Center for American Progress

Innovation for the Public Good: Financing Tools for Social Innovation

Three Financing Principles to Guide Social Innovation

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Last week we examined why strong leadership is essential to public-sector innovation. An agency leader who wants to develop more innovative solutions to social problems can expect resistance on many fronts, both political and logistical. But no obstacle looms larger than the problem of financing.

Public-sector innovators have to convince a risk-averse—and financially constrained—political system to take a chance on new ideas.

The financing hurdle can be overcome with a little creativity, however. Successful new and emerging social-innovation financing models are an encouraging sign for agency leaders, community advocates, and financiers alike.

There are three key principles for successful social-innovation finance. First, innovation requires appropriate levels of financial backing at each stage of the process, with small sums available for promising ideas and larger sums for proven innovations that merit scaling up. Second, money must follow success, rewarding new ideas that work and pulling funding away from less-successful innovations. Finally, it sometimes makes sense for government funds to be supplemented by contributions from private-sector nonprofits—especially for the most experimental ideas. Let's consider each principle in greater detail.

Apply "stage-gate" funding

The so-called stage-gate approach ensures the right level of financing is made available to programs at different stages of their evolution.

This method was used by the Department of Education's Investing in Innovation Fund, otherwise known as the i3 Fund. The smallest i3 grants, up to $3 million each, were made available for programs that used an innovative approach to improve education outcomes but lacked sufficient data to merit scale. The largest grants, up to $25 million each, were targeted for innovations that already had proven results and needed support to scale up their efforts and increase their reach.

Social Innovation Fund grants, which have been given out by the Corporation for National Community Service since 2010, incorporate an additional innovation. CNCS grants are given to intermediaries who then sub-grant them to others. As a result, government policymakers are insulated somewhat from the political fallout associated with failed ventures.

Stage-gate funding has found success in other governments as well. In the United Kingdom, the National Health Service is piloting Regional Innovation Funds. The funds have invested about a third of their total $350 million on the 250 most promising projects, initially granting $15,000-$70,000 to new ideas. The rest of the funds are focused on scaling up the best interventions that boost outcomes and also save public money. These include innovations that help move special-needs children from hospital to home five months sooner, saving the health service more than $2,000 a day. Another innovation that received funding for scaling up was inhalers that whistle when used correctly. That means that the 50 percent of Britons who incorrectly used traditional inhalers are now much less likely to have an asthma attack.

Make sure money flows to success

The second financing principle of targeting money to things that work needs to be anchored in a commitment to data-driven outcome measurements. If successful programs know they will attract more funding, there is a much greater incentive for innovative approaches to emerge.

One example is the work of the United Kingdom's Greater Manchester region to reduce criminal recidivism. This program brought together 10 local authorities, 10 programs targeting young offenders, two magistrate courts, and a prison to pool their funding and apply it to the approaches that were proven to work best. Instead of funding more than 200 different, small-scale efforts, funds were moved to the 10 programs most successful at reducing reoffending among youth.

Think outside the traditional budget box

In order to make financing innovative social programs truly effective, agencies should engage the support of other sectors. Both i3 and the Social Innovation Fund require grantees to demonstrate they can access funds from other sources, like foundations. This encourages social innovators to look beyond government for resources and allows a relatively small amount of federal money to leverage far greater amounts of private capital. For instance, $50 million in SIF funding will be complemented by at least an additional $150 million in nongovernment funds.

New York City's most untested innovations have often been backed by funding from foundations and private sources. The Fund for Public Schools, for example, has raised around $150 million over the last five years from the private and philanthropic sectors to support initiatives such as the innovation zone that allows schools to try new approaches. If some of these approaches prove unsuccessful, political leaders are insulated from the claim that public money was wasted.

Arranging financing for social innovation work is but one crucial part of the puzzle. Next week we'll consider what makes an agency's culture most able to innovate.

This is the latest installment of a weekly column on government innovation produced by CAP's Doing What Works team in partnership with the Bellwether Education Partners and the Young Foundation, as part of the "Innovation for the Public Good" series.

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