Donors Forum's Commitment to Full-Cost Funding

This statement represents over two years of dialogue and discussion at Donors Forum about the importance of funding overhead costs of nonprofit organizations. Working in Illinois, with foundation and nonprofit leaders, and with others in the field nationally, we are collectively trying to shift the focus away from arbitrary limits on overhead and other organizational expenses in order to focus on measures of nonprofit effectiveness such as outcomes and impact. It is necessary for funders to adopt funding policies and practices that will allow the nonprofit to achieve those desired outcomes, without unrealistic expectations as to what it actually costs to achieve them.

This statement represents Donors Forum’s commitment to advocating for full cost funding of nonprofit outcomes.

1. Effective nonprofit enterprises are functionally integrated entities, and supporting the full costs of program outcomes requires support of all aspects of the organization.
2. At the organizational level and more broadly across the nonprofit sector, we need to develop a full understanding and more realistic view of what effectiveness looks like and how to measure it.
3. Effectiveness varies significantly based upon programs being delivered and the scale of the organization, and measures that matter to determine effectiveness include: results achieved, financial health, strong operational systems, fundraising engagement, and leadership strength.
4. Funders and nonprofit leaders have a responsibility to move toward an emphasis on results, be they programmatic, operational or financial.
5. Nonprofits must understand and manage their costs and show the full costs of programs and outcomes in their grant budgets. Full costs represent the cost of doing business.
6. Funders should consider ways to make funding as flexible as possible, rather than cherry-pick expenses which makes it difficult for nonprofits to cover the full costs required to run programs effectively and efficiently.
What Can Funders Do?

Engage in honest conversation.
Nonprofit organizations and the issues they tackle are complex. There is no single metric that captures an organization’s performance let alone its progress in achieving its mission. Below are a few questions that grantmakers can ask to garner a more complete picture of an organization’s results and potential:

- Ask about a program’s goals and actual results. Seek qualitative and quantitative data. Ask about the strategic plan that should be guiding decisions made and directions taken.
- Discuss a program’s logic model or theory of change to understand how the program works and the desired results.
- Explore what types of capacity and expertise are needed to achieve results. What are the IT, facility, talent and other resources needed to ensure that an organization or program operates at peak performance?
- Relative to talent or human resources, be especially aware and comfortable with the reality that in any organization, to achieve any result, personnel costs will be the biggest piece of the pie. People deliver the program and run the organization.
- If you receive program grant requests that do not include items such as salaries, benefits, rent, insurance or accounting, ask grantees if they have included the full costs of the program and express your willingness to cover your share of such costs.
- Take the time to understand what it takes for the organization to achieve meaningful results. Are you and the organization realistic about the investments in infrastructure it might take to achieve results?
- Ask where the organization might be under-investing. Often the response will lead to conversations about where investments in operating systems like evaluation and other important functions can propel impact.

Provide grantees with the support they need.
Grantmakers are critical partners and can be doing more to improve nonprofit performance. Their support enables grantees to invest in training, planning, evaluation, fundraising, and internal systems – the things that allow an organization to sustain itself and deliver better, higher quality programs. Grantmakers can have an immediate impact when they:

- Make grants that build nonprofit capacity. By capacity building, we mean better securing the resources and building the systems necessary to achieve organizational goals—whether those resources are board leadership, fundraising firepower, software or hardware, operations and administrative support, or staff professional development.
- Invest in grantees’ ability to measure results, such as supporting the development and maintenance of data systems.
- Fund research and evaluation to help understand program impact.
• Underwrite technical assistance to build nonprofit capacity around program effectiveness, leadership, fundraising and financial management.
• Provide general operating or core support so that grantees have the flexibility to direct dollars where they are needed most.

**Change practices and policies that hinder effectiveness.**
Going beyond overhead is also an opportunity for grantmakers to strengthen their own understanding about what it takes for grantees to achieve meaningful results. Below are action steps for grantmakers to consider regarding their own practices:

• Pressure test your assumptions about what effectiveness looks like. How does overhead factor in? Do your policies take into consideration the context for different types of grantees (ex: universities, internationally based organizations, start-ups, etc.)?
• Audit your grantmaking practices and policies. Discuss the implications of policies from a grantee’s point of view.
• Remove artificial caps on overhead or administrative expenses.
• Be honest about your knowledge and understanding of nonprofit financial management. Tap in to resources like the Nonprofit Finance Fund to fill in knowledge gaps.

**What will Donors Forum do?**

• Keep the conversation going/build awareness.
• Develop cases of specific policy and practice change to share broadly.
• Provide resources/training to operating nonprofits and funders.
• Define terms and get buy-in from nonprofits, funders and government.