

# How Can We Be More Supportive of Nonprofit Financial Sustainability?

Grantmakers can take a number of steps to ensure that the support we provide to grantees, and the policies and procedures connected to that support, enables nonprofits to effectively fulfill their missions. The goal, as described by Clara Miller, formerly of Nonprofit Finance Fund, should be to “create an enterprise that can reliably attract revenue and deliver quality program over the long term.” By listening to grantees, hearing from them directly about the types of support they need and understanding each nonprofit’s unique financial picture, grantmakers can provide support that is both impactful and contextual. Additionally, grantmakers can support effective nonprofits by streamlining application processes, partnering with other funders to pool resources and exploring a full range of financial models.

## The Grantmaker’s Role in Supporting Grantee Financial Sustainability

Nonprofit organizations that are financially sustainable have enough revenue to meet the long-term operating needs of programs that deliver on their mission. In practice, this means that an organization’s core activities attract or generate sufficient, recurrent revenue to meet ongoing operating expenses, and they produce the desired result. It also means that an organization has adequate capital, beyond current revenue, that provides some flexibility to adapt over time, to meet unanticipated needs and plan for the future.

For more on this topic, see [\*On the Money: The Key Financial Challenges Facing Nonprofits Today — and How Grantmakers Can Help\*](#), by Nancy Burd (Washington, D.C.: GEO, 2009).

Grantmakers can use a variety of strategies and tools at their disposal to help their grantees achieve financial sustainability. Below are some considerations for grantmakers who want to invest in building strong organization by offering support that is both contextual and helpful:

- **Ask about and listen to what grantees say they need:** Many grantmakers are unaware of the host of financial challenges that nonprofits face and lack a complete understanding of how our current grantmaking practices may or may not be supporting nonprofit success. GEO's 2011 [study of philanthropic practice](#) found that less than a third of funders surveyed solicited anonymous feedback from grantees; another third collected nonanonymous feedback. Without listening to grantees, grantmakers also do not know how to improve our grantmaking so that it meets grantees' real, day-to-day needs. A more open and transparent relationship with grantees will help us achieve a more complete understanding of nonprofits' underlying capital structures and of the types of money that will help most.

A [2013 study](#) by [Nonprofit Finance Fund](#) found that 17 percent of grantees don't feel like they can have open dialogue with their funders about financial topics. This means the onus is on grantmakers to broach the subject with grantees. When grantmakers express a true interest in listening to grantees in order to understand what they need, we are also laying a foundation of trust that will enable grantees to talk candidly about their challenges and needs. Grantmakers that seek to dialogue with grantees about their financial sustainability should:

- Take the time to listen to grantees by engaging in respectful relationships and obtaining regular feedback.
  - Discuss the organization's current funding model and the risks and opportunities it presents.
  - Understand how our grant fits into the nonprofit's financial picture to better determine and communicate its true operating costs and its periodic needs for capital.
- **Provide the types of support nonprofits need most:** To enhance sustainability, the types of grants most useful to grantees are large, multiyear and unrestricted. These grants give grantees the autonomy to cover the full cost of programs and overhead without excessive scrutiny from funders, as well as enable organizations to build the reserves they need and to make strategic changes to their work as they go. As grants get larger and are offered over a longer period of time, research by the

[Center for Effective Philanthropy](#) shows that grants for general operating support have a more positive impact on the organization than grants for program support.<sup>1</sup> But, if a grantmaker is committed to providing program support and other types of restricted funding, a good practice is to cover the full costs so that organizations aren't hollowed out in the process of meeting grant requirements.

In order to understand true costs, grantmakers need to engage with grantees in an open and honest conversation about their operations, from fundraising and personnel to technology and other infrastructure. Without a better understanding of these overhead costs and how they affect nonprofit bottom lines, grantmakers cannot know if we are providing a sufficient level of support to ensure the success of the programs and the organizations we are funding.

- **Reduce the burden on grantees:** Every grantmaker can take steps to make the grantmaking process easier on grantees. A first step is “right-sizing” application and reporting requirements to fit the size and type of grant awarded to reduce transaction costs that diminish the value of grants. At a minimum, grantmakers should vary our requirements, including during financial analysis, depending on the size and type of grant and nature of our relationships with grantseekers and grantees. In its survey of grantmakers, however, [Project Streamline](#) found that 66 percent do not vary requirements depending on the size of the grant; 59 percent do not vary requirements depending on the type of grant; and an overwhelming 72 percent do not streamline the process for previously funded grantees.<sup>2</sup>

To further reduce the burden on grantees, Project Streamline suggests a variety of basic steps that grantmakers can take to ease application and reporting processes for grantees. These include accepting grant applications and reports electronically, simplifying the grantmaking process to a short letter of inquiry submitted in advance of the full proposal, and streamlining processes for making requests, such as timeline extensions and budget modifications that are almost always granted. Other suggestions reduce costs and efforts expended by grantees such as encouraging grantmakers to accept common applications and grantee's existing materials, verifying a grantee's

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<sup>1</sup> Phil Buchanan, Ellie Buteau and Judy Huang, “In Search of Impact: Practices and Perceptions in Foundations’ Provision of Program and Operating Grants to Nonprofits,” The Center for Effective Philanthropy, 2006.

<sup>2</sup> Jessica Bearman, “Drowning in Paperwork, Distracted from Purpose: Challenges and Opportunities in Grant Application and Reporting,” Project Streamline, 2010.

public charity status in-house by using [Guidestar](#) or IRS Publication 78 and paying for specific evaluation measures so that the burden of a foundation's evaluation function isn't passed onto grantees.<sup>3</sup>

- **Work with other grantmakers to reduce red tape and pool resources:** Grantmakers do not have to work entirely on our own to reduce the burden of grantmaking procedures on nonprofits. In fact, in many cases grantmakers can have a greater impact by working together to streamline the process. Throughout the country there are examples of grantmakers coming together to provide a standardized, online tool for grantees to fill out as part of the application process to any of the participating grantmakers.

Beyond common application and reporting processes, many grantmakers are also exploring how to pool our resources more effectively. These efforts have the dual purpose of simplifying the grantseeking process for nonprofits (instead of applying separately to two or more grantmakers, they can apply just once) and delivering larger, higher-impact grants. [REDF](#) sees two primary benefits to engaging in co-funding with other funders. The first benefit is that it attracts more money because "...people like to put their money into pots that have already been 'vetted' by others." Second, co-funding creates efficiencies in fundraising and reporting processes for grantees because participating funders not only align our funds, but we can also align our due diligence and reporting requirements.<sup>4</sup>

- **Consider alternative funding models:** Grants aren't everything. Increasingly, grantees are appealing to grantmakers for different types of investments that will meet their capital needs. For example, debt as a form of capital isn't an obvious choice in the nonprofit sector, but grantmakers are increasingly exploring the use of loans to address the cash-flow challenges nonprofits face. There are many types of loan capital grantmakers can offer to grantees. This type of investment can include mortgages that offer more favorable terms than a commercial lender, pre-development financing for new projects, and loans to community development banks and other intermediary lending institutions. An important decision for grantmakers who are interested in providing loan capital to nonprofits is whether to offer direct loans or work through an intermediary. Some options for grantmakers to

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<sup>3</sup> Bearman, "Drowning in Paperwork, Distracted from Purpose: Challenges and Opportunities in Grant Application and Reporting."

<sup>4</sup> Cynthia Gair, "Strategic Co-funding: An Approach for Expanded Impact" (Washington, D.C.: GEO and REDF, 2013).

consider include program-related investments, community development financial institutions and low-profit limited liability companies.

- **Bridge the knowledge gap:** In addition to streamlining procedures and providing nonprofits with the types of support they need to be effective, grantmakers also can play an important part in ensuring that nonprofits have a better understanding of key financial issues and how to sustain organizations over time.

Providing capacity-building support, in addition to financial support, is one way in which grantmakers can invest in building stronger financial systems within nonprofit organizations. In a 2008 study, the [Center for Effective Philanthropy](#) found that the majority of grantees of a typical large foundation report receiving no assistance beyond the grant, such as strategic and financial planning and staff and management training. The CEP study suggests that this type of “beyond the grant” support can be of enormous value to nonprofits, and that addressing a range of nonprofit needs is better than providing one-off support.<sup>5</sup>

For grantmakers that may not have the wherewithal or the inclination to initiate our own finance-related capacity-building programs for grantees, another option is to work with other grantmakers to convene nonprofits for workshops on financial topics. In addition, grantmakers can work with management support organizations and other intermediaries to offer capacity-building support to nonprofits.

## Conclusion

In order to best support the financial sustainability of our grantees, grantmakers must focus on a few key things, including listening deeply to grantee needs, reducing the burden when grantees do receive funds, offering flexible and different kinds of support, and work with other funders to reduce red tape. Funders must also strive to bridge the gap that exists in financial knowledge and dialogue more regularly with grantees about their financial health and needs.

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<sup>5</sup> Cassie Bolanos, Andrea Brock, Phil Buchanan, Ellie Buteau and Kelly Chang, “More Than Money: Making a Difference with Assistance Beyond the Grant,” The Center for Effective Philanthropy, 2008.