



The Core of the Matter:
NCRP's First Convening on the Need to
Increase Nonprofit Core Operating Support
June 4, 2003

Released July 21, 2003

© Copyright 2003
National Committee for Responsive Philanthropy

**For information or copies of this report,
Please contact NCRP:**

**National Committee for Responsive Philanthropy
2001 S Street NW, Suite 620
Washington, DC 20009
Phone 202.387.9177
Fax 202.332.5084
E-mail: info@ncrp.org
Website: www.ncrp.org**

About NCRP:

Founded in 1976, the National Committee for Responsive Philanthropy (NCRP) is dedicated to helping the philanthropic community advance the traditional values of social and economic justice for all Americans. Committed to helping funders more effectively serve the most disadvantaged Americans, NCRP is a national watchdog, research and advocacy organization that promotes public accountability and accessibility among foundations, corporate grantmakers, individual donors and workplace giving programs.

For more information on NCRP or to join, please visit www.ncrp.org or call (202) 387-9177.

This memorandum is a report on a meeting of local, regional and national nonprofits convened by the National Committee for Responsive Philanthropy (NCRP) on June 4, 2003, in Washington at the offices of the Public Welfare Foundation, to discuss the importance of operating support grantmaking for the sustainability of the nonprofit sector. The agenda was simple: to articulate the importance and need for operating support in the voices of nonprofits themselves as opposed to academic observers or foundation funders. The meeting was facilitated by Rick Cohen, executive director of NCRP, and included presentations by Jeff Krehely, NCRP's research director, on trends in operating support grantmaking by foundations, and by Ken Wing, nonprofit management consultant, on foundation attitudes toward providing overhead funding in project or program grants. Nearly 50 individuals attended the session and represented a diverse collection of nonprofits, including national civil rights organizations, community-based organizations, state nonprofit associations, affinity groups, and direct service providers.¹

Rick Cohen opened the program with a brief presentation of the issues around operating support and the purposes for the convening:

I came to philanthropy from the world of nonprofit community-based development, including more than a decade working for the nonprofit intermediaries, the Enterprise Foundation and the Local Initiatives Support Corporation. Part of my job there, beginning with Enterprise, was helping create what we called "operating support collaboratives," efforts of funders to come together to put grant money into the budgets of community development corporations (CDCs). At one time or another, there have been about 40 of these operating support collaboratives in existence in various metropolitan areas of the United States.

Just about every review of community development in recent years attests to the importance of core operating support for the successes of nonprofit community development corporations:

An Urban Institute report on what helps and what hinders community development corporations observed:

"The most critical element of (a) capacity-building system is the delivery of operating support. These financial subsidies pay for staff, overhead, facilities and equipment and training... Generally speaking, operating support programs act as a platform for strengthening each of six CDC capacity elements ... effective program delivery, strategic alliances, information technology, government and management, ability to attract and hold staff, and community leadership."²

A study released this year on the causes of CDC downsizing and failures concluded very clearly that "adequate core operating support for CDCs should be provided." The authors, from Tufts University, the University of North Carolina, and the Enterprise Foundation, observed, "Despite the fact that CDCs are called 'corporations', they generally cannot cover their operating expenses. The work that CDCs do is often carried out in weak markets where there is

¹ NCRP Research Interns Prisca Bae and Kaycee Misiewicz provided crucial support to this convening and project. For a complete list of participants at the June 4 convening, please refer to the attendee list at the end of this document.

² Christopher Walker, *Community Development Corporations and Their Changing Support Systems* (Washington DC: The Urban Institute, 2002), p. 38.

*little or no opportunity to sell their services at a break-even rate, let alone make a profit. The basic funding for CDC operations needs to be provided by external sources, such as city and state funders in collaboration with private entities such as foundations.”*³

We don’t need the documented history of CDCs to provide the importance of operating support. When President Clinton held the 1999 White House Conference on Philanthropy, a statement by one foundation executive elicited a response from the then-first lady Hillary Rodham Clinton:

*“You know, one of the concerns many people have about foundations is how foundations often will not give to operating expenses or to the kind of day-to-day work of delivering services that have to be carried out.... I think that’s another thing I would like the foundation community to rethink.”*⁴

Unfortunately, the rethinking wasn’t very energetic. Foundation performance in terms of grantmaking for core operating support plunged in 1999 and 2000 for the 100 largest foundations in the nation, the ones that control the bulk of foundation grantmaking resources, the ones that set the tone and direction for many of their philanthropic peers. In 1994, a total of 16 percent of the grant dollars of large foundations were devoted to core operating support, steadily dipping during the ensuing years to 7 percent in 2000.

Now, the nation faces what may be the biggest challenge to nonprofits in the past two decades. Cutbacks are widespread, service delivery demands are increasing due to the continuing slack economy, and we’re being told to “do more with less.” The logical extension of that argument, as one observer has said, is to do everything with nothing.

The standard definition of operating support is grants to cover the regular personnel, administrative and miscellaneous expenses of an existing program or project. Even that, to me, is too restrictive a definition promulgated by the industry of nonprofit organizational development experts. An alternative definition would be this: unrestricted support with no strings attached, where the organization gets to use the money as it sees fit—for basic operations, for specific program needs as they arise, for public policy advocacy activities.

One nonprofit community development intermediary leader recently bellowed that you couldn’t give nonprofits general operating support until you have trained them how to use it well. That is a recipe for budget starvation, nonprofits going out of business nicely, demurely, because they’ve had the appropriate training. There are many excuses for not providing sufficient core operating support. The challenge is to find the means, the levers, the changes in attitude and disposition to get foundations to increase their core operating support grantmaking.

Over the years, NCRP has had a small role to play in getting foundations to spend a bit more of their wealth in grants to nonprofits rather than simply sitting on their endowments. If foundations would simply spend more in grants on nonprofits, we would all be better off—but not totally.

³ William M. Rohe, Rachel G. Bratt, and Protip Biswas, *Evolving Challenges for Community Development Corporations* (Chapel Hill: University of North Carolina, 2003), p. 65.

⁴ *White House Conference on Philanthropy: Gifts to the Future: Conference Transcript* (October 22, 1999).

A big issue is the quality of foundation grantmaking. If an insufficient proportion of foundation support is going toward core operating costs, then what is occurring is a systematic undercapitalization of the nonprofit sector. Rather than foundation grant funds bolstering the fiber and muscle of the nonprofit sector, much of foundation grantmaking continues to keep nonprofit finances flimsy and frail. So as much as we want to increase the levels of foundation grantmaking, we also want to spur the right kind of grantmaking, we want to increase the grants that keep this sector, particularly the social change, human service, social justice sector alive and functioning.

In part, we want to find out from this gathering whether our contentions—supported, we think, by the data—are correct, that foundation grantmaking isn't hitting the market with adequate provision of core operating support. We want to hear from you, indeed from nonprofits around the nation, regarding your experiences with foundations being willing or unwilling to provide unrestricted flexible grants.

And we're particularly concerned about core operating grants to small and medium sized grassroots organizations. Anecdotal information indicates that some big chunks of operating support grantmaking go to big organizations, foundation-like organizations such as universities, that the foundations feel comfortable with as a matter of course because they are similar kinds of big, endowed nonprofit entities. We suspect that the scrutiny a large university receives when it gets a huge grant for its endowment or general operations is qualitatively and quantitatively different than the scrutiny given to community-based groups about their mission, purposes and strategy when they apply for core operating grants.

Our second concern is why the shortfall in operating support is happening. Virtually everything one might read from foundations about capacity building, from Grantmakers for Effective Organizations, from the excellent publications of the California Wellness Foundation, from the public statements of the Hewlett Foundation and others, they all extol the virtue and importance of core operating grants. So why isn't core operating support grantmaking happening, even with Hillary Clinton arguing for more foundation operating grants?

We have heard lots of theories. Some foundation people indicate that it is a matter of control, that foundation program officers can exercise more control over grantees through project or program grants than through more open-ended flexible operating grants. One foundation executive who spoke at the Nielsen lectures at Georgetown University suggested that he supports increased operating support, but his program officers don't bring him operating support grant requests. Some say that the new movement of foundations toward focusing on outcomes takes them away from operating support grantmaking, because organizational or programmatic outcomes cannot be explicitly, causally linked to flexible grant support.

Some people in foundations have simply never had to run a nonprofit, comply with federal OMB Circulars 110, 122, and 133 on overhead, meet a payroll and deal with budgets where they didn't have the authority to solve a shortfall by simply awarding themselves a grant. For some foundation program officers, we at NCRP have to provide memoranda explaining what overhead and indirect costs are, how they are calculated, and what they mean.

And finally, we are concerned about how to best promote foundation change on operating support—and on other issues of foundation accountability and responsiveness. Each of us tends

to deal with our individual funders, mostly one-on-one, and hopes to convince them to turn that program grant into an operating grant, to convince them to be more flexible, to allow for an indirect cost rate that's somewhere north of zero. What kind of campaign might be launched to elevate the issue of operating support as a core organizing issue for nonprofits of different kinds and concerns? Is core operating support grantmaking an issue that might be pursued the way NCRP has advocated for increased foundation payout, enhanced foundation accountability and more foundation support for advocacy and social change? We want your advice, direction and partnership.

Next, Jeff Krehely, NCRP's research director, gave an overview of foundation giving trends related to core operating support, the size of grants, progressive giving, and long-term giving.⁵ Overall, the data show a downward trend in grantmaking for core operating support and long-term grants; a high proportion of very large grants; and few grants for progressive causes. These indicators do not bode well for community-based, grassroots organizations that need core money not just to operate more programs, but also to simply keep their lights on and staffs paid.

- Decline in general operating grantmaking: In 1994, foundations devoted nearly 16 percent of their grantmaking dollars to general operating support grants. By 2000, general operating support grantmaking fell to 11.5 percent of total grants, rebounding only slightly the following year to 13.6 percent. During that same period, specific program-related grants increased from 41 percent to 50 percent of total grantmaking.
- Large grants dominate: In 2001, nearly half – 47 percent – of all grantmaking was given through grants that were valued at \$1 million or more, with nearly 20 percent being given through grants worth \$10 million or more.
- Decline in long-term grants: In 1994, 31 percent of all grants were for ongoing, longer-term projects. By 2001, that number had decreased to 25 percent.
- Miniscule giving toward “progressive” causes: Civil rights and social action grantmaking make up just 3 percent of total grantmaking. Giving to minority causes is shockingly low: African-American causes and organizations received just 1.4 percent of all grants in 2001; Hispanics/Latinos just 1 percent; Asian Americans/Pacific Islanders just 0.4 percent; Native Americans, just 0.5 percent; lesbian, gay, bisexual, and/or transgendered Americans, just 0.1 percent. Keep in mind that these figures could also include grantmaking that is not necessarily supportive of progressive values, and instead can be for promoting more conservative causes or ideals related to these groups and social change.

Next, nonprofit management consultant Ken Wing discussed his research on the guidelines that foundations offer regarding how much of a project's indirect costs or an organization's general operating costs they will fund. It appears that many of the larger foundations do not explicitly fund such costs, and many of those that do only do so at a low, unrealistic level. Further, many of the other larger foundations do not offer clear, readily available guidance on what levels of indirect and general costs they will fund. There is also anecdotal evidence that these policies vary

⁵ These statistics are from the Foundation Center, and are based on a sample of larger (\$10,000+) grants made by approximately 1,000 of the largest foundations.

widely within particular foundations and across different program areas, frustrating grant applicants.

Following remarks by Cohen, Krehely and Wing, participants then voiced the following expectations of the program—and of the importance of core operating support:

- Advocacy: Core operating support as flexible money for use by nonprofits in public policy advocacy
- Underfunding: Addressing the chronic underfunding of nonprofits and the role that inadequate core operating support plays in that situation
- Strategy: Determining what kinds of strategic advice might be given to nonprofit members (of associations, etc.) in their efforts to secure operating support grants
- Collaboration: The role of core operating support in giving nonprofits the wherewithal to contemplate interorganizational collaborations and strategic alliances
- Emerging organizations: Examining the different and perhaps greater need for operating support at the early stages of a nonprofit's development
- Creativity: Examining core operating support as part of a foundation's portfolio of creative mobilization of its capital resources
- Measures: Exploring the kinds of outcome or performance measures or benchmarks for measuring the impact of core operating support on nonprofit grant recipients
- Elite organizations: Exploring why and how larger nonprofits have more access to core operating support from foundations than smaller, grassroots, organizing-oriented nonprofits
- Public policy: Considering efforts to promote increased foundation grantmaking in conjunction with efforts to increase government support for nonprofit capacity building through legislation such as the Community Economic Development Expertise Enhancement Act (HR. 1480)⁶ which would authorize \$225 million for nonprofit capacity building, including \$65 million directly to nonprofit community development corporations

Discussion ensued addressing a number of critical dimensions of core operating support grantmaking issues and practices:

- Indicators and measures: There was broad concern with the need to generate measures for foundations to better understand and appreciate the impact and outcomes of core operating support grants. It is not only the challenge of the current movement in philanthropy for outcomes measures and organizational effectiveness, but as tools for educating foundation trustees. Some might talk about this as a “social return on investment” concept, but participants warned that foundations have to understand the return is over the long haul, not relatively quick as in investing in a nonprofit project or program.

⁶ The text of HR1480 can be downloaded at thomas.loc.gov. Testimony on the predecessor bill, HR 3794 in the 107th Congress, before the House Committee on Financial Services, Subcommittee on Housing and Community Opportunity, in September 2002, can be accessed at <http://financialservices.house.gov/hearings.asp?formmode=detail&hearing=167&comm=5>.

- Advocacy measures: Participants cited special problems with attributing outcomes to operating support grants to advocacy organizations. Advocates engaged in organizing and systems reform might resist the temptation to cite “headcount” outcomes (how many people attended a public hearing, how many families were called about a particular action or bill, etc.) that they might believe are inadequate and inaccurate measures of advocacy. Moreover, in advocacy, sometimes the outcomes are not ticking off achievements, but preventing policies and regulations that might be worse than what currently exists, that is, deterring negative outcomes.
- Inefficiencies: In their failure to provide sufficient core operating support, foundations overlook the costs that arise when nonprofits have to shut down and new nonprofits are established to take their place. Foundations need to better appreciate the costs of “churning” in the nonprofit sector when insufficient operating support drives some nonprofits out of business.
- Trustees: Much of the discussion of foundation grantmaking policies occurs among foundation staff or between nonprofits and foundation program officers; trustees are relatively rarely in the mix in terms of direct contact with nonprofits. Nonprofit advocates of core operating support grantmaking need to reach out to and involve trustees to better understand their perspectives and to educate them about what works and doesn’t work in foundation grantmaking practices.
- Sustainability: Participants noted a widespread foundation proclivity to fund things that are new, innovative, different, rather than funding organizations currently on their dockets to keep them alive, healthy, and sustainable over the long run. There is clearly an excitement factor for both foundation trustees and staff about funding a new program or initiative. But their unwillingness to provide sufficient support to existing organizations simply weakens the overall nonprofit infrastructure. Participants noted that politically conservative foundations appear to be willing to provide long-term, multi-year operating support to the nonprofits that they are politically and ideologically aligned with, with an eye toward sustainability.
- Social Darwinism: Some participants decried a behavior on the part of some foundation program officers characterized as a “Social Darwinist” posture toward grant recipients. In essence, rather than thinking about nonprofit sustainability, they approach their grantmaking from an entirely different perspective, providing as little as possible (both in overall amount as well as core flexibility) to their nonprofits, assuming that the most industrious, entrepreneurial, and creative ones will survive, and those that fail were meant to do so.
- Progressive foundations: On the progressive side of the political ledger, some participants felt that nonprofits are competing for a limited resource pie, and sometimes the competition is more than deleterious to the nonprofits and to what the foundations are attempting to achieve through their philanthropy. Though undefined by the participants, liberal or progressive foundations were characterized as putting too many restrictions on their grants compared to conservative foundations that demonstrate more faith and trust in their grant recipients.

- Inadequate attention: Of the more than \$200 billion of charitable giving, less than \$30 billion is foundation grantmaking. Of the total revenues used by nonprofits, a very small proportion comes from foundations. For these reasons, many nonprofits fail to give sufficient attention to foundation grantmaking practices, particularly core operating support grantmaking, thinking that the proportions and totals are simply too inconsequential. But because there is so little flexible money available to nonprofits for the multiple, creative uses that foundation money can be used for, nonprofits can and should focus their attention on the grantmaking practices of foundations and what foundations can and should do to strengthen the nonprofit sector through core operating support.
- Nonprofit realities: In their desire for simplicity, foundations sometimes err in thinking that providing many nonprofits with operating support is simply funding inefficiencies and redundancies. Some foundations might feel more open to operating support grantmaking if nonprofits would simply make their lives easier and merge. The reality does not simplify easily into funder-digestible terms. Nonprofits have to do a better job of conveying the importance of a number of organizations, the vast array of problems they address, the constituencies and voices that would be lost if small organizations willy-nilly merged or became absorbed into larger groups, and how the nonprofit sector actually works at the ground level. Current economic realities militate against the pattern of the past two decades of unparalleled nonprofit organizational formation, but the appropriate response is not necessarily a massive reduction and simplification of the array of nonprofits currently in existence.
- Grantor-grantee candor: It's no big secret that nonprofits do what they have to do to survive, and that includes "pretzeling" their core operating cost needs to fit foundation program support limitations. In other cases, they will "bulk up" the overhead lines, when an overhead line is even permitted, in project grants in order to maximize potential support for core operations. Consequently, when grantors and grantees interact under these circumstances, the interaction is less than candid. If foundations are truly interested in a more open and honest dialogue with grant recipients, they have to address the impact of their anti-operating support grantmaking on the grantor-grantee dynamic.
- Operating support duplication: It is important not to lose sight of the relatively minuscule proportion of nonprofit revenues that are foundation grants. All charitable giving is only one-fifth of nonprofit revenues, and the less than \$30 billion in foundation giving is a small proportion of the over \$200 billion generated by foundations, bequests, individual giving, and corporate donations. Nonetheless, if the expenditures of health nonprofits are excluded, due to their heavy consumption of federal health revenues, the importance of private giving goes up, and in specific nonprofit subsectors, foundations play a disproportionately significant role in terms of revenues. Nonetheless, some foundations apparently believe that because the overall foundation slice of nonprofit revenues is so small, their contributions to nonprofit core operating costs result in double funding, because other revenue sources, particularly government, pay for nonprofit overhead costs. It is true that the operating cost issue must be examined in light of all revenue sources, not only foundation grantmaking, but the result must be an education of

foundation funders about the limited availability of core operating funds from other sources, not to mention the scant commitment to simply providing nonprofits with flexible funding.

- Fear of failure: What does a foundation “get” when it provides operating support? How does it know it is successful? While the outcomes measurement process might be one dimension of the problem some funders face, another might be apprehension that core operating grantmaking makes a foundation responsible for the success or failure of the entire organization or any part of the organization, not a limited piece that can be explicitly linked to a narrow project-specific grant. A core operating grant means investing in the nonprofit organization in toto, not buying a disposable piece of the group. The famous risk aversion in many foundations may be at play in the operating support dynamic.
- Infrastructure anxiety: A related point is the human face behind operating support. Foundations may be uncomfortable with providing core operating support because they do not want to get too close to the internal dynamics of their grantees, in terms of an awareness that failure to deliver on operating support means in all likelihood the termination of nonprofit staff. On one hand, they fear that nonprofits will become dependent on foundations if the grants are flexible, core operating grants. On the other, foundations do not want to have to be the “bad guys” and feel responsible for lay-offs and joblessness if they fail to deliver adequate operating support, much less cut back on core operating grantmaking.
- Sustainability: Because of the short term, mostly annual framework that foundations typically use in examining their grantees’ needs, the question of operating support is viewed through the prism of a snapshot rather than a long-term analysis of organizational sustainability. If the foundation community is committed to building robust nonprofit organizations, it has to examine the role of core operating support as an element of long-term organizational sustainability, not just short-range budget balancing.
- Exit strategies: The experience of core operating support collaboratives in the nonprofit community development field demonstrates that funders can terminate core operating support funding when necessary. It does not need to become an immovable philanthropic annuity. Nonetheless, some foundations believe that once they give core operating support grants to an organization, they can never terminate the relationship even if the organization demonstrates its lack of productivity and relevance. It may be that the discussion of how to make core operating grants must include how to stop them if grant recipients no longer warrant the continued support.
- Advocacy: The experience of the Alliance for Justice and others suggests that core operating support is the best possible way of supporting the advocacy and lobbying activities of nonprofit organizations. As foundations struggle with their increasing interest to see nonprofits engaged in public policy advocacy at the federal, state and local levels, they might look at core operating support grants as a particularly powerful strategy for boosting nonprofit advocacy.

In a brief 2-hour discussion, there was no expectation that the challenges of core operating support grantmaking would be solved and a prescriptive agenda issued. But participants did think strategically about avenues for follow-up by NCRP and other nonprofit partners:

- The teachable moment: The controversy surrounding Section 105 of H.R.7, the Charitable Giving Act of 2003 introduced in the U.S. House of Representatives this past May, offers interesting avenues for further discussion of operating support grantmaking, regardless of positions pro or con of Section 105's exclusion of foundations' operating and administrative costs from their qualifying distributions or "payout". Many of the foundations leading the charge against Section 105, decrying the legislation as a threat to the administrative expenditures of foundations, are the same foundations that zero out overhead lines in nonprofit budgets (or limit them to insanely low standards of 5 percent or less) or refuse to make any operating support grants to nonprofits. They expect nonprofits to rally to protect foundation operating costs (which are not limited by Section 105, simply excluded from their payout QD) while they have little or no similar commitment to the administrative expenses of their grant recipients. Similarly, foundations argue that in the case of Section 105, they are no different than other 501(c)(3)s regarding operating and administrative expenditures, though nonprofits can clearly see the difference: foundations can simply grant themselves more money for their administrative costs or tap into their endowments to cover these expenses; few nonprofits can grant themselves anything to meet operating budget shortfalls, much less draw on endowments as rainy day funds. Moreover, the administrative and operating expenses of nonprofits include fundraising costs, including fundraising to obtain grants from foundations; for the most part, endowed foundations do not have a comparable expenditure line. As foundations quiver in front of congressional scrutiny of their administrative and operating expenditures, especially with the added bonus of inflammatory coverage of some foundations engaged in reportedly wasteful and perhaps even illegal expenditures to benefit themselves, this may be a moment to get foundations to wake up to the much more difficult operating cost challenges faced by nonprofits without \$480 billion in endowments to draw on.
- Intermediaries: There are clearly pros and cons to the issue of using intermediaries as means of boosting operating support. If the recent numbers on grantmaking by community foundations are accurate, community foundations are providing a much larger proportion of their grants in the form of core operating grants.⁷ As intermediaries, CFs could receive and regrant funds from private foundations for this purpose. The models of operating support collaboratives at the local level or the Living Cities (National Community Development Initiative) collaboration at the national level represent intermediary structures that have generated nonprofit operating support. Intermediary funders could serve useful functions in promoting and facilitating core operating support grantmaking, but at what costs, and with what changes in the grantmaker-grant recipient relationship? They merit attention and research.

⁷ By dollar value of grants in 2001, community foundations devoted 23.7 percent of their grants for general/operating purposes, compared to 13.2 percent for independent foundations and 8.4 percent for corporate foundations, according to the 2003 edition of the Foundation Center's *Foundation Giving Trends*.

- Operating support champions: Foundations learn from research critiques, but they change behavior because they see models of their peers worth emulating. There are “champions” of operating support grantmaking whose internal dynamics might be worth plumbing as case studies and instructional manuals of how to make operating support happen, particularly among program officers and trustees who might not be so inclined. Participants suggested the Public Welfare Foundation, the Marguerite Casey Foundation, the Surdna Foundation, the California Wellness Foundation, the Ford Foundation (for its capitalization of operating support partnerships), various community foundations, and the Living Cities national collaborative as examples worth detailed study and research. One participant noted the numerous awards offered by the Council on Foundations for a variety of grantmaking practices and suggested that the Council might be advised to give a “sustainability” award to the foundations that demonstrate the strongest commitments to core operating support grantmaking.
- New funders, new grantmakers: There might be an opportunity reflected in statistics on newer foundations. Foundation Center data suggests that younger foundations are more open to operating support grantmaking than their more established peers.⁸ Perhaps the same dynamic may be occurring among 3rd generation trustees of established foundations. Reaching out to new funders, new foundation staff, and the new generation of family foundation trustees could be beneficial in generating understanding of the importance of core operating support grantmaking.
- Reaching the gatekeepers: Reaching foundations about this issue is difficult. Many foundation gatherings limit attendance to foundation trustees and staff, except for the nonprofits invited to participate on workshop panels, and their participation is usually limited to the day or so of their workshop. Even if nonprofits could wrangle invitations to participate in foundation gatherings, the registration fees for many foundation convenings are beyond prohibitive for smaller, grassroots groups. We need to develop strategies for getting the call for operating support past the gatekeepers—or to the gatekeepers so that they can help make the case. Participants suggested targeting groups like the Association of Small Foundations, which focuses on unstaffed, 1-person, and 2-person foundations with guidance on good grantmaking, or associations of “philanthropic advisors” who frequently have influence over the structure and direction of new foundations.
- Changing philanthropy: Participants suggested that a root problem is simply that too many foundations do not “get” the real world of nonprofits, that they don’t have enough practical experience in life on the front lines of nonprofit activity, that they do not appreciate or sometimes even recognize that the effectiveness of foundations is fundamentally dependent on the health and functionality of the nonprofit delivery system.

⁸ For 2001 grantmaking, foundations established since 1979 spent 17.4 percent of their grant dollars on general/operating grants to nonprofits, compared to 12.8 percent for foundations established between 1950 and 1979, and only 11.7 percent for foundations established before 1950. These statistics are from the 2003 edition of the Foundation Center’s *Foundation Giving Trends*.

In part, it is due to the governance of foundations. As studies make clear,⁹ there is still precious little diversity on the boards and within the staffing of most foundations. Promoting core operating support grantmaking within a sector that does not truly identify with or understand its nonprofit grantees may be an exercise in frustration unless it is accompanied with efforts to change the way philanthropy is governed and the rules under which philanthropy operates. Operating support may be one more dimension of foundation accountability that needs public attention and more specifically nonprofit activism and advocacy. Meeting participants particularly cited the need for putting nonprofits on the boards of foundations and for expanding the representation of people of color on foundation boards as high priority tasks in this regard.

- The business of nonprofits: While no one seemed all that interested in sliding into the trap of applying market definitions and benchmarks to nonprofits, and the surreptitious commercialization of the nonprofit sector that venture philanthropists and others promote ad nauseum, there was interest in educating funders about the business of running nonprofit organizations. Notwithstanding all the training and technical assistance available within the nonprofit sector about nonprofit finances, foundations still appear to have relatively limited understandings of how nonprofits finance themselves, how they cover categories of expenditures, how they survive at the turbulent intersection of charitable giving and governmental contracting. There was little interest in the obtrusive, controlling aspects of venture philanthropy masquerading as philanthropic engagement, but there was interest in getting funders to see their grantmaking as investments in long term nonprofit sustainability, and to do so, funders had to better understand the dynamics of nonprofit operations and finances in order to understand the meaning of their investments.

NCRP did not engage in the June 4 operating support convening as a one-time venture. We anticipate continuing these discussions, to focus and go into some depth on the specific items noted above. We invite the input of participants in the June 4 meeting and from those who were unable to attend to suggest directions for the next steps we might take on operating support, particularly to document the nonprofit “take” on the issue and to promote a campaign, perhaps reflecting the model of funders such as California Wellness, where at least half of the foundation’s grantmaking is devoted to core operating support grants to nonprofits.

We look forward to working with nonprofits and foundations alike in this effort to strengthen the sustainability and effectiveness of the third sector.

⁹ Cf. *Diversity Practices in Foundations: Findings from a National Study* (sponsored by the Joint Affinity Groups, April 2001) and *The Meaning and Impact of Board and Staff Diversity in the Philanthropic Field* (Joint Affinity Groups, 2002).

Attendee List: NCRP Core Operating Support Meeting – June 4, 2003

Moderator: Rick Cohen, National Committee for Responsive Philanthropy
Presenters: Jeff Krehely, National Committee for Responsive Philanthropy
Ken Wing, Nonprofit Management Consultant

<u>Participant Name</u>	<u>Affiliation</u>
James Abernathy	Environmental Support Center
Lori Bartczak	Grantmakers for Effective Organizations
Bettye Brentley	Neighborhood Funders Group
Amy Butler	Rural Community Assistance Program
Melanie Campbell	National Coalition on Black Civic Participation
Cheryl Christmas	United Planning Organization
Marie Clarke	Jubilee USA Network
Dr. Loraine Cole	National Black Women's Health Project
Patrick Corvington	Innovation Network, Inc. (InnoNet)
Jane DeMarines	National American Indian Housing Council
Ed Fichter	Leadership Conference on Civil Rights Education Fund
Joseph Getch	First Nations Development Institute
Linda Gill	National Black Women's Health Project
Princess Goldthwaite	Economic Policy Institute
Richard M. Hall	Capital Area Asset Building Corp.
Jordan Hamory	Coalition of Community Development Financial Institutions
Erin Hardwick	S.C. Association of Nonprofit Organizations (SCANPO)
Susan Hoechstetter	Alliance for Justice
Heather Iliff	Alliance for Nonprofit Management
Betsy Johnson	Washington Council of Agencies
Kevin Kelly	National Congress for Community Economic Development
Jeff Kost	Washington Council of Agencies
Karen McGill Lawson	Leadership Conference on Civil Rights Education Fund
Lucy Lee	National Asian Pacific American Legal Consortium
Erica Lindquist	National Congress for Community Economic Development
Mark Looney	National Law Center on Homelessness & Poverty
Olga Lozano	Alliance for Justice
Onica Makwakwa	National Black Women's Health Project
Aleyamma Mathew	National CAPACD
Laura McGrath	McAuley Institute
Holly McMinn	District of Columbia Primary Care Association
Robert McNulty	Partners for Livable Communities
Martin Mellet	LISC
Bob Moore	Columbia Heights CDC
Michael Nail	NAHRO, Inc.
Jon Pratt	MNCN
David Robertson	Metropolitan Washington Council of Governments
George Rothman	Manna
Tricia Rubacky	Maryland Association of Nonprofit Organizations
Sam Singh	Michigan Nonprofit Association
Carol K. Spangler	The Enterprise Foundation
Susan Steinmetz	Center on Budget and Policy Priorities
Jackie Tyson	National Association of Graduate-Professional Students
Merlene Vassall	TransAfrica Forum, Inc.
Karima S. Wheat	Jubilee Enterprise of Greater Washington
Dawn Wilson	Consortium for Youth Services, Inc.
Cathy Yi	Manna

The Core of the Matter

© 2003 National Committee for Responsive Philanthropy



**For information or copies of this report,
Please contact NCRP:**

**National Committee for Responsive Philanthropy
2001 S Street NW, Suite 620
Washington, DC 20009
Phone 202.387.9177
Fax 202.332.5084
E-mail: info@ncrp.org
Website: www.ncrp.org**