

USC Sol Price Center for Social Innovation: Social Innovation Seminar Series

“Scaling Social Innovation: Creating an Impact Economy and Why it Matters”

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Summary:

Social innovation from the federal government perspective focuses on identifying appropriate roles as the primary funder of social services. The legislative process, legal considerations, and the vast federal bureaucracy all have the potential to impede social innovation. The government – especially at the federal level – is not in the best position to think about and fund innovation, but it has several unique powers that are important for advancing social innovation. It has an unmatched ability to convene representatives and thought-leaders from different levels of government and across sectors. It can also make use of the influential voices of the President and the secretaries of federal agencies. The federal government is also better aware of best practices emerging in the global context. In the initial years of the Obama Administration, the federal government utilized several tools in its unprecedented effort to spur social innovation in both internal government operations and the programs and services that it funds.

Funding Innovation

Finance mechanisms are central to recent federal government efforts. Traditionally, the focus has been on accountability – making sure that money allocated by Congress is spent in a manner that serves the specified population. Success is measured by the number of people served because it is the easiest metric to use for accountability purposes. But, as result, far too little attention is focused on the outcomes that federal policy and funding are designed to achieve. The federal agencies implementing the legislation may think about outcomes, but there are many indicators of success – and the desired outcomes tend to be very broad (e.g. end poverty). This environment provides little room for flexibility – or innovation.

The \$50 million Social Innovation Fund (SIF) aims to give scale capital to organizations that demonstrate success. It distributed the funds through intermediaries. The federal government did not define how money would be used, but the funded organizations had to be focused on achieving scale of impact. These organizations could use the funds to expand a program from one locale to another or invest in physical or human capital to increase impact. The funded organizations also were required to use rigorous evaluation techniques (however, the specific evaluation requirements were kept broad because rigorous evaluation remained underdeveloped in many federal agencies). SIF also spurred internal conversations and initiatives within agencies about achieving scale and flexible funding mechanisms. The Department of Education created the i3 fund (which directly funds nonprofits) and the Department of Labor supported workforce innovation out of its Workforce Development Fund.

Social impact bonds are another finance mechanism receiving heightened federal government attention. First utilized in the UK to reduce recidivism, social impact bonds are mechanisms for achieving government-defined outcomes with private financing. They have an important performance evaluation aspect, requiring the government to carefully define outcomes, safeguard against “skimming” practices, and develop appropriate contracting mechanisms. Dubbed Pay for Success in the United States, the Department of Justice utilizes social impact bonds in its efforts to combat recidivism and homelessness, and the Department of Labor recently closed an application process for cities looking to incorporate social

impact bonds. In fact, 7 federal agencies currently have flexible funding mechanisms that allow them to utilize these finance models, but it is necessary to clarify rules with agencies and congressional oversight bodies to realize this potential.

The government can also play a role in impact investing by supporting businesses that promote the social good in the process of generating revenue. Part of the power of impact investing is the ways in which new players change markets and force competitors to change their practices to meet new demand. However, such enterprises face significant barriers to growth, inadequate metrics for impact and counterproductive reporting requirements, and uncertain finance strategies. The appropriate role for government in addressing each of these barriers is worthy of additional consideration.

Promoting New Ideas: Data, People, and Processes

The federal government is focused on strategies for identifying and supporting new ideas. Far too often government agencies are unaware of promising ideas from other sectors. Prizes and challenges – traditionally utilized by science and defense agencies – are an important vehicle for combatting this issue. In developing a prize or competition, agencies must identify what they are working towards. Through the prize or competition process, government officials are exposed to a multitude of new ideas. Congress passed America Competes 2010 to provide a legislative vehicle that gave federal agencies explicit legal authority to run prizes and challenges. The GSA runs a website promoting these competitions, and 30-40 different federal competitions are posted at any one time. But new ideas can also come from within. The VA started running internal prizes for employee ideas about improving the agency, resulting in 35,000 submissions.

Expanding the availability of data and use of technology is also critical to the federal government's social innovation agenda. President Obama talked about open data in his first campaign, but making data available to the public is a significant undertaking. The federal government does not collect data in a uniform way or format, and data collection is often driven by legislation. It costs money to fix data systems so they are interpretable and useful to the public. President Obama's first executive order required each federal agency to articulate plans for expanding public data access. The resulting process took almost 2 years and forced internal conversations about the data needs and quality of data being collected within each agency. Technology has the potential to play an important role in making data useful. The Department of Health & Human Services ran competitions on innovative ideas for using data, which gave rise to 9 new companies and led researchers to look at data in different ways. Data and technology can facilitate research. In the UK, What Works? Centers have been funded by philanthropy. This is something that is sorely needed to support government efforts in the United States.

The federal government is also working to invest in people and improve processes. Federal efforts have facilitated internal working discussions amongst diverse agency employees interested in innovation. Additionally, federal agencies are increasingly talking to – and learning from – one another. For example, HHS benefited from the VA's personal health information distribution system, and the Department of Education provided substantive expertise to the Department of Labor, which funds community college programs. Federal officials are also making a more deliberate effort to engage state and local counterparts. State and local governments receive direct transfers from the federal government and have greater flexibility to innovate. Public-private partnerships are also important, particularly if they go beyond simple transactions. For example, philanthropy is playing an important funding role in several prizes and competitions run by federal agencies. This is, in part, because the federal government is very restrictive in how it thinks about failure. And Congressmen get elected by securing money for their district, not by funding what works.