



At Issue: Project vs. Operating Support— Which Is the Better Strategy?

Introduction

The debate between project and operating support has existed for close to a century—almost as long as grantmaking itself. For many funders, current economic realities have increased the need to look at how they do their grantmaking. They question whether to concentrate on specifics—such as single project or program support, special initiatives, or other discrete, short-term endeavors—or to focus more on general operating grants that support the overall work of a grantee organization.

This board briefing attempts to answer three main questions: What are the advantages and limitations of these two different grantmaking strategies? How do most of your colleagues do their grantmaking? How will you decide to best support your grantees?

History

Foundations have always leaned toward project funding, with a much smaller percentage going to operating support. At the beginning of the 1980's, operating support constituted less than 23 percent of all grantmaking, and dropped to nearly 11 percent of grants in 1989. According to *Foundation News & Commentary* in 2001, operating grants comprise approximately 15 percent of grants nationwide.

The Foundation Center reports that large, staffed foundations currently make more project grants than operating support grants. Project grants are also consistently larger than operating support grants. The average project grant in 2000 was \$152,887, compared with the average operating grant of \$90,170.

Types of Support

Project (or program) support—Grants to support specific projects or programs. Project grants tend to be discrete and are linked an organization's services.

Operating (or operating) support—Grants to support the work of an organization, covering the day-to-day personnel, administration and other expenses. Also known as core, infrastructure or unrestricted support.

Endowments—Bequests or gifts intended to be kept permanently and invested to provide income for continued support of an organization.

Seed money—Grants to establish or initiate a new project, program or organization. Seed grants may cover salaries and other operating expenses of a new project. Also known as "start-up funds."

Capacity building—Activities that strengthen an organization and help it better fulfill its mission, such as new equipment and staff, facility purchase and renovation, training, publications, convening, and operating support.

The Case for Project Support

Funders who prefer project support grants argue that this type of funding: (1) inspires new and innovative approaches or solutions; (2) helps stretch dollars; (3) allows for easier measurement of grant impact; (4) promotes grantee self-reliance; (5) better matches the mission of the foundation; and (6) can generate more interest among their own board members.

(1) Funding projects or new programs allows foundations and giving programs to shape solutions and encourage their grantees to **create innovative programming**. Rather than simply channeling grant dollars into current needs, project support gives the grantees an option and opportunity to investigate new or perhaps risky possibilities.

(2) Because foundations and giving programs can only fund a limited number of proposals, many prefer to **stretch their dollars** by funding specific projects. This allows them to create relationships with more grantees within their community, avoiding having to choose a few at the expense of the many. Some say project grants bring a “bigger bang for the buck.”

(3) Project grants tend to have clear objectives, focused targets, and defined time frames or outcomes. As a result, they are often seen as **more measurable**. Project grants, in most cases, allow foundations to track where the money is going, to more easily evaluate its value in terms of people served, lessons learned, etc., and to create a more clearly observed impact.

(4) Project funding encourages **grantees to become more self-reliant**, rather than depend upon a single foundation or giving program, for their long-term sustainability. Short-term project grants require a grantee to widen its funding circle to other sources. This not only encourages relationship building with other funders, but may also breed new, sometimes entrepreneurial, thinking about how to develop different revenue streams.

General vs. Program Grants: How Support Stacks Up

Grant dollar amount

	General*	Program**
1996	15.2%	48.7%
1997	13.1	43.3
1998	13.7	43.9
1999	13.9	42.6
2000	14.0	45.8

Average grant amount in 2000

General: \$90,170K

Program: \$152,887K

Number of grants

	General	Program
1996	15.9%	38.9%
1997	14.1	37.9
1998	16.4	36.6
1999	16.2	35.5
2000	19.4	37.5

The largest 100 foundations:

Grant dollar amount

	General	Program
2000	10.0% (\$914K)	57.2% (5.2 M)

The largest 100 foundations:

Number of grants

	General	Program
2000	13.8% (5,340)	50.5% (19,490)

*General support includes general operating, annual campaigns, income development and management development.

**Program support includes program development, conferences, staff development, professorships, film/video, publications, seed money, curriculum, performance/productions, exhibitions, commissioning new works and electronic media/online services.

From *Foundation Giving Trends, 2002*
The Foundation Center

(5) Funders like to make an obvious **connection between their mission and what they fund**. Project grants often make this connection more clear. For example, if a foundation exists to eliminate homelessness, funding a new job-to-work program may feel more mission-driven grant than perhaps paying a shelter worker's salary or an organization's electric bill.

(6) Board members and grantmaking committees want to recognize how they are making a difference. Project grants can be **attractive and exciting**, whereas paying an organization's rent in an operating support grant is not. Funders want to feel progress in their grantmaking, not monotony. Without new projects on the plate, a foundation may risk having a bored board.

The Case for Operating Support

Funders who prefer operating support grants argue that this type of funding:

(1) strengthens organizational infrastructure and capacity; (2) promotes sustainability; (3) helps grantees avoid being driven off-mission in pursuit of more dollars; (4) builds trust and better relationships; (5) gives the grantee more control, allowing them to innovate or create as they see fit; and; (6) can generate more long-term interest from their own board members.

(1) Operating grants build and maintain organizational **infrastructure and capacity**. These are the grants that keep the lights on and the doors open. An organization cannot be effective without efficient operations and strong management.

(2) Operating support builds **sustainability**. Because the possibility of new grant money often lures grantees into taking on more tasks than they may be ready for in order to sustain themselves, they either end up doing things on the cheap, or shuffling funds around to meet their budgets.

(3) Oftentimes, grantees repackage their continuing programs just to attract funding, altering their applications to fit whatever the funder wants at the moment. Operating grants help organizations avoid this "dance of the new" where they may be driven off mission.

Some foundations more readily consider operating grants to an organization that:

- Has an overall mission that closely corresponds with the mission/program goals of the foundation
- Is already receiving funds for multiple projects
- Does work that is ongoing interest to the foundation
- Falls within a field that the foundation is interested in building and/or sustaining
- Has a smaller overall budget
- Needs institution-building support in order to gain access to operating support from other sources

(4) When a foundation makes an operating grant, it **shows trust in the grantee organization’s expertise**. Having made an effort to know grantees and their needs, foundations can understand and appreciate the scope of their overall work. New projects can then be developed by the grantee if and when it makes the most sense to them. Limited or short-term project funds can lead to less than successful endeavors and frustration on both the part of the funder and grantee.

(5) Operating support **gives grantees control to use money as they see fit**. Where a project grant might not cover all costs involved—thus requiring an organization to spend valuable unrestricted funds to complete the foundation-funded project, operating support alleviates this. Operating support allows the funds to be used flexibly; it is a grantee-centered approach instead of an approach powered by a funder’s agenda.

(6) Operating grants appeal to the **long-term interest of board members**. Rather than focusing on one grantee project, the board can become engaged in thinking about the big-picture needs of the community. With operating support, boards can help design grantmaking strategies that go deeper than a salt-and-pepper, project-by-project approach.

Project Support	Operating Support
<p>Advantages:</p> <ul style="list-style-type: none"> • Funders can respond to new, innovative cutting-edge projects • Funders can better control how the money is spent • Keeps grantees from being too reliant on one funding source 	<p>Advantages:</p> <ul style="list-style-type: none"> • Strengthens organizations—builds infrastructure so that they can stay focused on their mission • Establishes trust with the grantee by letting them decide where dollars are spent • Enhances sustainability
<p>Limitations:</p> <ul style="list-style-type: none"> • Nonprofits may “mold” their agencies to receive funding • Does not give grantee the ability to use the funds as it knows best • Many funded projects are not sustained 	<p>Limitations:</p> <ul style="list-style-type: none"> • Operating grants are not as exciting and may lead to a “bored board” • Project grants are easier to track and measure • Grantees may grow too reliant on one funding source

Alternatives

No single solution may work when it comes to project or operating support. The merits of both should be considered in terms of the program objectives of the funder and the potential grantee. Many times, a foundation or giving program will offer a mix of different types of support to different institutions. Here are some options for those who see the benefits of both.

- Fund a variety of project and operating grants
- Integrate a percentage of all project funds toward grantee operations
- If your foundation or giving program only gives project support, consider opening a donor-advised or discretionary fund that gives operating support
- Give to groups that redistribute money, such as United Way, in order to give operating help to groups you don't fund
- Make loans to nonprofits and intermediaries that help them with cash flow, working capital, and other operational needs

While it may be true that nonprofits grow to rely on operating support funds, this can be avoided with an exit strategy agreed to in advance by the foundation and grantee.

What Your Colleagues Say

In favor of project support:

“We tend to favor one-time projects. Early on, you need to make grants to projects that are visible to get the community excited. Paying the light bill is not visible. We expect our grantees to factor administrative costs into their proposal, and we feel they will get it one way or another. But for right now, we need visible grants that can touch people, that excite them, that can at least provide a photo op for us.”

--*Margaret Spartz, President, Unity Foundationn of LaPorte County, Inc.*

“We're a small family foundation. We try to get as much impact as we can with our grants. If our endowment were larger, we might look more favorably at operating support grants, as opposed to programmatic and line-item grants.”

--*Thomas E. Hardy, Director, Goldfarb Foundation*

“We do not give operating support. Trustees feel the role of this foundation is to really spur innovation in our field. We focus only on one field, and we feel innovation is best done by demonstration projects.”

--*Steven M. Eidelman, Executive Director, The Joseph P. Kennedy, Jr. Foundation*

In favor of operating support:

“Pew has always supported services, and that will continue to be our primary work. But now we’ve made additional resources available to help nonprofit organizations respond to the tremendous changes in their operating environment. It gives these agencies an opportunity to do some thoughtful planning and analysis, to improve their capacity. And to do these things without comprising programs while they shore up infrastructure.”

--*Frazierita Klasen, Assistant Director for Local Programs, Pew Charitable Trusts*

“We give all of our grantees operating support. It gives them the freedom to use it how they want to. If you trust an organization enough to give them a grant, you must trust them how to use it.”

--*Geraldine Kunstadter, The Albert Kunstadter Family Foundation*

“Having made a real effort to know our grantees and their needs, we trusted them enough to fund unrestricted operating support. We basked in the collective glory of their overall work.”

--*Hildy J. Simmon, J.P Morgan Chase*

In favor of combined or varied support:

“We tend to fund organizations for both projects and operation costs for the kinds of issues we support. For an organization to do its work, it must have infrastructure supportive of the project. We let organizations allocate the funds, since they have to juggle their costs. People can’t operate without a good staff. Most foundations begrudgingly give money for operational support, but we believe it helps keep institutions on their feet.”

--*Robert Crane, President, Joyce Mertz-Gilmore Foundation, NY*

“We have a policy of adding on up to 10 percent of the amount of grant requests that come in to give support for operating costs. We feel it’s an important part of giving. It’s a vote of confidence in the organization, not just the project.”

--*Harry E. Cerino, President, The William Penn Foundation*

“We [give operating support] to start-up organizations, but not to ongoing organizations. We feel that by providing operating support, we tie our hands and don’t have the resources to do more substantive projects.”

--*Marion Kane, President, Maine Community Foundation, Inc.*

Two Views on Evaluation

“Project support is usually easier to track and evaluate. It’s also a good way to develop a relationship with an organization. This kind of funding is discrete—you don’t have to take on all aspects of the organization—and it is easy to know where the money is going.”

--*Alexandra Christy, Executive Director, Woodcock Foundation*

“Knowing where the money is going can be overly seductive. Some foundations make the mistake of looking at the number served vs. the number actually helped. We have to get comfortable with evaluating operating support—looking at financials and other paperwork, trusting the organization by talking with them.”

--*Chuck Hamilton, Executive Director, Clark Foundation*

In Sum, Ask Yourselfs...

- What is more important to us—investing in new ideas or sustaining an organization over time?
- Should we have a written policy on what types of grants we give to provide clarity for our grantees and ourselves? Should we include exception clauses in those policies?
- Would a shift in our level of project or operating support have an impact on our program goals?
- Could our budget be apportioned fairly between operating and project support?
- What criteria would an organization have to meet before we would fund operating support grants?
- With project support, will earmarked funds really cover the project costs? Is this project something the organization has the capacity to take on? Is it new or simply repackaging?
- If we fund project or operating grants, what is our exit strategy? How can we engage in this conversation with grantees from the onset?
- How will we evaluate the results of an operating support grant?
- In what ways can we encourage grantees to be more outspoken about their needs? In what ways can we be more responsive?



"Would it be possible for you to totally exaggerate how much it will cost and how long it will take, so we'll be pleasantly surprised at the end?"

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