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A Push to Get Grants That Pay the Full Cost of Doing Good

The Full Cost Project brings nonprofit leaders and grant makers together to learn and have frank discussions about the money needed to get results.

By Nicole Wallace
Chronicle reporter



SETH JOEL

Bringing grant makers and nonprofit leaders together to talk about the cost of providing services helped each group understand the challenges the other faces, says Claire Knowlton, director of advisory services at the Nonprofit Finance Fund.

Nonprofits have long done their work cobbling together grants and contracts that pay for only a portion of the services they provide, which causes a litany of problems. Charities can't pay their employees decent wages. There's seldom enough money to strengthen management systems or buy new technology, and groups run on razor-thin margins, without reserves they can turn to in an emergency. Even successful nonprofits tend to remain small because there isn't money to grow.

"Nonprofits are really being held back," says Fred Ali, CEO of the Weingart Foundation.

The Nonprofit Finance Fund and Philanthropy California are doing something quietly radical to try to change the way nonprofits are financed. They're bringing nonprofit leaders and grant makers together to learn as peers and have a frank conversation about what it costs to get results.

Eye-Opening Scenarios

Workshops have been held across the state. Discussion focuses on topics like the importance of operating reserves to help groups ride out crises, the challenge of strengthening management when so many grants are restricted, and the need for working capital that lets nonprofits smooth out their cash flow when payments from government or foundations are late.

To have honest discussions, it's important to break down the unequal power dynamic, says Claire Knowlton, director of advisory services at the Nonprofit Finance Fund. The workshops, she says, do that by offering grant makers and nonprofit executives each a taste of the challenges the other faces.

Participants break into small groups to work through a series of scenarios.

Seeing the challenges nonprofits confront, grant makers are often overwhelmed, Knowlton says. They're surprised how quickly the nonprofit leaders can come up with creative work-arounds.

It's equally eye-opening, she says, when program officers talk about the intense scrutiny they face presenting potential grants to the foundation board.

"I thought you were asking for all this additional information to check a box," Knowlton recalls a nonprofit leader saying. "I'm going to approach this so much differently now because I need to be helping my program officers be able to make the case."

An independent evaluation of the project found that participants are putting what they've learned to work. Sometimes the results are immediate. A Bay Area government executive who attended one of the workshops committed to making an upfront 10 percent cash advance on all contracts that are paid as reimbursements as a way to help groups even out their cash flow.



JUAN ALANIZI

Making grants to nonprofits that cover the full cost of providing services will improve outcomes, says Fred Ali, CEO of the Weingart Foundation.

Now the Nonprofit Finance Fund is working to spread the message beyond California. The group is planning an education blitz that will include presentations at conferences, white papers, and a social-media campaign. It's also working on online materials, including a workbook to help nonprofits determine the full cost of their programs and a self-assessment for foundations to help them figure out how they can move their grant making toward paying for full costs.

Starting to think about the full cost of providing services is as much about changing the culture of nonprofits as it is about changing financing practices.

An obvious change is that grant makers would have to provide more money, says Ali, of the Weingart Foundation, who was instrumental in getting the Full Cost Project off the ground. Some grant makers push back at the idea, saying they'd have to reduce the number of nonprofits they support.

"My response is that if you want your dollars spent in the best, most effective way, you're going to see better outcomes," he says. "And isn't it the outcomes, the impact that we're looking for more than anything else?"



SETH JOEL

Nonprofits have been conditioned to ask grant makers for less money than they need, says Trella Walker, associate director of advisory services at the Nonprofit Finance Fund.

Leverage to Negotiate

Nonprofits will have to change their mind-set as well.

During the workshops, Trella Walker, associate director of advisory services at the Nonprofit Finance Fund, asks the nonprofit leaders how many of them have added up all the costs to provide a service, assumed no foundation would pay that much, and cut the cost in a proposal, only to have the grant maker come back with an even lower number. Inevitably, she says, all the attendees groan and say they've done that.

"Even getting them to be able to name what it costs to do what they need to do is really hard for them, to identify the gaps in salaries, to identify those other unfunded expenses that they're not paying," Walker says.

The numbers can be scary, Knowlton says. But knowing how much it costs to provide a service well gives nonprofits leverage to go back to grant makers and negotiate. It also gives them the information they need to determine the minimum amount they're willing to accept in a grant or contract.

"Full cost is a journey; it is not a destination," she says. "It may take five, 10, 15, 20 years to get to a place where your full costs are truly covered."

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Nicole Wallace has been reporting on nonprofits for the Chronicle for more than 20 years. Her areas of expertise include data, technology, fundraising, and innovation. She recently wrote about [leaders of color](#) and how they feel about being underestimated and breaking barriers. [Email Nicole](#) or [follow her on Twitter](#).