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NON-PROFIT

What Foundations Are Missing About Capacity Building

by Dan Pallotta

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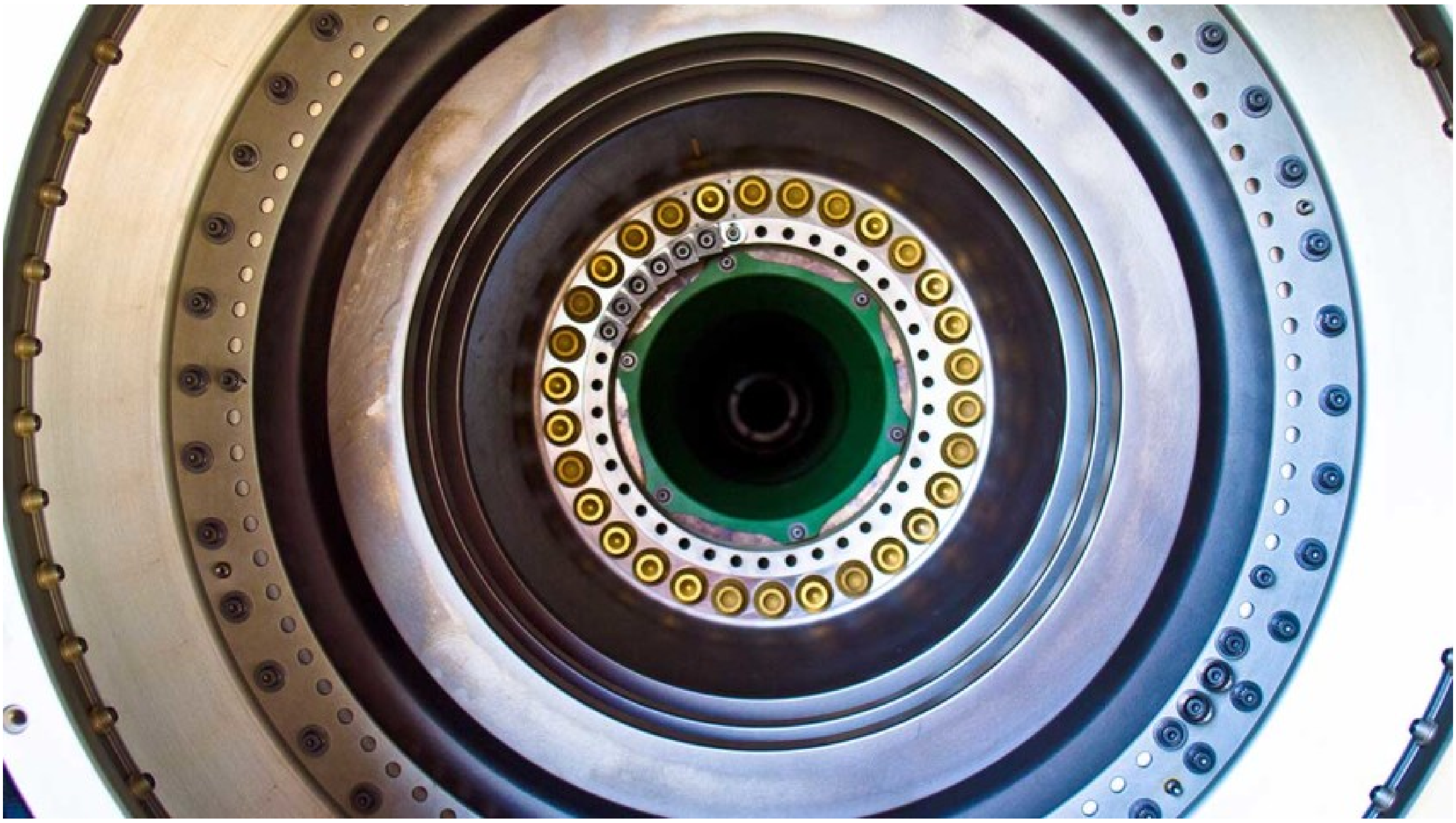

Over the past five years, more and more foundations have come to understand that their nonprofit grantees' infrastructure needs more love, and more grant money. Darren Walker, President of the Ford Foundation, has gone so far as to issue this brave statement about Ford's historical practice of only allowing 10% of their project grants to go to an organization's core operating costs (and requiring that 90% go directly to the specific service program that was the subject of the grant):

> All of us in the nonprofit ecosystem are party to a charade with terrible consequences—… foundations, governments, and donors force nonprofits to submit proposals that do not include the actual costs of the projects we're funding….At Ford, we have been willing

> participants in this charade. Our policy of 10 percent overhead on project grants in no way allows for covering the actual costs to administer a project. And to be honest, we've known it."

God love you, Darren Walker.

As a corrective measure, many foundations have begun funding more of the overhead associated with projects, and many now make what they call "capacity-building" grants. Capacity-building grants fund a range of the infrastructure needs that the average individual donor, and still many a foundation, not only don't want to fund, but for which they don't even see the need. These include administration, facilities, information technology, employee training, equipment, human resources and sometimes - just sometimes - fundraising. Because no one likes to fund fundraising. It's sales. We turn up our nose.

This is a lost opportunity.

Of all of the various sub-categories in capacity-building, one and only one has the potential to multiply the amount of money that a funder puts into it, and that category is fundraising - the least loved of them all. It doesn't belong in the bunch as an equal among the others. It has super powers. It's time smart people with lots of money recognized this and funded fundraising at their favorite grantees as a priority.

"But this starves the other elements of capacity building," some might say. Not so. Precisely the opposite.

If you give a dollar to human resources, or new computers, or staff training, etc., presumably you get marginal increases in productivity and decreases in inefficiency — less burn-out, a better working environment, less staff turn-over, etc. And you get the *capacity* to handle program growth, but you don't get any *actual* program growth. But if you put a dollar into fundraising, you can produce, on average, historically, according to longstanding documented correlations, as much as ten dollars in new revenue (and in exceptional cases, as with the AIDSRides and Breast Cancer 3-Days my old company created, as much as $1,982 in just nine years) which money you can use to fund ten dollars worth of program or ten dollars worth of capacity-building (with its concurrent increases in productivity, decreases in inefficiency, and new capacity for growth). In other words, only fundraising has the ability to create more money, not just for programs, but even for the other elements of capacity building. So if you really want to maximize funding for capacity-building, fund fundraising instead of funding the other elements of capacity.

And the initial funding can create revenue streams in perpetuity. For example, a $250,000 grant can fund a new major gift fundraiser who will raise $2.5 million on an annual basis, every year. It's the difference, as George Overholser has said, between buying something (capacity) and building something (revenue streams).

In addition to all of this, by funding fundraising you are investing in greater community involvement, greater civic engagement, and in the strength of civil society itself.

I was speaking to some experts in the field the other day who were observing that more foundations are realizing that the large grantee programs they launch with big start-up grants can't be sustained by the grantee after the foundation's money leaves - even when they allow more money for operating costs. And that's because often the operating costs don't include fundraising (because there's also bias and stigma on the receiving end of the equation, so the grantee spends ALL of their capacity-building funding on things other than fundraising) or because the fundraising funding was inadequate to the scale of the grant.

I have seen this first-hand as a charity board member. A large national foundation offered the organization a $5 million matching grant. They wanted the organization to show that they could sustain the program after they left. But they wouldn't allow any of their funding to go into fundraising. So there was no conceivable way to create a new sustaining revenue stream for the program. Of course it was unsustainable, unless the organization supported it with money intended for another program, which often happens, and is hardly any better.

Why do foundations act so strongly against their own self-interest? In part it's because we've all been prejudiced against spending on fundraising. But I observe that it's also because many foundations that have never had to raise money because they are endowed, so they are at a disadvantage when it comes to fundraising. All of their expertise is in the program areas that they fund - poverty, education, etc. This is not a judgment. We all have our disadvantages. But this one is particularly problematic. Without that literacy, a funder doesn't know how to evaluate a fundraising proposal, or nurture it once it's been made, or monitor its success. It's therefore imprudent – indeed irresponsible – for the funder make a fundraising grant. They're upholding their fiduciary duty. But a foundation not understanding fundraising is like a venture capital firm not understanding sales. Massive potential goes unmet.

Let's not stop making progress now. We have to disenthrall ourselves of our pride at our newest best practice and create one that is newer and better still. We have the capacity to build enormously more capacity than we think.

Dan Pallotta is an expert in nonprofit sector innovation and a pioneering social entrepreneur. He is the founder of Pallotta TeamWorks, which invented the multiday AIDSRides and Breast Cancer 3-Days. He is the president of Advertising for Humanity and the author of Charity Case: How The Nonprofit Community Can Stand Up For Itself and Really Change the World.

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