BY PAUL SHOEMAKER

Get What You Pay For When It Comes To Grants

Nonprofits must do a better job of articulating and being accountable for the social outcomes they are seeking to achieve. Now there's a novel comment coming from a philanthropic organization. Let's explore it a little further.

During the past several months, there has been an emergent, still formative, discussion amongst foundations and philanthropic organizations about "operating support." You know, it's that sometimes-convoluted, often-difficult form of funding that is the underlying structure of many grants. This discussion started benignly on a Grantmakers for Effective Organizations (www.geofunders.org) listserv where the topic was about appropriate levels and definitions of overhead funding to provide as a proportion of grants made.

After a series of back-and-forth entries, this comment was posted --- "Overhead percentages are a false issue. Is staff overhead?? What gets allocated into Program vs. Operational costs? ... a 'savvy' nonprofit, when confronted with this indirect cost parameter, is incentivized to play loose with the numbers in how it allocates spending. Even if there were some accurate way to calculate indirect costs, the 'appropriate' amount of such overhead spending by advocacy vs. direct service vs. arts, etc., non-profits varies widely."

What ensued was a rapid-fire, high-volume stream of comments affirming the questions and seemingly exposing a latent interest among funders in breaking down this vexing issue.

Around the same time, the Center for Effective Philanthropy (CEP) released its report on "Practices & Perceptions in Foundations' Provision of Program and Operating Grants to Nonprofits." CEP's report made explicit many assumptions underlying foundations' practices. And Clara Miller of the Nonprofit Finance Fund, one of the pioneers in this nonprofit funding system, co-convened a daylong symposium with the Hauser Center at Harvard University on possible reforms to the nonprofit capital markets.

There is a long ways to go, but there is momentum to see this discussion turn into real and systemic improvements in the funding approach to operating costs. One would assume that is music to the ears of all nonprofits, of any size or sector.

So why the opening sentence? Maybe this is just another obnoxious philanthropy point of view? Here's why -- this whole issue is a two-way street and what is needed is a fundamentally "new relationship of accountability" between funders and nonprofits. It goes like this:

The first steps must be taken by the funders. That is imperative. Funders have to make their money more flexible, less restricted, longer-term. I assume I don't need to walk through the reasons why with readers of this publication. If philanthropic organizations don't make meaningful and sustained progress on those funding strategies, overall progress is unlikely. Social Venture Partners Seattle decided four years ago to make all of our grants 100% unrestricted funding. But, we also develop specific, mutual annual goals, program and capacity, with all investees.

But, here's the deal. This funder behavior has to be followed by a subsequent, commensu-

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rate commitment on the nonprofit's side of the equation to systematically, authoritatively providing high quality social outcomes and reporting. Some nonprofits are already in the leadership on this, but there are also a lot of nonprofits that have much work to do.

Frankly, nonprofits have dragged their feet on the outcomes side of the equation just as much as funders have in their practices. One of the first documents I was sent when I came into my role nine years ago was a perspective about the "dark side of outcomes," written by and widely shared amongst local nonprofits. How can being clear about the positive impact of one's work in the community seriously have a "dark side"?

Accountability, mutual two-way accountability, is a valid principle for funders to practice. But tying it to "percent spending on overhead" is the wrong solution.

The right answer is for funders to change their practices and for nonprofits to fully commit to accurate, ongoing, public accountability for the social outcomes they are in business to achieve. This is a real challenge for small, emerging nonprofits. There are formative efforts under way to address that challenge, as well. But for larger, better-funded and-staffed nonprofits, there is no more valid excuse than there is for funders to tie grants to overhead percent spending.

Funders should also pay for capacity to do evaluations and outcomes if we are going to ask for them.

A few months ago, I sat down with the experienced directors of three local nonprofit organizations, all in the $1 million to $5 million annual budget range. All are former, not current, grantees of SVP. I ran this "new relationship" scenario by them. All three were enthusiastic about the concept, provided it is truly two-way.

Here's a few of their quotes: "You are definitely on to something. I am shocked by how much of our energy and resource is spent on administration and audit trails" and "I feel passionately about this topic and it's a critical one for our sector. I'm happy to chat more and support you in thinking about these issues and bringing this dialog to the attention of the funding community. I'd be delighted to do so!" (And yes, I know they give a certain slant when talking to a funder).

This is an issue that we must make significant, lasting progress on, despite all the previous years of churn and sometimes acrimony. It's not the accountability to our donors or boards that is the most important. In the end, the accountability that truly matters is to the clients and beneficiaries of our collective efforts. After all, the families, children, audiences, trees, etc., in our world don't care about who is accountable to whom and how and why. All they care about is a better life, better performances, a healthier environment.

That is why this matters so much. **E**

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