

Tear Sheet

How Grantmakers Can Help Address Key Financial Challenges Facing Nonprofits

Key Issues

As grantmakers, your success in achieving your mission is tied to the success of organizations you support. And those nonprofits have their work cut out for them—both in delivering crucial services to their communities and in raising the funds to make this important work possible.

Unfortunately, adding to those challenges is a profound disconnect between the ways grantmakers support nonprofits and the types of support nonprofits say contribute most to their success.

Grantmakers for Effective Organizations, in its 2009 report *On the Money*, describes several financial challenges faced by nonprofits:

- **Restrictions on funding.** Despite the importance of infrastructure to nonprofits' success, grantmakers overwhelmingly prefer to support the direct delivery of programs and services. The result is an underinvestment in the infrastructure nonprofits need to sustain and grow, such as staff, buildings, and equipment.
- **Different notions of financial sustainability.** Some grantmakers imagine that successful grantees will eventually reduce their reliance on foundation funding and pay their own operating costs. For many nonprofits, however, this is not a possibility, and sustainability simply means having the capacity to raise adequate funds to do their work well.
- **Too many masters.** Diverse funding sources are considered an ideal for nonprofits, but this may be a myth. A 2007 study by The Bridgespan Group discovered that 100 U.S. nonprofits grew annual revenues to \$50 million or more by fundraising from only one source. Securing multiple funding sources can make for hundreds of applications and reports, a staff- and time-intensive endeavor as nonprofits juggle accountability to numerous funders with different priorities. Some organizations even shift from their core missions to secure funding from multiple sources.
- **Onerous grantmaking practices.** From grant applications that take days to complete to involved reporting requirements that differ for each donor, many grantmakers inadvertently place enormous burdens on their grantees.
- **Knowledge gaps.** Perhaps the biggest money problem facing nonprofits and their funders today—and a problem that underlies all the others—is a knowledge gap on both sides about the nature of money in the nonprofit sector. For example, many foundation staff are hired for their expertise in specific program areas rather than their knowledge of nonprofit finance, which can affect their ability to assess program budgets and nonprofit financial capacity.

Meeting the Challenges: Ideas for Grantmakers

Although you cannot solve all the financial challenges facing nonprofits today, as grantmakers you *can* take a number of steps to allow nonprofits to fulfill their missions as effectively and efficiently as possible.

Listen to grantees. Engage grantees in conversations about the financial challenges they face, and about how grantmaking practices do or do not help them succeed. To get honest feedback, consider using an anonymous survey of grantees or an outside party to facilitate a roundtable discussion and report back to your board.

- To what extent do your grantmaking strategies and the types of support you provide reflect the perspectives and needs of your grantees?
- How do you engage with grantees outside the application and reporting process to better understand their financial and operational challenges?
- What more can you do to get direct feedback from grantees about the kinds of financial support that will help them most?

Provide the types of support nonprofits need most. Think through the full costs of services you fund, and consider more general operating support and multiyear support for grantees.

- What portion of your grantmaking is in the form of unrestricted or general operating support? How about multiyear support? What is stopping you from providing more of those types of funds?
- What is the size of your average grant for either general operating support or program support? Is this enough to make a real difference in grantees' capacity to achieve their goals?
- Do your program grants cover the full costs of the program? If you are partially funding a program, do you know the full costs?

Reduce the burden on grantees. Take steps to streamline application and reporting processes.

- Are your application and reporting requirements proportionate to the size of your grants—that is, are there fewer hoops for smaller grants?
- Have you tried to calculate the costs to grantees of working with you as a grantmaker and factor those costs into the grants you provide?
- To what extent can you streamline grantmaking procedures while still getting the information you need from grantees?

Work with other funders to reduce red tape and pool resources. Consider working together to simplify the grantseeking process for nonprofits while delivering larger, higher impact grants.

- Is there an opportunity to work with other grantmakers to institute common grant application and reporting processes among your grantees?
- Are you funding in issue areas or geographic communities where it makes sense to strategically pool resources with other funders?

Consider alternative financial tools. Explore different types of support that will meet grantees' financial needs, including cash-flow loans and other program related investments.

- To what extent would your grantees benefit from nongrant forms of support such as cash-flow loans and program related investments?
- Is your organization equipped with the staff and capacity to manage loan programs, or would it be smarter to work through intermediaries to provide those funds to nonprofits?

What Grantmakers Are Saying

“We knew the answer was not more—more paper, more procedures, more obstacles, more time. We believed that if giving grants involved fewer, simpler processes, every dollar would work harder and do more.”

—Bill Sommerville, Philanthropic Ventures Foundation, Oakland, CA

“A lot of organizations were facing serious timing issues with reimbursements from government and other foundations, and the loan program is our effort to help bridge the gap.”

—Greg Cantori, Marion I. and Henry J. Knott Foundation, Baltimore, MD

Additional Resources

- “Capital Ideas: Moving From Short-Term Engagement to Long-Term Sustainability,” <http://isites.harvard.edu/fs/docs/icb.topic171906.files/proceedings.web.pdf>
- *Drowning in Paperwork, Distracted From Purpose*, <http://foundationcenter.org/gainknowledge/research/pdf/drowninginpaperwork.pdf>
- Funder Collaboratives, www.smallfoundations.org
ASF tear sheet with tips on working together to accomplish more
- General Operating Support, www.smallfoundations.org
ASF tear sheet that makes the case for general operating support
- Leveraging Your Assets With Loans and Other Program Related Investments, www.smallfoundations.org
ASF primer on ways to further your mission while recycling your assets
- *On the Money: The Key Financial Challenges Facing Nonprofits Today—and How Grantmakers Can Help*, www.geofunders.org
- *Paying for Overhead Study*, <http://www.philanthropy.iupui.edu/Research/33537%20Rev%20Overheard%20Book.pdf>.
- “The Looking-Glass World of Nonprofit Money: Managing in For-Profits’ Shadow Universe,” <http://www.nonprofitfinancefund.org/docs/Looking%20Glass,%20NPQ%20website.pdf>

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