

## Unrestricted Core Support: Strengthening the Capacity of our Nonprofit Sector

At the November 2008 Weingart Foundation Board meeting, the Board made the decision to accelerate its focus on general operating support funding by adding the core support program in response to the economic downturn. The goal of this decision was to meet the need for nonprofits to secure unrestricted funding that would allow them to maintain and sustain core programs and services. While core support grants initially focused on critical “safety-net” providers, the program has since been expanded to all organizations that operate programs within the Foundation’s overall grant focus of health, education and human services. In the Foundation’s FY09-10 and FY10-11 Grant Plans, the Board approved a 60% target for core support, which meant that we would target 60% of our annual grant dollars to core support. We met this target in both fiscal years, demonstrating the need and demand for unrestricted funding from the nonprofit organizations we serve.

### The Response to the Weingart Foundation’s Core Support Funding

#### Nonprofit Response

From our first announcement in December 2008, there has been a steady and ongoing demand for our core support funding. To date, we have awarded 317 core support grants totaling \$42.9M. This is significant, both in the number of organizations supported and the overall funding awarded to date, especially since our core support program has only existed for three years.

Another response to our core support funding is the continued and sincere appreciation from the nonprofit sector that we acted quickly at the start of the recession. This is captured in the following quote from a nonprofit executive who was part of the core support study conducted by Learning Partnerships in 2011.

*“We were incredibly impressed that the Foundation took immediate action in responding to the economy at the time when other funding sources were being cut. The Weingart Foundation recognized that core support is what grantees needed.”<sup>1</sup>*

However, the strongest and most positive response we continue to hear from nonprofit leaders highlights the Weingart Foundation’s long-standing commitment to listening, understanding and responding to the needs of our nonprofit partners. These underlying Foundation values are what nonprofit executives believe is the reason we were able to respond so quickly – and with the type of support the nonprofit sector needed most.

#### Response from Philanthropy

Although we are clearly not the first funder, nationally or in our region, to offer core support, we have quickly become a recognized leader and advocate within the nonprofit and philanthropic sectors for unrestricted core support funding. Since introducing core

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<sup>1</sup> *Leading with Core Support: An Assessment of the Weingart Foundation’s Core Support Grantmaking.* A study by Learning Partnerships, commissioned by the Weingart Foundation, 2012.

support, the Weingart Foundation has been asked to make numerous presentations on our core support program. There are likely several reasons for this reaction.

First, we were quick to respond at the very beginning of the economic recession, when most funders were still trying to figure out the situation and their strategy. Second, our communication was clear and transparent. Unfortunately, many funders failed to communicate what they were doing in response to the financial crisis. This lack of information impacts a nonprofit's ability to plan and manage funding during a very difficult time. Third, we maintained our grantmaking budget, when many funders reduced their grantmaking. Fourth, the majority of our grant dollars were prioritized for core support grants, representing a significant amount of unrestricted funding to the nonprofit sector. Fifth, our core support grants are truly unrestricted, which means nonprofits meeting our criteria could use the funding where it would be most needed. The reality is that many funders who offer core support place restrictions on how and what the funding can be used for. Finally, within our region, we were one of few funders of our size and scope to offer large, multi-year, core support grants to a broad range of nonprofits. One local foundation summed up this point by stating that...

*"The Weingart Foundation continues to be one of the few funders of size, scale and scope that fund general operating support vs. competitive grant programs that only stimulate new/pilot programs."*<sup>2</sup>

Significantly, within the last three years, other funders have added or strengthened core support to their funding menu, crediting the Weingart Foundation for their decision.

### The Need for Core Support

The need for unrestricted funding has always existed. In 2006, The Center for Effective Philanthropy, which surveyed nearly 20,000 nonprofit organizations and 79 foundation leaders nationally, found that

*"...providing reliable funding should not be seen as fostering dependence; rather, it reflects the fact that nonprofits require working capital to carry out their missions."*<sup>3</sup>

Core support is the "working capital" nonprofits need to sustain and strengthen their infrastructure in order to achieve organizational effectiveness. In 2010, only 19% of foundation funding was for core support.<sup>4</sup> The vast majority of foundation funding, and virtually all government funding, is restricted to a specific "project" or "program." Many studies have shown that the problem with restricted funding is that most of these grants

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<sup>2</sup> Feedback received from funders and nonprofit leaders in response to a review of our planning assumptions, 2012.

<sup>3</sup> *In Search of Impact: Practices and Perceptions in Foundations' Provision of Program and Operating Grants to Nonprofits*, Center for Effective Philanthropy, 2006. The Center for Effective Philanthropy (CEP) is a nonprofit organization whose mission is to provide data and create insight so philanthropic funders can better define, assess, and improve their effectiveness – and, as a result, their intended impact.

<sup>4</sup> The Foundation Center, *The Foundation Center's Statistical Information Service*, 2012.

do not cover the full cost of the program or project, not to mention other important organizational needs, such as administrative and fundraising costs. Recently, several articles have highlighted this pervasive grantmaking practice and how it hinders the development of operational capacity and sustainability.<sup>5</sup> This leaves organizations with significant program gaps and without the necessary infrastructure to effectively meet their mission. In a recent *Wall Street Journal* article, Tom Tierney, chairman and co-founder of Bridgespan Group, a nonprofit consulting group to both funders and nonprofits, stated that “without the necessary investments in overhead, without a doubt the organization underperforms.”<sup>6</sup>

### Moving Forward – Core Support as Capacity Building Strategy

Grantmakers for Effective Organizations (GEO), a national coalition of more than 360 grantmaking organizations committed to building strong and effective nonprofit organizations, has identified core support as one of the most effective strategies grantmakers can use to boost nonprofit performance.<sup>7</sup> Our experience over the past three years confirms long-standing and current research in the field that core support is the most effective strategy to help organizations build and achieve organizational effectiveness and sustainability.

Since adding core support to our guidelines, we have seen it evolve in several important ways. In the first year of our core funding, at the height of the recession, almost every grantee was seeking core funding exclusively to maintain and sustain core programs and services. However, as organizations have begun to adapt and adjust to the current economic environment, they are increasingly choosing to use our unrestricted dollars to not only maintain core services, but to also strengthen their overall capacity and infrastructure.

In just three years, our core support funding has allowed our grantees to maintain and strengthen their capacity by: 1) continuing to support their core programs and services; 2) strengthening their organizational infrastructure; 3) providing the flexibility in funding to adapt, innovate and take advantage of opportunities; 4) creating a more open and honest relationship with us; and 5) working together to establish clear outcomes and objectives.

Maintain Core Programs and Services – Our core funding has supported over 300 of Southern California’s most effective and established nonprofits serving the neediest individuals in our region. A report recently completed by Learning Partnerships found that our core support grants have assisted grantees in weathering the economic downturn and maintaining organizational capacity. Our grantees have used our unrestricted dollars to maintain and sustain infrastructure, staffing and programs that would have otherwise been cut and/or eliminated.

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<sup>5</sup> *The Nonprofit Starvation Cycle*, Stanford Social Innovation Review, Fall 2009.

<sup>6</sup> Dagher, Theresa, ‘The Third Rail of Nonprofits: Overhead,’ *The Wall Street Journal*, November 26, 2011.

<sup>7</sup> *General Operating Support: GEO Action Guide*, Grantmakers for Effective Organizations, 2007.

Focus on Organizational Infrastructure – Many of our core support grantees have used a portion of their grant to invest in and build the capacity of their organization. Specific activities and strategies have included, board development, fund development, technology enhancement, strategic planning, scenario planning, and organizational assessment.

Take Advantage of Opportunities – For some of our core support grantees, the unrestricted funding gave them the flexibility to adapt and/or innovate, which included the development of new service and programmatic models, different funding strategies, and collaboration with new partners, just to name a few. This type of funding is sometimes referred to by leaders in the field as “change capital.” Change capital is critically important today, as organizations find it necessary to realign their business models in order to support core activities and programs. David Greco, Vice President, Western Region at the Nonprofit Finance Fund shared that the challenge is that “change capital is nearly impossible to self-fund as nonprofit capacity is stretched thin, liquidity levels are dangerously low, and funding, especially government funding, looks like it may continue to decline or at best remain uncertain.”<sup>8</sup>

Stronger Grantee/Grantor Relationship – There are two key factors at play here. First, the unrestricted nature of the funding tells our grantees that we trust them to know how best to allocate their resources. Second, the review of a core support application examines needs, strategies and goals from an organizational perspective, versus a specific project or program. This allows a deeper and more complete understanding of the organization, and more importantly, how best to support the organizational needs and goals. In the end, this has promoted more transparency, honesty and accountability between us and our grantees. Some of our grantees have even commented that just developing a core support application is an exercise in capacity building.

Clear Grant Outcomes and Objectives – As was mentioned above, the core support review process involves an open discussion on the needs, strategies and goals of the grantee. These discussions lead to an agreement of the outcomes and goals for each grant, and this has been a very effective tool for monitoring and assessing each grant. It also sets the foundation for a candid discussion at the end of the grant to see what was - and was not - accomplished, and why. This has provided a great learning opportunity for both the grantee and our Foundation that we can both use in our work moving forward. Many of our grantees have commented on how much they appreciate these conversations and describe the relationship with the Weingart Foundation as a true partnership where both parties are invested in the long-term success of their organization.

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<sup>8</sup> Feedback received from funders and nonprofit leaders in response to a review of our planning assumptions, 2012.

## Conclusion

Unrestricted core support funding provides nonprofit organizations with the working capital necessary to sustain day-to-day operations and to build a well-managed and fully operational infrastructure. This is the type of support nonprofits need most to fulfill their missions as effectively and efficiently as possible - allowing them to build capacity and sustainability over the long-term. At the Weingart Foundation, we advance our mission by providing grants and other support designed to improve the capacity and sustainability of nonprofit organizations working in the areas of health, human services, and education, and will continue to prioritize unrestricted core support funding as part of our grantmaking program and strategy.

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