Program Grants vs. Operating Support (including 8 Tips for Being a Good Donor)

As a giving circle, you have a wide range of ways to support organizations. It helps to consider your options and choose one that closely matches what you want to accomplish with your grants.

Two of the most common types of grants are *program (*or *project) grants* and *general operating grants* (also called *general support* or *unrestricted grants*). Program grants support a specific project or activity of the grantee, and are tied to a specific, project-based outcomes; general operating grants support an organization's overall activities, including operating expenses and overhead.

> Both program and operating grants have advantages and limitations, for your giving circle and for grantees. Best practices in philanthropy call for funding a mix of both.

Program grants usually require a specific budget that grantees must stick to. With operating grants, grantees may typically use funds at their discretion—wherever they need it most.

Some funders (and individual donors) have an almost instinctive aversion to giving general operating support because of a fear of funding "overhead." "Overhead" or "administrative expenses," however, enable an organization to hire staff, pay rent, operate an office, support technology systems, buy furniture, even fund the costs associated with fundraising. Without overhead, organizations wouldn't exist. In recognition of this, several of the major giving circles, including The Natan Fund and Slingshot Fund try to make general operating support grants whenever possible.

Before making a decision about whether your circle will offer program or general operating support, check out these resources:

- Dan Pallotta's March 2013 TED Talk, "The Way We Think about Charity is Dead Wrong," which has informed the way that millions of people think about operating expenses.
- "The Overhead Myth," a project of the three leading American sources of information on nonprofits, offers a bank of resources on the question of funding overhead.
- A deeper dive into this issue from a professional grantmaker's perspective is Grantmakers for Effective Organizations' "General Operating Support" report; also see the follow-up report that tackles the question of how to assess the impact of general operating support grants.
- Rabbi Mishael Zion, the co-director of the Bronfman Fellowships, offers a Jewish perspective on this question in "Thou Shalt Donate to Overhead Costs," demonstrating the Jewish value of "keeping the lights on" as expressed in Jewish texts and historical communal structures.

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Program Support

Advantages

- Giving circle can respond to new, innovative projects (allowing existing organizations to innovate)
- Giving circle has more control in how the grantee spends funds
- Grantees can't rely too heavily on one funding source

Limitations

- Grantees can't use the funds as they know best
- Grantees might "mold" their work to fit whatever project funds are available, rather than develop organically
- Projects may not be sustained over time

Operating Support

Advantages

- Giving circles can respond to innovative organizations
- Grantees build a stronger, more sustainable infrastructure
- Grantees decide where funds are spent, which establishes trust between the grantee and giving circle

Limitations

- Operating grants are not often as exciting to funders as supporting defined projects
- Can be harder to track and to measure success of the organizational as a whole
- Grantees may come to rely too much on one funding source

Questions to consider

→ In what ways can you encourage grantees to honestly share their needs – to establish a culture of trust that minimizes their developing new programs just to satisfy funders, and honestly conveys what they lack and need to sustain their organization? What are you trying to achieve with your grants? Which grantmaking tool will help you get there?

→ What will keep your members interested and engaged over time?

→ What do your grantees need the most?

→ How could you want to measure the results of a general operating grant, given your and your grantees' resources?

8 Tips for Being a Good Donor[1]

1 It is important to recognize that donors and nonprofits have an interdependent relationship – nonprofits cannot do their work with the resources donors provide and donors cannot affect positive change in the areas they care about without nonprofits to do the day-in and day-out work in the field. Approach nonprofits with respect for their role in this partnership.

2 General operating support[2] is essential to organizations; it is also a vote of confidence in the organization. General operating support can be used as an organization sees fit – to meet budgetary gaps for specific programs or projects, or to support infrastructure (overhead). (Overhead includes office, utilities, insurance, and other line items in the budget that keep the "lights on," so to speak.) Many organizations find it easier to raise money for specific programs or projects but are starved of the funds they need to support their infrastructure.

3 Program gifts should cover administrative costs, e.g. if you are funding a program in its entirety, your gift should also cover the associated administrative costs. Don't forget about overhead; most donors do.

4 Restricted gifts should not detract or distract from an organization's mission or interfere with its priorities. Listen to the organization's needs; sometimes donors have innovative suggestions for a program or infrastructure that will help an organization, but if it's going to detract from the organization's mission or doesn't fit their priorities, don't push the gift on the organizations. Most nonprofits have difficulty refusing gifts, so you must use good judgment.

5 Every donor is important, but remember that the organization's leadership is hopefully stewarding multiple donors. Be conscious of whether you are taking too much of the professional staff's and key leaders' time.

6 Make sure your level of reporting requirements correspond to the level of your gift. If you are making a relatively small contribution, receiving standard annual reports or other reports that they generate to reflect their accomplishments and learnings is in order. If you are making a substantial contribution, or a contribution for a specific program/project, especially if it's one you co-created with the organization, more customized reporting is reasonable.

7 Consider developing relationships with organizations you expect to give more substantial contributions to, and planning on supporting them over time (not just a year or two), assuming they continue to earn your respect and confidence. Having "revolving door" funders can be destabilizing to organizations, especially when they account for meaningful portions of their budgets, and fundraising often becomes the nonprofit leader's primary job duty rather than focusing on developing sound strategy, executing good programs, and leading the organization.

8 If you become a major supporter of an organization and your interests eventually move away from the organization's mission, be sure you communicate with the organization and make a gradual exit[3], perhaps scaling down your financial support over multiple years, giving the organization a chance to replace the lost dollars they've grown to count on.

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1 From Lippman Kanfer Family Foundation, "Family Philanthropy Project: Identifying, Evaluating & Selecting Organizations: A Primer," 2010.
2 Money an organization can use for overhead, infrastructure, and operations, as opposed to a grant that is restricted to being used for a specific program
3 Paul Brest and Hal Harvey, Money Well Spent: A Strategic Plan for Smart Philanthropy (Bloomberg Press, 2008) p. 84.