

Carola Carazzone calls for a paradigm shift in Italian philanthropy

Debunking two myths to avoid the agony of Italian civil society: why Italian philanthropic foundations should take the lead and start funding missions, strategic objectives and organizations and not only projects

Why should Italian philanthropic foundations take the lead and start financing strategic goals and organizations rather than just projects? *"The bidding mechanism has produced weak actors, caught in the starvation cycle and in competition with each other, causing civil society organizations to adapt and morph into mere 'project factories'"* writes Carola, secretary general of Assifero (Italian Association of grant-making foundations and institutional philanthropy), member of the advisory board of Ariadne (European Funders for Social Change and Human rights) and ECFI (European Community Foundations Initiative). *"The Italian civil society sector (...) supports an already shaky public welfare system, but has yet failed to take a proactive step to become the driver of social transformation and the catalyst for innovation in human and sustainable development that it could be".*

In recent years the world has changed dramatically and is continuing to change at a rapid pace.

Today, humanity faces complex and intersectional challenges. Though on the one hand, we have new, powerful knowledge and skills available, on the other, we are facing a double obstacle the obsolescence of inadequate tools and the persistence of ideological barriers, rooted in decades of tradition.

Often, inherited ideological barriers and obsolete tools are closely intertwined: only through a cultural transformation can new tools be developed, or can we adapt and contextualize old ones, freeing up all the innovative potential of social transformation that the present day offers.

As for civil society organizations in Italy - in particular charities, voluntary organizations, associations, non-governmental organizations, non-profit organizations, foundations and philanthropic organizations - I want to start from one of the thickest ideological walls, that of the false myth of reduction-to-the-bone/absolute containment of overhead costs, to then tackle the inadequacy of strictly sticking to project cycle management.

Italian civil society carries out an irreplaceable and wonderful work in supporting a shaky public welfare system, but fails to make the proactive leap to become the driver of social transformation, the catalyst for innovation in human and sustainable development that it could be.

The false myth of the absolute containment of overhead costs

The myth of necessarily reducing to the bone any overhead or general costs was - for a long time - a widespread one across the world.

While in Northern Europe and North America the phenomenon has been reducing – countered over the last decade not only by insiders and interested organizations, but also by universities and public and private donors [1], in Italy it has remained monolithic and undisputed, especially within the public opinion, stereotyped in the procedures and practices of practically all public and private donors.

As the mantra goes, the third sector should cost very little and all funding must be allocated to projects. This, together with the 'magic percentage formula' of general costs as the only indicator of efficiency of non-profit organizations, has strangled them and reduced them to mere "project factories" with inadequate organizations, structures and staff, from which the best talents, even if extremely motivated, end up leaving.

In any industry in the profit world, organizations that invest in people, capabilities,

management and technology, sustainability and financial development are more likely to succeed.

However, in the non-profit world, the ideological approach forces to play a different game and even skilled entrepreneurs - who in their entrepreneurial activity know very well the value of investing in the infrastructure of the organization - revert to only financing projects in their philanthropic activity (i.e. their family foundations). The same applies to companies when it comes to their corporate foundations.

The percentage of overheads over the total project financing ranges between 7% and 15%, coming only exceptionally to a few percentage points higher, remaining however insignificant compared to an average of 35% that characterizes the for-profit sector[2]. Measuring the percentage of general costs merely gives an indication of efficiency and, apart from extreme and rare cases of fraud or mismanagement, reveals nothing about the effectiveness of the work accomplished by an organization.

Instead, there are impact indicators (for outcomes, rather than for outputs) that are much more relevant to understand how effective the organization is in achieving its mission and its strategic objectives which in the end is what really affects all of us - beneficiaries, funders, officers. The impact together with indicators of governance, leadership and transparency is able to offer a much more relevant picture in terms of the effectiveness of civil society organizations as opposed to the plastic and misleading number of the overhead cost's percentage.

This however, is not a matter of increasing the percentage of overhead costs to be covered within a project.

The question is much more transformative.

How can we expect civil society organizations to achieve their strategic goals and mission when most of them struggle to survive and find themselves unable to guarantee decent salaries, the adequate technology and capacities?

In Italy the myth of the (almost) zero cost of third sector organizations has deep roots, which include: the culture of Catholic voluntary service; the subconscious of a country deeply rooted in a male-dominated system in which for hundreds of years social services were carried out free of charge by the church and, for the most part, by women, both religious and lay; the tokenist declarations needed to claim one's contribution in the fight against a widespread subculture of mischief; the occasional risk that the more cunning ones will finance friends or friends-of-friends and, in general, the lack of social trust and the fear of taking responsibility towards change.

Nearly 10 years ago, the University of Stanford magazine [3] denounced the "Non-profit Starvation Cycle" enumerating three reciprocal elements forming a vicious circle. This begins with unrealistic expectations on the part of the funders on the running costs of a non-profit organization, which result in an adjustment/misrepresentation of overhead costs by civil society organizations, which in turn spend little and/or report less than they spend, reinforcing wrong and unrealistic expectations on the part of the funders, hence perpetuating the myth that non-profit organizations are expected to do more and more with less.

Today, even more than a decade ago, at a time when people need non-profit services more than ever and where government welfare increasingly turns to non-profit organizations to solve social problems, it is essential to be able to rely on healthy, sound and performing civil society organizations.

The civil society sector in Italy, in order to face the great social challenges in a courageous, innovative and effective way, desperately needs general operational support such as funding for the organization's strategic objectives - for their mission, as Mariana Mazzucato put it [4] - instead of only towards specific projects.

The Italian third sector is in vital need for core support, for working capital, to be used in a flexible way, not bound to projects, in order to face emerging challenges and strengthen its

organizations and capacities in terms of technology, communications, management and finances.

The paradox of a project's life cycle

I participated in my first social project in 1989. I was 16 years old and I coordinating at CEPIM, a Turin-based centre for people with Down syndrome, one of Italy's first peer education projects fostering autonomy of people of similar age that were affected by a mental disability.

For the next twenty years I contributed to build, write, present, fundraise, coordinate, manage, monitor and evaluate projects in different areas of the non-profits sector in Italy and abroad.

Design tools such as the logical framework and the project cycle management - originally useful as analysis tools - have become over the last twenty years the object of fetish processes that have produced, in the civil society sector, serious distortions both on the intrinsic value of the tools and in relation to the myth of containing structural costs, resulting in the vicious circle that can be best described with "I exist if I produce projects, I produce projects to exist".

The spiral of producing/reporting projects only to match the priorities of calls for proposals and trendy initiatives launched by public and private funders, together with the perpetuation of a chronic under-investing in the organizations, skills and staff has led Italian civil society to the failure to develop its full potential.

The misuse of the logical framework (and derivative instruments) – seen not as one of the tools in the toolbox, but as a comprehensive panacea - has proven its inability to capture the fluidity, complexity and duration of social change processes, struggling to harness articulated actions in its tight matrix, which is both too limited and too constraining. Institutionalizing social change processes into activities/projects - seen as entities which are separated from the daily life of the organization, its staff and its general management - has produced an inherent weakness in civil society organizations, making them totally dependent on the production and management of projects.

The "project-by-project" work, adopted as the only working method by civil society organizations, has in fact supported the idea that the expected results are achievable through a list of predefined activities, within a limited time (normally from 6 months to 2 years for a project, one or two more years for a program) and with a predetermined budget (all or almost all of which to be allocated to activities that do not, by definition, cover the organization's general operating costs, but must in fact be *ad hoc*, specific and additional). This has helped paint a picture of a design cycle that is closed in on itself and on which future projects are based (if and at best), but that does nothing to reinforce the organization or to create systemic and transformative change and social impact. The bidding mechanism has produced weak actors, caught in the starvation cycle and in vital competition with each other, causing third sector organizations to adapt and morph into mere 'project factories'.

If I look at the effects of project-by-project work on civil society organizations that are great processing them and obtaining funding, I see closed circles for each project, on top of which other circles pile up according to theme/area, creating silos of specialization, too often not communicating among themselves, unable to interact, face the intersectionality of problems, work together in the long run, create a system and produce sustainable systemic change.

This way of working is obsolete, inadequate and ineffective in this new era in which we are faced with extremely intersectional and cross-sectoral phenomena - increasing inequality, peoples on the move, climate change, aging populations, populism, xenophobia.

Working project-by-project means assuming that nothing in the logical framework and in PCM will (or could) change. Any change within it, even if not burdensome, results in the non-profit organizations needing to obtain an additional, ad hoc approval from the funder. The PCM design, furthermore, implies that the project does not cover the salaries of employees but that ad-hoc collaborators are hired for the duration of the project, with all that this entails first in terms of having to create and bind together a new team each time and for a limited period (1 year, 2 years) - extremely short in the perspective of social change – but also of insecurity and turnover of the organization's staff.

The PCM design has in fact created a plethora of managers, consultants, designers, experts, ghostwriters who win or lose funding based on their technical design skills and not on the real impact on the community.

Design tools can be excellent abstract exercises, to be learned - as in the sport of basketball - in training, but if applied to repetition in the game, in different and evolving contexts, they lead to standardization of interventions and produce a boomerang effect which in the end will bring to a defeat. They discourage innovation and creativity, perpetuate the status quo without being able to structurally change social dynamics and, indeed, sometimes reinforce the pre-existing dynamics of power and the status quo. Even when applied in the most advanced forms of participatory grant-making or human rights-based approach - an approach based on expanding the capacities to exercise human rights rather than on needs - working project-by-project is extremely restrictive today. In order to tackle issues such as inequality, racism, cultural impoverishment, standalone projects are not enough, but a paradigm shift is needed instead: we must carefully select the civil society organizations and invest in their missions, in their strategic objectives, allowing them to expand and catalyze their skills and abilities.

Funding a higher percentage of overhead costs when funding projects is not enough. A paradigmatic shift is needed.

Civil society organizations need general operational support that is robust, predictable and sustainable, which can give them confidence to seize new opportunities and create greater impact while strengthening their capabilities as change-makers to collaborate with other civil society organizations and partners.

Funding needed by civil society organizations is long-term, flexible and not necessarily just grants, but instead a portfolio of monetary and non-financial support, such as relationships, connections and other types of contributions (for example, use of spaces, loans, guarantees for obtaining loans) [5].

On the part of the funders there is a need for a real transformation in their way of financing, of investing, of grant-making: this requires new policies and alternative methods of financing, other than simple calls for proposals.

The first step that the funders should make is to shift their attention from the inputs - and from control over those inputs - to the processes and results, or better to the impact generated (*outcomes*, not just *outputs*) when it comes to selecting the civil society organizations they'll invest in. This certainly should not be an a priori (friends of friends), but through scouting policies, constant dialogue, accreditation [6] and building trust relationships based on the sharing of the mission and mechanisms for comparing strategic objectives. It's about building strategic partnerships on missions and disrupting the funder-beneficiary relationship, towards a model in which both actors are part of a strategic partnership rather than a top-down dependency.

The theory of change [7] is undoubtedly an interesting tool to consider for this purpose, provided that it remains one of the tools in the toolbox and does not end up becoming a new all-encompassing fetish used unconditionally, as in the case of the logical framework.

Why should Italian philanthropic foundations take the initiative and start funding strategic goals and organizations rather than just projects?

Why should private foundations take the lead in the face of this vicious circle that's resulting in Italy in an agonizing civil society sector, dotted with inadequate organizations and infrastructures?

What is the specific niche of action, the distinctive role of philanthropic foundations compared to other public funders?

Faced with complex global crises - economic, environmental, social, cultural - strategic philanthropy is taking on a new political and social role.

The unique value of philanthropic foundations lies in the private wealth that they can make available for the common good and in the quality of their assets (not their quantity, given that even combined they could never replace public budgets).

Politically and financially independent, philanthropic foundations have enormous strategic freedom as well as wide flexibility and agility in action.

As opposed to emergency - driven public policies, foundations today -- far from being mere "buffer funders"- are probably among the most capable actors of innovation and social change, more effective in putting the future back at the centre of political and social action.

With 40% of the philanthropic foundations that exist today at a global level established after 2000, foundations have an important role to play: supporting participatory processes capable not only of managing responses but also of innovating and building the future.

Why do foundations - that have distinctive features that no other public donor has - need to invest in organizations and strategic objectives, rather than just in projects?

In recent years the world's most important foundations such as the Bill and Melinda Gates, Ford Foundation, OSF-Open Society Foundation, OAK Foundation and others engaged in venture philanthropy and impact investment have chosen to invest in core support for their partners (which in Italian are still called "beneficiaries") for most of their budgets.

In Italy, philanthropic foundations that have begun to do so are only a handful.

Adrian Arena, director of the international human rights program of Oak Foundation, stated few weeks ago in the *Giornale delle Fondazioni* that his organization - operating in six priority areas: environment, child abuse, housing policies, human rights, women and education, with an annual budget of over \$ 200 million - provides core support to almost 70% of its partners.

"This means that we prefer to support the operational structure and internal functioning of an organization rather than individual projects or initiatives, as we believe that each partner can do its job better if they have the tools and resources to do so. We are also thinking about new forms of financing such as loans or social impact bonds. In any case we are very flexible: for example, we can provide the capital to start an activity and usually give a support that goes from three to ten years, after which we have to decide whether to continue contributing and for how long. We always think about long-term actions and invest in the development of the organizations we decide to support, so that over time they will need our help less and less. This has allowed us to contribute to the development of strong, resilient and effective organizations - which we're very proud of".

We need Italian philanthropic foundations to have, at the same time, the humility and courage to take this step: the humility to recognize in non-profit organizations true strategic partners (and not mere recipients of funding) and the courage to completely overturn on the one hand the donor-beneficiary power dynamics typical of the current system focused on calls for funding and on the other the starting focus (from the control of inputs to outcomes), to foster the empowerment and an active, free and significant participation of civil society partners in social change processes.

If philanthropic foundations don't lead the way, no one else will: not public donors and even less their "beneficiaries".

The power dynamics between funders and grantees today, in Italy - where the legacy of "low pay, make do, and do without" is widespread culture - make it difficult if not impossible for non-profit organizations to take the initiative and escape the vicious cycle of the "project factory" - no core funding.

It's a privilege for me to work towards strengthening Italian philanthropic foundations, after many years of fieldwork with non-profits organizations.

While it is true that foundations have all the power to take the initiative and break the vicious circle of hunger in civil society organizations, it is also true that non-profit organizations must start speaking truth to power and reporting the real organizational costs to eradicate both the myth of "doing increasingly more with increasingly less" and the vicious cycle that leads them into situations of weakness and dependency.

[1] See Ann Goggins Gregory & Don Howard, *The Nonprofit Starvation Cycle*, *Stanford Social Innovation Review*, Graduate School of business, Università di Stanford, 2009; *Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness* and *What We Know About Overhead Costs in the Nonprofit Sector*, Center on Nonprofits and Philanthropy, Urban institute Center on Philanthropy, Indiana University, 2008; *Where'd My Money Go? Americans Perceptions of the Financial Efficiency of Nonprofit Organizations*, GreyMatter Research, 2008; *Good Charities Spend More on Administration than Less Good Charities Spend*, Giving Evidence, May 2013.

See also GuideStar, BBB Wise Giving Alliance, and Charity Navigator, *The Overhead Myth: moving toward an Overhead Solution*, Open letter to the Nonprofits of America, 2014 and Open letter to the donors of America, 2013.

[2] See *The real cost of doing business*, Standard & Poor's Global Industry Classification.

[3] Ann Goggins Gregory e Don Howard, *The Nonprofit Starvation Cycle*, *Stanford Social Innovation Review*, Graduate School of business, Università di Stanford, 2009.

[4] See Mariana Mazzucato, *The value of everything: makers and takers in the global economy*, 2018 e *The risk-reward nexus in the innovation-inequality relationship: who takes the risks? Who gets the rewards?* 2013.

[5] See Oliver Carrington, Angela Kail and Rachel Wharton, *More than grants: How funders can support grantee effectiveness*, New Philanthropy Capital, December 2017.

[6] In this regard, I would like to express my appreciation for Article 55 of the new Third Sector Code, which for the first time opens this opportunity to local authorities. See also, for example, *The User Lead Method as a method to identify local innovation* in Nathan Cooper, Shaun Hazeldine, Giulio Quaggiotto, *Two Paths to Supporting Grassroots Innovation*, *Stanford Social Innovation Review*, Graduate School of business, Università di Stanford, 2017.

[7] Kail A. & Plimmer D., *Theory of change for funders*, New Philanthropy Capital, 2014

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