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The Smartest Way to Promote Diversity: Pay for Overhead at Charities Led by People of Color

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When deciding what nonprofits to support, grant makers often raise more questions about an organization’s financial health and its access to additional dollars than about its work. Which other donors are committed? they want to know. How much money are board members contributing? What are the long-term fiscal plans? Can you raise matching funds? How much, if anything, are the people your organization serves donating?

The questions have a subtext: To get money, organizations should already have money. Often those most penalized are nonprofits led by people of color and those that work in neighborhoods with limited access to wealth.

What’s most frustrating is that all too often the foundations that ask these questions of nonprofits serving African-Americans, Latinx, Asians, and others are the same grant makers that are looking to support efforts to change circumstances that cause racial, ethnic, and socioeconomic imbalances.

Moreover, these same grant makers are often supporting ambitious nonprofit efforts that seek to curb the racial bias that perpetuates disparities in housing, employment, education, and beyond.

This mismatch in priorities doesn’t need to happen. There’s an easy solution for foundations seeking to ensure organizations led by people of color can advance their missions: Pay them not just to deliver a program but to support the infrastructure and administrative overhead it takes to deliver high-quality results.

When grant makers support what it really takes to deliver vital programs, we are helping to strengthen and expand essential organizations that serve people of color. To cover the full cost of delivering programs, grant makers need to calculate into their awards the day-to-day operating expenses (both program and overhead costs) as well as a range of expenses to meet both short-term and long-term needs, including cash to pay the bills and reserves to protect against risk and take advantage of opportunities. The savviest grant makers don't restrict the use of those overhead dollars — because that is what allows nonprofits to make nimble and smart decisions to help their organizations do great work.

A Failure to Invest

Our organizations — Nonprofit Finance Fund and the Weingart Foundation — began working together a few years ago to find ways to strengthen the nonprofit world. NFF is a nonprofit lender and financial consultant; Weingart focuses on Southern California communities suffering from persistent poverty. In examining the financial health of nonprofits, we came to realize that too often we have overlooked the leadership and legacy of charities led by people of color because their balance sheets were too thin.

It is likely that our unconscious bias about what makes for an effective nonprofit overrides our stated values of equity and fairness. In many respects, those thin balance sheets are the result of a history of systematic failure to invest in communities of color. Leaders of color are doing heroic work while operating within the constraints of a system that was never designed to support them. Imagine the change we could unleash if key groups were fully capitalized and free of the traditional constraints tied to philanthropic dollars.

Covering the full costs incurred by small organizations with shaky balance sheets may seem risky. But when we consider what little progress has been made in equity and inclusion in philanthropy, we are risking more by not changing how we operate.

No matter how much foundations talk about our work to promote diversity, we must reckon with the fact that from 2005 to 2014 there was no growth in the percentage of giving to organizations that serve people of color, according to the Philanthropic Initiative for Racial Equity. During that time, the proportion of annual grant money awarded for African-Americans decreased by about 4 percent. Since 2006, the percentage of people of color working in philanthropy has increased by less than 2 percent, to 24.3 percent, according to a 2017 report from the Council on Foundations.

Difficult and Uncomfortable

At our organizations, identifying and examining our unconscious bias has been difficult and at times uncomfortable. But we are also realizing how much more effective we can be.

Nonprofit Finance Fund had long encouraged consideration of an organization's long-term balance sheet or capitalization needs. We have heard from many organizations, especially those led by people of color, that simply highlighting financial gaps is harmful.

We should not treat data and financial analysis as race-neutral. The ability to build strong balance sheets depends on access to wealth and is deeply connected to race. We're now being more explicit that financial data should be used as a flashlight to illuminate how a grant should be effectively structured, rather than as a hammer to punish an organization. After identifying financial weakness, we advocate that grant makers look beyond this barrier and consider other assets that the organization holds — such as its reputation, community relationships, and the dedication of its staff and board.

At the Weingart Foundation, we are doing more to help organizations increase their assets as much as their programs. We are no longer limiting nonprofits with budgets of under $1 million to grants of $25,000. We are open to giving much larger grants and to offering no-strings-attached operating support. If we want people of color to exercise their power and lead work that transforms how health, education, and other systems work, nonprofits that serve them need to do more than survive; they need to thrive.

For example, we initially gave Central Coast United for a Sustainable Economy a grant of $15,000 but followed up with grants totaling $400,000. This helped the nonprofit, which works on social, economic, and environmental justice issues in California's central coast region, overcome a decade-long operating deficit caused by the 2007 financial crisis. The organization then built a three-month operating reserve and doubled its staff from seven to 15 people.

Redefining Risk

To make up for the damage that has been done by our unconscious biases, it's important for philanthropy to redefine risk, build trust with nonprofit organizations, and diversify foundation staff and boards.

As we continue to listen and learn, we urge foundations to make grants to organizations that serve people of color and those run by them. Even better, make multiyear unrestricted grants to them — when possible, big ones.

Developing equitable funding practices will take time, and we will inevitably make mistakes. But we cannot afford to continue to do what's comfortable. Advancing equity requires supporting the nonprofit leaders and organizations that devote their energy to changing the lives of people of color in a real way. Only when we are fully committed to these organizations can we expect profound changes that will benefit everyone.

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