII's 1891 encyclical Rerum Novarum (On the Condition of Labor), which is considered the charter document of modern Catholic social teaching, certain social principles have been part and parcel of moral teaching, especially the principle of social development and attention to policy. Simply put, Catholic social teaching is what the church favors in society. Its basic principles can be summarized as follows: 1) human dignity and rights; 2) respect for human life from conception to natural death; 3) association—in families, social institutions, and international structures; 4) participation; 5) preferential protection for the poor and vulnerable; 6) solidarity; 7) stewardship; 8) subsidiarity in decision-making; 9) human equality; and 10) rights and responsibilities (See Appendix A for a more detailed exposition of these principles).

Catholic social teaching has its roots in the church's biblical tradition—that is, the prophetic tradition of denouncing injustice and announcing God's justice, and the life and teachings of Jesus Christ. The church also has a tradition of reaching out to those least well-off. Catholic social teaching has developed through papal encyclicals and other official teachings of the church, the thought and writing of moral theologians and Christian ethicists, and the living out of social doctrine in the lives of Catholics.

Modern social teaching underwent significant development in the 1960s. The Second Vatican Council, the reforming council that changed the church in so many ways, generated several fresh ideas that had an impact on Catholic social teaching and on organizations such as CCHD. In a general sense, Vatican II embraced the concerns of the world as the church's concerns. "The joys and the hopes, the griefs and the anxieties of the men [sic] of this age," says the beginning of the Council's Pastoral Constitution on the Modern World, "especially those who are poor or in any way afflicted, these too are the joys and hopes, the griefs and anxieties of the followers of Christ" (Gaudium et spes [Pastoral Constitution on the Church in the Modern World], no. 1, as cited in Abbott, ed., 1966: pp. 199-200). Vatican II also

placed a greater emphasis on national bishops' conferences, collegiality in church governance, and the hierarchy's sharing of responsibility with the laity. The 1960s also saw great social turbulence and an awareness of the pervasive presence of poverty, especially in the U.S.

Within the church's social doctrines, a key shift occurred. Without abandoning Catholicism's traditional practice of charity—that is, direct support of the poor and vulnerable—the church recognized the importance of social development and attention to policy. In the papal encyclical Mater et Magistra (Christianity and Social Progress), the late Pope John XXIII (1961) wrote: "A suitable economic and social policy…should be a policy designed to promote useful employment, enterprising initiative, and the exploitation of local resources" (Mater et magistra [Christianity and Social Progress], no. 150, as cited in The Holy See, 2005, John XXIII Encyclicals, Toward a Balanced Internal Economy, para. 2).

Speaking early in his papacy, the late Pope John Paul II (as cited in USCC, 1996) asserted that the poor have a right to more than "charity or crumbs…They have the right to develop their human dignity" (p. xi). While commending Catholics for their charitable works, he pointed out:

> This is not enough. In cooperation with other citizens, you will also want to seek out the structural reasons which cause the poverty in the world and in your country, so you can apply the proper remedies…Do not recoil before the reforms—even profound ones—of attitudes and structures that are necessary to create over and over again the conditions needed by the disadvantaged if they are to have a fresh chance in the hard struggles of life (Pope John Paul II, as cited in United States Conference of Catholic Bishops, 2005, CCHD, Preferential Option for the Poor, para. 33).

On another occasion, Pope John Paul II (as cited in USCC, 1996) asserted:

> [The poor] have the right to develop their human dignity…It is necessary for them to do everything that is lawful to assure themselves whatever is necessary for their lives…You have the right to be the prime authors of your human development. You must struggle for life; do everything to improve the conditions in which you live…Organize associations for the defense of your rights and the realization of your own goals (pp. xi-xii).

In short, as James R. Jennings (as cited in USCC, 1996) observed, the 100-year history of modern Catholic social teaching "is one of an evolution from paternalism toward the poor to empowerment of the poor" (p. x).

Bishop Michael Dempsey (as cited in USCC, 1996), the first national director of the Campaign, was even more blunt: "If we settle for the money [charitable dollars], we'll never change Catholic attitudes, and never get people to take the poor seriously" (p. 18).

CCHD GOVERNANCE

A permanent United States Conference of Catholic Bishops (USCCB) committee, comprised of eight bishops and four lay or religious consultants, has overall responsibility for the activities of CCHD. The bishops elect an episcopal chairman, who serves a three-year term. Bishop George V. Murry, S.J., of St. Thomas, U.S. Virgin Islands, was the CCHD chairman

at the time of this writing. The president of the USCCB appoints the other committee members, in consultation with the chairman. Committee responsibilities include setting policy and making final funding decisions. The CCHD committee, in consultation with local bishops, appoints an advisory committee of lay and religious members. The group provides direction on the major program agenda of CCHD—that is, grants, economic development, and education. The advisory committee reviews and evaluates applications for funding. With the assistance of diocesan and national staffs and committees, the advisory committee recommends the most qualified projects to the USCC-CCHD committee for final funding decisions. The national CCHD staff manages the day-to-day operations of the organization's programs and activities, including allocations, education, and promotion. An executive director provides overall leadership and direction to the staff and organization and serves the national committees.

Some differences exist between the structure and operations of CCHD in the approximately 180 dioceses and archdioceses in the United States. In most cases, though, diocesan bishops appoint directors to manage the full range of the activities of CCHD at the local level. These responsibilities include reviewing and evaluating national and local funding applications, monitoring funded programs, supporting seedling organizations, providing educational resources, and promoting the diocesan fundraising campaign to support the annual collection.

For some time, the role of the Chicago archdiocesan director, Elena Segura, has included creating a community of CCHD stakeholders and building ongoing relationships between funded groups and the church by recruiting community members and representatives of funded organizations to speak at parishes, thereby supporting both the fundraising and educational aspects of the mission of CCHD In some cases, at least in Chicago, collaboration between the local CCHD and funded organizations has continued even after CCHD funding has ceased. Another emphasis has been professionalization. Directors have looked for committee members who are committed to Catholic
social teaching, participate in peace and justice activities at the parish level, and have knowledge and/or experience with both community organizing or economic development and grant proposal review and evaluation.

As mentioned earlier, the disbursement of funds is such that all monies donated to CCHD go to the national office in Washington, D.C. A significant amount of national funds often return to Chicago.

CCHD FUNDING CYCLE

CCHD is supported solely by private donations. While it accepts contributions year-round, the program depends for the bulk of its funding on Catholic parishioners who contribute to the annual parish appeal, the annual CCHD collection, scheduled in most dioceses for the Sunday before Thanksgiving.

According to CCHD annual reports, funding guidelines, and grant applications, funded projects need to be conceptualized, planned, implemented, and monitored by poor or low-income people. In order to be eligible for a CCHD grant, a project must meet the following criteria: 1) Members of the poverty group to be served by the project must have the dominant voice in the project; and 2) At least 50% of those who plan, implement, and make policy should be persons who are involuntarily poor.

Other criteria include the following:

- Does a large group of people benefit from the project, and are the majority of those people low-income?
- Does the project work to bring about institutional or systemic change?
- Does the project seek to build solidarity across diverse groups of people, crossing racial, ethnic, or income levels?
- Does the project respect the teachings of the Catholic Church?

In addition, for an organization to be eligible for funding, it must demonstrate that the new project endeavors to address activities which are distinctly different than those funded previously by CCHD. CCHD only considers proposals requesting grants of $20,000 or less. Amounts granted may differ from amounts requested, and national CCHD grants range from $10,000 to $100,000, with the average grant in the $35,000 to $45,000 range. Organizations need to state how they define poverty for their community.

CCHD defines institutional change as the modification of existing laws and/or policies and the establishment of alternative structures and/or redistribution of decision-making powers. Meanwhile, the organization's definition of institution refers to policies and operational structures of government, corporations, or private agencies that create poverty, keep people poor, or impose injustices on poor people. Projects should directly benefit a relatively large number of people, rather than a few individuals, and should generate cooperation and solidarity among and within diverse groups in the interest of a more integrated and mutually understanding society. They should also document that, as a result of CCHD funding, there are possibilities of generating funds from other sources or of moving towards becoming self-supporting within the timelines established in the proposal. CCHD does not fund direct service projects, projects controlled by government, educational or ecclesiastical bodies, research projects and studies, projects sponsored by organizations that receive substantial sums from other funding agencies, projects engaged in partisan political activities, or projects sponsored by organizations whose major focus is in partisan political activity.

In the Archdiocese of Chicago, pre-applications and applications go through a screening process, and are then assigned to a local allocations committee. This committee is divided into three-person teams, each of which takes on three applications. After conducting a site visit, these teams make recommendations to the whole committee which, in turn, recommends projects for funding to the diocesan director. Finally, the director brings these recommendations to the archbishop for discussion. The archbishop then makes final decisions about which projects to fund. Organizations can apply for up to three consecutive years of funding for the same project.

Funded organizations submit semi-annual and annual reports to the diocesan director, who is primarily responsible for evaluating whether the organization is fulfilling the terms of the grant. The director also conducts site visits to funded organizations and makes it a point to be included in the organizations' public communications, such as mailing lists. In addition, Segura, as the Chicago director, visits with parish pastors on a regular basis, thus helping to increase parish participation in the Campaign and to recruit committee volunteers.

Besides the allocations committee, the Chicago CCHD utilizes a promotions committee, which provides assistance in implementing fundraising and media strategies to increase the annual collection and create awareness of the work of CCHD in the archdiocese. The promotions committee also aids an education committee, which works to develop the faith

commitment of Catholics to be in solidarity with the poor through justice education. Each committee member is encouraged to participate in the fall promotional season.

The criterion of conformity with Catholic social teaching is given attention throughout the grant process, from pre-application through initial screening, evaluation by the allocations committee and diocesan director, and final approval by the bishop. Segura points out that significant numbers of faith-based funded organizations increase the likelihood that projects will conform to Catholic teaching, given the shared mission and values of funded organizations and the CCHD.

Bill Purcell, who was at the time of this writing the director of the Archdiocese of Chicago's Office for Peace and Justice, where the local CCHD is located, attributes the Campaign's effectiveness to the commitment of the bishop, a good staff, a mission-driven orientation, and year-round educational efforts, which include "Catholic Social Teaching 101" sessions in parishes. He also sees the educational efforts of CCHD as an outreach tool, a way for Catholics to deepen their commitment to their faith.

CONCLUSION

Based on the available evidence, it is doubtful that the criticism of the Campaign described in this case has ever had a significant impact on the amount the Campaign raises each year. The annual collection is much more vulnerable to downturns in the economy, church scandals, and competition for the Catholic public's "donate-able" dollar. The criticisms of the Campaign, however, have compelled CCHD to respond.

Each year, CCHD strives to make grants to projects that address the root causes of poverty through the empowerment of community-based efforts aimed at changing economic, social, and political conditions. To support its work, it must also raise funds from the Catholic public and conduct effective educational and publicity programs. In general, CCHD regards these three aspects of its mission as interrelated.

CCHD has faced criticism over the years, such as the charges that its efforts violate Catholic moral norms, depart from the traditional Catholic approaches to social needs, and introduce a left-wing agenda into the church's mission. These criticisms have the potential to drive a wedge between CCHD and its sources of support. In response, CCHD has attempted to rebut particular charges and refocus its moral guidelines for funding. It has also advanced a renewed sense of the Catholic social teaching, on which its mission is based. Finally, through its national and local committee structures, the bishops' oversight, the leadership of the diocesan director, funding guidelines, grant approval process, and evaluation of funded projects, CCHD has sought to use its governance to insure that all aspects of its activities conform to its mission. The question, then, is: How does CCHD make decisions—coordinating its mission, governance, application of Catholic social teaching, and administration of its funding cycle—in order to pursue its work and answer its critics?

ASSIGNMENT QUESTIONS

- What are the constraints under which CCHD makes its grants? How does it work within these constraints?
- How are the mission and values of CCHD reflected in its grantmaking? In its educational

efforts? How do the grantmaking and educational efforts of CCHD respond to the charges of its critics?

- How are the principles of Catholic social teaching reflected in the work of CCHD?
- How do the decision-making and procedures of CCHD address the issues of its mission and conformity with Catholic teaching? and
- In the context of the activities of CCHD, what are the main differences between direct charity and social change philanthropy? In the end, are the two working for similar purposes?

Optional Exercise: Review the following "Sample Proposal" and prepare a recommendation on whether it should be funded by CCHD. Provide a rationale for your recommendation.

SAMPLE GRANT PROPOSAL

Catholic Campaign for Human Development Case Study in Philanthropy

Applicant Organization

An urban community organizing entity has applied for a Catholic Campaign for Human Development grant to fund a project addressing housing issues. The mission of the organization is to advance the interests of low- and moderate-income people, especially the needs of the low-income African American community in the areas of community safety, predatory mortgage lending,* community development, immigrant rights, health care, living wages, and education.

For some years this organization has been organizing low- and moderate-income families into neighborhood groups work to build power, address systemic barriers to fairness in public policy concerning their communities, participate in shaping that public policy, and hold public and corporate officials accountable for their actions. An individual membership organization, this entity recruits its dues-paying members through organizers and other members who utilize community outreach, meetings, direct action, and campaigns.

Once a year the organization's neighborhood chapters elect officers. The chair of each local group becomes the group's representative on the citywide board which consists of a majority of members below poverty level. The local chapter operating the project to be funded also has a majority of its members living below the poverty level.

In the area of leadership development, the organization provides quarterly leadership training sessions, a leadership development program, an annual national leadership conference, a national convention, and a national leadership school. The organization also has an affirmative action program for hiring staff, and more than half of its current staff are people of color.

The organization is the local affiliate of a national umbrella association. Since the early 1990s, the national group has been part of a coalition that provides services to urban communities such as medical clinics which counsel people about family planning options like artificial birth control and abortion. No such clinics as yet exist in the local organization's city, but the organization has publicly supported the proposed development of a family planning clinic.

PROJECT TO BE FUNDED

The project to be funded seeks a grant of $20,000 to create a consistent, well-informed, and forceful area-wide organization of community residents to address the loss of affordable, decent housing and the need for long-overdue investment in the community.

The community's affordable housing stock is disappearing. Once a community of working-class families, single-family homes, and small to medium-sized apartment buildings, over the years it has fallen prey to failed redevelopment policies, drug trafficking, gang warfare, fires, and economic downturns. Land clearance for developments that never materialized and demolition of abandoned properties have left large tracts of empty lots and one of the highest vacancy and abandonment rates in the city in which it finds itself.

For all of its problems, the community retains small pockets of well-kept blocks struggling to keep the encroaching blight at bay. Generations of property owners have worked to protect their investments, but property values continue to fall. New buyers moving into the area are rarely able to manage their high-risk, high-interest rate mortgages. These properties quickly fall into disrepair, and the cycle continues, with more viable housing lost. Of the area's long-time homeowners and resident landlords, many are elderly and on fixed incomes, often raising grandchildren or making room for whole families who have lost public housing and welfare benefits.

Through the organizing project for which it is seeking funding, the organization aims to win a $5 million increase in home repair subsidy programs for low-income homeowners through more funding for a city emergency housing assistance program, suggesting that the city's planning department implement a multi-hundred-thousand dollar community fund for home repair, and adjusting the boundaries for that program so that more community homeowners are included.

The organizing project also hopes to change local tax increment financing plans** to include home repair loans and grants to low- and moderate-income homeowners. In addition, it seeks to decrease the amount of predatory lending in the community and replace it with conventional lending.

In the area of predatory lending, the organizing project will inform households about the danger of predatory lending and the alternatives available to them; provide workshops for potential victims of predatory lenders; close loans for 30 borrowers with conventional, non-predatory lenders; and target one major lender to stop its predatory practices.

The project will also use improved technology systems and increased membership dues to construct a new database that will improve communication and membership recruitment and formally train 100 community leaders.

The long-range goals of the organizing project are to win policy changes at the city's planning department in order to assure regular input from the community on neighborhood planning issues and increased home repair and rehab spending designated to preserve housing in the community. Another goal of the project is the development of organizational capacity to increase communication, leadership, fundraising, and overall efficiency.

Predatory lending: A practice in which a finance company contracts with homeowners for a refinanced mortgage or home equity loan, only to charge a higher than promised interest rate and unexpected fees, resulting in high payments and sometimes foreclosures and resale of the home by the lender.

**Tax increment financing: Tax Increment Financing (TIF) is a way municipalities pay for improvements to vacant and underused land. By returning formerly vacant properties to the tax rolls, municipalities create new sources of revenue within the TIF district, generating the funds needed to make necessary improvements without raising taxes.*

APPENDIX A: PRINCIPLES OF CATHOLIC SOCIAL TEACHING

While somewhat different formulations of the principles of Catholic social teaching exist, the following 10 principles represent a consensus view:

Human Dignity and Rights. All people are sacred, made in the image and likeness of God. Every person—regardless of race, sex, age, national origin, religion, sexual orientation, employment or economic status, health, intelligence, achievement, or any other differentiating characteristic—is worthy of respect. It is not what you do or what you have that gives you a claim on respect. It is simply your humanity that establishes your dignity, given the emphasis on people over things, and "being" over "having." Given that dignity, the human person is, in the Catholic view, never a means, always an end. The principle of human dignity gives the human person a claim on membership in a community and the human family. Society should be organized for the benefit of the human person. Society should also promote the spiritual good of persons and protect the role of belief.

Respect for Human Life. Human life at every stage of development and decline is precious and therefore worthy of protection and respect. It is always wrong to directly attack innocent human life.

Association. The centerpiece of society is the family; family stability must always be protected and never undermined. By association with others—in families and in other social institutions that foster growth, protect dignity, and promote the common good—human persons achieve their fulfillment. The human person is both sacred and social. We realize our dignity and rights in relationship with others, in community. Today, in an age of global interdependence, the principle of the common good points to the need for international structures that can promote the just development of the human family across regional and national lines. What constitutes the common good is always going to be a matter for debate, but a proper communitarian concern is the antidote to unbridled individualism which, like unrestrained selfishness in personal relations, can destroy balance, harmony, and peace within and among groups, neighborhoods, regions, and nations.

Participation. Without participation, the benefits available to an individual through any social institution cannot be realized. The human person has a right not to be shut out from participating in those institutions that are necessary for human fulfillment. This principle applies in a special way to conditions associated with work. People have a right to decent and productive work, fair wages, private property, economic initiative, and the freedom to organize. The economy exists to serve people, not the other way around.

Preferential Protection for the Poor and Vulnerable. The moral test of a society is how it treats its most vulnerable members. The poor have the most urgent moral claim on the conscience of any community. Catholics are called to look at public-policy decisions in terms of how they affect the poor. If the good of all, the common good, is to prevail, preferential protection must move toward those affected adversely by the absence of power and the presence of privation. Otherwise, the balance needed to keep society in one piece will be broken, to the detriment of the whole.

Solidarity. All people belong to one human family. We are interdependent. Our responsibilities to each other cross national, racial, economic, and ideological differences.

Catholics are called to work globally for justice. The principle of solidarity functions as a moral category that leads to choices that will promote and protect the common good.

Stewardship. The steward is a manager, not an owner. In an era of rising consciousness about our physical environment, Catholic tradition is calling us to a sense of moral responsibility for the protection of the environment: croplands, grasslands, woodlands, air, water, minerals, and other natural deposits. Stewardship responsibilities also look toward our use of our personal talents, our attention to personal health, and our use of personal property.

Subsidiarity. Decision-making should happen closest to the people affected and should use the smallest effective groups. The principle of subsidiarity puts a proper limit on government by insisting that no higher level of organization should perform any function that can be handled efficiently and effectively at a lower level of organization by human persons who, individually or in groups, are closer to the problems and closer to the ground. Oppressive governments are always in violation of the principle of subsidiarity; overactive governments frequently violate this principle.

Human Equality. Treating equals equitably is one way of defining justice, understood classically as rendering to each person his or her due. Underlying the notion of equality is the simple principle of fairness; one of the earliest ethical stirrings felt in the developing human person is a sense of what is "fair" and what is not.

Rights and Responsibilities. People have a fundamental right to life, food, shelter, health care, education, and employment. All people have a right to participate equally in the decisions that affect their lives. We are called to be positively involved in economic development. Corresponding to these rights are duties and responsibilities to respect the rights of others and to work for the common good. Rights and responsibilities apply especially to the use of personal property for the benefit of those who have the least.

APPENDIX B: STRATEGIC ISSUES

In 1988, the U.S. bishops recommended a number of strategic directions for CCHD, namely: 1) emphasize Catholic identity; 2) expand grantmaking; 3) use economic development as more effective means of empowering the poor; 4) continue to educate the Catholic community; 5) relate more significantly to dioceses; and 6) expand financial resources.

At the time of the Campaign's 30th anniversary in 2000, the bishops commissioned a strategic pastoral assessment and planning process, the final report of which was available in November 2001. It identified four strategic directions to guide the Campaign in the following five years: 1) strengthen CCHD's relationships with dioceses and parishes; 2) simplify CCHD's grantmaking process; 3) increase CCHD's communications and resource development activities; and 4) reaffirm and intensify CCHD's educational activities. This process conducted surveys and research with CCHD stakeholders: bishops, pastors, parishioners, diocesan directors, CCHD-funded and -declined groups, advisory committee members, and national staff.

About 59% of the bishops responded to the survey. Of this, one-third expressed concern that some funded groups were engaged in activities that were in conflict with church teaching. However, the survey results showed that the bishops were also overwhelmingly supportive of the CCHD mandate. Also emerging from the findings were the opinions that CCHD's educational mission does not seem to be as well-known or recognized as its grantmaking, and that relationships between funded groups and parishes/dioceses are perceived to be in need of strengthening. In addition, CCHD grant recipients who participated in CCHD promotions found speaking in Catholic parishes to be most helpful for their projects.

Another key finding was that since 1987, support has generally increased for the CCHD grant funding criteria, remained unchanged for the guidelines, and decreased for the restrictions. The greatest decline in support is for the restriction on funding research projects, surveys, and planning and feasibility studies. The highest support, nearly unanimous, was expressed for the criterion that at least 50% of a project's beneficiaries must be low-income. The lowest support was expressed for the restriction that projects already in existence for several years with funds from other sources would not be funded.

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[5] For a list of general works on Roman Catholic social teaching, visit the website of the Office for Social Justice, Archdiocese of St. Paul and Minneapolis at http://www.osjspm.org/cst. Click on the "Reading List" link.

ABOUT THE AUTHOR

Joel Schorn is managing editor of TrueQuest Communications in Chicago. He has worked in both nonprofit and for-profit religious publishing for 15 years. He has a Certificate of Advanced Study in Philanthropy from Loyola University Chicago. With Alice Camille he is the coauthor of A Faith Interrupted: An Honest Conversation with Alienated Catholics (Loyola Press).

Catholic Campaign for Human Development Faith-Based Grantmaking:
The Challenge of Funding Non-Faith Based Organizations Whose Work Does Not Undermine Official Teachings of the Roman Catholic Church

A Teaching Note
Joel R. Schorn

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

The Catholic Campaign for Human Development (CCHD) is one of the largest funders of grassroots community organizing in the United States. The grantmaking work of CCHD, however, has received criticism and opposition from conservative elements in the Catholic Church because of the perception that CCHD supports projects and organizations whose activities may be in conflict with Catholic teaching. One of its major challenges is to manage its governance in order to make effective grants in accordance with its mission and values, and ensure that it funds organizations whose projects do not go against official Catholic moral teaching.

CCHD began as the official initiative of the Catholic bishops in the United States, supported by the American Catholic public, to respond to the root causes of poverty and the social unrest around poverty, and to educate and form Catholics in their responsibilities to the poor. This response was made possible by modern developments in Catholic social teaching and the climate the Second Vatican Council created in the church, in which the church embraced the world's social concerns in a new way, and in which national conferences of bishops became more active and open to sharing responsibility with the laity.

Since the beginning of the Catholic Campaign for Human Development in 1969, a small but vocal network of social and religious conservatives has criticized the mission and activities of CCHD. Almost every year, frequently around the time of the Campaign's annual collection, these critics have attacked the Campaign in an effort to discourage the Catholic public from contributing. Their criticisms fall into two distinct but overlapping categories: "doctrinal" objections and "political" objections.

In terms of doctrinal objections, critics have accused CCHD of funding projects that directly violate principles of Catholic teaching. With respect to political objections, critics argue that CCHD has departed from the traditional Catholic emphasis on direct charity as the means of helping the poor to a program of social, economic, and political change.

The response of CCHD has been on two levels. First, CCHD has issued fact sheets and public statements denying the charges, citing what it believes to be the factual inaccuracy of the claims and pointing out its own controls. On another level, the response of CCHD has simply been to continue to pursue its mission and follow its procedures, policies, and practices.

TEACHING OBJECTIVES

This case provides information pertaining to nonprofit governance. It describes the opportunities and constraints a faith-based grantmaker faces in trying to do a particular kind of social-change philanthropy, while remaining consistent with its own principles. As such, this case has the following three teaching objectives:

The first teaching objective will be to explore how the governance of the Catholic Campaign for Human Development is reflected in its mission and values, and in the assumptions behind the criticisms of CCHD.

This case illustrates the importance of "mission match"—that is, between Catholic teaching and the mission of CCHD, and between the mission and guidelines of CCHD and the mission and activities of funded organizations and projects. CCHD leaders believe this latter

fit contributes in a significant way to the likelihood and willingness on the part of funded projects to conform to CCHD guidelines.

Yet, the relationship between CCHD and Catholic teaching also marks the fault line along which CCHD and its critics divide. The critics of CCHD have a problem with the organization, in that they think that some funded activities contradict Catholic teachings, and that CCHD lacks support among the bishops who mandate its existence and conceal from the Catholic public where their donations are going. But critics also have a problem with the modern social teaching CCHD embodies, teaching that has enabled CCHD to go beyond the hallowed tradition of direct charity and into the realm of community organizing, grassroots political action, and empowering the poor. Such a move, the critics believe, demonstrates the sellout of Catholic teaching and tradition on the part of CCHD, in favor of a radical left-wing agenda.

This case offers an opportunity to explore readers' assumptions about the relationships between charity, justice, and social change. In addition, the response of CCHD to its critics reflects the complexity of the influence of "politics" and "religion" on one another. In a sense, each side accuses the other of "politicization," and politics has effects both on and within the church's efforts as regards CCHD.

Besides the efforts of CCHD at counter-information and its controls over its grantmaking, this case also shows a strategic use of education. The CCHD practice of "transformative education" supports fundraising by trying to help Catholics become more compassionate givers and by showing them transparently where their money is going, thus trumping the critics' charges.

The second objective will be to explore how certain aspects of the governance of CCHD, namely, professionalization and leadership development, stewardship, and accountability—relate to the nonprofit sector as a whole.

CCHD leadership wants staff and volunteers who will perform at a professional level and thus enhance the overall performance of the Campaign. Through its grants, CCHD tries to promote leadership development by requiring the participation of poor people at the decision-making level of projects. CCHD has also emphasized stewardship, not only as a value promoted to donors, but also in connection with its own resources. Such internal stewardship figures in the self-study of CCHD as a key to its effectiveness and credibility in the eyes of those stakeholders on whom it depends for its existence, namely, the U.S. bishops and the American Catholic public. In terms of accountability, CCHD is forth coming with information about itself because it seems to recognize that its credibility, and thus its survival, rely in large measure on such openness.

The third objective will be to explore how the activities of CCHD relate to social-change philanthropy in the service of communities of color and other underserved communities. CCHD-funded projects must be conceptualized, planned, implemented, and monitored by poor or low-income people. They must benefit a large group of people, the majority of whom are low-income. They must also work to bring about institutional or systemic change. Finally, they must seek to build solidarity across diverse groups of people, crossing racial, ethnic, or income lines. Through its community organizing, economic development, and other grants, CCHD also seeks to make an impact on equity issues.

PREREQUISITES

This case is intended for nonprofit professionals, whether they are students in a philanthropy and nonprofit management program, practitioners, or both. The case will be especially useful to students and practitioners who work in a Roman Catholic setting—in a Catholic university where the core values of the institution are to be reflected in courses and curricula; for church-affiliated grantmakers which have to integrate grantmaking with official teachings and values; and for grantees who receive funds from official Catholic grantmakers.

ASSIGNMENT QUESTIONS

This case makes use of a sample grant proposal that students can use to work through the issues that the case raises (see attached).

To prepare for case discussion, students might be asked to address the following questions when reading the case and preparing for class:

- What are the constraints under which CCHD makes its grants? How does it work within these constraints?

- How are the mission and values of CCHD reflected in its grantmaking? In its educational efforts?

- How do the grantmaking and educational efforts of CCHD respond to the charges of its critics?

- How are the principles of Catholic social teaching reflected in the work of CCHD?

- How do the decision-making and procedures of CCHD address the issues of its mission and conformity with Catholic teaching?

- In the context of the activities of CCHD, what are the main differences between direct charity and social change philanthropy? In the end, are the two working for similar purposes?

As an optional exercise, the students can develop their own recommendations on whether CCHD should fund the organization in question. The students can engage in a discussion of their recommendations in class.

Funding Intermediaries as a Strategy for Local Grantmaking: The John D. and Catherine T. MacArthur Foundation & the Local Initiatives Support Corporations (LISC) Chicago

A Teaching Case
Joseph K. Hoereth

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

INTRODUCTION

Between 1980 and 2000, philanthropy in the United States enjoyed its greatest period of growth, doubling in numbers of entities and growing total assets exponentially. In the eight year span of 1996 to 2004, the total number of private foundations nearly doubled, growing to over 100,000 entities that held just short of $400 billion in total assets (National Center for Charitable Statistics 2006). This growth came with a new interest by foundations in improving the effectiveness and efficiency of their grantmaking activities.

Philanthropies have engaged in a number of different strategies to improve their effectiveness, including conducting evaluations, focusing on and rewarding measurable outcomes and organizational performance, and restructuring their grantmaking activities. Among philanthropies that support community development activities that aim to economically revitalize communities and reduce poverty, one strategy used by foundations for improving efficiency and effectiveness has been to support intermediaries that specialize in funding a particular type of organization or activity. This case study focuses on the experience of one foundation, the John D. and Catharine T. MacArthur Foundation, in its effort to improve grantmaking effectiveness and the impact of its support on some of the most distressed neighborhoods in Chicago through the special funding of Local Initiatives Support Corporation (LISC) Chicago, a community development intermediary.

 This case offers an example of a strategy taken by a large foundation to improve its efficiency by shifting its community development grantmaking from a 'retail' system to a 'wholesale' program. The new program, the New Communities Program (NCP), is managed by LISC Chicago which distributes funds from the MacArthur Foundation and other funders to community-building activities at the neighborhood level consistent with comprehensive plans created by residents in those neighborhoods.

This descriptive case study examines MacArthur, LISC, the NCP structure, and the progress of the program to date. The primary sources used in the study are interviews with staff of the foundation, intermediary, and grantee organizations, as well as program-related documents, newsletters, and other documents. Although the program described in this case is currently in the middle of its life cycle, the case strives to draw lessons from its first five years. The case unearths several important questions for students of philanthropy to consider. How might intermediaries help foundations be more effective? What sorts of challenges do intermediaries face that do not exist in a direct foundation to grantee relationship? Are there features of the community development context that make it better suited for intermediaries?

THE CASE CONTEXT AND BACKGROUND – EFFECTIVE GRANTMAKING

Why would a large established foundation such as the MacArthur Foundation choose to fund an intermediary to improve effectiveness? Before delving into the case, it is necessary to first discuss the context of the push by foundations to achieve twin goals of being more efficient with their grantmaking processes and to use their funding to generate greater impact. Understanding the motivation of philanthropies to increase their effectiveness provides a helpful framework for analyzing strategies employed. There are multiple reasons for foundations to strive to improve effectiveness, however, four key contextual issues are pressuring foundations to be more effective: a push for increased payout, a push for greater accountability, competition from new forms of philanthropy, and the need for increased

quantity and quality of visible measurable impact (Lenkowsky 2002; Orosz 2002; Center for Effective Philanthropy 2004).

The philanthropic sector has recently been challenged on the issue of payout – the percentage of the foundation assets that are given away each year. Foundations are required to distribute a minimum percentage of their assets in support of their mission, which is currently set at 5%. In the early 2000s, policymakers initiated discussions regarding whether this percentage should be increased. Historically, the issue of foundation payout emerges when there is significant growth in the sector and its assets, as has recently occurred. However, the current attention on payout is also driven by a public perception that foundations can be doing more with their resources. Many foundations pay out more than the minimum, and most foundations do not have an interest in increasing their payout, arguing that doing so could threaten the perpetual existence of their assets and place them in the difficult position of choosing between meeting the intent of their founders for perpetuity, or violate a policy requirement of a higher payout.

The pressure on foundations regarding raising minimum payout pushes them to explore ways to achieve and demonstrate greater impact of their current funding payout percentage. The connection between foundation asset base and its potential for impact on social problems recently drew the attention of Harvard Business School guru Michael Porter, who challenges them to do more:

> At its best a foundation brings to social problems more than money and the passion of its good intentions. The permanence of a foundation's asset base means that it has an appropriately long time horizon in which to tackle social issues and develop expertise. Thus foundation monies can achieve greater impact than private donors or the government. That is what we mean when we challenge foundations to create value (Porter and Kramer, 1999: p. 123).

Pressure for increased accountability among private foundations also motivates a push for greater effectiveness. Various forms of philanthropic entities have been charged with not being open to the public in their practices and intentions. The assumption that private philanthropies serve a public interest justifies their status as tax exempt organizations and government regulation of their financial management. Abuse of the foundation structure for a variety of purposes, including theft, money laundering, or as a vehicle for avoiding regulations on political donations continues to draw public attention to the issue. As the financial records of foundations are required to be made public as part of the government oversight of their activities, their inefficiencies or irregularities are easily exposed, including the percentage of assets that actually get distributed for a public purpose, rather than spent on overhead costs and salaries. Consequently public scrutiny of foundation activities is at an all time high. For many foundations, improving efficiency is one way to improve public perception and trust of their activities.

New forms of philanthropy have emerged in the past 20 years and are competing with traditional foundations, adding to the pressure for greater grantmaking effectiveness among traditional institutional foundations. Alternative philanthropic structures such as donor advised funds, venture capital philanthropy, and direct non-perpetual donations to charities are becoming more popular because of a perception by donors of greater effectiveness (Lenkowski, 2002). In fact, donors may be viewing private foundations as intermediary philanthropies because they allow the donor to be a passive actor in ensuring that her

philanthropic intent is met.   Whatever the donor perception may be, private foundations now have pressure to demonstrate effectiveness to potential donors as well as to the philanthropic field in general.

Foundations that support community development are motivated to improve their grantmaking effectiveness by the three factors mentioned above, but are primarily motivated by a desire to use their funding more strategically to find and support successful strategies to long-term social problems. They want more quantity and better quality of impact. To do so, they are willing to shift from a 'buckshot' approach of spreading funding out across a wide range of approaches and locations to a more 'laser-shot' approach of concentrating funding on strategies that prove to be effective and take those strategies to scale. Moving from a 'retail' funder – one who makes grants available to any worthy, eligible applicant, to a 'wholesale' funder – one who makes bulk grants to others who intimately know the market and its needs, may be one way to achieve that greater impact.

THE MACARTHUR FOUNDATION AND LISC

The MacArthur Foundation was founded in 1978, endowed by the wealth of John D. MacArthur who founded Bankers Life and Casualty Company, and his wife Catharine T. MacArthur. It is among the largest foundations in the United States, with $5.5 billion in assets. The Foundation granted nearly $200 million in four program areas in 2004: Global Security and Sustainability, Human and Community Development, the General Program, and the MacArthur Fellows program (MacArthur 2006). Its community development grantmaking is done through its Program on Human and Community Development, which has nine more specific priority areas that are funded under it.

MacArthur has been an active supporter of community development activity in Chicago, both as a direct grantmaker and as part of a larger funding collaboratives. For example, MacArthur participates in the Living Cities/National Community Development Initiative (NCDI), which is a national collaboration of funders who pool funds and use the pool to support housing development across the country. MacArthur also funded LISC prior to the NCP partnership.

LISC is a national intermediary with local offices in 33 cities and regions. Established in 1979 by the Ford Foundation, it was first of what is now an industry of community development intermediaries that channel funding and support from foundations and other sources to community development corporations (CDCs) at the neighborhood level. Historically, LISC has focused on helping CDCs create affordable housing and engage in economic development activities. As the community development field matured, LISC expanded the range of activities it supports. It provides support in six strategic areas: economic development and safety; education, children, and youth; organizational and professional development; support to rural organizations; policy; and the Gulf Rebuilding Initiative. Its mission is the following:

> Local Initiatives Support Corporation (LISC) is dedicated to helping
> nonprofit community development organizations transform distressed
> neighborhoods into healthy and sustainable communities of choice and
> opportunity -- good places to work, do business and raise children. LISC
> mobilizes corporate, government and philanthropic support to provide local
> community development organizations with:

- loans, grants, and equity investments;
- local, statewide, and national policy support;
- technical and management assistance.

LISC is a national organization with a community focus. Our program staff is based in every city and many of the rural areas where LISC-supported community development takes shape. In collaboration with local community development groups, LISC staff helps identify local priorities and challenges, delivering the most appropriate support to meet the needs (LISC 2006a).

Local LISC offices receive administrative funding from the national office, however, they are expected to locally raise the bulk of the funding for the program support they offer. One of the first LISC offices, LISC Chicago has supported Chicago CDCs with a mix of local and national funding for over twenty years. LISC Chicago has a mix of local donors who include corporations, banks, government agencies, foundations, and other intermediaries. Its staff are all seasoned community development professionals. The combination of local and national support gives LISC significant capacity to support community development. Its measurable outcomes in 2005 are assistance provided to 62 organizations, helped to create over 2,000 units of housing, created about 31,000 square feet of commercial space, provided over $1.5 million in training and technical assistance to community organizations, and supported job centers that assisted 21,000 individuals find jobs (LISC 2005a).

New Communities Program
The New Communities Program (NCP) exists as the result of the coincidence of two trends in community development in Chicago coming together. One trend was a search in the late 1990s by key Chicago funders and practitioners for a new way to support and encourage comprehensive community development efforts in Chicago. Comprehensive Community-Building Initiatives (CCIs) were winning favor with national foundations at the time and offered new promise for marrying the often opposing goals of economic revitalization and building social capital in economically distressed communities. At the same time, the MacArthur foundation was seeking ways to improve its grantmaking effectiveness, motivated by the factors described above (Brown, et. al. 2003).

LISC traces the origins of the New Communities Program as far back as the 1997 Chicago Futures Committee, a convening that engaged community development professionals to reflect on the state of community development in Chicago and to define new principles for community development in Chicago (NCP 2002). Collectively, these principles (Figure 1), articulated a comprehensive approach to community development beyond just creating affordable housing. LISC was well positioned to put the new approach to the test in 2000 with its New Communities Initiative; focusing on three neighborhoods and borrowing its support role from the Comprehensive Community Redevelopment Program (CCRP), a comprehensive community initiative in the Bronx during the mid 1990s that was viewed as a promising way to achieve comprehensive community development (LISC 2004). This role required that LISC be highly engaged with organizations that were leading the effort, working closely with them and lending its expertise and support throughout the process. The late 1990s and early 2000s brought a change in leadership and some program restructuring at the MacArthur Foundation. In 1999, Jonathan Fanton joined MacArthur as President, and directed the foundation through an effort to be more strategic in its investments, consistent with the philosophy that:

The Foundation believes its grantmaking is most effective when focused upon a relatively few areas of work, combined with sufficient resources over a long enough period of time to make a measurable difference (MacArthur 2006).

At this time, MacArthur engaged a group of researchers to study the role of foundations actively engaged in community change initiatives. The researchers found that often the expectations of community organizations are very different than those of foundations, particularly with regard to resource development and planning (Bennett 2005). Community organizations view foundations as strictly funding sources, while foundations viewed their roles as long-term partners who are short-term funders but long-term catalysts for change. One possible conclusion from this observation is that it is better for foundations engaged in community change work to remain a step removed from the work itself.

Figure 1. Community Development Principles of the 1997 Chicago Futures Committee[6]

Healthy Communities "Changing the Way We Do Things" – Chicago Futures Committee	
Precept 1. Healthy communities offer economic opportunity for residents to become producers, as well as consumers, through participation in the work force and/or entrepreneurial activity.	Precept 8. Healthy communities identify, nurture, and promote leadership.
Precept 2. Healthy communities reflect and build positive values. The moral and intellectual development of individuals takes place in the context of significant interaction with others who are of diverse backgrounds.	Precept 9. Healthy communities value the past as they Invite the future and are able to manage change.
Precept 3. Healthy communities nurture and sustain families and children.	Precept 10. Healthy communities manage and invest in local properties, public spaces, and public ways, so as to enhance each community's ability to prosper.
Precept 4. In healthy communities, individuals have multiple opportunities to acquire the knowledge and skills they need to succeed.	Precept 11. Healthy communities provide opportunities for artistic and cultural expression that nurtures individual talent and celebrates the events of community life.
Precept 5. Healthy communities provide a public forum for common conversation, shared stories, and diverse expressions.	Precept 12. Healthy communities offer a convenient array of retail stores and professional and human services.
Precept 6. Healthy communities are supported by political structures and processes that encourage responsible citizenship and accountable government and balance individual interests and local needs with the needs of the larger community.	Precept 13. Healthy communities maintain superior standards of public health, environmental integrity, and safety.
Precept 7. Healthy communities have strong mediating institutions, such as churches, schools, and community organizations with the power to affect important issues.	Precept 14. Healthy communities are accessible to people of all colors, all income groups, and those who have special needs, including the homeless, the elderly, and disabled.

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[6] *Source: Indianapolis Community Development Summit, Opening Focus Group*

MacArthur approached LISC in 2002 with the idea of extending the pilot program into other neighborhoods where MacArthur was supporting community development activities, and increasing the pot available to each neighborhood. With an initial $12.5 million investment from MacArthur, LISC's NCI program expanded into sixteen neighborhoods, and NCP was born. NCP allowed MacArthur to collapse more than 40 existing community development grants into 12 grants through NCP. LISC was expected to match this investment with $5 million it raised. Although NCP was a totally new way for MacArthur to fund community development, its portfolio at the start of NCP was merely restructured. Overall its portfolio remained nearly unchanged.

As with most foundation intermediaries, NCP has funding from a wide range of sources. Other funders include the Annie E. Casey Foundation, the Lloyd A. Fry Foundation, the Living Cities/National Community Development Initiative, the Mayor's Office of Workforce Development of the City of Chicago, Nationwide Insurance, the Polk Brothers Foundation, and the Surdna Foundation (LISC 2004).

GOALS AND STRUCTURE

The goal of NCP is an interesting mix of not just an expected outcome, but also a definition of how that outcome is expected to be achieved:

> NCP is designed to strengthen communities from within - through planning, organizing and human development. The comprehensive approach helps broaden opportunities for local residents through better education, broader job choices, safer streets, new economic opportunities and stronger personal finances. This strengthened community is better equipped to take advantage of larger market forces:

- Attracting retail and housing development to areas that have experienced little new construction.

- Achieving economic balance in neighborhoods where working-class residents fear displacement by higher-income newcomers.

- Creating stronger connections to metropolitan-wide business, employment and educational opportunities. (NCP, 2006)

The NCP structure is itself a mirror of the foundation-intermediary relationship at the neighborhood level. Each of the 16 target neighborhoods has a designated agency that is responsible for leading and coordinating NCP activities in its neighborhood. Each community is required to develop a quality of life plan. With LISC support, the14 lead agencies have all produced these plans (one lead agency covers multiple neighborhoods). These lead agencies are responsible for screening and delivering funding requests to LISC for review and approval. Requests must be consistent with the quality of life plan.

The completion of a quality of life plan has been a key moment in the capacity development of an NCP site. With the completion of the last plan in May of 2005, the plans become the base upon which the lead agencies drive community development within the target areas. A quick scan of these plans reveals that although nearly all of the lead agencies are CDCs that have focused on housing and related activities, the plans created through the NCP process are remarkably varied in focus. The first five strategies listed in these plans included topics such as school improvement, place-marketing, access to public space, and health promotion (LISC 2005). These are not issues that CDCs have traditionally addressed, historically focusing more on housing and economic development, which are both prevalent as priorities

in nearly all plans as well. With the quality of life plans, NCP has clearly helped to broaden the scope of collective community development activity by allowing groups to place value on activities that may not have been appealing to foundation or other community development funders in the past.

At the time that this case study is being written, only a year has passed since the last group completed its quality of life plan. Although inadequate time has passed to consider current outcomes for most of the NCP sites, a large number of projects are well under way. In the spirit of "planning while doing" all NCP groups began some small projects during the planning period. In fiscal year 2005, the program made a total 66 grants for new projects for a total of $1.3 million (LISC 2005b). Including operating support grants and technical assistance, this total is more than $3.1 million. The 66 grants extend from $2,500 to over $100,000, covering a range of activities from support for a cultural conference in one neighborhood, to the establishment of employment and tax preparation assistance centers in another.

One key outcome has been the collection of extensive data at the neighborhood level for all of the NCP target neighborhoods. This data has been compiled, summarized, and published on the NCP web site as well as the web sites of the lead agencies. While the immediate utility of this data and its associated maps as a resource for the community development activities of the neighborhood is great, it also serves as a baseline against which to measure progress and outcomes for the neighborhood over the long run.

An aspect of the NCP structure that may prove to be a challenge is the selection of a lead agency by LISC in each NCP community. This structure is fraught with potential difficulties in the long run and creates a "catch 22" situation for LISC: a strong neighborhood based lead agency is required to guide the NCP model for comprehensive, inclusive, and collaborative community development, however, the selection of a strong group within a community could bring relationship challenges or political issues of that organization into the NCP process before it even begins.

This dilemma presents multiple challenges for LISC managers and NCP lead agencies. One challenge is the fact that a key neighborhood group may choose not to participate at all in NCP activities or may choose not to seek funds through the lead agency if it has a poor relationship with that organization. If an organization is not a part of the NCP collaborative process for whatever reason, the NCP process could be viewed by that organization as an "exclusive" initiative, which could divide the community in a counterproductive way. Another challenge could be a lack of trust in the intentions of funder. The creation of multiple levels of intermediaries between local groups and the MacArthur Foundation adds a distance between the funding source and the recipient, which could create a distrust of the Foundation and its intentions regarding community development funding.

IS INTERMEDIATION A MORE EFFECTIVE GRANTMAKING STRATEGY?

What does the experience of the MacArthur/LISC partnership teach us about the extent to which the use of intermediaries helps to improve grantmaking efficiency and effectiveness? Is it possible that use of intermediaries can help a foundation improve its funding efficiency? Giving fewer, larger grants reduces the grant review and transaction costs of processing applications and awards. In most cases, the transaction costs are the same for a small grant as they are for a larger grant, so efficiencies can be gained with fewer grants to process.

Fewer grants also means less administrative monitoring and fewer payment schedules to track over the long-run. This structure seems to be particularly well suited for community development which demands long-term grants for systemic changes.

However, the question of whether intermediaries improve grantmaking effectiveness by achieving greater impact cannot yet be answered with this example, and it may be unlikely that time would provide a clear answer to this question. Intermediaries need to demonstrate that they can achieve scale; that they add value resulting in a greater than proportional increase in impact. One skeptic of the role of intermediaries in promoting effectiveness writes:

> Even if new philanthropic strategies have yet to leave a major mark on the face of institutional philanthropy, they harbor an implicit criticism of it. Those advocating these new approaches are, in essence, saying that, even though they may be more extensive and wealthier than in the past, grantmaking intermediaries are not fulfilling society's expectation that they should make giving more effective (Lenkowsky, 2002: p. 375).

A more useful approach for sorting out the lessons from this case may lie in considering the trade-offs inherent in using the intermediary as a grantmaking strategy. This analysis would be guided by a number of questions. What does a foundation gain by giving a large grant to an intermediary? What is lost or different from the perspective of the grantee when the organization must approach an intermediary rather than making a direct request to a foundation? What does the intermediary bring to the funding relationship that is not a part of a direct relationship?

An aspect of the NCP example that is very revealing is that the complexity of foundation intermediaries is growing. For example LISC receives money from multiple foundation and other sources for multiple purposes – some of it for administrative costs, some for program costs, technical assistance, and some for loans. This complexity creates multiple challenges for the goal of improving grantmaking effectiveness, raising some interesting questions on key issues.

The challenge of meeting and preserving donor intent can be exacerbated by the use of intermediaries. For example, can the varying intentions of multiple funders be preserved through an intermediary? It seems plausible that by default, the pragmatic goals of the intermediaries' staff and administration will likely win over any broader goals of funders, particularly if two priorities oppose each other, are competing, or are mutually exclusive.

The issue of improving impact through intermediaries is another issue that grows in complexity. Can you sort out the wide range of activities that intermediaries carry out and support to determine actual, measurable outcomes? LISC is able to do this quite well, but as the range of community development activities being supported widens, more activities come into play that are difficult to measure accurately. Measuring outcomes is more than just counting housing units. Other types of intermediaries may not be able to demonstrate such measurable outcomes.

The issue of who is responsible for change that results from the support of an intermediary is also a challenge for demonstrating effectiveness. How do you assign credit and blame for successes and failures? Is the community organization responsible, or the intermediary? Is the original source of funding responsible for anything? At the moment, it seems that all

groups involved in an intermediary relationship share in credit, but it seems that the community groups bear significant risk that is not borne by the intermediary or the foundation. If a community group is unsuccessful, it is more likely that negative attention will be directed at that organization rather than at its funders.

Another issue raised by the presence of intermediaries is the long-term impact of reducing or eliminating access to foundations. Foundations that use intermediaries may be less willing to give directly to organizations that approach them directly. Whether this willingness is actual or perceived, it may deter groups from directly going to a foundation to request support for a novel idea or promising practice. Some interview data alluded to the notion that a perception that groups have a lack of access to MacArthur through LISC may be growing among organizations that are in NCP neighborhoods.

Ultimately, the complexity of the intermediary strategy may be both its strength and its weakness. Former MacArthur President Adele Simmons may have put it best when she wrote in her final President's Letter:

> A long-term approach, investments in efforts to understand problems, coordinated application of a variety of approaches, collaboration with other funders, and tolerance for occasional failure--these make for effective grantmaking in the face of complexity. (fundinguniverse.com 2006).

Time will tell with regard to the real impact of the LISC NCP program on communities in Chicago, and its use by the MacArthur Foundation as a strategy for improving its grantmaking effectiveness and impact. In the meantime, the case is very instructive and will continue to generate interesting questions for further research and study.

DISCUSSION QUESTIONS

1. What are the trade-offs when a foundation chooses to us an intermediary rather than directly fund an activity?
   - From the foundation's perspective?
   - From the perspective of the intermediary?
   - To the community-based non profit and their constituencies?

2. What, if anything, is lost when a foundation chooses to use an intermediary, rather than directly fund an activity?

3. Are fewer, larger grants always a more efficient way to support an issue? This may work for funding community development, but what about other types of grant-funded activity such as education, arts, research, or innovation?

4. Did MacArthur take the right approach in shifting its community development funding to an intermediary? Why or why not?

5. What are some of the potential pitfalls of the NCP as it progresses?

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ABOUT THE AUTHOR

Dr. Joseph Hoereth holds a B.A. from the University of California at Berkeley, and a Ph.D. in Urban Planning from Rutgers University. He was born in Ghana, and was raised in Long Beach, California. Currently, he is the Associate Director at the Great Cities Institute at the University of Illinois Chicago. He lives in a Chicago suburb with his wife and children.

Funding Intermediaries as a Strategy for Local Grantmaking: The John D. and Catherine T. MacArthur Foundation & the Local Initiatives Support Corporations (LISC) Chicago

A Teaching Note
Joseph K. Hoereth

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

The current case study focuses on the experience of one foundation, the John D. and Catharine T. MacArthur Foundation, in its effort to improve grantmaking effectiveness and the impact of its support on some of the most distressed neighborhoods in Chicago through the special funding of Local Initiatives Support Corporation (LISC) Chicago, a community development intermediary.

This case offers an example of a strategy taken by a large foundation to improve its efficiency by shifting its community development grantmaking from a 'retail' system to a 'wholesale' program. The new program, the New Communities Program (NCP), is managed by LISC Chicago which distributes funds from the MacArthur Foundation and other funders to community-building activities at the neighborhood level consistent with comprehensive plans created by residents in those neighborhoods. The case unearths several important questions for students of philanthropy to consider. How might intermediaries help foundations be more effective? What sorts of challenges do intermediaries face that do not exist in a direct foundation to grantee relationship? Are there features of the community development context that make it better suited for intermediaries?

THE AUDIENCE/PREREQUISITE

The primary audience for this case study will be students of philanthropy and professionals in philanthropy and nonprofit leadership. This case also be used in courses focused on social change or advocacy with marginalized communities. It is appropriate for use in undergraduate orgraduate level courses and staff development workshops.

TEACHING PURPOSES

The structure of this case study should naturally lead to a discussion about the tradeoffs inherent in a foundation deciding to address an issue through the funding of an intermediary. On one hand the foundation may gain some efficiency, could take advantage of the technical knowledge or expertise of the intermediary, and possibly be more systematic or strategic with its funding. On the other side of the tradeoff lies the distance that results between itself and the organizations or issue it is funding and some potential loss of control over funding decisions or strategy. The tradeoff discussion could be encouraged by asking students what they think MacArthur would gain from this strategy.

Students should also understand some of the conceptual issues embedded in this case study. You may want to engage them in a discussion around where intermediaries fit in the philanthropy. For example, would any foundation that collected funding from a source other than its own endowment be considered an intermediary? If so, then how does a foundation preserve donor intent when it has charged this intermediary to distribute its money?

Another concept students should grasp is the context that is driving many foundations to fund intermediaries. The push to be more effective, efficient, and generally more business-like with their funding is an important contextual theme of the current philanthropic environment.

The Immigration Fund: Accountability in a Pooled Community Fund

A Teaching Case
Asma M. Ali

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

(NOTE: All identities have been changed to protect the privacy of individuals. The name of the foundation has likewise been changed. However, the facts of the case remain the same.)

ABSTRACT

Anna is the executive director of a community fund that is a collaboration of one national and several local grantmakers. The Immigration Fund operates on a consensus model of decision making and is directed by a core Steering Committee, which makes ultimate allocation and policy decisions based upon input from relevant subcommittees and individuals who are involved with the group.

Anna is not a voting member of the Steering Committee. However, she plays a pivotal role in shaping the allocation decisions and policies for the Fund. She has a reputation within the philanthropic community for both hands-on and informed grantmaking, especially among emerging groups that do not have an established program or community base. Most Steering Committee members rely on and trust her judgment about their grantee organizations and the direction of the Immigrant Fund.

The state Department of Human Services has promised an initial grant to the fund that will secure its partnership in the collaborative. Joe Smith, the Department of Human Services (DHS) Program Officer, will soon be releasing the DHS contribution to the fund, an investment that will allow the Fund to continue operating for one to two years. In addition, DHS would like to continue its partnership in the collaborative beyond its current involvement, based upon an initial financial contribution to the collaboration. The state's continued funding will be critical to any expansion of this Immigrant Fund's current programming.

As a state government agency, DHS must adhere to its internal guidelines regarding allocations and the structure of the grants. Among these guidelines are strict rules about using community readers in the review of grant applications. The state will not allow any community members who had served on the board, as a volunteer, or as staff at an applicant agency to read proposals for any grants within the cycle that they serve. Currently, the Immigrant Fund incorporates community readers in its allocation process. Future grants from the state are contingent upon adherence to these guidelines.

Anna must make a recommendation to the Steering Committee about suspending community readers to allow the State's participation in the collaboration per its guidelines. Anna realizes that the Immigrant Fund's standing views about accountability to its constituents may be challenged by her recommendation and the decision of the Steering Committee.

The Fund's Steering Committee will be meeting to discuss the issue of DHS funding and the use of community readers. Before the steering committee meeting, Anna must review information relevant to the question of community readers. In preparing for the Steering Committee meeting, Anna considers the background and values of the Fund collaborative, the potential values of the state's participation, and the role of the community readers.

BACKGROUND

The Immigration Fund (IF) was founded as a project of Grantmakers Concerned with Immigrants and Refugees (GCIR), a philanthropic affinity group with membership among grantmakers and non-profit professionals with an interest in immigrant and refugee issues. The Fund was a unique collaborative project among several grantmakers including private local foundations, one national foundation, the United Way/Crusade of Mercy, and the state. Founded in 1997, the Fund primarily developed because grantmakers believed that the 1996 Welfare Reform Act would disproportionately affect safety-net benefits to low-income, elderly, and disabled immigrants.

The Fund had three components to its mission:

> To provide grants to a range of programs benefiting immigrants and refugees within the Chicago Metropolitan area;
>
> To promote positive public awareness of immigrant and refugees; and
>
> To advocate within the philanthropic community for continued support of programs working on behalf of immigrants and refugees.

The initial contribution for the Fund came from the Emma Lazarus Fund of the George Soros Foundation in New York. The Emma Lazarus donation was matched by local grantmakers who participated in a pooled funding collaborative. The initial two- year term of grantmaking for the collaborative is now coming to a close, and the Fund's financial resources are dwindling. The Steering Committee would like to continue the work of the Fund for a few more years, if possible. In its first few years of operation, the Fund's staff and Steering Committee have come to understand that there are many unmet needs for immigrants and refugees in the counties surrounding Chicago, and a strong need to promote citizenship and civic participation in the city and its suburbs.

THE FUND AND POOLED FUNDING COLLABORATIONS

The Immigration Fund was a collaborative project among several grantmakers including private local foundations, one national foundation, the United Way/Crusade of Mercy, and DHS. A group of 27 local grantmakers and one national foundation contributed to a combined funding pool of $6.8 million.

Typically, membership in a pooled collaboration occurs through a monetary donation to the collaboration. In many pooled funding collaborations, "voting" membership in a pooled fund is determined by the level of monetary support. However, the Steering Committee of IF decided that all contributors to the Fund would receive equal representation in the collaboration, regardless of the amount of their monetary contribution to the Fund.

Primary decisions about allocations and policies are made by a Steering Committee of representatives from member organizations. Membership on the Steering Committee is open to any member of the collaborative. However, each member organization is only allowed one vote on key decisions regarding the Fund.

Anna manages the day-to-day operations of the Fund and has considerable access to the

Fund's grantee organizations and stakeholders. In addition, Anna tries to keep current on issues affecting the immigrant and refugee community through her meetings with grantees, conversations with other foundation executives, and continuing education/conferences. Because of her extensive knowledge in the area, the Steering Committee typically relies heavily on Anna to operate the Fund and provide guidance on policy and allocation decisions.

THE CENTRAL VALUES OF THE FUND

The Fund holds accountability to its constituents as one of its driving values. One method used to ensure accountability is a transparent allocation process, instead of top-down allocations. Community members and applicant groups are regularly invited to serve as readers, as well as to recommend other readers, to the Steering Committee. These readers are a vital part of the Fund's allocations process. In addition, they have frequent access to members of the Steering Committee and other foundation community members.

Anna's own background includes work with non-established, emerging groups who have received little or no previous funding from other groups. She believes strongly that emerging groups have the potential for stronger connection with their communities. In addition, she believes that emerging groups may have the ability to engage their communities more effectively than other organizations.

Another primary value of the Fund is to include community participation in its grantmaking processes. The Fund incorporates community perspectives in two ways: 1) by determining the focus for individual funding priorities; and 2) through the use of community readers in the allocations process.

The Fund believes that including community readers in the allocation process maintains its accountability to its constituents. In addition, Anna feels that community readers strengthen the allocations process. Often, community readers were better able to determine the feasibility of new programs and their application in the community than career foundation executives. Anna points out:

> They brought real information about what was happening in immigrant
> communities and they brought a real voice to the funding conversation. How
> they served the Fund was not only by bringing all those things, but also we
> didn't conduct those sessions in secrecy. We   could also be confidential
> about these particular groups but we wanted them to go out and   talk
> about how they did the board work and how they did the steering committee
> work. It was way to be transparent and ensure some accountability. The
> reviewers are also a highly diverse group.

STATE PARTICIPATION, PUBLIC MONEY, AND ACCOUNTABILITY

The DHS partnership is an important consideration for Anna. The state partnership has been proposed at a critical juncture in the Fund's history. The initial pool of money from collaborators has been dwindling, and a partnership with the state can significantly replenish the Fund's grantmaking efforts. In addition, the Fund's conversations with grantees have indicated emerging immigrants and refugee communities throughout the state. The Fund would like to expand its grantmaking in these areas.

The state partnership is managed by Joe Smith, Director at DHS. Joe has had over 40 years of experience with state programs pertaining to immigrants and refugees. Anna placed a call to Joe to discuss the state's position on using community readers.

Joe told Anna that DHS was excited about its partnership with the Fund. Although the DHS funds are restricted to citizenship services, Joe believes the funding partnership will allow his agency to reach almost twice as many immigrants. In addition, Joe believes that the partnership will allow DHS to reach organizations that do not typically qualify for state funding.

Although Joe thinks that community readers may give DHS access to a wider range of services providers, he feels that the allocations process should be as objective as possible. Joe explains how the state defines objectivity to Anna:

> Because our bureau really grew up on federal funding, we became habituated to honoring federal regulations. This really means two things. One, we've been operating with pretty precise performance requirements over a number of years. And two, we have pretty explicit procurement requirements.

During her conversation with Joe, Anna learned that including community readers in the allocation process is difficult for DHS for three reasons:

> 1) Because the state has strict standards for objectivity in its allocations process, DHS may not use readers that are affiliated with any applicant organizations as a board member, staff, or volunteer;

> 2) The state grants are designed as fee-for-service contracts with the bureau. Thus, there are several layers of approval for each grant within the bureau, which may complicate the recommendation of an allocations committee; and

> 3) Because DHS grants are considered contracts with service providers, there are several conditions and qualifications required of applicant agencies. These requirements do not necessarily favor new or emerging organizations.

COMMUNITY PARTNERS—A NARRATIVE

The telephone rings again just as Anna hangs up with Joe. Dan, the executive director of a North Side immigrant service organization, calls to ask whether the Fund will be using community readers in this grant cycle.

In previous funding cycles, community readers participated on the allocation teams. Each allocation team consisted of Anna (as executive director of the Fund), a steering committee member, and two community readers. Each four-person team reviewed the grant and made funding recommendations to the Steering Committee.

Although the use of community readers is still undecided, Anna is straightforward with Dan about the situation. In response, Dan tells Anna:

> Well, I'll be happy to help you any time you need it, Anna. My vision of grantmaking has changed since I participated in the allocation process. Before, when

I wrote the proposal, I used to just answer the questions. Now I can put in things so it flows, so that the person who is reading it has a [clearer] mental picture of what we're trying to accomplish and why, and the results of that. It has made me do my job better.

I have to go now. It's always so easy to talk to you, Anna. I feel you always really listen to my concerns about the issues.

As she wraps up her conversations with Dan, Anna reflects on her own relationship with community organizations in Chicago. Anna feels especially connected to new, emerging organizations that do not have an established track record of services. Anna believes that these organizations can contribute more things to their community than just services:

Foundations have made a case that accountability is all about showing a paper file, that there are a number of people you add up. A file with numbers doesn't say anything about advocacy; it doesn't say anything about policy; it doesn't say anything about innovation; it doesn't say anything about what the organization learns and how it grows. To me, those should be accountability measures, too.

At the end of her long day, Anna begins a short report for the Steering Committee meeting the following day. The report reviews the values of the Fund and the DHS constraints regarding community readers.

STEERING COMMITTEE MEETING

During the Steering Committee meeting, members of the committee express strong feelings about including the DHS funds in the grant cycle as well as using community readers in the allocations process. Michael, Lisa, and Natalie—all former co-chairs of the Steering Committee—discuss the advantages and disadvantages of using community partners in this grant cycle:

ADVANTAGES OF UTILIZING COMMUNITY READERS

The Steering Committee members feel that an allocation process without community participation may adversely affect the scope and breadth of the grants. In particular, the Steering committee feels that suspending community readers may limit the Fund's responsiveness and accountability to its constituents.

Lisa, the director of a small corporate foundation, states that community readers bring a diverse viewpoint that is very valuable to the grantmaking process: "Community readers can tell us whether the programs make sense for the community or have reasonable goals." She adds: "That is not always easy to tell on paper."

Anna interjects that one of the goals of the collaborative is to increase awareness of the funding process among community members. She worries that removing community readers in the process will cause the grant cycle to lose the transparency of previous cycles. Natalie, the president of a local family foundation, believes that a more limited funding process may result in community partners having a restricted understanding of the purpose of the grants and the goals of this cycle.

Lisa, like Anna, thinks that community practitioners have a better "feel" for successful program proposals and the feasibility of new initiatives than career grantmakers. Without the participation of community readers, the Fund may have a more limited understanding of successful programs addressing current immigrant needs.

ADVANTAGES OF REMOVING COMMUNITY READERS

"Hold on," says Michael. "Let's keep in mind that without the State, we will have to close shop." As previously stated, the State can not utilize community readers due to concerns about objectivity in their fees-for-service contracts. Anna reviews her understanding of the state's procurement process and the conflict with the State's guidelines for using community readers in the process.

Natalie feels that a big advantage of working with the State is leveraging the limited amount of money available to the funding collaborative, and to her own organization:

> Our funding is restricted to the City of Chicago. Our restrictions were clearly City of Chicago. You know about various restricted funds, and we found the Immigration Fund was a very helpful mechanism to broaden our base of the funding. But as far as our foundation was concerned, we are just Chicago.

Natalie believes the partnership with the State will enhance her organization's opportunities to expand its grantmaking beyond the city. The other members of the Steering Committee nod in agreement.

Lisa points out that the DHS contribution will be important if the Fund continues and expands into new program areas. She discusses the findings of a recent community roundtable on immigrant and refugee which indicated that there were many emerging needs in communities outside the City of Chicago.

"Let's face it," concludes Michael. "We need this money to continue our work. We can't address these new areas without it. What if we separate the two processes so the State reads its own grants and we read our own? What do you think?"

Michael then turns to Anna and says "Well, you have most of the information, and we trust that you have an idea of the right path. What do you recommend that we do?"

THE CHALLENGE

Anna knows that she could take the path of least resistance and recommend suspending community readers. This decision would allow the Fund's partnership with the state to continue. If she recommends this course of action, the Fund can continue to give grants for this cycle and may continue giving grants for another three years. In addition, although the community partners may be upset with the change in process, they will likely continue their relationship with the Fund.

However, if Anna really thinks about it, the values of the Fund regarding community participation are opposed to the state's view of the issue. If Anna tells Joe that the two processes are incompatible, she may lose the State Department of Human Services funding and risk the future of the entire collaboration. In addition, Michael's proposal to combine the two processes may be too difficult to implement and combining the processes may not be

allowed by the state.

Anna's own opinion is that community readers are a vital part of the Fund's allocation committee and should be included in the process, if at all possible. But should she shoulder the additional administrative burden of two separate review processes?
Anna is not sure what course of action to recommend to the Steering Committee. What should she do?

ASSIGNMENT QUESTIONS

To prepare for the case discussion, students must address the following questions when reading the case and preparing for class:

> What kind of data or additional information would be helpful for Anna to find out about the values of the state? Of the Fund partners? Of the grantees/community readers? How should Anna go about securing this kind of information? What methods should she use?

> Do you agree that the state and the Fund have different values regarding community participation in the allocation process? Or rather, do you think that the state and the Fund have different perspectives on the same values? Why?

> What are the possibly harmful consequences if the Fund suspends community readers? What issues are at stake for Anna? What about the community? What are the risks for the Fund?

> If you were Joe, the DHS Program Officer, would you want Anna to investigate the possibility of combining the two allocation processes? Would this be compatible with the state's vision of accountability and objectivity? How could this work?

> Given the Fund's history as a one-vote-per-member pooled collaborative and the critical need for additional resources at this time in the Fund's history, should Anna place more weight on the state's financial contribution or the historical practice of community readers in the allocation process? Why?

> What do accountability and objectivity mean for the Fund partners? For Anna? For the state? For the grantees/community readers? How would you balance these interests? and

> Taking all of these factors into account, what would you do in Anna's situation? Given your decision, how would you present it to the Fund partners? The state? The community partners/current grantees? Potential grantees/community partners?

ABOUT THE AUTHOR

Asma M. Ali has experience in both research and philanthropic giving. As a survey specialist at the National Opinion Research Center at the University of Chicago, Asma worked on three large studies of pastors and congregations. In addition, she has authored the technical sections of research and program proposals to several government programs on behalf of many research and community organization throughout Chicago. She serves on the allocations committee for the Chicago Foundation for Women and has read Community Technology Grant proposals for the Illinois Community Technology Task Force. She holds a Bachelor's degree from Trinity University in San Antonio, TX and a Master's degree from Loyola University, both in Sociology. She is currently working towards her Ph.D. in Urban Planning and Policy.

The Immigration Fund: Accountability in a Pooled Community Fund

A Teaching Note
Asma M. Ali

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

The Immigration Fund (IF) is a philanthropic collaboration of several Chicago grant makers and one national foundation. Although the IF collaboration began as a two and a half-year project, the Fund identified emerging needs in the immigrant community through conversations with its grantee partners, providing a vital service to the community. The Department of Human Services (DHS) has provided a significant grant to the collaboration, an amount that will ensure continuation of the Fund for at least another year. However, the state must adhere to strict internal guidelines regarding the allocation process. These guidelines prohibit using funds for community readers in the allocation process. Future funds from the state—critical to continuation of the Fund and future programming to address emerging needs—were partially dependent upon adherence to its internal allocations guidelines. Community readers were a vital part of the Fund's allocation process, but losing state support would challenge the accountability standards set by the Fund to its grantees and constituents. The challenges of this case are posed as Anna, the executive director, prepares for a meeting of the IF Steering Committee. Should she recommend continuing to use community readers, disregard the state's requirements, and risk losing future funding, or should she recommend suspending community readers, or propose separate, yet combined, review processes to the Steering Committee?

TEACHING OBJECTIVES

The Immigration Fund case may fall into any of the two outlined teaching/ learning objectives for the project:

Governance: One objective of this case is to help students understand the values of the members of a collaborative governing structure in philanthropy. The Immigration Fund (IF) case illustrates challenges in accountability to different members of a collaboration that may occur as a result of joint decision- making. In addition, the students will explore how members of a collaborative may have different values surrounding an important issue. For example, one member of the collaborative has a distinctly different interpretation of including community readers in the allocations process than the majority of the partners. However, the member's financial contribution and expertise are vital to the Fund. The students will discuss the importance of identifying the values of the collaborative unit, the values of each partner, and conflicts between the collaboration's values and values of the individual partners; and

Fund Distribution: A second objective of this case is to help students understand issues of accountability to grantees and objectivity in fund distribution processes. Although all partners in this case agreed that these were important values, members of the collaborative had different perspectives on how to incorporate accountability and objectivity in the allocation cycle. The Fund, and its executive director, believed that the best way to ensure accountability and objectivity was to create a transparent allocation process, so that everyone could participate in the process. They believed that using community readers would de-mystify the funding process for community partners. On the other hand, the State sought accountability through its contracts process, and required independent evaluations by allocations readers who were not part of the service community. The students will discuss the value and challenges of including grantees in the allocation process.

PREREQUISITES

The primary audience for this case will be students in philanthropy and non-profit sector educational programs, and current philanthropy staff. Also, community organizations, and participants in community- philanthropy funding collaborations may benefit from the content of the case.

This case has several knowledge prerequisites including an understanding of community change philanthropy and community foundations. In addition, the students should have a background in the standard mechanisms of foundation accountability.

ASSIGNMENT QUESTIONS

To prepare for the case discussion, students must address the following questions when reading the case and preparing for class:

What kind of data or additional information would be helpful for Anna to find out about the values of the state? Of the Fund partners? Of the grantees/community readers? How should Anna go about securing this kind of information? What methods should she use?

Do you agree that the state and the Fund have different values regarding community participation in the allocation process? Or rather, do you think that the state and the Fund have different perspectives on the same values? Why?

What are the possibly harmful consequences if the Fund suspends community readers? What issues are at stake for Anna? What about the community? What are the risks for the Fund?

If you were Joe, the DHS Program Officer, would you want Anna to investigate the possibility of combining the two allocation processes? Would this be compatible with the state's vision of accountability and objectivity? How could this work?

Given the Fund's history as a one-vote-per-member pooled collaborative and the critical need for additional resources at this time in the Fund's history, should Anna place more weight on the state's financial contribution or the historical practice of community readers in the allocation process? Why?

What do accountability and objectivity mean for the Fund partners? For Anna? For the state? For the grantees/community readers? How would you balance these interests?

Taking all of these factors into account, what would you do in Anna's situation? Given your decision, how would you present it to the Fund partners? The state? The community partners/current grantees? Potential grantees/community partners?

CLASS PLAN

This teaching plan is designed for a 90-minute class session. For this particular case, the instructor may begin class by asking each student to summarize the case in one sentence. Students coming from diverse professional and academic backgrounds may focus on particular aspects of the case, such as the following:

Relationships within the partnership: Some students will focus on the nature of the relationship between Anna, the Funding partners, and the state. These students will likely discuss Anna's reputation in the community and her status on the Steering Committee. Here, they may focus on the strong responsibility that Anna feels to make a "good" decision for the partnership; Management of the organization: Some students will address the problem as a case of economics in running an organization. These students may see the central issue of the case to be the critical need for state funding to address emerging needs in the immigrant and refugee community. Their focus may be Anna's role as the Executive Director of the Fund. This perspective will highlight the critical need for State funds and the role that the State may play in the continuation of the Fund.

Mediating among partners: Some students address the problems of the politics in managing competing interests. These students will likely focus on Anna's role as an information gatherer and advocate for all the values in the Fund. These students may address Anna's careful gathering and understanding of different perspectives in the recommendation.

Relationship with constituents: Some students will address the problems associated with the relationship between a philanthropic group and its constituents. These students will likely focus on Anna's role as an advocate for the grantees and community partners. Their focus may be on Anna's reasons for including community readers in the allocation process. In addition, they may discuss the strong relationships that Anna enjoys with the community constituents.

The instructor may ask each student to discuss his/ her reasons for focusing on that aspect of the case. Then, the instructor may spend about half an hour discussing the assignment questions listed in the teaching notes.

Another useful exercise may be to ask each student to frame a short rationale for their decision to one of the following groups:

The Steering Committee;

Other Foundation partners;

The state program officer;

The community partners;

Current grantees; or

Future grantee organizations.

The student must carefully consider each of these positions in arriving at a final recommendation for what Anna should do.

Finally, the instructor should return to the original question of: "What should Anna recommend?" to see if any students have changed their minds about their recommended course of action. The instructor may then ask students why they changed their opinion.

A CASE ANALYSIS

This case addresses a number of issues that may be worth exploring during a class discussion. However, it may not be possible to discuss all of these issues in a single class session. During the course of a single class period, you may wish to emphasize several of these issues depending upon your own teaching objectives, the students' backgrounds, and the course objectives. Among the issues to consider highlighting during the discussion are:

Many of the names used in the case have been changed. All individual names have been changed, as well as the name of the Fund;

This case is written from Anna's perspective, but you could reframe the issue from the perspective of the state. As the state Program officer, you would want to consider any values of the collaborative that you were joining in reference to your own guidelines. If you were Joe, what would you want Anna to do in this case? In general, what would you require of your partners, and would you want them to alter their process to work with you? Presumably, it would be in the best interest of the state to enter the partnership. As a state partner, could you ensure that your guidelines were met while retaining the underlying values of the collaborative? Would a joint allocation process meet your needs?

A good relationship with community partners and grantees is important in grant making, but is it necessary? The Fund has an interest in supporting competent, accountable, and innovative organizations, even if they have unconventional means or constituencies. Anna believes that the Fund's inclusiveness generates goodwill among the community partners. The Fund can then rely on this expertise to understand emerging programs and needs in the community.

Although inclusion of community readers in the allocation process was a successful model for the Fund, was it a necessary component of the Fund's activities? Were there other ways for the Fund to draw on community resources and expertise? What if the Fund included community partners on its Steering Committee? What would be the strengths and weaknesses of these approaches?

There are different models for operating a pooled community fund. In some pooled funding collaborations, the voting privileges are determined by level and/ or amount of contributions. Much like shareholders in a corporation, each member receives "votes" in proportion to the amount contributed. In this type of partnership, the values of the collaboration would reflect the values of the foundations making the largest contribution.

In the Immigration Fund, membership and voting privileges in the Fund were given to all funding partners. Each contributing member received one vote in the decision making. There was no minimum contribution for voting privileges on the Steering Committee. In this case, the values of the Fund reflected the values of the majority of the partners.

There are strengths and weaknesses to each of the above approaches. What are some of the strengths and weaknesses of each approach? To explore issues of equity in collaboration, you

may ask the students to discuss different models of equity. For example, in *Policy Paradox*, Deborah Stone discusses several methods of dividing a chocolate cake among eight people (equal shares, people who like chocolate get the most cake, those who baked the cake get the most, etc.). Each of these methods would lend to a different philosophy about equity and representation.

Students may complain that the case does not contain enough information for them to make a sound judgment. The objective of the case is to provide enough details to outline the situation and some possible courses of action. Remind students that professional decisions are often made with fewer facts than provided in the case. More information will not necessarily alleviate the issues presented in the case, or make the answer any clearer.

FINAL OUTCOME OF CASE

In the IF case, Anna recommended that the Fund adopt the state's process for at least one cycle. This ensured that the funding could continue through its "critical period." In the meantime, Anna sought funding from additional prospects in the community.

After one cycle using the state's guidelines, the IF collaborative decided to return to using community readers in the allocation cycle. The state support declined, but other local foundation support replaced the government funds which restricted the allocation process.

Northwest Area Foundation: Comprehensive Planning with The Indian Land Tenure Community

A Teaching Case
Louis T. Delgado

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

The Northwest Area Foundation (NWAF) facilitated a three-year strategic planning process, focusing on Indian Land Tenure with Native Americans from across the eight-state region served by the Foundation. The goal was to develop a long-term comprehensive plan that would seek to alleviate poverty and build sustainable communities by strengthening the capacity of Native communities to manage and control their land. The plan was completed, and the Indian Land Tenure Community (ILTC) is now requesting $20 million to support the development and implementation of their plan. Although the size of the grant request is higher than anticipated, and would likely mean that less money would be available for other communities targeted by the Foundation, the Indian advisors feel the request is warranted. The president of the Foundation must now make a decision regarding the grant request.

NORTHWEST AREA FOUNDATION BACKGROUND

The Northwest Area Foundation was established in 1934 by Louis W. Hill, son of James J. Hill, the founder of the Great Northern Railway, to provide funding for charitable causes. Several years later, the Board of the Foundation decided to target its various grant programs and activities to the eight states in the country's northwest region: Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho, Washington, and Oregon.

Like many foundations, NWAF has experienced both a growth and a decline in the value of its asset base as the U.S. economy has changed during the past decade. Its total assets, however, have consistently been well over $300 million during this period ($313 million in 1994; $470 million in 2000; and $368 million in 2003), placing it among the largest 100 foundations in the country. Its total grants and qualifying distributions[7] averaged $16 million per year over this period, but varied considerably each year ($18 million in 1994; $30 million in 2000; and $13 million in 2003).

Since its establishment, the Foundation's programmatic interests increased to the point that it maintained an eclectic cadre of 39 different programs in 1996. At that point, the newly elected Chair of the Board of Directors, W.E. Bye Barsness, along with the newly hired President of the Foundation, Karl Stauber, decided it was time to move toward greater clarification and refinement of the Foundation's purpose and strategic direction. Barsness had been on the Board for seven years, and Stauber had been Program Vice President at NWAF for eight years before serving three years as the Undersecretary of the U.S. Department of Agriculture. Barsness and Stauber envisioned streamlining the foundation's operations, and planned to identify four to six program areas that would be the primary focus of the Foundation's activities. Accordingly, they embarked on a foundation-wide strategic planning process that involved the entire board and staff. To ensure that everyone had the time to focus on the planning process, and to let grantees know a major program shift was underway, the Foundation made multi-year "termination grants" to its grantees and dramatically reduced its grantmaking activities. The Foundation further decided that it would maintain a commitment to its eight-state region, and increase the region's economic vitality in a manner that helped disadvantaged communities (NWAF, 1998: pp. 1-6).

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[7] The legally required annual distribution is equal to 5% of a private foundation's assets. The Foundation publicly released this new direction in October 1997, and community projects began to be approved in July 1998 (NWAF, 1998: pp. 6-17).

The Board hoped to have the new program implemented by September 1997. However, the process was more time consuming than anticipated and entailed a great deal of public input and information gathering. By September 1997, the mission statement, as well as the core values and norms

The new mission thus read:

> To help communities most in need create positive futures—economically, ecologically, and socially…To implement this mission, the Foundation will help selected communities in the region to work toward a balanced system that will reduce poverty; stimulate economic growth; sustain the natural environment; and develop effective institutions, relationships and individuals (Showalter, 1998: p. 13).

It was determined that this mission would be carried out through three distinct programs totaling $200 million over 10 years. The three programs were as follows:

> **Community Ventures**—$150 million was targeted to improving 10 communities through intensive planning and development activities (this was later changed to sixteen communities). The communities could be defined geographically or as "communities of interest."

> **Community Connections**—$25 million in products, services and small grants was allotted to address needs in a wide range of communities; and

> **Community Horizons**—$25 million was targeted to rural communities facing declining populations and resources. The funds would help them develop and retain teams of leaders who would make a better future (NWAF, 1998: pp. 14-16).

Throughout the planning process and into the implementation phase, the issue of poverty surfaced as a critical theme. Consequently, the Board chose to revise the mission statement in 1998 to emphasize a strong and clear commitment to poverty reduction. It now reads simply: "The Northwest Area Foundation exists to help communities in our eight-state region reduce poverty" (NWAF, 2005, Mission, para. 1). According to Stauber (personal communication, August 11, 2003), this change was made because "if we're not clear about what we're doing we will have a program that over time is a middle class program."

When the Board members approved the new direction, they were eager to get projects up and running as soon as possible. The staff estimated that it would take up to three years to become fully operational, but the Board insisted that they wanted to become operational in no more than half that time (K. Stauber, personal communication, August 11, 2003). In response, the staff evaluated the work they had done in a number of areas, and at the July 1998 Board meeting, they brought forward a proposal to consider various community initiatives under the newly established Community Ventures Program. At that meeting, the Board focused its attention and discussion on two communities that appeared to have potential. If approved, each community would receive substantial staff and financial resources to support a comprehensive, community-wide planning process, along with a commitment from the Foundation to consider further support toward implementation of a final plan. Also, a team of Foundation staff would work collaboratively with each

community throughout the process. One community was in central Oregon and dealt with watershed issues. This was considered a geographically defined community. The other was the Indian Land Tenure Community. It was considered under the "community of interest" category (C. Stainbrook, personal communication, August 12, 2003).

THE INDIAN LAND TENURE COMMUNITY

NWAF has periodically awarded grants to specific tribes in their region to help them develop and improve their land management and consolidation efforts. Control and loss of traditional lands has been a major problem since the United States expanded westward. Following is a brief overview of Indian land loss in the eight-state region, as stated in an internal memorandum issued by the Indian Land Tenure Team (February 1, 2003):

> Land tenure as a strength of tribalism was forever affected when the United States executed treaties between sovereign tribes and the federal government. From 1789 to 1871, the Indian Land Base in NWAF's eight-state region was reduced from 433,000,000 acres of Indian lands to 81,337,624 acres of Indian Reservations, memorialized as "permanent homelands." Yet in 1887, the United States passed the General Allotment Act ("GAA"), resulting in a further loss of 65,630,432 acres, reducing Indian land in the eight-state region to 15,707,192 acres. The remaining acreage is impoverished for the most part…The GAA created major problems on Indian land. Communal ownership on 54 of the 75 reservations was resolved into individual allotments, to be held in trust by the federal government. Land inside the reservations not allotted was considered "surplus land" and became alienated when it was sold to non-Indians. Individual allotments were assigned without regard to conveyance rights, so that allottees passed their ownership to all their heirs as undivided interest, creating an exponential progression of fractionated landowners (p. 1).

Some tribes have developed policies and programs to increase tribal and individual tribal members' control of their land. In 1990, with NWAF support, a conference was held in Pendleton, Oregon to address issues and concerns related to Indian land. Following this meeting, a core group of 30 to 40 people continued to communicate on a regular basis to monitor national policy developments affecting Native land and to hold related conferences. This group identified themselves as the Indian Land Working Group (ILWG; Indian Land Tenure Team, personal communication, February 1, 2003, p. 3). The NWAF staff later recruited several ILWG members to serve as advisors to the Foundation on Indian land tenure issues. However, the NWAF staff considers the broader ILTC to consist of "Indian people on and off reservations across the country, members of the [75] tribes in the eight-state region, tribal governments, non-Indians, and the federal trustees who are connected to Indian land issues and to each other" ("Indian Land Tenure," 2001: p. 1).

The problems associated with Indian land are varied and complex, and, according to some, the problems contribute to the poor conditions that exist on reservations throughout the country. The fractionation of land makes it extremely difficult to utilize the land by allottees because they have to develop agreements with many other owners, often unknown to one another. Although they receive some remuneration for the land leased, lease rates managed by the Bureau of Indian Affairs (BIA) are often below fair market rates and divided among numerous people.

For example:

> A 160-acre fractionated parcel in 1990 had 1,200 owners and earned $1,400 lease income as farmland. Each fractionated owner profits $1.16 per year on this land, but does not see the income for more than twelve years, due to cost of record keeping and bureaucracy ("Indian Land Tenure," 2001: p. 2).

This contributes to the poor economic status of Native people. Forty percent of Indian people living in the eight-state region live in poverty ("Indian Land Tenure," 2001: p. 4).

Theresa Carmody (personal communication, September 2, 2003), the secretary/treasurer of ILWG, stated:

> Because the policy beginning in the early 1900s was to lease the land out to non-Indians, the economic benefit for the community is minimal. If people get a check in the mail, they often don't know what allotment it comes from, if it's fair market value, who the other owners are that also might be receiving a check from the allotment. What I say has been created over the past hundred years is a detachment from the land so some other individual or community is benefiting rather than the community whose land it is. A lot of people don't know where their land is located. They don't know who the co-owners are. They know that somebody is leasing their land, and they think that they can't go out and take a walk on their land and use it in any way, like hunt and fish, or gather fire wood. They're being told by farmers that they're going to be in trespass if they come on their own land, things like that. There's a real lack of knowledge, or detachment, I don't feel like I have any thing that ties me to the land. If I'm farming, or have cattle, a garden, or have a home-site on it, I'm on the land. But if a ranching company or somebody from the outside is using it, they're basically controlling it. Along with the Bureau of Indian Affairs (Department of Interior) which basically has a trust responsibility to manage trust land.

To Native Americans, land is seen as more than simply an economic asset. The land is inextricably entwined with their tribal identity. The land provides community definition, a sense of spiritual connectedness, and is the source of their traditional stories, legends, and worldview. ILWG sees it as its responsibility to educate and assist others to gain back control over decisions affecting Native lands. ILWG believes this will ultimately strengthen families and communities.

INDIAN LAND TENURE COMMUNITY PLANNING PROCESS

The staffing structure at NWAF was reorganized to have a team approach to working with each community under the organization's new program direction. Four to five people with different types of skills and expertise were assigned to work with each community. Since the Foundation expected to work with these communities for 10 years or longer, staff felt this approach would void the disruption and lags that occur when a staff member leaves. There would always be others on he team who would know what was happening and would maintain the momentum (C. Stainbrook, personal communication, August 12, 2003).

Cris Stainbrook, a member of the Lakota Tribe and a Community Activities Lead under the new staff alignment, had experience working on Indian land issues prior to joining the Foundation and had targeted a few grants to support this work while at NWAF. He felt that the work going on concerning Indian land tenure matched the intent of the communities of interest category in the Community Ventures Program, and that the work should be supported under this new program. Therefore, he and others on his team proceeded to develop a stronger working relationship with the community of activists and leaders on this issue. In March 1998, ILTC representatives were brought in to meet with the NWAF staff about the issue. They talked about what needed to be done to address the problem and how NWAF could play a role. The information from this meeting was used to support the staff's proposal to the NWAF Board to accept ILTC as one of the first two communities to be adopted by the Board in July 1998 (C. Stainbrook, personal communication, August 12, 2003).

There were several questions about ILTC that had to be addressed during initial discussions among the staff of the Foundation and, later, with the Board. The questions primarily focused on whether the organization was considered a community and how it would alleviate poverty. According to Stauber (personal communication, August 12, 2003):

> For me the challenge was to turn it from an issue to a community. That's the reason we made a number of decisions that we made, we were trying to increase its sustainability and structural capacity so that it is a community and not just a topic. The other question I had for Cris (Stainbrook) was, "What's the linkage between land and poverty reduction?" Most of my Ph.D. training has been in economics, and I tend to look at things from that frame. Cris and others succeeded in helping me to see that one of the reasons I was having trouble seeing the linkage was that I was using a purely economic definition of poverty. They helped me to better understand that land was of great cultural and spiritual significance, as well as of economic significance…The biggest challenge within the Board came from non-Indians who work with tribes, have business relationships, and they couldn't see the relationship between control of land and poverty reduction. They wanted a more modern view that said something like, "This is how we're going to create 5000 jobs on two reservations," or "This is how we're going to train people so that when jobs come in, they're ready." Board members having the most trouble with this partnership were Board members that wanted to take a more traditional view of economic development, and a more traditional view of community development.

Stauber (personal communication, August 12, 2003) believes that having Native Americans on the Board of Directors helped other Board members understand the link between Indian Land Tenure, poverty, and community sustainability:

> We have 13 board members and one of the good things about having three Native American members is that at some point the staff has to just be quiet and let the board members that understand these issues talk. I couldn't convince particularly one board member. I had already made the decision but I couldn't convince him.

It is worth noting here that the Foundation had recently moved to a new governance decision-making model, which gave Stauber, as President, the decision-making authority over program implementation and investment decisions while the Board would focus on policy matters. So, Stauber actually made the decision to approve ILTC as one of its

Community Venture communities. However, he felt it was healthy for the organization to have the Board involved and supportive (C. Stauber, personal communication, August 12, 2003).

There was a bit of skepticism among some of the community members, as well, regarding NWAF's interest and commitment to the Indian land Tenure Community. Although a few had developed a working relationship with NWAF through the previous grants made by the Foundation to support work on the issue, others did not have the benefit of this experience. Neither did they know very much about how foundations work. For them, it took a while to understand how to work with NWAF. The example of Howard Valandra, a member of the Lakota Tribe who worked at the Rosebud Tribal Land Enterprise in South Dakota, a business that derived its income from lease revenue, illustrates this point. Valandra (personal communication, August 12, 2003) initially thought NWAF was "wasting our time." He asserted:

> I didn't know what they were about. The whole world of philanthropy was new to me and I had no idea. When I talked to people, that was always my first reaction, what are these guys doing here? They just wanted information. They were going to do something but it was down the road. I didn't look at it as something that would benefit the work I was doing. I didn't see that.

It took a series of meetings for Valandra to understand the potential behind engaging in a comprehensive planning initiative that would tackle the land tenure issue broadly. He related:

> In the meeting in Missoula, Montana (held in October of 1998), we got all of my peers in the same room. Some had previous experience with foundations and the NWAF. It's a situation where because you know and respect them, and because they bought into it, you sort of say there must be something about this because these people don't do that unless there's something there. I could see different players wanting to participate, which said to me I should want to participate and know more about it. I think there were a lot of us in that first meeting in March 1998 that really didn't understand the concept. The later discussion in October was more about helping overall Indian country, and focusing in on it. It was more about how we will address this whole issue, the larger issue (H. Valandra, personal communication, August 12, 2003).

Later, Valandra joined the staff of NWAF and felt he was fulfilling an important role. He claimed: "It was like I was an interpreter. I would interpret for the Foundation what the community said, and I was interpreting to the community what the Foundation was saying" (H. Valandra, personal communication, August 12, 2003).

The entire planning process took close to three years—that is, from 1998 to 2001—to complete, and there were many activities and challenges along the way. The Indian Land Tenure Team organized a sizable advisory committee drawn largely from a symposium sponsored by ILWG. The Team felt the members reflected the Indian community's interests in the issue. Together, they drafted and re-drafted long term plans to work on. They conducted research, which included two critical reports. There were meetings with community groups convened in different locations in the eight-state region to provide feedback on the plan that was developed, and there were extensive internal discussions at NWAF regarding the strengths and weaknesses in the community plan (Lindman, 2002).

One of the more memorable moments for the Team and some of the advisory committee members that joined them was drafting the community's plan aboard an Amtrak train headed westward from St. Paul. Considering that the wealth of NWAF was associated with the Great Northern Railway that cut through Indian lands in the region, it seemed fitting for them to draft their plan calling for radical land reforms aboard a railroad serving the region. They stopped at a lodge in Glacier, Montana where they continued to work on the plan, then returned to St. Paul. The outcome of this trip was a strategic plan, as well as an ambitious goal statement for the Indian Land Tenure venture. The goal statement was slightly revised at a later point to read: "Lands within the original boundaries of every reservation and other areas of high significance where tribes retain aboriginal interest in the eight-state region are in Indian ownership and management" (Lindman, 2002: p. 37).

According to Stainbrook (personal communication, August 12, 2003):

> When they did the vision statement that was breathtaking. It was clear from everybody on that committee that the thing they wanted was all the land within the exterior boundaries back in Indian control. They already knew or had some feeling for what that would mean on their reservations. I think that after the conversations we had with them it was clear what the magnitude of this was across the eight-state region—millions and millions of acres and billions of dollars. It elevated their thinking to a movement kind of thinking. It wasn't just Umatilla, or Flathead, or Pine Ridge, this was going to take something beyond what most of them were thinking about.

There was also a recognition that this effort would seem threatening to people who may stand to lose control of land and that the Indian Land Tenure planners needed to come to terms with that.

To reach their overall goal, the Team and Advisory Committee members conceived of a new organization to be created that would organize resources and play a catalytic role in gaining Indian control over their lands. This idea was fueled in part by a report that they commissioned, written by Daniel Press (1999). The Press report examined the financial/economic issues related to Indian lands, as well as the regulatory environment and technical assistance needs of the tribes themselves. One of the report's conclusions was that there was a need for a "Central Land Tenure Financial Institution" that could provide a range of services including greater access to capital and educational services. It was also proposed that such an institution should be structured to work closely through a network of local affiliates working at the tribal community level (Press, 1999: pp. 1-26).

The Advisory Committee eventually concluded that this organization would be a public foundation that could generate grants and resources to support the work they carved out in the plan; the foundation would have a life in perpetuity. The idea of such a foundation captured the imagination of both the community representatives and other Team members working on the project. According to Atty. Viki Kimsal (personal communication, August 11, 2003), one of the Team members who had worked with many tribes in the region at her previous job in a law firm: "The one thing that hit me was this idea of a program that becomes so powerful that it grows into an institution. I did not want this to become just a project, an initiative, or whatever."

The Advisory Committee members and the NWAF Team also recognized it would take a sizable commitment of resources to move this agenda along and after careful consideration of their funding needs, together they decided to request a 10-year commitment of $20 million

from NWAF toward this project. The money would be used to implement programs and to establish an endowment. The endowment would generate "interest" money that could be used to support operations and programs, as well as serve as a base upon which the foundation could attract other sources of funds.

As the community planning process unfolded, it was apparent that the community representatives were feeling a greater sense of ownership for the overall direction of the effort. This was evident through the actions they took, from overseeing the contracting of research to taking leadership in presentations at public meetings throughout the region. This shift to greater ownership by the community was viewed positively by the NWAF staff; in fact, it was what they hoped would occur. Without this "buy-in," there would be no assurance that there would be any follow-up on the recommendations in the plan. It also meant, however, that the staff had less control over the process and decisions that would be made. A prime example was the election of Board members to oversee the creation and implementation of the new institution that was to be created.

According to the plan, the Advisory Committee had the responsibility to select the initial group of Board members; however, the Team members believed there would be a nomination process to seek individuals from the broader community. What actually occurred was that the Advisory Committee decided to expedite the process and proceeded to elect members from within their group. Although the Team was surprised by the move, they did not interfere. As Valandra (personal communication, August 12, 2003), put it: "The thing that was really important from the Foundation side is we didn't say no. We let them own the process."

Stainbrook (personal communication, August 12, 2003) added:

> The Foundation staff stayed away from intervening in the board selection. That would have been a killer. When you look at all the people who have an interest in Indian land, and they are so spread out geographically, you have to draw a line somewhere and say these are the people who have been actively engaged, they know what the plan is about. We trust them to go out there and carry it out.

This new Board then proceeded to satisfy the legal requirements of establishing the new foundation. They created bylaws and incorporated as a 501(c)(3) in the state of Minnesota.

CRITICAL FUNDING DECISION

Following three years of intensive planning with the Indian Land Tenure Advisory Committee, the NWAF reached a critical decision point. First, would they approve a 10-year $20 million grant commitment to support the creation of a new foundation, the Indian Land Tenure Foundation (ILTF), and its related work? Second, if a grant were approved, how should it be paid out?

Regarding the first question, the issue was the scale of the grant request. Although NWAF never specified the grant amounts they would give to each community participating in the Community Ventures Program, based upon the $150 million available to 16 communities, it would be reasonable to expect a range of $8 to $12 million per community. When the $20 million-request for Indian Land Tenure was shared with other Teams at NWAF, there was noticeable dissension. According to Valandra (personal communication, August 12, 2003): "The reaction from some staff members was its too much money. Others gave sort of a gasp

because there was $150 million that NWAF was going to give, and if you take so much, we're going to get less."

A commitment of this size would surely eliminate the possibility of reaching an equitable distribution across the 16 communities. However, NWAF had never stated equal funding commitments as a goal, so it was not bound to such an approach. It was something that other Community Venture teams apparently assumed. Ultimately, the President at NWAF had to decide how to treat this request. Was it reasonable?

Concerning the second question—if approved, how it should be paid—there are extenuating circumstances that needed consideration. First, recognizing the long-term nature of these community partnerships, NWAF determined that periodic payments based upon each community reaching certain goals or benchmarks during the 10-year period would be an effective approach to paying out the grants to each community. For example, 20% of the total grant could be paid out after certain outcomes were fulfilled, another 20% after other outcomes were fulfilled, and so on and so forth. This approach would serve as a reward system, while simultaneously giving the NWAF some leverage and an ability to escape from the partnership, without losing all its money if things went awry.

At the time the Indian Land Tenure grant request was considered, the Foundation was behind in meeting its 5% payout due to the unanticipated slowness in getting various community partnerships on-line and money spent. Thus, the Foundation was in a position to consider awarding all of the money upfront to ILTF because it would help the NWAF meet its payout obligation. In addition, the grant could be made with an Internal Revenue Service (IRS) designation as an "unusual grant." This designation would protect the new organization from losing its public charity status and becoming re-designated as a private foundation because of receiving too much money from a single source. In spite of these advantages, the risk associated with giving all $20 million upfront cannot be overstated. According to the legal advisors of NWAF (as cited in Lindman, 2002):

> Another risk associated with paying out the entire grant at once is the possibility that, whether through negligence, malfeasance, or just bad luck, ILTF could use up the funds at a much faster rate than anticipated. The funds could be consumed, for example, by poor investment performance, a lawsuit, or spending outside the budget. Short of placing the funds in a separate entity, there is no good way to protect the funds from ILTF's creditors once the funds are in ILTF's hands (p. 45).

It was clear that any future influence that NWAF would have regarding use of funds and program implementation would be limited. However, if a single payment of $20 million were made, it would make a statement heard throughout Indian country that this is a serious initiative. At the very least, it would capture the imagination and interest of many.

ASSIGNMENT QUESTIONS

- Do you feel the Indian Land Tenure Community was an appropriate fit for the Community of Interest category? Explain your answer.

- Do you feel NWAF played an appropriate role by facilitating the planning Process? Would it have been better to pay a third party to facilitate the process?

- What would have been gained or lost if a third party was used?

- How important was it to have a diverse board and staff at NWAF? Do you believe NWAF would have gone as far as it did without this diversity in-house?

- Based upon what NWAF is trying to achieve through its new Community Ventures Program, would you approve a 10-year grant commitment of $20 million? Would you approve some other amount to the ILTF?

- If you approved the grant, what type of payment distribution plan would you implement? Would you give all $20 million upfront? Provide a rationale for your distribution plan.

- If you did approve a large grant, what expectations do you have regarding future involvement in the project?

- If you did not approve a grant, is there anything further that the Indian Land Tenure Community could do to be considered for a grant?

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ABOUT THE AUTHOR

Louis T. Delgado has more than 30 years of experience in education, community development and philanthropy. He held a dual appointment at Loyola University Chicago. He was the Graduate Program Director for the Philanthropy & Nonprofit Sector Graduate Certificate Program, and was Policy & Program Analyst at the Center for Urban Research and Learning. He has held positions of substantial responsibility with the Chicago Board of Education, NAES College and the John D. and Catherine T. MacArthur Foundation, and has served on the Board of Directors of several national and local nonprofit organizations. He holds advanced degrees from the University of Chicago in Public Policy and in Social Work, and has received several prestigious awards in recognition of his work. He has done research and written reports on various aspects of philanthropy including: *Chicago Philanthropy: A Profile of the Grantmaking Profession*, and *Native Gathering: A Meeting with Native American Elders, Activists, Select Funders and Scholars*. Both reports are available on-line at: luc.edu/philanthropy.

Northwest Area Foundation: Comprehensive Planning with The Indian Land Tenure Community

A Teaching Note
Louis T. Delgado

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

The Northwest Area Foundation (NWAF) facilitated a three-year strategic planning process, focusing on Indian Land Tenure, with Native Americans from across the eight-state region served by the Foundation. The goal was to develop a long-term comprehensive plan that would seek to alleviate poverty and build sustainable communities by strengthening the capacity of Native communities to manage and control their land. The plan was completed, and the Indian Land Tenure Community (ILTC) is now requesting $20 million to support the development and implementation of the plan.

Although the NWAF staff is impressed by the depth and magnitude of the plan, the grant request is higher than anticipated and would likely mean that less money would be available for other communities targeted by the Foundation. Nevertheless, Indian advisors feel the request is warranted. They also feel an upfront payment of all the money would be preferable to receiving periodic payments over a 10-year period. Because NWAF is behind in its payout obligation, an upfront payment appears possible, but raises other concerns related to accountability. The president of the Foundation must now make a decision regarding the grant request.

TEACHING OBJECTIVES

To increase understanding of the operational challenges inherent in foundation/community planning partnerships;

To build an appreciation and understanding of institutional change;

To strengthen knowledge and skills pertaining to grant decision-making; and

To develop an appreciation for institutional diversity.

PREREQUISITES

Basic know ledge of the Internal Revenue Service's (IRS') 501(c)(3) charitable designation, as well as a general understanding of the role and purpose of private grantmaking foundations.

ASSIGNMENT QUESTIONS

- Do you feel ILTC was an appropriate fit for the Community of Interest category? Explain your answer.

- Do you feel NWAF played an appropriate role by facilitating the planning process? Would it have been better to pay a third party to facilitate the process?

- What would have been gained or lost if a third party was used? How important was it to have a diverse board and staff? Do you believe NWAF would have gone as far as it did without this diversity in-house?

- Based upon what NWAF is trying to achieve through its new Community Ventures Program, would you approve a 10-year grant commitment of $20 million? Would you approve some other amount to the Indian Land Tenure Foundation (ILTF)?

- If you approve the grant, what type of payment distribution plan would you implement? Would you give all $20 million upfront? Provide a rationale for your distribution plan.

- If you did approve a large grant, what expectations do you have regarding future involvement in the project?

- If you did not approve a grant, is there anything further that ILTC could do to be considered for a grant?

ANALYSIS

There are several important themes that run through this case. These themes will serve as interesting points of discussion with the class, either as individual topics or as part of the discussion of assignment questions. The themes include: community definition; an engagement model of grantmaking; sharing power and ownership; diversity, and grant decision-making. These themes are discussed below.

COMMUNITY DEFINITION

NWAF identified two types of communities to target within their Community Ventures Program: geographic communities and communities of interest. While a geographic community can be defined by specific boundaries, a community of interest is much more fluid. In the case of ILTC, the participants chose to define their community of interest as including a broad range of people, Indian and non-Indian alike, who are connected to Indian land issues and to each other. While it provides a general framework for understanding and identifying this community, it would be difficult to determine how many people this actually includes or who and where they are. While this fluidity may present challenges regarding identification of its members, the concept allowed NWAF to reach a group of Native people connected by a common interest, people who would not have been reached through a place-based approach to community grantmaking.

When discussing this case, invite the students to think of other strengths and weaknesses to a community-of-interest approach versus a place-based approach. Identify and discuss other examples of communities or groups that would constitute a community-of-interest.

ENGAGEMENT MODEL

NWAF made a huge and challenging shift in its mode of operation when it crafted its new mission and programs. NWAF moved from being a conventional foundation grantmaker, a grantmaker that gives grants with limited or no involvement in shaping those grant activities, to becoming a Foundation that actively organizes and facilitates the development of community projects it wants to support. This can be a high-risk approach. Should the planning process lead to a project proposal that does not meet the expectations of the Foundation, it is then difficult to deny a grant to implement the project without damaging the Foundation's credibility and public image.

NWAF made a substantial commitment of staff and financial resources to the planning process. Surely, NWAF expected the final plan to be one that they could support; however, there were no guarantees that the work would produce a plan that would be fundable. The plan would have to meet the Foundation's program criteria and programmatic expectations. Fortunately, due to the careful and meticulous work of the staff and community partners, a plan was created that was fundable. Throughout the process, the staff communicated and discussed the essential elements of the plan with the Foundation president so that there would be no major surprises, nor a flat-out rejection at the time of submission.

NWAF could have chosen a different strategy to facilitate the planning process, such as using an independent third party. This would put some distance between the Foundation and the community. The third party would simply serve as a buffer to deflect any negative outcomes that would occur. It would not eliminate, however, the community's expectation that an implementation grant would be forthcoming.

An important factor that should be considered when evaluating the success of the Indian Land Tenure planning process was that there was an informal network of Indian Land Tenure organizations already formed which the NWAF staff could learn from and to which they could connect. The challenge to the NWAF staff was to help this network understand the value of the planning process and where it could lead. They essentially had to share the vision with ILTC and help move the agenda forward. This is much different than entering a community of disparate groups with little history of working together. In the latter scenario, groups are highly challenged to learn how to work together, develop trust among one another, and set aside their competing interests.

Invite the class to discuss the challenges to facilitating a planning process with community actors not formerly associated with one another versus working with a cohesive group of community players.

SHARING POWER AND OWNERSHIP

Although foundations frequently talk about working collaboratively and in partnership with communities, they often do not acknowledge the power imbalance that exists. Foundations have the money, and the communities need it. Should things become difficult or a disagreement occur, the Foundation can always take its money elsewhere and find people eager to work with them. Communities in need cannot so easily find another partner with comparable resources. This imbalance allows foundations to significantly influence the direction and activities within these partnerships.

Based on the information in the case, invite the class to give their impressions regarding the role that NWAF played in the process. Did they direct how the work would be done or set the priorities? Did the NWAF staff respond to the election of ILTF Board members appropriately, or should they have insisted on expanding the list of candidates beyond the advisory group? And finally, how much did the concern over control enter into your students' thoughts when they considered an up-front payment versus making periodic payments based on achieving certain outcomes?

DIVERSITY

There is a growing belief that greater inclusion of people traditionally left out of the decision-making process in foundations, such as Native Americans and other people of color, will lead to more effective foundation grantmaking. This belief is supported by the realization that people from these groups bring new knowledge, experiences and perspectives that will strengthen a foundation's capacity to tackle today's problems. NWAF was able to use the knowledge and experience of Native Americans on their staff and Board of Directors to help the Foundation move through the planning process with the Indian Land Tenure project. Several key decision points were hurdled because of this diversity. It could be argued that having Indian staff members at NWAF enabled ILTC to become a targeted community because the Indian staff was able to recognize the potential that existed and make the appropriate case for it. Also, the Native American Board members helped others on the Board understand the connection between Indian Land and the poverty reduction goals of the Foundation. Without this inclusiveness, would NWAF have missed this programmatic opportunity?

GRANT DECISION-MAKING

NWAF did not specify to its community partners nor to its staff how much money would be committed to each community venture; this allowed for the community partners to develop a 10-year budget based on need. However, the $20 million requested by ILTC presented a challenge to the Foundation's own budget. Could NWAF commit the $20 million dollars requested by ILTC and stay within the overall budget of NWAF? What effect or precedent would be established by making such a grant award? Would the other community partners ask for higher amounts if ILTF got what it requested? This could be avoided in the future by setting limits and stating them at the beginning of the planning process, but this could also distort the community's budget planning process. Communities might then ask for the amount specified by NWAF, rather than what they actually need. What advantages or disadvantages are realized by specifying an amount upfront? Not specifying an amount upfront?

Another grantmaking issue concerns the question of giving all $20 million upfront or making periodic grant payments over the 10-year period. There are clear benefits and drawbacks to each course of action. It begs the question of whether holding the money and giving periodic payments is as much a concern for financial prudence and program integrity as it is one of control. On the side of NWAF, the risk is clear: they would give up their leverage in the relationship as well as the ability to protect their money should things go wrong. They would no longer have the option to withhold funds if they felt the situation warranted it, and they would have limited influence in future programmatic decisions at ILTF. NWAF would benefit, however, by having all $20 million applied to their annual payout obligation. It would help them meet the annual 5% qualifying distribution requirement. The largesse of NWAF would also receive considerable notoriety because it would be one of the largest gifts ever made by a private foundation to a Native American organization.

An upfront payout would be significant to ILTF. The Foundation would have greater comfort in knowing the resources are in hand to do the things it promised to do over a long period of time. It would also have more flexibility in budgeting future needs. On the downside, the "unusual grant" designation that the IRS issues in cases of an unusually large

grant prevents ILTF from receiving additional resources from the NWAF for a period of time, even if the resources were to become available.

To make a decision on these issues, one must weigh all the options and make a decision that best supports what a foundation is trying to achieve. Questions a foundation may ask itself when faced with this situation include the following:

- Is there confidence in the ability of the participants to carry out the project?

- How will progress be determined?

- What expectations does the grantmaker have for future involvement in the project? and

- If the total need, opportunity, and potential impact across all community projects exceed the funds budgeted by the foundation, is it worth dipping into the endowment in order to achieve full funding and achieve grant equity across various projects and communities?

FINAL DECISION

(NOTE: There are no right or wrong answers. It is up to the discretion of the instructor to share the actual final decision with the class.)

Karl Stauber and the Board of NWAF approved a grant of $20 million to ILTF, and the money was paid upfront, in a lump sum. In exchange, for 10 years, the ILTF will provide regularly scheduled reports to NWAF on their activities and progress toward reaching certain performance benchmarks. NWAF and ILTF recognize that the long term nature of the partnership may necessitate some negotiated changes in the benchmarks along the way. However, if ILTF does not meet benchmarks or substantially deviates from benchmarks deemed most important to the project, ILTF has six months to correct the problem. If the problem is not corrected, NWAF can actually require ILTF to transfer the funds to an independent third party.

Julius Rosenwald and the Rosenwald Fund:
A Case in Non-Perpetual Philanthropy

A Teaching Case
Joseph K. Hoereth

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

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What could happen, it might be asked, if the billions tied up in perpetuities n this country should be released over a period of fifty or one hundred ears? What would become of scientific research? How could society care for the sick, the helpless, and the impoverished? The answer is that all these needs would be as well provided for as the demands of the day justified. Wisdom, kindness of heart, and good will are not going to die with this generation. (Julius Rosenwald, The Principles of Public Giving)

BACKGROUND

At the end of the 1990's, the US economy was nearing the end of one of the longest sustained periods of growth in its history. Foundations shared in this growth by increasing total assets nearly 300% between 1977 and 1996 as a result of an increased return on their assets and increased contributions following a tremendous increase in overall wealth (Mehring 1999). This period of time was not unlike the early 20th century when extremely wealthy and aging industrialists were either giving away pieces of their fortunes or depositing vast sums in philanthropic instruments that still bear their names today. Many of these businessmen applied the same direct approach to philanthropy that had won them success in their business dealings: a fundamental belief in capitalism and hard work. They favored ideas rooted in notions of self-help and human development, while shunning traditional notions of charity. It was not uncommon for these philanthropists to question the aspects of the philanthropic conventions of their day. Consider the following statements by two early 20th century philanthropists:

> I have no patience with professional charity or with any sort of commercialized humanitarianism. The moment human helpfulness is systematized, organized, commercialized, and professionalized, the heart of it is extinguished, and it becomes a cold and clammy thing (Ford, 1930: p. 206).

> I am thinking not only of the university endowments, but also of the great foundations... Too many of these are in perpetuity. It is an astonishing fact that the men who gave them—for the most part, hard-headed business men who abhorred bureaucracy—have not guarded, in their giving, against this blight (Rosenwald, 1929a: p. 604).

These statements share the same critique of the perpetual foundation. Ironically, the first quote is from Henry Ford who founded the Ford Motor Company and the Ford Foundation. The Ford Foundation became one of the largest in the world and operates in perpetuity, despite Ford's lack of "patience with professional charity" (Ford, 1930: p. 206). Meanwhile, the second quote is from Julius Rosenwald, who wrote the second statement in an article on the issue of perpetuity. Both men recognized the inefficiency of large bureaucracies, but their foundations were structured very differently. Yet, this philosophical agreement was reflective of the opinions of many philanthropists of that time. Despite this agreement, philanthropists since then have favored perpetuities, many of which require a great deal of administration.

Today, the issue of perpetuity is back on the table for discussion. Philanthropists such as George Soros, Ted Turner, and Bill Gates have gained recognition for their non-perpetual structures or by simply promising to give all of their money away during their lifetimes.

Although Rosenwald actively promoted non-perpetual structures and established his own non-perpetual fund, his ideas and efforts have been largely unrecognized for their influence and impact. Recently, a policy debate on foundation payout has unearthed an underlying debate on perpetuity in foundations, drawing new attention to arguments against perpetuities. This case study examines the current debate on perpetuity, the timeless arguments against perpetuity made by Rosenwald, and the impact of his philanthropic work on African-Americans as an example of the potential of the non-perpetual foundation.

THE DEBATES: PAYOUT AND PERPETUITY

The economic boom of the 1990s drew attention to the issue of foundation payout, or the percentage of their endowment that foundations are required to spend each year. The 1969 Tax Act set the payout minimum at 6%, along with a complex formula that allowed the minimum rate to vary. In response to the high inflation of the 1970s the federal government fixed the minimum payout rate at 5% in 1981. This is still the minimum rate today.

However, many foundations do not proportionally adjust their spending when their assets grow faster than 5%, effectively using the 5% payout rate as both a minimum and a maximum payout standard. As a result, many foundations added considerably to their endowments during the 1990s, prompting calls for raising the minimum payout. The push for higher payout has been led by two groups. The National Network of Grantmakers (NNG), a group comprised mostly of foundation staff, has encouraged foundations to voluntarily adopt a higher payout convention. The National Committee for Responsive Philanthropy (NCRP), a foundation watchdog group, has pushed for a change in the law that increases the minimum. Proponents of higher payout argue that raising payout slightly would not jeopardize the long-term viability of foundations or other philanthropic structures. By contrast, those on the other side of the debate believe that the 5% payout is adequate and could even be too high.

For its part, the Council on Foundations (2005) believes that 5% is a good balance between the payout standard and the need to protect the endowments of foundations that are intended to be perpetual.

> Who is right here? The payout debate is complex but essentially hinges on three questions:

- How do you accurately determine whether a payout rate is too high or too low?

- What gets included in the payout calculation–grants alone or grants and administrative expenses? and

- What payout percentage can sustain endowments in the long run, or indefinitely?

The Payout Debate

Opponents of increased payout make a strong case that it is difficult to truly predict economic conditions and the future earnings of an endowment. They argue that the payout rate should be conservative to protect the long-term sustainability of foundations. Most opponents base their arguments on technical aspects of predicting the growth of foundation assets, even though there is no consensus on methodology for evaluating a payout rate. One

study has suggested that the current minimum of 5% results in slightly more than a 50% chance that a foundation will be able to sustain the real value of its payout over a 25-year period (Cambridge Associates, 2000). It is important to note that the study did not predict that the same foundation would have no endowment after 25 years. Rather, the study predicted that the endowment would generate less for the foundation to pay out. In contrast, another study found that foundation assets as a whole grew much faster than the economy which suggests that foundations can afford to pay out more (Mehring, 1999).

A moral argument against raising the payout rate can be made on the grounds that risking the sustainability of an endowment is unfair to future generations that would benefit from its proceeds. One might contend the problems of today are likely to be the problems of tomorrow that future generations will need to continue to address. Using this argument, conservative payouts maintain a fair balance of foundation resources between present and future generations. The executive director of a foundation makes such an argument here: "Few of us believe that Utopia is just around the corner or that we are rapidly closing in on the cures to poverty, sickness, racism, or many of the other issues to which our foundations seek an answer" (Konrad, 1997: p. 54).

Those who argue for increasing payout see foundations with conservative payout rates as compromising their commitment to the problems and issues of the current generation. They believe that foundations should pay out more now if they can afford it. Supporters of increased payout also argue that the current law should be revised because the law permits grants, administrative costs, and program-related investments to be included in the 5% payout. As the main business of foundations is to disburse funds, their commitment to the intent of their donors and to the general welfare of society should be based only on what they pay out over time, not the costs they incur in the process of paying out. NCRP (2003) argues that disallowing administrative costs in "qualifying distributions" would increase grantmaking by $4.3 billion annually.

The Perpetuity Debate

Underlying the payout debate is the question of perpetuity. Should foundations hold vast amounts of wealth in endowment indefinitely? By asserting that a higher payout rate is bad for foundations because it threatens the long-term sustainability of their endowments, opponents of higher payout assume that perpetuity is in the best interest of foundations and society. One funder explains why this assumption might be faulty:

> We funders seem to assume we have to be around forever to solve problems, so we protect our principal by limiting our payout to the obligatory minimum. The result? We often nickel and dime our grantees, who must hustle to piece together their budgets bit by bit, wasting their energy and creativity on fundraising rather than pursuing their vision (Moyers, 1997: p. 54-55).

Several fundamental arguments can be made in support of perpetuity in foundations. One argument is that perpetuity indefinitely secures the availability of a resource to address a broad societal need. If a perpetual foundation has a mission and donor intent that is broad in scope, then it is likely to always have a need that it can address. Over time the foundation can shift its giving from one specific need to another and still be meeting its broader purpose. For example, a foundation that is charged with improving the access to and quality of health

care for children around the world can easily shift focus from improving the training available for doctors in other countries to building children's hospitals. The main benefit to society, however, is the permanent existence of a resource to address an issue that is always likely to have a need for philanthropic support.

Proponents of perpetuity could also point to the uncertainty of future needs as a reason to preserve endowments indefinitely. A foundation-funded need that declines during a particular time period could emerge again as a severe need in the future. Promising foundation-funded advances in science and research could later be proven useless or ineffective under changed conditions. Just as a foundation could be rendered irrelevant by changing conditions in society, one could argue that constantly changing conditions actually strengthen the need for perpetuity in foundations. There is no guarantee that a need that is met for this generation will also be met for future generations. In these cases perpetuity ensures that the foundation is a permanent resource that can be relied on in the future. One foundation president captured the long-term thinking associated with perpetuity in this way:

> Donors who want to focus on the immediate needs of society often give their money directly to the charitable organizations they are most passionate about... Setting up a foundation to last forever is an ego trip for some donors, but for most philanthropists, it is done mainly out of recognition of the dangers of focusing only on short-term results. Philanthropy has traditionally been a field concerned with persistent problems that will not go away any time soon... The non-profit world—and particularly foundations— represent an island of long-term thinking in a turbulent sea of short-term culture (Stehle, 2003: p. 41).

Another argument favoring perpetuities is often made by foundations when government cuts spending on services, leaving non-profits to pick up the slack. Non-profits, in turn, look to foundations to help them provide the additional services required. Foundations cannot be expected to easily fix or replace the public safety net that has traditionally been provided by governments. To do so would require a level of resources that could only come from each generation of foundations spending down its endowments and doing less. It would ultimately crowd out foundations support for other issues and causes.

The challenge of distributing a large amount of funding effectively and efficiently in a short amount of time also offers support to the idea of perpetuity. The charge of disbursing vast sums of funds to noteworthy and deserving causes in a relatively brief period of time, such as 10 years or 25 years, can lead to hasty funding or program decisions that might compromise the impact of the foundation. In addition, the pressure to spend out by the deadline could tempt officers with improper or illegal use of foundation funds. Perpetuity gives a foundation as much time as it needs to reform or adapt funding practices to the current context and to distribute the money in an effective manner.

Foundation assets are invested in the economy. As such, perpetual foundations invest a growing amount of money in the economy indefinitely; non-perpetual structures contribute, then remove investment from the economy over time. When one considers that foundation assets are in the billions, eroding that investment base removes a substantial amount of money from a productive use in the economy, thus shifting it to a use that may not be as productive. The investment of endowments contributes to the general welfare of society by generating jobs and corporate investment.

Some who support arguments against perpetuity agree with the idea that perpetuity should be a choice left up to philanthropists. Even Martin Morse Wooster (1998), who has written a book arguing against perpetuity, states:

> I believe that foundations should not exist for more than 25 years after the deaths of their donors. However, I oppose any government mandate that would limit the lives of foundations. The decision to create a perpetual foundation or a time-limited foundation should be made by the donors, not the state (p. vii).

The issue of donor intent is probably the easiest argument to support in both the payout and perpetuity debates. If those who establish foundations wish for them to exist in perpetuity, then there is very little leeway to amend that requirement after the donor has passed away. Under changed conditions, a legal request could be made to shift the focus of a foundation to a similar purpose, but the nature of the perpetuity clause cannot be amended. Those in support of perpetuity could argue that the founders of perpetuities established them to be their eternal legacies, forever supporting work, causes, and ideas that they valued, and that these wishes have to be honored.

The above arguments support the case for perpetuities. However, what can be said about the case against perpetuities? No one has done more to advance the arguments against perpetuity in foundations than Rosenwald, who truly championed the cause. His philosophy, writings, and philanthropic work remain today the most effective arguments for non-perpetual foundations. No contemporary equivalent has picked up his cause and continued his push for limited-life foundations. Have his arguments have been proven true by time and the long-term impact of his philanthropic efforts? Can we draw valuable lessons from his experience? His arguments, the impact of his fund, and the lessons learned are summarized in the sections that follow.

ROSENWALD: A PRAGMATIC PHILANTHROPIST

Julius Rosenwald was born in 1862, in Springfield Illinois. His father was a German Jew who had immigrated to the US and done well in the clothing business. Julius followed those footsteps and eventually built his own successful clothing business. By the mid-1890s, his business was a supplier of large quantities of men's suits to the Sears Roebuck Company. He became a business partner with its owner Richard Sears for $37,500, which was his half of an investment he made together with his brother-in-law. As a manager and an executive at Sears, Rosenwald developed a system for tracking and shipping orders for the Sears mail-order business that helped the company increase its sales from just under $1.5 million in 1897, to over $11 million by 1900 (Embree & Waxman, 1948). In 1909, he became President and Chairman of the Board of the company, and by the time he retired in 1924, his $37,500 investment had earned him millions. Unlike the wealthy industrialists of his day, he earned his wealth through a successful career as an executive, rather than as an entrepreneur.

Also unlike many of the wealthy industrialists of his day, Rosenwald had an interest in philanthropy that predated his wealth. Early in his career, he is said to have told a friend: "The aim of my life is to have an income of fifteen thousand dollars per year, five thousand for my personal expenses, five-thousand to be laid aside, and five thousand to go to charity" (Embree & Waxman, 1948: p. 14).

Rosenwald made substantial philanthropic contributions before he became wealthy, including a $2,500 gift to Jewish Charities in Chicago, which he made at a time before he could afford to give such an amount. As with his later philanthropic efforts, he gave to causes or projects in which he had a deep personal belief, and his early giving was scattered by issue, amount, and location. However, Rosenwald maintained a consistent philosophy behind his giving. He was a practical idealist who focused on projects that would make a real difference in people's lives, or that would generate great and useful ideas. This theme runs through the wide range of his philanthropic support such as contributions to higher education, YMCAs, Jewish settlements in Russia, fellowships to help black professionals advance in their careers, health care for blacks in the rural south, and schools for blacks in the south. In the current vernacular of philanthropy, he was interested in self-help, human development, or capacity-building ideas. He combined a focus on these ideas with the notion that people should be given the opportunity to contribute to their own betterment. He characterized his philosophy in this way: "On the theory that people do not value the things that are given them, I have tried to veer my philanthropies around to basic rather than palliative measures" (Rosenwald, 1929b: p. 136).

Rosenwald's Arguments against Perpetuity

To say that Rosenwald disliked perpetual endowments would be to understate his distaste for the practice. In an article devoted to the issue of perpetuity, Rosenwald (1929b) writes:

> [W]hile charity tends to do good, perpetual charities tend to evil, blessing neither him that gives nor him that takes. Endowments in all countries present such a disheartening chronicle of misuse, disuse, and abuse as to give a man pause before he contemplates founding one (p. 12).

He took on the cause of convincing others of the dangers of perpetual endowments, as well as encouraging them to take advantage of the opportunity to have a real impact on an issue through giving to meet the needs of the current generation. Rosenwald was able to convince many established philanthropists not to tie up all of their philanthropic contributions in perpetuity. He was able to talk Andrew Carnegie and John D. Rockefeller into changing the terms of endowment grants they had already made so that the endowments could be spent if needed. In order to do so, he had to make a very convincing argument.

To do so, Rosenwald published articles on perpetuity, including two in the *Atlantic Monthly* and one in the *Saturday Evening Post*, which were widely read magazines during his time. Another strategy he took was direct communication with other philanthropists. It was not uncommon for Rosenwald to send a letter to someone who had just made a large contribution to an endowment in an effort to encourage him to loosen a restriction on part or all of the endowment, so as to make it available for spending now, or at least in case of an emergency. He also wrote to others, notifying them of a contribution that he had just made to a current and worthwhile cause to try to challenge them to make a similar or matching non-perpetual gift to the same issue.   Ultimately, his most powerful tool for critiquing perpetuities was his own philanthropic work that reflected his conviction that the best use of philanthropic money was in the current time. He established the Rosenwald Fund, and charged it with spending out its endowment within 25 years of his death. Rosenwald died in 1932.

Rosenwald made several key arguments against perpetuities. He believed that each generation should be responsible for generating philanthropic contributions to current issues. He believed this for several reasons. First, he was confident that future generations would be able to meet the philanthropic needs for issues of their day. He also believed that a contribution with a life that extends beyond the generation of the giver's children would lose its personal connection with the giver, would most likely lose the connection with its intended purpose, and would not be as effective as the same gift given now. Similar to his philosophy toward work and inheritance, he felt philanthropic contributions left behind for future generations displace the valuable effort that those generations might make to generate contributions on their own. Just as there is value in people working for their own benefit, there is also value to society in people of the same generation helping each other and their children.

Rosenwald argued that the creators of perpetuities incorrectly assume that they can predict the needs of future generations. His "Principles of Public Giving" (1929a) in the *Atlantic Monthly* outlines numerous examples of perpetuities with missions that were defined narrowly or that became obsolete with time, such as funds for medical conditions that have been cured, or funds for orphanages. These funds have trapped money that will continue to grow and may never be spent. Also, perpetuities do not allow for a spike in spending to meet extraordinary needs that might arise in the future. A perpetuity may need to spend a portion of its endowment from time to time, otherwise it might become what Rosenwald (1929a) called "endowment poor" (p. 602). He describes how this is a particular problem for university endowments:

> [I]nstitutions have become "endowment poor"…There is no means of meeting an extraordinary demand upon the institution, an extraordinary opportunity for increasing its usefulness. Research suffers; museums are unable to purchase objects that never again will be available; experiments of all sorts are frowned upon, not because they do not promise well, but because money to undertake anything out of the ordinary cannot be found, while huge sums are regularly budgeted to carry on traditional and routine activities (p. 602).

Applying his philosophy of work to a critique of perpetuities, Rosenwald believed that the indefinite existence of foundations contributed to their increased bureaucracy and inefficiency, and consequently made them less effective in the long run. He argued that as perpetual foundations age, their business becomes more about maintaining perpetuity than solving problems. Like the worker who suffers no consequence from low productivity, perpetuity leads to conservative grantmaking and limited impact of funds distributed. Rosenwald sought to avoid this possibility when he stipulated that his own fund be non-perpetual: "By adopting a policy of using the Fund within this generation, we may avoid those tendencies toward bureaucracy or perfunctory attitude toward the work which almost inevitably develop in organizations that prolong their existence indefinitely" (Embree & Waxman, 1948: p. 31).

Rosenwald saw the non-perpetual foundation as an opportunity to solve, or at a minimum, dramatically affect current problems. Perpetual foundations can have an impact on current needs; however, the current generation is likely to perceive only an incremental change in those needs. While the sum of incremental changes over the long run could add up to a substantial impact on a problem, it is possible that the same impact may have been achieved by distributing the same resources over the remaining lifetime of the giver.

One of the most enticing aspects of the non-perpetual foundation is the opportunity it presents to make a tangible impact in people's lives or to fix fundamental, systemic wrongs in society. In his philanthropic work, Rosenwald took on some very difficult issues. He believed he could help improve education for blacks in the south during his lifetime, a formidable goal considering he died nearly 50 years before the Civil Rights movement. Such change could not be possible without an immediate and substantial contribution of resources that could not be provided by spending only the interest on an endowment. However, Rosenwald's interest in fixing systemic wrongs was not about simply throwing large amounts of money at a problem. He needed to be able to trace the impact of a single gift to a broader societal benefit.

> What I want to do is to try to cure the things that seem to be wrong. I do not underestimate the value of helping the underdog. That, however, is not my chief concern, but rather the operation of cause and effect. I try to do the thing that will aid groups and masses rather than individuals (Rosenwald, 1929: p. 606).

One could imagine Rosenwald arguing that success for a foundation should be defined by what it has accomplished 50 years from now. Using that standard, does that mean that a non-perpetual foundation will always have achieved more than a perpetual foundation with the same initial endowment? The issue of impact was the core of Rosenwald's argument against the perpetual foundation, an idea highly debatable. Rosenwald wondered why current generations should wrestle and struggle with current problems, while a perpetual foundation ties up large sums of money that could be used to address those problems, only to then generate inadequate resources to address those problems. From his viewpoint, the cost to society of a perpetual foundation went beyond the value of its endowment, but also the opportunity cost of the potential impact that money could have had were it all spent in current times. If Rosenwald were alive today, he would be frustrated to see many of the foundations that were begun during his day still working to equalize the education options for minorities and whites, or still trying to reduce or eliminate poverty. There is little doubt that he would be on the phone with all of the major philanthropists making the same argument he made 50 years ago: the impact of a foundation should be its legacy, not its name, nor the wealth it represents.

ROSENWALD'S PHILOSOPHY IN ACTION: THE ROSENWALD FUND AND THE AFRICAN-AMERICAN COMMUNITY

Rosenwald made a compelling argument against perpetuity. What evidence did he have to support it? First, consider that by his death, Rosenwald had already spent $63 million on philanthropic causes, including improving education for African-Americans. At the beginning of the 21st century, we have the benefit of looking back at the impact of Rosenwald's non-perpetual foundation, over 50 years after it spent out its endowment. Rosenwald formally established the Julius Rosenwald Fund in 1917 with an initial gift of $10 million in Sears stocks to focus its grantmaking primarily on education, health and medical services, fellowships for black professionals, and race relations. Later when he hired staff to run the foundation, he boosted its endowment to $20 million in Sears stocks and required that the Fund spend itself out of existence by 25 years after his death, a deadline which the Fund's officers beat by nearly 10 years when it ended operations in 1948. Between 1917 and 1948, the Fund spent over $22 million and had a tremendous impact on the African-American community, particularly with its school-building fellowship programs. This

impact is one example of the potential of the non-perpetual foundation, evidence that maybe Rosenwald was right (Embree & Waxman, 1948).

The School-Building Program

Rosenwald's greatest satisfaction is said to have come from his work with African-Americans, beginning before the creation of the Fund (Wooster, 1998). In 1911, reading Booker T. Washington's *Up From Slavery* (1901) greatly inspired him. He found Washington's value of work and focus on helping African-Americans to help themselves to be consistent with his view of philanthropy. Rosenwald was energized by Washington's work in education primarily through the Tuskegee Institute, a college for African-Americans that Washington founded and ran. Within the year, Rosenwald and Washington had met in Chicago, and the two developed plans for building schools for African-Americans in the rural south. The concept of their plan reflected the pragmatism of both men, in that it worked to improve education for blacks by working within the so-called "separate but equal" system of school segregation in the south to build schools. Rosenwald offered to contribute $25,000 for each school if the local community raised the remainder of the costs. Washington administered the building of the "Rosenwald Schools" through Tuskegee until 1917, when the Fund took primary responsibility for its management (Embree & Waxman, 1948).

The Rosenwald Fund contributed to the construction of 4,977 schools for blacks in the rural south. The Fund's school-building program was noteworthy for its accomplishments as well as its community-building approach to building the schools. The Fund adopted policies to ensure that the local communities would have ownership of the school. Some of these are common philanthropic practices today:

The matching grant – was very effective for engaging the community in raising the funds needed for the schools. The community could contribute the match in money or in labor to build the school;

Hired organizers – were sent out to black towns in the south to market the program and help residents organize to raise the money;

Collaboration with key institutions – was a key requirement. The state and county had to contribute to the building and agree to cover operating expenses;

Buy-in from a range of stakeholders – recognized the importance of support from white residents. A portion of funds raised had to come from whites; and

Follow up and evaluation – required hiring architects as consultants who were sent to the school site to evaluate the quality of construction.

Edwin Embree, the Executive Director of the Rosenwald Fund between 1927 and 1948, noted the tremendous achievements of the program in the 1948 report *Investment in People: The Story of the Julius Rosenwald Fund*, which documents the activities of the Fund. When the school-building program ended in 1932, blacks in the rural south had contributed a total of $4.7 million to their schools, more than the $4.2 million that the program itself contributed to the schools (Embree & Waxman, 1948).

In general, white residents did not realize the extent of the public contribution to the schools and therefore did not object much to the "Rosenwald Schools" that they perceived were funded by outsiders. Some white residents also contributed to the effort; in many cases the land for the school was donated by a white landowner. The involvement of whites in the fund raising and construction of the schools was important to Rosenwald. As his biographer and grandson, Peter Ascoli, attested to, Rosenwald felt that it was not only necessary to ensure that the school would be welcomed by the white community but that the shared experience of blacks and whites in raising funds and building the school would be a uniting force on a very local level (personal communication, May 30, 2003).

The nearly 5,000 school buildings built with funds from the program had a total pupil capacity of over 660,000 students. Embree (1948) estimated that there were about two million African-American school children in the rural south in 1917. In 15 years, the Julius Rosenwald Fund and African-American residents added school space for one-third of the school-aged population of that generation. The enormity of these achievements cannot be overstated.

Support for Institutions of Higher Education

The Rosenwald Fund supported two components of the limited, but emerging set of higher education options for African-Americans in the early 20th century, teachers colleges, four-year universities, and university centers. Support for the teachers colleges was intended to complement the school-building program. In the thorough manner typical of Rosenwald and the Fund, it conducted research into the quality of the education that was being provided to African-American school children and its relevance to the environment in which the children lived. The Fund carefully chose researchers to live in the communities where schools had been built for a period of time. The research found poorly prepared teachers and simple lesson plans based on rote memorization with no connection to the local context of students.

The Fund gave $1.6 million to teachers colleges and universities to better prepare African-American teachers for their jobs and to formally educate them about the practical needs of students in rural communities. Recognizing the need to support the development and improvement of higher education options for African-Americans, the Fund gave $3.4 million for a variety of purposes to most of the larger private black universities, as well as many of the state universities.

The Fellowship Program

The Fund supported the professional development of a large number of prominent black intellectuals, artists, and professionals during the 1930s and 1940s through its Fellowship Program. Fellowships were also awarded to white southerners and Junior Fellowships were given to exceptional African-American and white college students for graduate work. Between 1929 and 1948, slightly more than $1 million in fellowships was distributed to a total of 587 black professionals at an average of $1,700 each. The year-long fellowships offered the professionals the opportunity to pursue a project or professional development need of their choice. At this time there were no opportunities for black professionals to take paid leave to gain additional training or to further their careers. The list of fellows includes nearly all of the prominent black thinkers, writers, attorneys, doctors, scientists, and artists of the time. Many of the fellows received their grants before they came to be recognized in

their field. Some of the well-known names supported by the fellowship are listed below (see Figure 1).

Figure 1. Examples of African-Americans Funded by the Fellowship Program

Marian Anderson, music	E. Franklin Frazier, sociology
Horace Mann Bond, education	Langston Hughes, creative writing
Ralph Bunche, political science	Zora Neale Hurston, creative writing
Charles Drew, medicine	James Weldon Johnson, creative writing
W.E.B. DuBois, creative writing	Percy Julian, chemistry
Ralph Ellison, creative writing	Gordon Parks, photography
John Hope Franklin, history	Pearl Primus, dance

LESSONS LEARNED FROM THE ROSENWALD FUND

The experience of the Julius Rosenwald Fund in working toward improving the quality of life for African Americans offers two key lessons about the potential of the non-perpetual foundation. One important lesson is that when a foundation has no interest in perpetuity, it is free to take more and greater risks. Had the Rosenwald Fund been a perpetual foundation with limited resources to distribute each year, the likelihood that it would have taken on systemic issues on such a large scale is diminished. Would Rosenwald have been able to make his offer of $25,000 to every community that raised matching funds? Probably not, since a perpetual foundation would have to ensure that it did not risk spending more than it earned, offering the grant to a limited number of communities each year. In the non-perpetual foundation, the focus is shifted from holding funds to spending funds. It does not need to weigh financial risk as heavily.

In addition to tolerating greater financial risk, the staff of the Fund was able to maintain Rosenwald's commitment to the politically charged issue of race. The staff was able to continue Rosenwald's work without fear of the longer term consequences to their jobs or the Fund. The timing of the Fund's work in race relations is significant. It addressed issues of race during a period of increased white antagonism toward blacks, particularly in the South. At that time, the film *Birth of a Nation* projected stereotypes of African-Americans in movie theaters, the Ku Klux Klan was spreading across the South and beyond, and the lynching of black men spiked. All of this was happening while the Fund was paying black southerners to "organize" black communities. Consider the challenging experience of civil rights organizations and workers doing similar work in the South thirty years later, and the accomplishments of the Fund become even more incredible.

A second lesson that can be learned from the experience of the Rosenwald Fund lies in the extent of its lasting impact on the African-American community. The impact is significant in terms of both the amount of money that directly benefited the African-American community but also in terms of the long-term impact of that support. Considering the school-building, higher education and fellowship programs alone, the Fund distributed about $10.5 million that directly benefited African-Americans between 1917 and 1948.

However, how can we go beyond the monetary value of the Fund's contribution to the African-American community? What was the real value of the school space for over 660,000 African-American children, the training of African-American teachers, and private

assistance provided to black colleges over the lifetime of the Fund? What has been the long-term value of fellowships for Ralph Bunche, W.E.B. DuBois, Langston Hughes, Zora Neale Hurston, John Hope Franklin, and Marian Anderson? The contributions of these individuals and all of the 587 fellows to the culture and history of the United States are immeasurable, and in some part, the Fund played a role in their contribution. Would a perpetual foundation have been able to make such an impact?

ASSIGNMENT QUESTIONS

Do you find Rosenwald's arguments against foundation perpetuity compelling? Why, or why not? Are his arguments as compelling now as they were during his lifetime? Why or why not?

How would the impact of the Rosenwald Fund been different if it were a perpetuity?

Rosenwald believed that non-perpetual structures were more effective in addressing systemic problems, such as the poor quality (or lack of) of education offered to African-Americans in the segregated South. Do non-perpetual philanthropic vehicles better address some issues? Why? What do such issues have in common?

Under what circumstances the minimum foundation payout should be adjusted? How should society balance foundation payout, economic risk, and level of current need for foundation dollars?

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ABOUT THE AUTHOR

Dr. Joseph Hoereth holds a B.A. from the University of California at Berkeley, and a Ph.D. in Urban Planning from Rutgers University. He was born in Ghana, and was raised in Long Beach, California. Currently, he is the Associate Director at the Great Cities Institute at the University of Illinois Chicago. He lives in a Chicago suburb with his wife and children.

Julius Rosenwald and the Rosenwald Fund:
A Case in Non-Perpetual Philanthropy

A Teaching Note
Joseph K. Hoereth

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

Julius Rosenwald made several key arguments against perpetuities. He believed that each generation should be responsible for generating philanthropic contributions to current issues. He believed this for several reasons. First, he was confident that future generations would be able to meet the philanthropic needs for issues of their day. He also believed that a contribution with a life that extends beyond the generation of the giver's children would lose its personal connection with the giver, would most likely lose the connection with its intended purpose, and would not be as effective as the same gift given now. Similar to his philosophy toward work and inheritance, he felt philanthropic contributions left behind for future generations displace the valuable effort that those generations might make to generate contributions on their own. Just as there is value in people working for their own benefit, there is also value to society in people of the same generation helping each other and their children.

Rosenwald saw the non-perpetual foundation as an opportunity to solve, or at a minimum, dramatically affect current problems. Perpetual foundations can have an impact on current needs; however, the current generation is likely to perceive only an incremental change in those needs. While the sum of incremental changes over the long run could add up to a substantial impact on a problem, it is possible that the same impact may have been achieved by distributing the same resources over the remaining lifetime of the giver.

THE AUDIENCE

The primary audience for this case study will be students of philanthropy and professionals in philanthropy. It is appropriate for undergraduate or graduate level courses and staff development workshops.

TEACHING PURPOSES

Rosenwald made a strong argument against perpetuity in his day. This case has focused on making that argument relevant for current students of philanthropy. Several discussion points hinge around connecting this case to current issues and debates. **Students should have a good sense of why this issue is important and relevant now.**

One theme which requires further discussion is whether that same argument holds true in current times. After all, while the impact of his fund on the African-American community was tremendous, this generation is still wrestling with trying to improve the quality of education provided to African-American children. His work alone on this issue did not permanently solve the problem. Does that example offer fodder for those who may argue against non-perpetual foundations?

Another theme for discussion is the question of whether there are particular purposes or activities that are better suited for funding from a non-perpetual foundation. Rosenwald called for perpetuities to be avoided for all purposes, with the possible exception of Universities. Are there current issues that would be well suited for non-perpetual funding? Possible examples to stimulate discussion would include:

> Issues that are of importance on a global scale or have reached a crises level

on a global scale, such as AIDS, health care for children, and threats to the environment; and

Systemic work in communities of color, where long-standing efforts may have resulted in incremental or little change.

The debate on increased payout was introduced as the current debate that is most relevant to the issue of perpetuity. To what extent does the Rosenwald case offer fuel for the argument for increased payout? Could one argue that the non-perpetual structure could actually solve a systemic problem? If so, would that argument be reason for increasing payout? The issue of donor intent should also be raised at this point. If a debate for increased payout is really about whether foundations should be allowed to be perpetual, how does donor intent stay protected?

Where there is consensus among students that the case supports the increased payout argument, they should be challenged to identify any arguments against increased payout that the case supports.

Rosenwald specified that his fund be spent out by a deadline of 25 years after his death; however, there are other options for non-perpetual structures. **Students should be asked to identify options for a donor who is considering a non-perpetual structure.** Under what circumstances would the students recommend any of these options to a potential donor:

The individual or family pays out to charitable causes during his or her lifetime;

Full payout by a specific deadline, which is often tied to the lifetime of an individual or family establishing the instrument; or

Specified percentage payout that will pay down the principle over time.

ASSIGNMENT QUESTIONS

1) Do you find Rosenwald's arguments against foundation perpetuity compelling? Why, or why not? Are his arguments as compelling now as they were during his lifetime? Why or why not?

2) How would the impact of the Rosenwald Fund been different if it were a perpetuity?

3) Rosenwald believed that non-perpetual structures were more effective in addressing systemic problems, such as the poor quality (or lack of) of education offered to African-Americans in the segregated South. Do non-perpetual philanthropic vehicles better address some issues? Why? What do such issues have in common?

4) Under what circumstances should the minimum foundation payout be adjusted? How should society balance foundation payout, economic risk, and level of current need for foundation dollars?

SUGGESTIONS FOR FURTHER READING ON PAYOUT AND PERPETUITY

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The Global Fund for Women: Implications of the Patriot Act For Philanthropic Leadership

A Teaching Case
R. Susan Motley

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

*A country that forsakes freedom for security deserves
neither freedom nor security.* (Benjamin Franklin)

ABSTRACT

Soon after the terrorist attacks of September 11, 2001, President George W. Bush declared a national emergency and issued Executive Order No.13224, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism" (2001). The following month, Congress passed and the President signed into law the USA PATRIOT Act, "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism" (2001).[8] Both the Executive Order (Executive Order No. 13224, 2001) and the Patriot Act (2001) prohibit financial transactions with individuals and organizations associated with terrorism.

While both the Executive Order (Executive Order No. 13224, 2001) and the Patriot Act (2001) reach far beyond the specific concerns of foundations and corporations engaged in philanthropy, they had important implications for grantmakers like the Global Fund for Women (GFW), which exclusively funds organizations outside of the U.S. This case supposes how the GFW Executive Director considered positioning the organization in the international community vis-à-vis the Patriot Act and its implications for international grantmaking.

> The Global Fund for Women makes grants to seed, support, and strengthen women's rights groups overseas. We envision a just and democratic world where women and men participate equally in all aspects of society. We are a part of a global women's movement that is rooted in a commitment to justice and an appreciation of the value of women's experience. We value local expertise and believe that women themselves know best how to determine their needs and propose solutions for lasting change. The way in which we do our work is as important as what we do. This philosophy is reflected in our respectful and responsive style of grantmaking and fundraising (Rites of Passage, The Global Fund for Women 2001-2002 Annual Report).

THE SITUATION

Kavita Ramdas[9] carefully organized her carry-on luggage in the overhead compartment and settled into her seat with her computer and backpack of reading material.

"The only good thing about doing international travel post 9/11," she thought, "is there is plenty of room in coach." Kavita was boarding the first leg of her trip to New Delhi, to visit her family for the weekend and to continue on to Malaysia to the annual International

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[8] For the purposes of this case study, the author will refer to Executive Order No. 13224 (2001) as the "Executive Order," and to the USA PATRIOT Act (2001) as the "Patriot Act."

[9] As of 2006, Kavita Ramdas is currently the Executive Director of the Global Fund for Women and is frequently asked to give conference presentations. This case is based on a similar real-life situation confronted by Kavita and GFW. However, the International Conclave of Grantmakers and the particular circumstances described are fictitious.

Foundation Conclave (IFC). "Kavita Ramdas, Keynote Speaker." She smiled to herself, "What an honor. Who would have thought it...?"

Five years ago, the IFC honored her as one of 10 outstanding executive directors of international grantmaking organizations. Five years has made a lifetime of difference in the world of international philanthropy.

Kavita Ramdas has led GFW as its President and Chief Executive Officer (CEO) brilliantly during this period. At 39, she is an intense and effusive veteran activist and philanthropist. To Kavita, philanthropy is more than giving money to good causes; it is listening to what women in other cultures define as good causes.

Born in India, Kavita was raised in various locations around the world because her family traveled with her father, who served in the Indian navy. Kavita earned her master's degree in international development and public policy studies from the Woodrow Wilson School of Public and International Affairs at Princeton University. She holds a bachelor's degree in international relations and political science from Mount Holyoke College. Kavita became head of the GFW after working for eight years in Chicago on issues of U.S. poverty and economic development as a program officer at the John D. and Catherine T. MacArthur Foundation (Brotman, 2002). She is a founding board member and past chair of Asian Americans and Pacific Islanders in Philanthropy (AAPIP), and a former board member of Women in Philanthropy. Both groups are affinity groups of the Council on Foundations.

For the next six hours, Kavita decided, she would catch up on her e-mails and other correspondence after putting the finishing touches on her keynote speech. She had a good working draft, with the excellent help of her administrative assistant. Although Kavita and GFW as a whole were honored to present the keynote at the IFC, Kavita was certain that this was not the venue to "say something new or controversial." The post-9/11 international grantmaking environment was very different—the entire world was more cynical and less trusting.

Kavita was not comfortable with the tone of her current draft, and there was always the potential for misunderstanding. "How can I raise what I know are real—almost absurd—implications of the Patriot Act? The post-9/11 environment for international philanthropy creates hazards for developing policies for poor women all over the world. Not everyone is a spy!" thought Kavita.

"How does GFW defend and continue to carry out its philosophy of 'respectful and responsive grantmaking and fundraising,' and still require our grantees and potential grantees to comply with these statutes?" she wondered. "The implications of total compliance are, in the end, impossible to even fathom. GFW might just as well fold its tent and go away." She sighed. "Not on my watch!"

The "meat" of the keynote had been written; the core message, the mission of GFW and the importance of its work, was always at the center of her messages. Any opportunity to communicate to the broader world required clarity, passion, and a consistent message. As a young leader in the field of international grantmaking and international justice, Kavita was aware that many women throughout the world looked to GFW for direction. Kavita exercised her leadership with determination and grace. Finally, it was extremely important for Kavita to strategically position GFW so that it continued to develop positive change through its grantees.

"The organization and the work of GFW is what is important," Kavita thought as she settled in, fastened her seat belt, and gratefully accepted a bottle of water from the flight attendant. Maybe she would just adjust the pillow, turn off the computer, close her eyes and breathe. Maybe she would take a nap first. Then she saw the Global Giving piece in the New York Times, entitled "Small Overseas Charities Feel Brunt of 9/11 Aftereffects" (Strom, 2003, as cited in Global Giving Matters, 2005):

> New guidelines by the US Treasury Department meant to curtail overseas charitable organizations that may be funding terrorist organizations are impacting small foreign charities that cannot easily comply. The guidelines ask donors to provide detailed information about organizations they're supporting, including names of directors, key employees and subcontractors. For small, somewhat informal organizations, these recommendations can be very difficult to meet because subcontractors may be local organizations without the type of formal contact information the Treasury Department wants. Some US funders that support new and smaller groups say they may have to suspend their support to these groups, and critics say that the guidelines are having a "chilling effect" on international giving to valid grassroots organizations operating outside the US. Eileen Growald, chair of the Rockefeller Philanthropy Advisors (www.rockpa.org), states, "If these guidelines become the de facto standard of best practices for giving abroad, we might very well have to stop making grants outside the United States" (emphasis theirs; para. 1).

BACKGROUND: THE GLOBAL FUND FOR WOMEN

The Global Fund for Women (GFW) was founded in 1987 as a public non-endowed foundation, meaning that GFW must raise the money it gives away. Anne Firth Murray established the foundation with co-founders Frances Kissling, Laura Lederer, and Dame Nita Barrow, the former Governor General of Barbados. They were determined to address the lack of funding available to women activists worldwide and wanted to create a global foundation dedicated to that cause.
Start-up funds came from 31 founding donors, who invested $5,000 each; the Packard Foundation provided free office space and a $5,000 seed grant. In 1988, GFW formed an international Advisory Council with 27 advisors and hired its first staff member.

Major funding milestones included contributions from the Ford Foundation, the John D. and Catherine T. MacArthur Foundation, the Joyce Mertz Gilmore Foundation, and the World Bank.

In 1992 to 1993, GFW hosted its first regional meeting of advisors and grantees in Southeast Asia and its first regional meeting of advisors and grantees in Southern Africa. In 1995, through the efforts of GFW grantees, Ghana became the first African country in 30 years to pass legislation banning female genital mutilation (the removal of part, or all, of the female genitalia as an initiation ritual).

In 1996, Murray retired from GFW and was succeeded by Kavita Ramdas.

To date, GFW has grantees in 160 countries. These organizations are grassroots, of small size, and have difficulty finding other funders. The majority of the grants made by GFW go to organizations in the form of general operating support—unrestricted funds.

GFW, which has headquarters in San Francisco, awards grants directly to women's organizations, particularly in poorer nations, with the goal of enabling women to participate fully and more effectively in their societies. Since 1987, GFW has given $23 million to seed, strengthen, and link over 2,000 groups in 160 countries.

Fifteen years after its founding, GFW remains the only funding organization of its kind in the United States and one of only three such funds in the world. Of all private philanthropy in the United States, only 1.4% goes to international organizations, and a much smaller percentage is awarded to organizations serving women and girls. International assistance from most multinational and government agencies targets only large, established institutions. As the network of GFW continues to expand, it receives an increasing number of proposals each year from women's organizations around the world. In 2002, GFW received a total of 3,500 proposals, and awarded 400 grants totaling over $4.5 million to women's organizations.

GFW relies on an extensive network of advisors and grantees to provide staff with detailed feedback and contextual perspective on the women's groups that are supported. Advisors provide valued input and knowledge of specific women's groups; link the GFW with women's groups interested in applying for funds; reach out to groups that are located in underserved regions; and provide advice on strategic initiatives. Advisors serve three-year terms in a voluntary capacity and are nominated to their positions by members of the GFW staff and Board of Directors.

GFW receives support from 28 private foundations, which accounts for 71% of its total revenues. Over the years, GFW has expanded its base of individual donors to 3,500. Donor contributions now comprise 23% of its revenue (GFW, 2002).

In 2002, GFW launched a $20 million endowment campaign to ensure its long-term permanence and stability, expand the breadth and depth of its grantmaking, and reach, identify, and support new opportunities and pressing needs. The foundation's period of pre-campaign preparation, as well as the early stages of cultivation, helped the campaign meet its halfway goal of $10 million by February 2003. Such preparation allowed the foundation to move forward with momentum into launching the campaign publicly.

THE EXECUTIVE ORDER AND THE PATRIOT ACT

Just 45 days after the September 11 attacks, with virtually no debate, Congress passed the USA PATRIOT Act. Many parts of this sweeping legislation take away checks on law enforcement and threaten the very rights and freedoms that we are struggling to protect. For example, without a warrant and without probable cause, the FBI now has the power to access your most private medical records, your library records, and your student records... and can prevent anyone from telling you it was done (American Civil Liberties Union [ACLU], 2005, USA Patriot Act, para. 1).

The Executive Order

Executive Order No. 13224 (2001) freezes all property and interests in property of certain "persons" (both individuals and organizations) identified as terrorists or otherwise associated with terrorism. More important for purposes of potential grantmakers, the Executive Order (Executive Order No. 13224, 2001) prohibits any transactions involving such "persons" or their property or their property interests.

Prohibited transactions include "any contributions of funds, goods, or services to or for the benefit of [listed persons]" (Executive Order No. 13224, 2001).

The open-endedness of the prohibitions contained in the Executive Order (Executive Order No. 13224, 2001) creates a potential dilemma for all international grantmakers, but particularly for those who might seek to provide humanitarian aid to persons and in areas affected by the U. S. military actions against terrorism.

The Patriot Act

This statute (Patriot Act, 2001), passed approximately one month after the Executive Order (Executive Order No. 13224, 2001) was signed, has a much broader scope. The Patriot Act (2001) picks up on some of the same themes of preventing financial support for terrorism that are embodied in the Executive Order (Executive Order No. 13224, 2001). One section of immediate concern for international grantmakers dealt with criminal sanctions for "material support for terrorism" (Executive Order No. 13224, 2001).

The Patriot Act (2001) supplements the existing provisions of Title 18 of the U.S. Code, entitled "Crimes and Criminal Procedure" (1948), enhancing criminal penalties and expanding jurisdiction over the crime of providing support for terrorism (as cited in Ramos, Lyman, Canavan, Donovan, & Nichols, 2004). The relevant provisions of Title 18 (1948), as amended by the Patriot Act (2001), impose fines and terms of imprisonment of up to 15 years for any entity that provides material support or resources knowing or intending that they are to be used in terrorists acts or by Foreign Terrorists organizations (FTOs).

For international grantmakers, the worrisome issue raised by these criminal statutes is the possibility that—despite their best intentions—they might be found to have knowingly or intentionally provided material support or resources for terrorism. In criminal cases, "knowledge" generally is defined as "done voluntarily and intentionally, and not because of mistake or accident or other innocent reason"(United States v. Johnson, 1997; United States v. Kosma, as cited in Ramos et al.: pp. 12-13). Most international grantmakers lack the affirmative intention of supporting terrorism. However, whether a grantmaker can be claimed to have "known" that the support or resources it provided would end up in terrorist hands is a different question altogether.

Another concern for international grantmakers is potential civil liability should their grants end up in the wrong hands. Title 18 (1948) provides a specific civil cause of action against those who violate the criminal prohibitions against providing support for terrorism (as cited in Ramos et al., 2004). In addition, a federal court recently has held that entities—specifically including, apparently, charitable foundations—who fund terrorist groups may be held liable for aiding and abetting any terrorist acts that those groups perpetuate (Boim v. Quranic Literacy Inst., 2002).

The Center for Public Integrity—a nonprofit, non-partisan "think tank" founded by television journalist Charles Lewis—received a leaked copy of the Patriot Act II draft, dated January 9, 2003 (as cited in Lewis & Mayle, 2003). Since then, the draft (Patriot Act II, 2003) has received wide attention in mainstream news sources. The Center for Public Integrity asked Georgetown University professor David Cole, co-author, with James Dempsey, of Terrorism and the Constitution (2002), to review the draft legislation. According to Cole (personal communication, as cited in Lewis & Mayle, 2003), the proposed legislation "would radically expand law enforcement and intelligence gathering authorities, reduce or eliminate judicial oversight over surveillance, authorize secret arrests, create a DNA database based on unchecked executive 'suspicion,' create new death penalties, and even seek to take American citizenship away from persons who belong to or support disfavored political groups" (para. 9).

SEEKING AND GETTING ADVICE

Kavita and her assistant worked well together in crafting her many public presentations. As the President and CEO of GFW, Kavita is forthright, but graceful, and a brilliant spokesperson. The different cultures and unique environments have required scrupulous attention to details and idiom. Kavita's assistant – multilingual, multicultural, and obsessive by nature, was perfect.

Kavita had outlined the basic keynote address for the International Foundation Conclave weeks ago. From that outline, the Administrative Assistant prepared a draft, which was 13 minutes to the second. The draft of the keynote address did not mention the Executive Order (Executive Order No. 13224, 2001) or the Patriot Act (2001) by name or the suggested guidelines promulgated by the Internal Revenue Service (IRS). There was a fine line here, Kavita thought, and she needed the perspective of some of her trusted colleagues. So she sent the following e-mail addressed to a senior GFW staff person, a board member, and a longtime international foundation mentor, to seek strategy advice:

> As you know, on behalf of the Global Fund for Women, I am being honored as the keynote speaker at the International Foundation Conclave this year. My opening statement, (taken from Jacqueline Pitanguy's contribution to the 2003 annual report) aims to make it clear that violence is antithetical to our mission and violates the girls and women whose work we support:

> "September 11 has brought immense sadness and despair to the victims of the terrorists attacks, to the USA and to the world as a whole. We fear an endless cycle of violence where women and girls—whether from Afghanistan, India or Pakistan, from Palestine or Israel, from Columbia or Argentina, from the Balkans the US or Rwanda—will be the main victims. The statement rejecting militarism and unilateralism, issued by the Global Fund last year, is but one of the many peace initiatives women are putting forward. We wish to express our appreciation for the overwhelming support that we have received from our grantees, with whom we celebrate this—the International Foundation Conclave honor" (Pitanguy, 2002, as cited in GFW, 2002).

> As you know, the Global Fund for Women—board, staff, advisors, grantees, and those who make contributions to the GFW—is potentially vulnerable under the Patriot Act, Executive Order [No. 13224], et al.

For the past year I have received a good deal of informal feedback from our staff, grantees, and advisors about post-9/11 and the implications of the Patriot Act and the Executive Order [No. 13224] on GFW, our grantees, and potential grantees. Although the particular concerns vary, the consistent tenor is chilling and generates a sense of suspicion about our government's motives. My most critical concern is that our grantees and potential grantees, out of fear or misunderstanding, will not seek the support they desperately need. The global war on terrorism challenges us to be even more effective advocates for peace.

Among others, the Council on Foundations and the American Civil Liberties Union, have filed responses on issues that pertain specifically to United States grantmaking organizations who fund nongovernmental organizations in other countries. The Global Fund for Women, in collaboration with six other organizations whose work might trigger an inquiry under the Patriot Act, also submitted a response to the Treasury Department's voluntary guidelines (GFW, personal communication, July 18, 2003).

I believe the International Grantmaking Conclave keynote is a strategic venue to speak out for peace. Non-violence is at the core of our work. We are not terrorists, and we do not support terrorists. We do, however, support grassroots women's groups that are almost always subject to local political attack.

I am seeking your advice on whether this is a strategic and appropriate venue to address the outrageous and intrusive nature of the Patriot Act and the E.O. (Executive Order No. 13224) specifically? How should the GFW defend and continue to carry out its philosophy of "respectful and responsive style of grantmaking and fundraising," and at the same time, comply with these statutes?

Attached is the most recent draft of the keynote. I have no intention of changing the GFW message. However, I would like your advice on whether/how to communicate that our core mission/message is vulnerable to the Patriot Act et al., as are our grantees. GFW must exert leadership and at the same time strategically position our GFW family for change.

Please send me no more than 100 words on this (Patriot Act et al.) topic. Remember we are under strict speaking time limits. We must finalize this within the next day! (K. Ramdas, personal communication, September 2003).

Kavita went through the "Seeking Strategy Advice" responses. The first was from the Senior GFW Staff person:

In July 2003, I participated on behalf of GFW with six other organizations [namely: Fund for Global Human Rights, Ploughshares Fund, Urgent Action Fund For Women's Human Rights, Global Fund for Children, Global Greengrants Fund, and Tides Foundation] to submit a response to the IRS Call for Comments on the Treasury Anti-Terrorist Financing Guidelines: Voluntary Best Practices For U.S.-Based Charities (See attached). In the

submission we outline in some detail how our due-diligence process works and the safeguards in place.

The most important points to include in your keynote address are:

- Addressing issues critical to the well-being of individuals and communities and the development of democracy in desperate parts of the world is a necessary element in addressing poverty, inequality, abuse, and environmental degradation that lead not only to human suffering but also to conditions in which terrorism thrives;

- The risk of supporting people in unstable circumstances should not be confused with the risk of money being diverted to terrorism; and

- Requirements imposed by the IRS should not make international grantmaking so difficult or expensive that projects doing work vital to the preservation of democracy and human dignity are negatively affected.

The draft response to the IRS had caused a good deal of internal debate. GFW always had a very vigorous set of due-diligence guidelines that preceded 9/11. They were modified post-9/11, but because the primary focus of GFW was grassroots women's organizations, due-diligence—both grant making and grant reporting—was tight. Strict due-diligence does add administrative costs to all grants, especially the smaller ones. It costs just as much to work with a grantee that receives $500 as it does for one who receives $5,000.

The important strategic move initiated by staff was to respond to the IRS as a collaborative of like/like-minded organizations. Since GFW has always been a unique U.S. grantmaking public charity, its history has been one of discussion and collaboration with other organizations. The situation after 9/11 was no different.

The most important point, Kavita thought, was that GFW address "the conditions in which terrorism thrives" (GFW, personal communication, July 18, 2003).

The second e-mail was from a long-time member of the Board (as cited in Arrillaga & Chang, 2003):

I am very proud to be a member of the Global Fund for Women's community and the network of thousands of women and men who are supporting women's organized efforts to achieve economic justice, human rights and democracy. The most remarkable aspect of the GFW is how it does its work: We do not dictate to women in other parts of the world what they should be doing, we take the time and effort to listen to women's voices, and we make ourselves present so that women around the world can share their concerns and priorities with us.

Congratulations on being the 2003 IFC keynote speaker! We trust your good judgment.

Kavita smiled. She knew that this was not just the ordinary laissez-faire board member, but rather this seemingly innocuous e-mail contained Kavita's marching orders:

1) Always put the GFW mission in the middle of whatever you say—woman's economic justice, human rights and democracy; and

2) Always carry out GFW work in ways that encourage and support women's voices.

"An important item then, in the keynote, is to publicly encourage women world-wide to raise their voices about democracy and the implications of the Patriot Act," Kavita thought. She began prioritizing. Her natural humility dictated that GFW provide a channel for those voices, but never assume to speak for others.

The third e-mail was from a longtime International Foundation Mentor:

> The Patriot Act is xenophobia at its worst. I think it is a scandal. It will definitely slow the work of international grantmakers. If you speak out, however, GFW could be seen as militant resisters. Outrage is energizing! GFW can become an energizing force. If you choose to speak in some way against the Patriot Act, be in coalition with others. A relatively small and unique organization like GFW can't afford to take the lead by itself. You do not want to become the example of disloyalty.

Outrage is energizing, Kavita thought, but publicly calling the Patriot Act xenophobic, was beyond what she could carry off in a 15-minute speech. The trick, thought Kavita, was to provide enough outrage so that those directly affected—GFW grantees and others—would make their voices heard and their opinions felt.

To Kavita Ramdas, women's philanthropy is more than giving money to good causes; it is listening to what women in other cultures define as good causes. "If you approach philanthropy from a place of humility and respect, you really have an opportunity to be part of social change, not saying, 'We have the money so we have the answer,'" she thought as she mulled over the advice.

"The GFW takes the firm view that it is women themselves who have the answers. For women in Afghanistan, taking off the burqa is not a priority. Sending their daughters to school is. And they ran secret schools in their homes to do it. Challenging the burqa under the Taliban would probably have resulted in more women dying, while secretly educating girls helped create a generation of young women ready to pursue their independence" (Bassiouni, 2001: p. C3).

The "Afghan example," represented an "Aha!" moment for Kavita (Fortune.com, 2001, as cited in GFW, 2005, The Global Fund for Women in the News: 2001 Archive, para. 6). "Thank goodness" she sighed, "for great staff and wonderful advisors." Two hours later, just as breakfast was being served, Kavita put the finishing touches on the keynote.

ASSIGNMENT QUESTIONS

Kavita Ramdas, the young, brilliant and outspoken Executive Director of the Global Fund for Women, has accepted the honor of making the keynote address at the 2003 International Grantmaking Conclave.

The post-9/11 environment has deeply affected international policy. The Patriot Act (2001) and Executive Order (Executive Order No. 13224, 2001), designed to stem "terror," have had a chilling effect on several international non-governmental organizations, which fear the potential to curb their activities and add to the difficulty in raising funds.

Kavita feels compelled to refer to this state of affairs in her address. She only has space for about 100 words.

The following questions are of interest in order to craft the presentation:

- What is the most important "message" for Kavita to communicate?

- How does Kavita reinforce the leadership role of GFW in her remarks?

- How do Kavita's remarks strategically position GFW?

- Based on your "message," what are the likely implications for GFW stakeholders:

    - Grantees and potential grantees;

    - Board of directors;

    - Advisory committee members; and

    - Funders, both foundations and individuals.

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ABOUT THE AUTHOR

Susan Motley serves as a course instructor, teaching Philanthropy, Public Policy and Community Change, and served as co-director of the Case Studies in Philanthropy Project at Loyola University Chicago's Philanthropy and Nonprofit Sector Program. Her thirty-plus year professional career in the nonprofit, philanthropic and public policy arenas have been extraordinary. Positions have included: Consultant with a practice focused on Community Building; Senior Program Officer at the John D. and Catherine T. MacArthur Foundation; Commissioner for the New York City Planning Commission; Director of Housing and Assistant to the Vice President at Princeton University; Visiting Associate Professor at Pratt Institute's Graduate School of Architecture and Planning.

Ms. Motley holds a Bachelor's Degree in Psychology from Roosevelt University (1969) and was named a Loeb Fellow '90' at Harvard University's Graduate School of Design.

Since the fall of 2003, Ms. Motley has also focused on writing creative non-fiction. She attended the Voices of Our Nations writing conference in 2004 and was a resident artist at the Ragdale Foundation, fall 2005. Motley is a Graduate Student-At-Large at Chicago State University, The Gwendolyn Brooks Center for Black Literature and Creative Writing.

The Global Fund for Women: Implications of the Patriot Act For Philanthropic Leadership

A Teaching Note
R. Susan Motley

Philanthropy & Nonprofit Sector Program

Loyola University Chicago

ABSTRACT

This case supposes how the Executive Director of the Global Fund for Women (GFW) might consider positioning the organization in the international community vis-à-vis the Patriot Act (2001) and its implications for international grantmaking. Kavita Ramdas is indeed the Executive Director of the Global Fund for Women. However, the International Conclave of Grantmakers and the particular circumstances described are fictitious.

Soon after the terrorist attacks of September 11, 2001, President George W. Bush declared a national emergency and issued Executive Order No.13224, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism" (2001). The following month, Congress passed and the president signed into law the US PATRIOT Act, "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism" (2001). Both the Executive Order (Executive Order No. 13224, 2001) and the Patriot Act (2001)[10] prohibit financial transactions with individuals and organizations associated with terrorism. While both the Executive Order (Executive Order No. 13224, 2001) and the Patriot Act (2001) reach far beyond the specific concerns of foundations and corporations engaged in grantmaking, they have important implications for grantmakers like the Global Fund for Women, who exclusively fund organizations outside of the United States.

THE AUDIENCE/PREREQUISITES

The primary audience for this case will be students who are studying philanthropy or leadership at the undergraduate or graduate level, or who are engaged in professional development. This case is also appropriate for in-service training of current foundation program staff, including foundation counsel, and other nonprofit organization staff engaged in international grantmaking.

TEACHING PURPOSES/LEARNING OBJECTIVES

The core issues of this case are broadly, governance, e.g. the systems and manner in which an organization actualizes its mission. In particular, the case provides a context to discuss:

Leadership: The ability to guide and inspire others to accomplish shared goals; and

Stewardship: The responsibility to make good and effective use of the resources available to accomplish shared goals.

The public policy focus of the case is the imposition of regulations and laws post- 9/11 that have the potential to radically change the international philanthropic climate. This provides discussion opportunities to identify contemporary social, economic and political issues confronting the field of philanthropy and relate those issues specifically to this particular community change arena.

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[10] For the purposes of this teaching note, the author will refer to Executive Order No. 13224 (2001) as the "Executive Order," and to the US PATRIOT Act (2001) as the "Patriot Act."

The Global Fund for Women provides a good opportunity to deepen the student's knowledge of the field of philanthropy—what it is and how it works—with a specific focus on public policy. As a public non-endowed foundation, GFW must raise the money it gives away. This resource development reality influences the level of risk most nonprofits are willing to take in pursuit of public policy. The Discussion Questions and Exercise provide important teaching and learning opportunities in this regard.

The case describes the history, growth and evolution of the Global Fund for Women. For example, GFW depends on a network of international Advisors to function as its "eyes and ears" in the field.

The case also includes reference to a range of administrative, management and legal issues that are critical to understanding the important and unique role the GFW plays in making and shaping public policy. GFW, with six other organizations, namely: Fund for Global Human Rights, Ploughshares Fund, Urgent Action Fund For Women's Human Rights, Global Fund for Children, Global Greengrants Fund and Tides Foundation (personal communication, July 18, 2003), did submit a response to the International Revenue Service (IRS) Call for Comments on the *Treasury Anti-Terrorist Financing Guidelines: Voluntary Best Practices For U.S.-Based Charities Announcement* 2003-29. The submission outlines the due-diligence process and other best-practices grantmaking safeguards. The full response is attached to this Teaching Note.

EXERCISE AND DISCUSSION QUESTIONS

Kavita feels compelled to refer to this state of affairs (the "chilling effect" of the Patriot Act and the Executive Order of 2001) in her address. She only has space for about 100 words.

Students should prepare a 100-word statement for Kavita to include in her speech. Students should be prepared to present and defend their "100 words" during the class discussion.

The following questions should be given to the students at the same time the case is distributed, before the case is discussed in class:

- How do your "100 words" strategically position GFW?

- In what ways do your "100 words" demonstrate Kavita's leadership abilities and/or challenges?

- In what ways do your "100 words" demonstrate Kavita's stewardship abilities and/or challenges?

- Based on your "100 words" what are the likely implications for GFW stakeholders? How do your "100 words" address those concerns? Stakeholders include:

    - Grantees and potential grantees;
    - Board of directors;
    - Advisory Committee members; and
    - Funders—foundations and individuals

DISCUSSION CONTENT

Fact confirmation

The first discussion of this case in class should begin with a class-wide agreement on the "Facts."
Fact confirmation included:

Who? Kavita N. Ramdas is the President and CEO of the Global Fund for Women. However, the particular circumstances of this case are fictional: there is no International Foundation Collaborative.

Ms. Ramdas is often asked to be a guest speaker and has won numerous honors for her leadership in the arena of international women's philanthropy and public policy. For example, she appeared on "NOW," with Bill Moyers; received the "Choosing to Lead" award at the National Women's Leadership Summit; was named one of the "Women Who Could Be President" by the League of Women voters; recognized for "Changing the Face of Philanthropy" by the Women's Funding Network; and, is a Henry Crown Fellow at the Aspen Institute.

What?
Executive Order No. 13224 (2001) and the PATRIOT Act (2001).

When?
This takes place during the fall of 2003, two years after 9/11 and a year or so after the invasion of Iraq.

Analysis
(Here, students might be asked to proffer their "100 words.")

How might Kavita position GFW in the international community vis-à-vis the Patriot Act and its implications for international grantmaking in the (fictional) keynote address that she is to present?

How does GFW stay "true" to its mission and beliefs? Does every opportunity for policy exposure have to be met?

Challenge
So what? If GFW doesn't speak out, who will? What will be damaged if no one speaks out? What are the policy implications if no one speaks out?

Action
(Again, here, students might be asked to proffer their "100 words.")
What would you do if you were in Kavita's place?

Hypothesis
What if….?

Prediction
(This part provides opportunities for brainstorming, as well as opportunities to bring passive students into the discussion.)
_____ will happen if GFW does this.

Lessons
Although this case has international grantmaking as the setting, the focus is as much on the alignment of mission and action for all nonprofits. It is designed to illustrate the complicated relationships between grantors and grantees, and GFW sits on both sides of that table. GFW illustrates a style of leadership that reaches out to important stakeholders. The President/CEO must exercise both stewardship and leadership.

Due Diligence
A subtext to this case is the discussion surrounding how foundations go about reviewing proposals and the organizations that put them forward. The collaborative letter of GFW (personal communication, July 18, 2003) to the Internal Revenue Service (Announcement 2003-29) is attached. It can be used as a due diligence exemplar.

COLLABORATIVE LETTER OF GFW TO THE INTERNAL REVIEW SERVICE

July 18, 2003

Internal Review Service

P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

Re: Response to IRS Call for Comments: Reference Announcement 2003-29

Dear Sir or Madam,

The undersigned are each US based public charities that make international grants to a range of small groups in the developing world. Because of our similar interest in the regulation of international grantmaking, we are responding jointly to the request of the IRS for comments concerning anti-terrorism protections in international grantmaking.

Our organizations make small grants ($500-$50,000) to non-profit, non-governmental organizations working on a variety of issues critical to the well being of individuals and communities and to the development of democracy in desperate parts of the world. We regard this work as a necessary element in addressing the overwhelming problems of poverty, inequity, abuse and environmental degradation that lead not only to human suffering but also to conditions in which terrorism thrives.
Appropriately timed and scaled grants to carefully chosen groups are critical to the success of our work. We share the IRS's goal of ensuring that the limited funds available for this work are not diverted to terrorism.

Attached to this response is a composite description of due diligence steps taken by our organizations to ensure that all grants are used for appropriate non-profit purposes which support our charitable missions, and are not diverted for terrorism or any other improper purpose. This information is designed to provide specific and detailed responses to the questions in the IRS request.

Each of our organizations has developed slightly different procedures to identify, screen, and monitor grantees. We may modify the described steps slightly or take them in a different order, but we all gather the same basic information. The key to the due diligence of work of each organization is to "know your grantee." This is critical to achieving our missions as well as preventing diversion of funds.

We learn about our grantees through collecting formal documentation from the groups as described in the attachment. Equally important, however, we know our grantees by working directly with them and by working with trusted advisors who have both expertise and direct knowledge of the grantee's work and reputation. This network of knowledgeable and trusted advisors is essential to the quality of our grantmaking. We develop relationships of trust and confidence that allow us to understand much more clearly who is doing important work in the areas we are concerned about than we would ever be able to gather merely through written submissions. This high quality information informs both our quality and our anti-terrorism due diligence.

We are aware that the Council on Foundations and Grantmakers without Borders have submitted comments on these issues to the IRS. We generally endorse the comments submitted by Grantmakers without Borders and much of the statement submitted by the Council on Foundations. We emphasize the following as critical elements in those comments:

International grantmaking serves a valuable purpose and should, to the extent possible, be encouraged and not burdened by unnecessary regulation.

Significant and effective due diligence is being done by public charities in their international grantmaking. With some additions, such as checking appropriate lists and advising board members of concerns, additional regulation is not necessary. We believe that the regulations proposed by the Treasury Voluntary Guidelines would not have an impact on stemming terrorism, but would, contrary to the intent of the government, unnecessarily hinder grantmaking for groups doing important work to stem its causes.

Issues of scale and flexibility are critically important in international grantmaking. Any guidance for international grantmakers needs to take into account that regulatory requirements for large grants may not be appropriate for and should not apply to much smaller grants. Grants under $30,000, for instance, should not be burdened with the same formal steps as million dollar grants, and exemptions for small grants should be part of any additional requirements. Grantmakers who make small international grants have developed a constellation of due diligence procedures that give them considerable knowledge and solid information about their grantees. This expertise must be trusted and encouraged.

General support grants are critical to small organizations working in poor parts of the world where the problems are great and where civil society is just beginning to take hold. Many of the groups we fund rely primarily on volunteer work and have no other source of support. General rather than project specific support is critical to their ability to survive. This type of

support to a known grantee does not involve any more risk of diversion than an earmarked grant and should not be discouraged by any guidelines. The experience of international grantmakers is consistent that general support grants are often the most helpful to the groups they work with and do not provide monitoring or due diligence difficulties.

The "Risk Assessment" framework proposed by the Council on Foundations in its submission to the IRS is not an appropriate solution. It inadvertently focuses attention on small grants to nongovernmental groups doing work to develop civil society, and misses the opportunity to focus attention on the specific groups known to be associated with terrorism. This approach will not solve the problem of potential diversion of funds. Rather, grantmakers should continue their careful screening of grantees and follow through with additional inquiry and other reasonable measures when a problem occurs or questions arise.

The commitment we make to ensure that each grant delivered either domestically or internationally is used for purposes consistent with our missions by high quality grantees is the heart of our work.

The risk of supporting people in unstable circumstances should not be confused with the risk of money being diverted to terrorism. It is imperative that any set of additional requirements imposed by the IRS not increase substantially the cost of international grantmaking by adding significant administrative tasks that will provide little or no benefit to the government's fight against terrorism.

Likewise, any such changes should not make international grantmaking so difficult or expensive that grantmakers will cease to fund or operate cutting edge projects doing work vital to the preservation of democracy and human dignity.

We hope you find this information useful.

Submitted by:

Fund for Global Human Rights   Global Fund for Children
Global Fund for Women   Global Greengrants Fund
Ploughshares Fund   Tides Foundation
Urgent Action Fund for Women's Human Rights