

Sourcing a Solution

Lana Price 29 January 2010

First, the good news: In the United States today, there are approximately 40,000 households with at least \$25 million of “investable assets” (Brown 2007). At the country’s average annual giving rate of 2.6 percent¹ (Giving USA 2008: 48) of adjusted gross income, each household at this level of wealth is capable of making annual philanthropic commitments of a half-million dollars (and many give much more). Collectively, this group has enough members, giving capacity, geographic spread, and diversity of interests to support a “social capital market.”

Now, the bad news: With a few small exceptions, this “social capital market” remains largely unorganized — and hence less able to make the profound social impact that it is capable of.

The fundraising process in the nonprofit sector is fragmented, expensive, and opaque (to donors and organizations). In addition, restrictions placed on how funds can be used often fail to take account of the realities of running a growing organization in a changing environment. And in some sectors, research suggests that true fundraising costs eat up more than 24 percent of funds raised (Center on Nonprofits and Philanthropy 2004: 3) and that nonprofit leaders spend more than half

their time fundraising rather than on the organizational and programmatic issues that directly affect impact.

We know there are outstanding nonprofit organizations with the capacity, opportunity, and ambition to increase their impact significantly if provided with adequate funds. At SeaChange Capital Partners, a 501(c)(3) nonprofit organization, our goal is to help develop a market that increases the efficiency with which high-performing nonprofit organizations are able to secure funding from a loose network of wealthy individuals (and associated foundations). The more robust this network, the more it will allow individual donors to come together in support of specific organizations — and make it possible for donors to participate in fundings of a structure and scale that can truly transform high-performing organizations and make a difference in the outcomes the organizations are trying to achieve.

The Model

One of SeaChange's goals is to direct high-impact donors to organizations that can make especially good use of these donations. Our model — based on the concepts of building trust and fostering collaboration — incorporates key factors of success in developing a partnership between donors and nonprofits. Because of our role as a third-party intermediary, we can provide a service to both donors and grantees that helps them achieve what can otherwise be too challenging for these two groups to

accomplish on their own.

1. **Building trust:** Even donors wishing to have high impact cannot be expected to make sizable commitments without information and inspiration. To inform them, we produce an investment memo summarizing our objective/third-party assessment of the organization's strengths, opportunities, and risks, in a detailed and confidential format. Our memo presents the organization's plans, its expected impact, and how funds will be used to support its goals. The memo is written after we have completed a rigorous two- to three-month process of due diligence that includes interviews with the management team, board, and outside experts; visits to multiple program sites; and unfettered access to the organization's data and files. We use the same memo when seeking approval from our own board to fund a nonprofit.

Even when our analysis is as good as we would like it to be, it alone will never be enough. For most donors, confident giving rests partly on assessment but significantly on a feeling of connection. That comes from meeting an inspirational social entrepreneur, visiting an engaging program, or witnessing firsthand the challenges that an organization is helping to address. A large part of the role of SeaChange is to create effective ways for these connections to happen, through events like group meetings, one-to-

one meetings, or site visits.

2. **Fostering collaboration:** It is important for major donors to see that others have faith in an organization they are considering for support.

SeaChange provides that assurance: We participate in every funding we arrange as an investor through our Catalyst Fund — a pool of philanthropic capital we have raised and set aside to participate alongside potential donors in each funding opportunity. Our participation also helps ensure that our due diligence remains on track and relevant: We think of ourselves as co-investors, rather than fundraising agents; we must quiet our own concerns about possible risks as well as those of potential donors.

Fundings are structured to emphasize collaboration among all participants: funds are disbursed to the nonprofit only after an agreed-on minimum amount has been raised. We recognize that nonprofits require a certain threshold of funding to accomplish their goals, and that organizations too often have to “make do” with inadequate funding. Our model rests on the premise that donors should commit unconditionally to an organization if it has enough money to pursue its plans.

3. **Developing partnership:** In a well-run nonprofit, the board of directors is informed about progress and has a critical role to play in helping the leadership respond to opportunities that inevitably arise over a three- to five-year period. As a result, we believe that

by joining the board of each nonprofit we fund, we can be better stewards for those donors who have participated in the funding while also assisting, in whatever way possible, the grantee. This dual role is vital to our goal of helping foster the most effective relationship between donors and grantees. Because our fundings generally involve three- to five-year commitments by donors, future disbursements are subject to our continued satisfaction with a grantee's overall progress. We have committed to keep donors informed about developments (including setbacks) on an ongoing basis.

Applying the Process

Before setting out to identify our first grantee, we decided what we were looking for in general terms:

- a nonprofit in education reform or youth development
- serving low-income young people in the United States
- that had already accomplished a level of success in delivering results against a set of sought-after social benefits
- with systems for measuring progress towards those outcomes
- with an understanding of what the outcomes cost and
- a clear plan for increasing their impact significantly and sustainably.

It seemed most likely that an organization we picked would have a track record of at least five years and operating revenues of at least \$5 million. Equally important was the prospective grantee's capacity as an organization to support a high-quality program: a proven leadership team; an engaged board of directors; sound operational and financial systems in place; and a strong culture and commitment to learning from its experience and evolving over time. We saw these organizational virtues as the means to the end of sustained impact.

Finally, and perhaps most important, it was critical that the nonprofit wanted to work with SeaChange to engage new donors and pursue an ambitious, transparent fundraising effort to achieve its goals. We recognized that the organization would be selecting us at least as much as we would be selecting it, given that, in our inaugural partnership, we did not ourselves have the track record that we were looking for in others.

Over eight months, we met with approximately 100 nonprofits that fit our general criteria of mission and size. This process was a reminder of how challenging it is to put into operation even the most thoughtful criteria. Impact is difficult to measure directly and almost impossible to compare across organizations; it is expensive to collect data, and time periods necessary for assessing progress are long; and many organizations involved in education reform are relatively new and struggling to get unrestricted capital necessary for

building their own capacity.

We also recognized that, in addition to all our delineated requirements, there was one other important factor: serendipity. We looked at a number of impressive organizations where the timing of their plans was just a few months too early or late for us.

As it turned out, although we had planned to work with one organization, we ended up with two: Uncommon Schools and the New Teacher Center. Uncommon Schools is a charter-management organization serving charter schools in Brooklyn, upstate New York, and Newark, New Jersey. It has the kind of mission, demonstrated success, proven leadership team, and potential for growth that SeaChange sought. It also had a well-developed plan to increase the size of its portfolio of schools, from 11 in the spring of 2009 when we made our decision to 33 schools, which would likely increase enrollment from 2,000 to 11,500 students.

Because Uncommon Schools presented a regional opportunity, we felt its appeal to donors outside the New York area would be limited. When the New Teacher Center (NTC) presented a different kind of appealing picture to us, we felt comfortable working in parallel with it. NTC supports starting teachers with carefully crafted programs of training and mentoring. It operates programs in 40 states and more than 200 public school districts. We were impressed by the organization's leadership, by its results

in improving teaching and learning in the country's hardest-to-serve public schools, and by its potential to increase the quality and impact of its program. NTC was still an "unconventional" choice, however, since its plan was "upside-down" as far as our criteria were concerned: In many respects, the organization already had a significant scale, but because it was establishing itself as an independent nonprofit (it had been incubated by the University of California at Santa Cruz), its organizational capacity was not fully developed. Through this grantee selection process, we realized that it is possible to support social sector transformation in a variety of ways.

In each case, we are delighted to be arranging fundings alongside leading intermediaries active in education and youth development, like the Broad Foundation, New Profit, Inc., the NewSchools Venture Fund, Robin Hood Foundation, and others. Collaborative fundings with endowed foundations help provide a bedrock of support for grantee organizations. Information-sharing among all organizations that have funded or are looking at a nonprofit helps reduce duplication during the due diligence process.

Social Impact

The model of funding we seek to develop is not easy. It depends heavily on candid collaboration with our grantees over what is projected to be a 12-month fundraising process. Recurring misconceptions about SeaChange are

that either (a) before we commit to a fundraising effort, we have access to all of the money needed to reach the goal; or (b) the funds are low-hanging fruit and simple to harvest. Despite our prior and ongoing relationships with some donors, individuals are very hesitant to commit money to nonprofit organizations they haven't previously supported, especially in the current economic climate.

But we are making progress, and our long-run goal is to demonstrate that collaboration among donors can provide powerful leverage for funding when it is linked to rigorous emphasis on performance and impact. We believe that, with access to significant, unrestricted capital distributed over a number of years, outstanding nonprofit organizations have the power to transform themselves. In the short run, however, we are focused on tangible results: With Uncommon Schools, we have reached the minimum goal of raising \$6.0 million, of which SeaChange committed \$2.0 million. This funding has allowed Uncommon Schools to finance a new charter high school in Newark. In that community, they are building a new beacon of hope while helping to fulfill the organization's plan for greater impact.

About SeaChange

SeaChange Capital Partners is a 501(c)(3) nonprofit that arranges transformational fundings of outstanding nonprofit organizations involved in education reform and youth development for low-income young people in the

United States. Fundings are collaborative, including wealthy individuals, family foundations, and others who pool their donations for greater impact; and fundings are large enough to allow donors to make a demonstrable difference for the organization and the overall system it addresses.

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References

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