

NONPROFITS, PHILANTHROPY AND PUBLIC POLICY:  
ARE WE AT A CRITICAL MOMENT?

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October 8, 2009

As I was preparing this speech, it seemed especially fitting that I would be giving this presentation at this moment, given the important public policy challenges and issues currently being debated here in Washington and around the country. Wally Nielsen spent his entire professional career deeply interested in the intersection of government and public policy and philanthropy and nonprofit organizations. He worked in the early post war period in the implementation of the Marshall Plan in Europe and then moved to a role as a program officer at the Ford Foundation in the 1960s with responsibility for grants to Africa where he was immersed in the intersection between philanthropy—through Ford Foundation grants---and US public policy on the ground. He subsequently wrote three highly regarded books on his experiences in Africa. But the work that brought him wider acclaim and recognition was a series of books starting with *The Big Foundations* in 1972 and then *The Endangered Sector* in 1979. In these books and others, he was what you might call a friendly critic of foundations and organized philanthropy. He admired the pioneering and innovative philanthropy of the big foundations such as Rockefeller and Ford. But he also lamented that foundations were often too cautious in engaging urgent public problems and sometimes steered away from controversial issues and problems. In essence, he believed that foundations---while they had a proven capacity to address urgent public problems---they also had great up-tapped potential that could be used for the betterment of society, especially its more disadvantaged citizens.

However, he also worried that changes in the role of government and public policy contained the risk of overwhelming foundations and philanthropy. In particular, he wrote *Big Foundations* in the immediate aftermath of the landmark 1969 federal legislation that imposed new regulations on foundations including mandated payout levels and strict prohibitions on political activity. He was also very concerned that the overall growth of the American state contained the risk of swamping the efforts of philanthropy, making them irrelevant or

ineffective, and by blurring the boundaries between government and nonprofit or Third Sector as called it---a term in common currency today in Europe, Australia, New Zealand and many other countries. As a result, he thought foundations and nonprofit organizations in general were at a critical transition point.

By calling attention to the growth of the American state and the increasing inter-connections between government, public policy, and nonprofit organizations, he was acknowledging the transformation in the role of government and its relationship to the nonprofit sector as well as his concerns for the future of philanthropy given the new role of government. With this observation as a starting point, let me offer some thoughts on the historical development of this government-philanthropy and nonprofit relationship, in order to place in context the contemporary situation. During colonial times, churches and early nonprofit organizations including universities and hospitals were critical and often prominent components of the social structure were central the provision of valued public services such as health care and education, to the extent that is was provided.

But the initial structure of the American state ---with its decentralization, limited resource base, and minimal federal government role in domestic policy---created powerful incentives for a distinctly local nonprofit sector with relatively little ongoing funding support or direction from government. Thus, nonprofits providing services were dependent upon a mix of private donations, fees, and very modest public subsidies. But as noted by Robert Putnam, Gerald Gramm, Theda Skocpol and others, many nonprofits during this period were associations and clubs rather than what we today regard as public charities in fields such as health, education or social services.

Subsequently, in the late 19<sup>th</sup> and early 20<sup>th</sup> century witnessed a steady expansion in nonprofit organizations engaged in providing services to the citizenry, especially services for children and the poor. Indeed, many of the more prominent and notable of these organizations remain with us today: Catholic Charities, the YMCA, Lutheran Social Services, the Salvation Army, Goodwill Industries, and the Boys and Girls Clubs. The establishment of these service agencies was part of a wave of new national, federated organizations with chapters in local communities throughout the country. Nonetheless, most local nonprofits were churches, social clubs and associations such as the Masons, the Elks, and the Grange, rather than public charities offering social, educational and health services to the public. The latter was a relatively small part of the nonprofit sector and continued to be primarily reliant on private donations, fees, and very modest public subsidies. Indeed, many nonprofit agencies such as settlement houses and emergency assistance programs were entirely dependent upon private charitable donations.

This period also witnessed the emergence of wealthy philanthropists and the big foundations bearing their names including the Rockefeller and Ford foundations. These foundations were also very much engaged in public policy issues including the urgent public health problems in the US and abroad. And, Andrew Carnegie in particular won a lasting place

in the annals of philanthropy with his support of the establishment of public libraries throughout the country.

In the early 20<sup>th</sup> century, another major new development within organized philanthropy was the creation of the Community Chest, the forerunner of today's United Way. Started in Cleveland, the Community Chest quickly spread throughout the country so most communities of significant size had a Community Chest organization by the end of the 1920s. Essentially, the Community Chest was a membership organization of leading nonprofit service agencies in local communities, although the specific mix of agencies varied across the country. The member agencies agreed to pool their resources and solicit donations through payroll deduction through a combined campaign. For many agencies such as the chapters of the YMCA or the American Red Cross, the Community Chest quickly became one of their major sources of revenue. Importantly, though, most of these Community Chest agencies viewed their mission as quite separate and distinct from government and relatively few agencies received public subsidies.

These agencies though were overwhelmed during the Depression in the 1930s with many agencies accepting emergency relief funds. Many local nonprofits failed entirely or merged with other nonprofits. The Depression of course had dramatic consequences on the role of the federal government in many areas of American life including income maintenance programs such as pensions, welfare, and regulation. But surprisingly, the involvement of government, notably the federal government, in the regulation and funding of nonprofit service agencies remained quite limited or temporary for two reasons: many Depression-era funding programs were on an emergency basis and quickly ended after the start of World War II; and the federal government assumed at least part of the responsibility for poor relief, freeing at least some agencies from the direct cash and in-kind support for poor people. Consequently, nonprofit agencies in the late 1940s and 1950s remained largely dependent upon private donations (especially Community Chest funds) and fees. Some nonprofits with programs such as foster care received modest, limited public subsidies. Overall, the restricted character of nonprofit revenue sources meant that most agencies were relatively small and lacked extensive professionalization or infrastructure.

In essence, the many major and important New Deal initiatives of the 1930s did not fundamentally alter the funding role of the federal government as it pertained to nonprofit service agencies. Public policy for direct social and health services remained largely decentralized to state and local government. To be sure, the federal government provided grant-in-aid support during the 1950s in some policy areas such as child welfare and hospitals through the Hill-Burton Act of 1946 which authorized construction grants and loans. However, these federal programs were quite targeted and/or limited so most nonprofit service agencies such as the YMCA or local family service agencies were largely unaffected.

Many scholars including Wally Nielsen as well as policymakers and practitioners have noted the dramatic shift in the relationship between government and the nonprofit sector which occurred in the 1960s and 1970s. Four key developments stand out as major breaks or

turning points: First, the federal government provided ongoing funding support for local nonprofit service agencies through grants to the state and local governments who then contracted with nonprofit organizations or through new direct federal grants to nonprofit agencies at the local level.

Second, this new federal funding allowed and encouraged the creation of thousands of new nonprofit agencies outside the existing networks of established Community Chest agencies. As a result, new channels of support were opened for minority and previously marginalized community based organizations. This major development in turn led to profound changes in the United Way and the Combined Federal Campaign, including much more open eligibility for funding. The long term consequence has been the continued the division of public and private funding into smaller and more unpredictable revenue streams

Thirdly, the federal government also expanded its new regulatory reach and authority that provided the basis for a more assertive monitoring and evaluation role for government vis a vis the nonprofit sector including foundations through the 1969 Tax Reform Act.

And fourth, the American state grew rapidly and devoted substantially more resources in a host of important policy areas such as health care, poverty, humanitarian assistance, and medical research. The influx of federal funding rapidly changed the government-nonprofit relationship. Many longstanding agencies that had previously depended upon Community Chest funds became substantially dependent upon government funds. Entirely new nonprofits such as community action agencies and community mental health centers were created. And state and local governments invested in new capacity to manage the expansion of contracts to nonprofits. New public funding now dwarfed the collective efforts of foundations in areas such as poverty and health care.

This restructured government-nonprofit relationship was controversial. Many scholars and nonprofit executives feared that government funding would undermine the distinctive character and autonomy of nonprofit agencies. Many policymakers were also worried about the potential loss of accountability for public funds as more and more services were contracted to private, largely nonprofit agencies. And many scholars, commentators and nonprofit personnel were concerned that the reach of the federal government had become too extensive and far-reaching, potentially compromising the distinctive character of the nonprofit sector including foundations and community based organizations. As Nielsen noted in his 1979 book, *The Endangered Sector*, "A time of planned, governmentalized, officially subsidized, and guided pluralism is upon us. Nonprofit institutions, as one element of a society in radical transformation, will never again be the same in status, relative scale, function or autonomy." These sentiments were echoed at the time in the writings of other scholars including Nathan Glazer, Peter Berger and Richard Neuhaus.

To an extent, some of the trends Nielsen and others identified have continued. In particular, the state has grown tremendously in the last 30 years, despite the efforts of a succession of Presidential administrations to devolve responsibility to the states and localities

and curtail the growth of government and the federal government in particular. Big federal health insurance programs such as Medicare and Medicaid have escalated rapidly. New and/or expanded programs in child welfare, personal assistance services, community care, low-income housing, community development, drug and alcohol treatment, and workforce development were created at the federal level. Welfare reform in 1996 had the effect of creating greater demand for nonprofit services while at the same time shifting federal and state funding substantially away from cash assistance through Temporary Aid for Needy Families (TANF) to social services to support poor and disadvantaged individuals. Until the financial crisis, many states also increased their support of key services such as community care. The diversity of government funding support for the nonprofit sector also increased through the expanded use of vouchers, tax credits, and tax-exempt bond money. For instance, Congress created an entirely new network of largely nonprofit low-income housing organizations in 1986 when they authorized the creation of the Low-Income Housing Tax Credit which has been used to support the building and renovation of thousands of low-income housing units nationwide.

In short, government funding support for nonprofit organizations (as well as other organizations) through contracting and other types of so-called policy tools such as tax credits--has increased greatly, helping to spur the continued growth of nonprofit organizations, although several other factors are at work in the sharp rise in the number of nonprofits including: rising incomes, increased demand for an array of services provided by nonprofits, changing views of government, and growing interest in corporate social responsibility. Reflecting these many factors, the number of charitable nonprofit 501 c 3 organizations has almost doubled since 1995 to almost 1 million.

One other particularly important public policy development that has played a key role in the rising prominence of nonprofit organizations and their role in addressing social problems was the establishment by Congress and the Clinton administration of AmeriCorps and the Corporation for National and Community Service in 1993. The recent precedents for AmeriCorps date to the 1960s with the establishment of the Peace Corps and VISTA. But these programs were relatively modest in scope. Also, President George H. W. Bush inaugurated his now well-known "Points of Light" campaign to champion volunteer and community initiatives around the country, primarily through private funds with federal encouragement. The launching of AmeriCorps in the 1993 put the federal government squarely in support of community service, service learning, and a more extensive role for nonprofit organizations in helping their communities.

Throughout the Clinton Presidency, the Corporation was politically embattled and was at times in danger of defunding and elimination. However, the Corporation did survive and has offered an assertive role for government in regards to nonprofits in ways that are quite different than the contracting and regulatory role for government that emerged in the 1960s. The Corporation and AmeriCorps has funded thousands of AmeriCorps volunteers who have in turn worked in thousands of different community organizations providing staff support to mostly newer organizations in a wide range of service fields—from social welfare to the environment to early childhood education. In the process, AmeriCorps volunteers have

generated publicity and support for local organizations that has proven useful in fundraising and generating broader based community support.

Arguably, another very important long-term effect of the Corporation and AmeriCorps is direct and indirect support to an array of new nonprofit organizations based upon a social entrepreneurship and community service model such as City Year, Teach for America, Citizen Schools, the Harlem Children's Zone, and YouthBuild. These organizations tend to have partnerships with public agencies, foundations, and corporations and actively seek growth and deeper program impact, aided in part by foundation grants and funding from the Corporation for National and Community Service. These organizations are also major backers of the recently enacted Edward M. Kennedy Serve America Act of 2009 and the Office of Social Innovation. These organizations have in turn inspired a whole new generation of young people to engage in community service and work in public service more generally, especially through nonprofit organizations rather than government. Many of these young people have even created their own nonprofit organizations to further their goals.

In general, the newer nonprofit organizations with close working relationships with AmeriCorps and the Corporation tend to be quite different organizations than the nonprofits engaged in contracting for public services. For instance, the big growth areas in contracting in the last 25 years (until the financial crisis) have been in services such as home care and home health, foster care, community care for the developmentally disabled and the mentally ill, low-income housing, community development, and child care. The agencies providing these services are primarily professional, staff-driven organizations with relatively few volunteers, except for board members. Some of these services are highly complex involving many different types of professionals and the legal system, consequently it is much more difficult to engage these organizations in various types of volunteer or community service activities.

Nonprofit community agencies contracting with state and local government for important public services also tend to have quite different levels of engagement with advocacy and public policy. Many community agencies face formidable challenges in their capacity to engage in public policy advocacy on behalf of their organizations and the individuals who benefit from their services including a lack of resources and a worry about the potential implications of public policy advocacy for their organizations. Consequently, many local agencies have sought to work through intermediary organizations such as a regional association of service providers, especially in their specific service field such as child welfare or housing.

By contrast, many of the newer social entrepreneurial organizations are less likely to have these types of state and local networks. Many new social entrepreneurial organizations tend to eschew engagement with government or contracting while others have grown substantially through extensive partnerships with foundations, government, and corporations.

Yet, many of the newer social entrepreneurial and community service organizations also share an important characteristic: they are relatively young and of modest size at a time of funding cutbacks by foundations, corporations and government. Many organizations have been

forced to rethink their strategic plans and reinvent themselves in order to sustain their organizations amidst the financial crisis.

Importantly, the combination of the financial crisis and the new Obama administration puts nonprofits and government at a very important historical moment. Government support for community service and volunteering is at an all-time high. Interest among young people in AmeriCorps, the Peace Corps, and service-oriented nonprofits such as Teach for America is intense and growing. The contemporary nonprofit sector is remarkably diverse on many different dimensions. The federal stimulus money has at least the potential to directly or indirectly help many nonprofits at the local level.

Nonetheless, nonprofit agencies providing an array of public services through contracts around the country are suffering through a wave of cutbacks, although the severity of the situation varies tremendously depending upon the state or locality or specific service provided. Moreover, many state and local governments are increasing their regulatory and monitoring efforts, requiring nonprofits to invest in more capacity to comply with government contract expectations.

Thus, the Obama administration and state and local governments need to take advantage of this broad popular support for voluntarism and community service and recognize that the nonprofit infrastructure requires an ongoing investment and commitment from government and private funders. The Corporation for National and Community Service provides direct support for thousands of volunteers but generally does not support the infrastructure and capacity of the nonprofit organizations themselves. The risk is that without a vibrant nonprofit infrastructure, AmeriCorps volunteers may not have a satisfactory experience or maximize their potential value to their communities. This infrastructure support should also include adequate funding for existing services.

More generally, the expanded role of AmeriCorps also calls attention to the evolution of the federal government relationship to nonprofits and philanthropy since the 1960s. The advent of extensive government contracting with nonprofits in the 1960s and 1970s greatly reduced the dependence of nonprofit service agencies on private philanthropy. Likewise, the creation of the Corporation for National Service essentially freed voluntarism and community service, at least in part, from its dependence on private funding and smaller scale state and local efforts.

Yet, the combined effects of extensive contracting and government support of community service means that more than ever the citizen encounters with public services--- either as service recipients or deliverers---will be through a nonprofit organization, rather than government. This is at a time of serious financial strain on many nonprofit organizations due to declines in public funding and foundation grants as well as increased competition for the remaining public and private grants. Moreover, many nonprofit organizations are relatively new and at a point in their life-cycle where their initial source of funding---whether it is a foundation or corporate grant or a government contract---is in decline and their founding board

and staff are looking to transition out of the organization. And this situation is occurring at a time of growing expectations by government and foundations on accountability and performance

Because of the confluence of these circumstances, we are at an important transition point in terms of the relationship of nonprofit service agencies and organized philanthropy including foundations and federated fundraising organizations such as the United Way to public policy, creating the opportunity for community-based service agencies, organized philanthropy and government to think differently and creatively about their increasingly intertwined relationship.

With this situation in mind, I would offer the following suggestions and observations for next steps by government, nonprofit service organizations, and organized philanthropy especially foundations. Government, for its part, has an obligation to ensure that nonprofit services are provided equitably and adequately in order for citizens to be in a position to achieve full social and political citizenship. This effort by government should include an investment approach to nonprofits by policymakers that emphasizes accountability and results as well as sound governance and community engagement. This investment approach requires the following:

- 1) Ongoing support with technical assistance and capacity building. Many newer organizations are not well-positioned to compete for government contracts and funding or to respond to the expectations of private foundations on evaluation and performance assessment. Government can thus be an especially valuable resource in supporting the infrastructure and capacity needs of nonprofits.
- 2) A recognition of the potential and limits of performance contracting strategies with nonprofits especially contracting approaches that focus on narrow performance targets. In my view, government needs to develop performance measurement approaches with nonprofits that also include attention to governance and community and citizen engagement concerns. In particular, many newer nonprofits have small boards and relatively small staffs and do not have strong linkages to local external stakeholders. Government could play a positive role by encouraging nonprofits to develop and enhance their community relationships and support. Rethinking performance management approaches to nonprofit organizations is also important because it can affect the diversity of the sector, potentially lead to unwanted consequences for some agencies including inappropriate professionalization, unnecessary costs and a shift away from their core competency in programming.
- 3) A third point is that policymakers-- with the support of nonprofits and organized philanthropy--- should seek structured ongoing forums for the discussion and possible resolution of issues of mutual concern such as funding levels, rates, regulations and new program initiatives. Indeed, other countries have created their types of forums. For instance the United Kingdom have created formal "Compact" between the government

and the nonprofit sector that provides a structured ongoing opportunity for the two sectors to discuss important issues and jointly develop new programs and policies. More informal efforts have been tried in the US especially at the state and local levels. Given the many interconnections between nonprofits and government, these more structured opportunities for dialogue should be developed and explored in a more concerted fashion.

- 4) Government also needs to support through its own policies the representative role of nonprofit organizations. A major reason that we value nonprofits is for their potential to represent citizen interests and provide valued feedback to policymakers on important public policy matters. But unless government is supportive of this representative role, nonprofits will face serious internal and external constraints to engaging policymakers in important advocacy on behalf of citizens and their communities. Let me be specific. Many cities across the country including Portland and Seattle directly and indirectly support the participation of neighborhood organizations on important municipal policy issues. Some states have directed their state agencies to create liaisons to the nonprofit sector. In jurisdictions, state and local agencies work collaboratively with nonprofit associations and encourage their input and ongoing participation in the policy process. Government administrators and legislators can seek nonprofit input and comment on proposed regulations and policies. In short, an assertive and supportive government can greatly enhance the potential of nonprofit agencies to effectively represent local communities and their citizens.

Nonprofit organizations for their part also can take several steps that will position them to provide effective and sustainable services and programs. These steps include:

- First, nonprofits organizations could usefully rethink their governance. Many nonprofits---especially newer more community based organizations have small boards that are mismatched with the needs of the organization. A larger and more broad-based board with diverse members would help to ensure the sustainability of the organization and promote greater accountability and effectiveness.
- Second, nonprofits ---including the board members, staff and volunteers--also could do more to engage the policy process, broadly defined. This can include participation in local community events and organizations to membership in coalitions and associations to active engagement in important policy concerns affecting nonprofits and their communities. I would argue that this engagement is especially critical today given the financial crisis, the increased demands for accountability by nonprofits, the enhanced scrutiny of nonprofits by policymakers, especially at the federal level, and the greater competition for public and private grants. Given the funding crisis of state and local government, nonprofits should also strive to hold government accountable for its own obligations to adequately fund key public services delivered by nonprofit service agencies.

- Third, and, importantly, to cope with the current funding and regulatory environment, nonprofits will need to be creative and innovative in programming, organizational structure and their relations with other organizations. Already, some nonprofits have created affiliated 501 c 4 organizations to engage in the policy process. In addition, many larger nonprofits have established affiliated c 3 organizations to help with their fundraising.

In many communities, nonprofits are working together to reduce expenses including the co-location of services. Some foundations are helping with this effort by funding the purchase of buildings that can then be used by many local community organizations who can also pool their resources to defray expenses. Many nonprofits have also found benefit in creating targeted advisory committees to broaden their community support, strategic planning, and fundraising capacity. Many other examples exist including various types of hybrid nonprofit and for-profit structures, especially among the newer more social entrepreneurial types of nonprofit organizations.

Foundations are also central to the evolving role of the relationship of nonprofit organizations to public policy and the unfolding effects of public policy on nonprofits themselves. As I noted, we value nonprofits for their role in representing citizen interests and providing valued public services---from foster care to low-income housing to community development to environmental advocacy. Foundations can take several concrete steps to help nonprofits organizations in these efforts and to aid them in coping with the current funding crisis.

- First, foundations can support advocacy by nonprofits. To be sure, foundations are constrained by law from supporting both lobbying and partisan political activity but foundations could provide valuable support to nonprofits coalitions and intermediary associations representing nonprofits as well as nonprofit advocacy organizations engaged in public education and policy analysis on critical policy concerns such as poverty, tax reform, the environment, and affordable housing.
- Second, most foundations do not have the resources to effectively tackle many important policy problems on their own. However, foundations could partner with other foundations, corporations, and government to provide a more extensive response to local problems. Many examples of this type of collaboration exist around the country today. For example, in Baltimore, a nonprofit public-private partnership, East Baltimore Development Inc., is a collaborative effort of the federal, state and local government, local foundations such as the Annie E. Casey Foundation and the Goldseker Foundation, and local corporations including leading banks. Their mission is to revitalize the East Baltimore neighborhood and provide needed public services to the local citizenry. This type of model directly engages foundations in local policy issues and promotes an ongoing relationship with key public, philanthropic and corporate leaders on important policy matters.

- Third, foundations need to think creatively about their own grantmaking. As many scholars and nonprofit leaders have noted, many nonprofit organizations ---especially newer community organizations---can face serious constraints on their ability to raise capital. Foundations can help nonprofits through expanded use of “program related investments” that allow foundations to invest their endowment funds in organizations which are related to the foundation’s mission. For instance, foundations have loaned money to intermediary organizations in the low-income housing and community development fields---which then loan the money directly to local provider agencies to help with their capital needs. Expanded use of these program related investments could also help foundations support nonprofits sustainability, especially in these difficult economic times. These investments are part of a broader push for mission-based investing by foundations that calls for aligning the investments and grantmaking of the foundation with the mission and goals of the foundations.
- Fourth, foundations should weigh the desire to have impact with the importance and value of supporting the local nonprofit infrastructure. Many community organizations may be providing valuable services to the community but they are not good candidates for going to scale and expansion beyond the boundaries of their own community or region. Moreover, many of these organizations are providing more routine ---but nonetheless essential services. Thus, foundations need to balance specific program impacts with the need to sustain local community organizations.

More broadly, foundations and nonprofit organizations should think comprehensively about their contributions to society. In recent years, there has been a tendency to think narrowly about program impact---as typified in certain types of performance contracting regimes, program evaluation models, and the focus in current discourse on the charity care levels of nonprofit hospitals as a condition of their tax status. In my view, nonprofits need to think creatively about governance and their connections to their community and the policy process in order to contribute broadly to their local communities. Nonprofit organizations can provide many potential benefits to the polity that go beyond specific program impacts. Peter Frumkin has noted the importance of expressive benefits---the opportunity to create organizations and responses that are reflective of deeply held values and commitments such as the many and varied faith-based organizations.

Moreover, nonprofits can help build social capital and foster a sense of community and engagement that can have lasting impact on the citizenry and their communities. Funding constraints and expectations can sometimes create serious obstacles to the ability of nonprofits to engage their communities in a meaningful way; foundations and government should help support these community oriented roles of nonprofits.

Surprisingly, though, nonprofits, foundations and their supporters have often found it difficult to find legitimate forums for this sort of policy exploration and decision making on the contemporary and potential contributions of nonprofits and foundations. To be sure, many

national intermediary associations can sometimes play this role but it is difficult to sustain this effort given the funding challenges. In addition, associations representing sub-sector groups such as hospitals and universities may do a very fine job in their particular field. But for the nonprofit sector as a whole, an absence of forums exist which hampers effective oversight, the development of appropriate public policies and more successful self-regulation by the nonprofit sector themselves. For this reason, more structured opportunities for dialogue and policy analysis on key policy issues affecting nonprofits is especially important.

In sum, I do believe that we are at a particularly important juncture in the evolution of the relationship between nonprofits including foundations and public policy, given the financial crisis, the priorities and support of the new Administration, the broad enthusiasm throughout the country for community service and voluntarism and the urgent policy problems that need attention. To effectively respond, nonprofit service agencies and foundations will need to think creatively and constructively about their roles and responsibilities to the citizenry and acknowledge and support the active partnership with government in successfully addressing social problems and local community needs.