Building Capacity for Better Results

Strategies for Financing and Sustaining the Organizational Capacity of Youth-Serving Programs

September 2010

The FINANCE PROJECT

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Overview

Most nonprofit leaders understand the importance of building strong organizational capacity, but finding ways to support and strengthen this capacity often poses significant challenges. Nonprofit leaders may hesitate to divert money from direct services when funds are needed to support operations. Some experts in the field also note what they characterize as a "starvation cycle."[1] Funders often are unwilling to provide sufficient funding for overhead costs to support organizational capacity, or they are unaware of the need for this funding due, in part, to grantees underreporting of overhead costs.

Studies during the past decade have shown a direct correlation between nonprofit organizations that are successful in achieving their goals and the strength and resilience of their organizational capacity.[2] Successful youth nonprofit organizations have strong organizational capacity to help them achieve their goals for children and youth. This capacity includes sound financial and accounting systems and processes, sufficient professional development opportunities for staff, and a strong data and evaluation system.

The weak economy has forced many nonprofit organizations to make significant budget reductions. To address shortfalls, these organizations have been more likely to cut back on support for organizational capacity rather than funding for direct services. This trend is concerning, because most nonprofit organizations already underfunded organizational capacity even before the economic downturn began in 2009.[3] In a survey of nearly 900 education and human services nonprofit leaders, two-thirds of nonprofit organizations reported their overhead costs were underfunded; an even greater proportion of smaller nonprofit organizations reported their overhead costs were underfunded.[4] Key areas of need for organizational capacity include financial management, human resources, information technology, and facilities.[5]

At the same time nonprofit organizations are struggling to find resources to strengthen their organizational capacity, they are facing more rigorous requirements from private and public funders to demonstrate greater financial accountability and to provide information on the results their programs are achieving.[6] To comply with these requirements, nonprofit organizations will need to invest in organizational capacity, including data systems and staff development.

This strategy brief discusses four approaches that leaders of youth-serving nonprofit organizations can pursue to help support and strengthen their organizational capacity: build accurate overhead rates into contracts and grants, access funding to directly support capacity building, access

[1] Ann Goggins Gregory and Don Howard, "The Nonprofit Starvation Cycle," *Stanford Social Innovation Review* (fall 2009).
[2] Kirk Kramer, *Becoming a Highly Effective Organization* (Boston, Mass.: The Bridgespan Group, November 2008).
[3] Carol J. DeVita and Cory Fleming, eds., Building Capacity in Nonprofit Organizations (Washington, D.C.: The Urban Institute, April 2001).
[4] Patrick Rooney and Heidi Frederick, *Paying for Overhead: A Study of the Impact of Foundations' Overhead Payment Policies on Educational and Human Service Organizations* (Washington, D.C.: The Aspen Institute, Nonprofit Sector Research Fund, March 2007).
[5] Ibid.
[6] Heather Weiss and Priscilla Little, *Strengthening Out-of-School Time Nonprofits: The Role of Foundations in Building Organizational Capacity* (New York, N.Y.: The Wallace Foundation, May 2008).

technical assistance to support or improve organizational capacity, and form partnerships to share administrative services (see *Key Strategies to Finance Organizational Capacity Building* below). The brief highlights the experiences of youth-serving nonprofits in using these strategies to build their own organizational capacity. It also identifies some public and private funders' innovative efforts to support capacity building.

Key Strategies to Finance Organizational Capacity Building

Following are key strategies to support capacity building in nonprofit youth-serving organizations.

Build Accurate Overhead Rates into Contracts and Grants	☑ Develop an updated cost allocation plan. (p.5) ☑ Report fundraising and other overhead costs accurately. (p.6) ☑ Communicate needs with funders. (p.8)
Access Funding to Directly Support Capacity Building	**Accessing Federal Funding** ☑ Social Innovation Fund. (p.9) ☑ Strengthening Communities Fund. (p.9) **Accessing State and Local Funding** ☑ Liaison offices. (p.11) ☑ Offices of public-private partnerships. (p.11) **Accessing Private Funding** ☑ Grants for general operating support. (p.13) ☑ Financial support for capacity building. (p.13) ☑ Venture philanthropy. (p.15) ☑ At- or below-market rate loans. (p.16)
Access Technical Assistance to Support or Improve Organizational Capacity	☑ Access technical expertise. (p.18) ☑ Use a resource broker and convener. (p.20)
Form Partnerships to Share Administrative Services	☑ Form partnerships to share administrative services. (p.21) ☑ Establish a collaborative organization. (p.23)

Strategies for Building Capacity in Youth-Serving Organizations

Nonprofit organizations often feel pressure to maintain low overhead costs.[7] Working closely with funders to set accurate overhead rates is one strategy nonprofit leaders can use to support critical aspects of organizational capacity. In addition, federal, state, and local leaders have recently developed several new funding streams and other resources specifically to help nonprofits address their organizational capacity needs. Nonprofits can also look to intermediaries to provide technical assistance, help broker resources, or provide shared administrative services.

Nonprofit leaders can pursue four strategies to finance and sustain organizational capacity:

- build accurate overhead rates into contracts and grants;
- access funding to directly support capacity building;
- access technical assistance to support or improve organizational capacity; and
- form partnerships to share administrative services (e.g., accounting, payroll, and fundraising).

[7] DeVita and Fleming.

Strategy 1: Build Accurate Overhead Rates into Contracts and Grants

Most nonprofit organizations pay for their overhead costs by charging a proportion of the total costs of running the organization (e.g., staff salaries, rent, and supplies) to the various contracts and grants they receive. For federal, state, or local contracts and grants, these costs are typically referred to as "indirect costs." For contracts and grants received from private or corporate funders, these costs are frequently referred to as "overhead costs."

For various reasons, nonprofit organizations have struggled to attract sufficient funding to cover the full costs of operating the organization. These costs include important elements of an organization's capacity, including investments in information technology systems, professional development opportunities, and program evaluation. Investing in organizational capacity is critical to ensure youth programs are accountable to both government and private grantmakers. Yet, when times are tough, these investments are often the first budget items that nonprofit leaders cut.

The most straightforward approach is to build accurate overhead rates into all contracts and grants whenever possible. This strategy is easier to follow in theory than in practice, and its use depends on the flexibility of the funder. Most government grants permit billing for a specific amount to indirect costs, but the granting agency is unlikely to change that amount for any particular organization. More flexibility may exist in private foundation grants to set overhead rates that reflect actual overhead costs. In all cases, however, nonprofit organizations must take steps to ensure they are billing all allowable costs and building accurate overhead costs into contracts and grants. Specifically, nonprofits should:

- develop an updated cost allocation plan;
- report fundraising and other overhead costs accurately; and
- communicate needs to funders.

Develop an Updated Cost Allocation Plan

To charge some proportion of overhead costs to any contract or grant, an organization must first be able to identify these costs. This process requires developing a comprehensive list of overhead costs. Next, an organization must have a clear process for allocating costs to a particular category (see *Understanding the Organization's Overhead Costs—Boys and Girls Club of Long Beach, California*, on page 9). If costs are not tracked and allocated over time to their proper category, it can be difficult to determine which costs are overhead costs and whether these costs can be billed to a particular contract or grant. This tracking is particularly important for federal grants, under which allowable overhead costs are often prescribed and documentation of those costs is sometimes required. Nonprofits should rigorously review all their overhead costs to ensure they are adequately billing all their allowable costs to contracts and grants (see *Apportioning Overhead Costs to Contracts and Grants* below).

Report Fundraising and Other Overhead Costs Accurately

Once a cost allocation plan is in place and costs are being tracked accurately, an organization can accurately report its overhead costs to funders. Yet even sophisticated organizations frequently underreport their overhead costs for different reasons. One of the main reasons for this practice is to appear thrifty in the eyes of prospective donors, according to one recent study of 100 nonprofit directors. Another reason is to meet expectations—often unrealistic expectations—set by the grant itself. Many organizations, the study concludes, like to tout their low overhead rates when they

Apportioning Overhead Costs to Contracts and Grants

Organizations should make sure they are taking advantage of opportunities to charge relevant overhead costs to contracts or grants.

Overhead Cost Categories	Do Not Forget to Allocate These Costs to Each Contract or Grant
Personnel Administration	☑ Some proportion of the executive director's salary and benefits. ☑ Some proportion of administrative staff's salary and benefits.
Accounting and Finance	☑ Costs related to accounting and finance software.
Fundraising	☑ Fundraising or business development.
Information Technology	☑ Costs for maintaining data and information systems, including licensing agreements.
Rent/Mortgage/Utilities	☑ All relevant costs.

seek new funding, even though they are underreporting their actual overhead costs. Underreporting may limit the amount of funding the organization could secure in the future if the practice affects its success rate or long-term sustainability (See *Strategies to Build Accurate Overhead Rates into Contracts and Grants* below).

Youth program leaders and many private funders are beginning to acknowledge this "no-win" situation, and opportunities to address these inconsistencies may exist in the future. A recent study of some 900 nonprofit education and human service organizations found a disconnect between funders, which often say they are willing to support adequate overhead costs, and nonprofit organizations, which say foundations are interested only in supporting programs.[8] Many funders say what is needed most is better and honest conversations on actual overhead costs.

Strategies to Build Accurate Overhead Rates into Contracts and Grants

Organizations can use these strategies to avoid under-reporting overhead costs.

Common Pitfalls	Strategies to Avoid These Pitfalls
Assuming overhead rates for grants are nonnegotiable, particularly private grants from foundations.	☑ Talk to funder staff members to see if the grant is flexible on overhead rates. ☑ Be transparent and show funders how the organization's indirect cost rates are calculated.
Assuming certain overhead costs cannot be charged to projects.	☑ Closely review the terms of the grant to see what can and cannot be charged to "indirect" costs.
Tracking and reporting overhead costs inaccurately.	☑ Develop a cost allocation plan and process to track data regularly.
Assuming charging overhead costs takes away from direct services, negatively affecting outcomes.	☑ Explain to the organization's board and funders the importance of covering all indirect costs.

[8] Rooney and Frederick.

Communicate Needs to Funders

To break the cycle of underreporting of overhead costs by nonprofits and unrealistic expectations of funders, experts in the field of nonprofit management suggest the two sides take steps to work through their differences. The first step is to have a conversation with the funder to discuss its policy for billing overhead costs and challenges the nonprofit is experiencing. An organization should have collected data on its overhead costs and should be in a position to review those costs with the funder. In addition, an organization may have to explain what costs are shared as part of overhead and how these costs contribute to client outcomes. The good news is that most foundations (69 percent) report they do fund all types of overhead costs, while just 19 percent report they do not fund any administrative or fundraising costs.[9]

Understanding the Organization's Overhead Costs—Boys and Girls Club of Long Beach, California

The Boys and Girls Club of Long Beach, California, like many organizations, faced the challenge of how to pay the costs of certain items that were shared across multiple programs and, consequently, multiple grants. For example, one significant cost that was not being covered was the use of a van that helped transport children and youth to and from their programs. Although these transportation costs clearly were supporting program activities, the organization had not been tracking costs related to use of the van by program activity.

The first step was to look at where the club was spending its money, including costs that were not being covered by grants. For example, expenditures for gas, insurance, and maintenance added up to significant transportation costs. Second, the organization purchased some basic accounting software, QuickBooks, to develop cost centers and instituted a process for allocating costs to contracts or grants where feasible. The organization is now able to allocate more of its overhead costs from contracts or grants. This frees up more of its flexible general operating dollars to help pay the operating costs that cannot be covered by contracts or grants.

For more information, see Boys and Girls Club of Long Beach, California, at http://www.bgclublb.org.

[9] Ibid.

Strategy 2: Access Funding to Directly Support Capacity Building

Recently, several grantmakers, including the federal government, have begun to provide funding specifically for capacity building of nonprofits. This more flexible funding can provide nonprofits with basic operating capital to pay those expenses individual grants do not cover. This section provides examples of federal, state, and private funding to support capacity building of youth serving nonprofits.

Federal Funding

Since 2009, two new federal funding streams are available to support nonprofit capacity-building efforts at the community level: the Social Innovation Fund and the Strengthening Communities Fund.

The **Social Innovation Fund (SIF)** will provide $50 million—and, eventually leverage an additional $150 million in private funding—to intermediary organizations to help nonprofits working in low-income communities develop a system for monitoring and evaluating outcomes.[10] The seven to 10 recipient intermediary organizations will be selected in 2010, and they will then have six months to develop a plan for allocating those funds to nonprofit subgrantees.

SIF is unique for two reasons. First, it is one of only a few federal grants that supports capacity building of nonprofit organizations and is focused on efforts to implement a rigorous system for reporting and evaluating outcomes. The ultimate goal is to enable nonprofits to document their results and to translate that information into a plan for replicating the most promising strategies for working in low-income communities, including strategies to serve low-income youth. Second, SIF is unique because it requires grantees to engage public and private partners in supporting grant activities. Intermediary organizations that apply for the competitive funding must obtain a dollar-for-dollar match for all the federal funds they receive. The intermediary can obtain this funding through private foundations or corporations or through state or local funding commitments.

As of May 2010, five foundations had pledged $45 million in matching funding to SIF.[11] A consortium of foundations lead by Grantmakers for Effective Philanthropy have pledged an additional $5 million to support the infrastructure needs of nonprofit organizations and intermediaries selected for the grants.[12]

The **Strengthening Communities Fund (SCF)** helps build nonprofits' organizational capacity to effectively deliver services in communities that have been particularly hard hit by the downturn in the economy. In September 2009, the U.S. Department of Health and Human Services awarded SCF grants to government entities and nonprofit support organizations nationwide to provide organizational

[10] Corporation for National and Community Service, http://www.nationalservice.gov/about/serveamerica/innovation.asp (accessed May 24, 2010).

[11] Corporation for National and Community Service, http://www.nationalservice.gov/about/serveamerica/innovation.asp (accessed June 24, 2010).

[12] Corporation for National and Community Service, "Fact Sheet on Investing in Innovative Community Solutions," http://www.nationalservice.gov/pdf/10_0527_sif_fact_sheet_final.pdf (accessed July 10, 2010).

capacity-building services such as training, technical assistance, and competitive financial assistance to community and faith-based organizations. Youth-serving nonprofits can access the funding as a subgrantee, or "project partner," from a lead organization, including state or local government entities or nonprofit intermediary organizations.

Nonprofit partners can access two types of assistance from SCF grantees: technical assistance and financial assistance.

- **Technical Assistance**—Nonprofits can benefit from technical assistance that includes help with organizational development, such as board governance; leadership development, including strategies for recruiting volunteers; assistance in developing and implementing a program evaluation or quality assurance system; and help with collaboration and community engagement.

- **Financial Assistance**—Approximately 55 percent of SCF funding is directed to financial assistance for nonprofit organizations (project partners). Funding can be used for various capacity-building strategies; including developing or improving the capacity of financial and accounting systems or purchasing equipment and supplies that support improved program services.

State and Local Funding

Several state and local governments have become more directly involved in helping build the capacity of nonprofit organizations in their communities. Several examples of states and cities that provide or help identify funding for nonprofits to support capacity building are noteworthy. One strategy is establishing a liaison position, operating out of the mayor's or governor's office, who works to improve collaboration between private-sector funders and the nonprofit community. Some states or cities also have offices that help identify resources for nonprofit capacity-building efforts, including data collection and evaluation.

Several cities and counties now have liaison offices that coordinate the work of public agencies, private funders, and nonprofit providers. For example, in **Fairfax County**, Virginia, the Office of Public and Private Partnerships has developed a nonprofit and foundation "learning circle" that helps nonprofit organizations address issues of board development, conduct outreach and marketing, and identify grant opportunities. Several states, including **Louisiana**, **Minnesota**, and **Ohio**, have created **offices of social innovation** to help strengthen the capacity of entrepreneurial nonprofit organizations looking to solve some of the state's most critical social problems, including issues associated with youth violence and drug use. Cities such as **San Francisco** have gone one step further by creating a **Nonprofit Monitoring and Capacity Building Program**, within the Office of the Controller (see *City Supports for Nonprofit Organizations—San Francisco's Nonprofit Monitoring and Capacity Building Program* on page 12).

City Supports for Nonprofit Organizations—San Francisco's Nonprofit Monitoring and Capacity Building Program

In 2005, the city of San Francisco created a Nonprofit Monitoring and Capacity Building Program, within the Office of the Controller, to provide oversight and accountability for city contracts to nonprofit organizations and help build nonprofits' capacity to improve their own performance. The program was developed based on findings from a Nonprofit Contracting Task Force, which was directed to find efficiencies in the city contracting processes and to support nonprofit organizations in complying with financial and performance monitoring requirements. Currently, the program focuses on the roughly 125 nonprofits that receive contracts from at least one city agency and meet a certain funding threshold. In addition to monitoring, the city provides regular trainings and other resources to nonprofit leaders and staff on issues related to financial management and budgeting, cost allocation, insurance, and board governance.

Both the nonprofit community and the city stand to benefit from the program's services. Nonprofit organizations benefit from being able to access the trainings and resources provided through the program and from having to report program and fiscal information to a single entity rather than multiple city agencies. The city realizes cost savings as a result of some of the contract monitoring and performance monitoring being consolidated into a single entity rather than being done by multiple agencies.

City of San Francisco, Office of the Controller, http://www.sfcontroller.org/index.aspx?page=420#Capacity_Building_Resources_Nonprofit_Contractors (accessed July 10, 2010).

Private Funding

Nonprofits often struggle to find ways to raise capital for sustaining basic operations.[13] Recognizing that many nonprofit organizations, like private companies, require capital to grow and sustain their operations, many private and corporate foundations have adjusted their grantmaking in recent years to meet this need.

Strategies include providing **grants for general operating support**, providing **financial support for capacity building**, and, more recently, providing **venture philanthropy** to help replicate successful programs or jump-start innovative ideas. In addition, private leaders use several funding mechanisms to provide financial support to help nonprofit organizations build capacity. Examples include **at- or below-market rate loans** provided by institutions such as community development finance institutions and **revolving loan funds**.

[13] Jed Emerson, *The US Non Profit Capital Market: An Introductory Overview of Developmental Stages, Funders and Funding Instruments* (San Francisco, Calif.: The Roberts Enterprise Development Fund, 2001).

Grants for General Operating Support. Some funders, including the Hewlett Foundation, have moved some of their grantmaking activities to what they call negotiated general operating support for some nonprofit grantees. Under this arrangement, the funder may look broadly at the organization's strategic plan to come to a negotiated understanding of "what outcomes the organization plans to achieve, how it plans to achieve them, and how progress will be assessed and reported." [14] Funding can be used for diverse purposes, including rent, utilities, staff salaries and benefits, and capacity-building efforts such as developing or enhancing data systems or investing in staff development.

In contrast to restrictive grants, these types of grants can provide much-needed flexibility to nonprofit organizations and enable them to proactively react to changing circumstances. From the funder perspective, negotiated general operating support can mean giving away some influence on how the funds are spent.

The practice is still in its infancy; according to a 2008 study, grants that support general operating costs still represent just 19 percent of total funding for nonprofit organizations. [15] In a recent survey of foundations, half of all respondents indicated their foundation provided general operating support and roughly one third reported making unrestricted grants to nonprofit organizations. This would seem to indicate that nonprofit organizations should not overlook the opportunity to request general operating support from their funders, even if they have not received such support in the past.

Financial Support for Capacity Building. In recent years, some funders have invested in long-term capacity-building grants, ranging from three to 10 years, to sustain some of their core grantees.[16] (see *A Regional Approach: Building Nonprofit Capacity in One Region of Michigan* on page 14). Many funders understand that their investments in a particular field or geographic region are only as strong and durable as the organizations that carry out the work. To that end, funders that are interested in developing lasting change in a specific community, for example, must also pay attention to the financial health and capacity of the nonprofit organizations they support (see *One Funder's Focus on Capacity Building of Nonprofit Organizations—The Philadelphia Foundation* on page 15). Grant funding has been used to improve management operations, develop strategic plans and sustainability plans, improve governance, and strengthen accountability systems. Funders also have numerous options for providing that support, including the use of consultants or other local experts.

[14] Paul Brest, "General Operating Grants Can Be Strategic for Nonprofit Organizations and Funders," S*tanford Social Innovation Review* (winter 2003).

[15] Foundation Center, *Foundation Giving Trends: Update on Funding Priorities* (New York, N.Y.: Foundation Center, 2008), http://foundationcenter.org/gainknowledge/research/pdf/fgt08highlights.pdf (accessed June 2, 2010).

[16] Paul M Connolly, *Deeper Capacity Building for Greater Impact* (San Francisco, Calif.: Irvine Foundation, April 2007).

A Regional Approach: Building Nonprofit Capacity in One Region of Michigan

In 2002, the Flint Funders Collaborative was created to help focus foundation support on building the capacity of local nonprofit organizations in Genesee County to help them achieve their mission and meet community needs. Over five years, four funders provided grants to 14 local nonprofit organizations for intensive training and consulting assistance. Two types of grants were awarded. Grants for organizational assessments were provided to an initial set of grantees to develop a baseline of their strengths and weakness in organizational capacity. Upon completing the organizational assessment, grantees could apply for second set of grants to help build their organizational capacity, focusing on those areas identified through the assessment. Initial evaluations show these investments in organizational capacity lead to improvements in program effectiveness, leadership, and management capacity.

Source: Flint Funder's Collaborative, http://www.bestprojectonline.org

One Funder's Focus on Capacity Building of Nonprofit Organizations—The Philadelphia Foundation

The Philadelphia Foundation is one of a few foundations focused on building the capacity and improving the organizational effectiveness of nonprofit organizations. The foundation does not fund programs but, through its Organizational Effectiveness Grants and General Operating Grants, it seeks to help high-performing organizations better meet their mission to serve vulnerable children and families in the five-county Philadelphia region.

The Foundation's *General Operating Grants* provide flexible funding to high performing organizations. For organizations selected as finalists for the grant, The Foundation conducts a site visit, interviews management and line staff, reviews financial information, and performance data, to determine whether they are an appropriate recipient of this type of flexible grant. Once an organization receives the grant, they can generally use the funds however they want, including general operating costs. Recently, several organizations have invested some of their grant funds into data and evaluation systems, to build their capacity to measure performance.

More common are *Organization Effectiveness Grants*. Grantees determine upfront they areas of organizational capacity they would like to strengthen. Grantees can use up to 35 percent of the funds for staff and related overhead costs. In recent years, organizations have generally sought to use those funds for information technology capacity, including website development and marketing, resource development and fundraising, and to build the capacity of their boards.

Due to the economic downturn, the Foundation has also had to adjust its grant making to be even more flexible in recent years. Organizations receiving grants have been challenged at times to make investments in building capacity, particularly when they are struggling with basic overhead expenses, such as staff salaries and benefits. The Foundation tries to balance the need for these organizations to meet basic overhead costs, while simultaneously supporting their longer term investments in strengthening organizational capacity.

For more information, contact Bia Vieira, Vice President for Philanthropic Services, The Philadelphia Foundation, BVieira@philafound.org.

Venture Philanthropy. Among the more recent developments in nonprofit finance, venture philanthropy borrows from principals of private-sector venture capital in seeking to identify new, groundbreaking ideas and solutions to significant problems by providing long-term, often flexible, funding to nonprofit organizations. In contrast to traditional grantmaking, venture philanthropy focuses on how capital can be used most effectively to start, grow, or replicate the work of an organization.[17] The funding is less restrictive than traditional grants and can be invested in organizational capacity. Strategic philanthropy is still a relatively new concept. Consequently, it represents a relatively small, but important, percentage of funding available for building the capacity of nonprofit organizations. (See *Selected Venture Capital Funders* on page 16.)

[17] Emerson.

Selected Venture Capital Funders

Below is a list of some of the organizations that provide venture philanthropy funding to nonprofit organizations to help build organizational capacity.

Organization	Approach to Venture Philanthropy	Grantee Portfolio
Robin Hood Foundation	• Applies investment principals to philanthropy. • Provides in-house management and technical assistance, or provides funding for consultants with expertise in financial management and strategic and financial planning.	New York City
Tipping Point Community	• Provides general operating support to grantees to determine how to use funds and holds grantees accountable for results. • Provides or contracts for technical assistance in organizational capacity, including technology, strategic planning, and board development.	San Francisco Bay area, California
Social Venture Fund	• Supports capacity-building activities to help an organization expand and strengthen operations. • Focuses on small to medium-size organizations with a budget of less than $2 million.	Silicon Valley, California
Social Venture Partners	• Provides general operating support and capacity-building support in, for example, board development and governance, program evaluation and performance management, financial management, and strategic planning.	King County, Washington
New Schools Venture Fund	• Provides support to leaders of organizations focused on school reform and innovation. • Provides funding and technical assistance to help meet nonprofits' need for help with board development, monitoring, and measurement. • Provides flexible support for activities such as fundraising and strategic planning.	National

Below-Market Rate Loans (Program-Related Investments). Nonprofit organizations can access below-market rate loans to support general operating costs, capital improvements, or organizational capacity. Loans are typically provided through community development institutions that seek to promote economic development in a particular community or neighborhood. Assistance can include providing operating capital to youth-serving organizations that help promote economic development through services for youth, such as afterschool services or employment and job training opportunities.

Strategy 3: Access Technical Assistance to Support or Improve Organizational Capacity

Youth-serving nonprofit organizations frequently use technical assistance providers to help build and sustain their organizational capacity. Technical assistance can come in many forms, can vary in the level of intensity, and can address different aspects of organizational capacity (e.g., board development, fundraising methods, development of evaluation systems and processes, leadership training and coaching, and financial management systems and processes). *Intermediary organizations*, such as regional or statewide associations of service providers (e.g., a statewide network of afterschool providers), are the most common technical assistance providers. *Federal, state, and local governments* have also started to look at what role they can play in helping nonprofit organizations build capacity, including providing or contracting for technical assistance to nonprofit organizations.

Typically, nonprofit organizations pay for this technical assistance through a grant from a foundation or other funder that is interested in helping them build their organizational capacity. In other cases, a funder hires a preselected group of consultants or intermediary organizations from which grantees can choose. Less frequently, the funder provides the technical assistance through its own staff. Some technical assistance is provided by formal networks, which may include nonprofits and public agencies coming together to learn from one another and promote public policies for youth.

Intermediary organizations provide these types of technical assistance related to capacity building:

- designing and implementing administrative systems and processes, including data and evaluation systems and finance and accounting systems; and
- serving as a resource broker and convener to link nonprofit organizations to resources that can help build organizational capacity. Services can include helping nonprofit organizations identify grant opportunities, organize volunteers to support nonprofits, and/or bring nonprofit organizations together to learn from one another.

Intermediary organizations play various roles in helping support and strengthen nonprofit organizational capacity (see *Intermediary Organizations and their Role in Building Non Profit Capacity* on page 18). Youth-serving nonprofit organizations can seek to access these services from intermediaries in their own community.

Intermediary Organizations and their Role in Building Non Profit Capacity

Below is a list of some of the intermediary organizations that provide support for capacity building of youth serving nonprofit organizations.

Role	Examples of Organizations
Help nonprofit organizations access other funding opportunities (Broker).	• The **Afterschool Corporation (TASC)**, through grantwriting and other fundraising, works to secure additional resources that can support afterschool programs in New York City.
Develop shared learning opportunities and peer learning networks (Broker).	• The **Community Foundation of Sarasota County** in Florida provides training, shared learning opportunities, and other resources through its Nonprofit Resource Center to community-based nonprofit organizations. Trainings, which can include peer-to-peer networking opportunities, cover topics such as financial management, fundraising, governance, and performance measurement.
Provide technical expertise to help build nonprofit capacity (Technical Assistance).	• The **Community Network for Youth Development** helps city agencies in San Francisco develop assessment techniques that support continuous program improvement. By helping programs develop outcome measures that build on best practices and support community goals, the network is building the capacity of programs to deliver higher-quality services.

Accessing Technical Expertise

Youth-serving nonprofit organizations can access technical expertise from intermediary organizations to help design and implement internal processes and systems, including data and financial systems. In addition, nonprofits can tap intermediary organizations' expertise on issues such as fundraising, staff development and training, and leadership development. Several funders have developed strategies to support long-term capacity-building initiatives among grantees. A recent study highlighted examples of these initiatives.[18]

- The Pfizer Foundation provides funding to support the capacity-building efforts of 24 organizations that provide HIV/AIDS prevention services in communities in the southern United States. Organizations were funded over a three-year period, with grants ranging from $1,200 to $29,000. They purchased the capacity-building services from a preselected group of consultants.

[18] Connolly.

- The James Irvine Foundation provides funding to support the capacity building of the Student Support Partnership Integrating Resources and Education (SSPIRE) initiative. SSPIRE promotes academic achievement and degree completion among 16- to 24-year-old low-income and minority students at nine community colleges in California. Funding for capacity building was provided over a three-year period and included support for evaluating program outcomes.

Technical assistance can be delivered in several ways. Nonprofit organizations should discuss which methods they believe they are most likely to benefit from with their funder. Methods include trainings, peer learning, listservs, publications and tools, consulting, and coaching.[19] Some methods, particularly coaching and consulting, can require significant time commitment by organization staff, while peer learning and publications and tools require less involvement. Non profit organizations that seek technical assistance or other resources from foundations to support their capacity building efforts should consider how to make the best use of those resources, and how they can be prepared to go through the process (see *Preparing for Capacity Building: What Funders Look For* below).

Preparing for Capacity Building: What Funders Look For

Funders have a strong incentive to support the long-term health and organizational development of nonprofit grantees. However, given limited resources, funders must select organizations they believe can incorporate capacity-building expertise and put that knowledge to good use.

One recent study offers insights into criteria funders can use to determine which nonprofit organizations are ready to take advantage of capacity-building supports. Some of the determining factors for readiness include these.

- The board and staff leaders understand and support change management through capacity building and have time to dedicate to the effort.
- The organization is not in crisis and has adequate financial and staff resources to implement and sustain the capacity-building efforts.
- The organization's leadership has a clear sense of the organization's needs and future priorities, a plan to strengthen its capacity, and an explicit strategy for change management.

Source: Paul M Connolly, *Deeper Capacity Building for Greater Impact* (San Francisco, Calif.: Irvine Foundation, April 2007).

[19] Ibid.

Resource Broker and Convener

An intermediary organization can help build youth-serving nonprofit organizations' capacity by serving as a resource broker and convener.[20] Intermediaries often play a role in applying for federal or private grants that can be distributed to nonprofit organizations. Moreover, intermediaries frequently can bring together various stakeholders in a community, including other nonprofit providers, foundations, employers, citizen groups, and community institutions such as universities. Establishing networks and key champions in the community is critical to the long-term sustainability of nonprofit organizations. Nonprofits that join local and state-wide networks and associations are in a better position to maintain their network of support than those who do not join such networks and associations.

The federal government and, to a lesser extent, state and local governments, have also begun to take an interest in providing technical assistance to nonprofit providers to help support capacity. In the case of the federal government, this interest is not new. For example, 21st Century Community Learning Center grantees and Head Start grantees have had access to technical assistance for capacity building for some time. What is new is the Strengthening Communities Fund, which provides federal funding for grants to lead organizations to provide technical assistance for capacity building in nonprofit organizations (see *Federal Support for Capacity-Building Technical Assistance* below).

Federal Support for Capacity-Building Technical Assistance

The Strengthening Communities Fund (SCF) provides these types of technical assistance to nonprofit providers:

- organizational development (e.g., strengthening board governance);
- program development (e.g., developing a job retraining curriculum);
- collaboration and community engagement (e.g., developing referral systems);
- leadership development (e.g., training volunteers and developing a succession plan);
- evaluation of effectiveness (e.g., assessing program outcomes); and
- capacity to offer additional services based on new needs arising as a result of the economic downturn and enactment of the American Recovery and Reinvestment Act.

[20] Martin Blank, Betsy Brand, Sharon Deich, et al., *Local Intermediary Organizations, Connecting the Dots for Children and Families:* A Joint Publication of the Coalition for Community Schools/Institute for Educational Leadership, American Youth Policy Forum, The Finance Project, Jobs for the Future, Center for Youth Development/Academy for Educational Development, and New Ways to Work (Washington, D.C.: Coalition for Community Schools/Institute for Educational Leadership, 2002).

Strategy 4: Form Partnerships to Share Administrative Services

Nonprofit organizations can form partnerships to share many administrative services and, therefore, reduce administrative costs and realize greater efficiencies. By sharing administrative services, these organizations can also strengthen key administrative functions such as fundraising, accounting, staff training, and performance management. Administrative services that are shared typically include accounting, payroll and benefits, and fund development.

- **Accounting**—including accounts payable and receivable; creation of the general ledger and a chart of accounts; bank reconciliation; financial transaction processing; financial management reports (monthly, annual, and funder reports); budgeting and forecasting; and tax form preparation.
- **Payroll and Benefits**—including making payroll transactions, managing taxes and filings, pooling benefits, tracking and reporting vacation and sick leave, and managing employee data.
- **Fund Development**—including database management of donors, gifts, demographics, reporting, and mailings; project management for fundraising; grant research to match funder and agency; grantwriting; and reporting.

Through these enhanced administrative capacities, organizations can expand program services or improve program quality, even in the face of a challenging economy. Nonprofit organizations can share administrative services by establishing a formal partnership or by forming a new collaborative organization.

Establish a Formal Partnership

Youth-serving nonprofit organizations can enter into formal partnerships with one or more organizations to help share some of their administrative services. Examples include sharing fundraising costs, accounting services, staff training, and office space. Under this type of arrangement, each nonprofit typically retains its status as a 501(c)(3) organization, its board of directors, and other key leadership positions.

Establishing a formal partnership requires significant work and discussions between the organizations involved, and the partnerships can vary significantly in their complexity. In some cases, two organizations may opt to simply share building space or perhaps an administrative function, such as fundraising (see *Sharing Fundraising Staff to Lower Costs* on page 22). Other partnerships are more complex and involve consolidating multiple administrative functions.

Sharing Fundraising Staff to Lower Costs

Some organizations have focused on shared staff as a potential solution to reducing administrative costs. In 2006, The Cleveland Tenants Organization, Environmental Health Watch, and the Northeast Ohio Coalition for the Homeless formed a partnership to share a single development director position. The partnership was born in part out of necessity, as each organization had hired part-time fund raising consultants in the past with mixed results. The organizations were able to secure funding from a local foundation to hire a full time position, which would be shared between the three organizations.

The development director position reports to each of the three organization directors, who meet regularly to discuss issues around timelines for grants, and any issues or concerns regarding the timesharing agreement. The Cleveland Tenant's Organization officially employs the development director, and provides all administrative services for the position, such as payroll and health benefits.

One of the key achievements of the partnership was to lower the costs of fundraising within each individual organization, while securing additional resources. All three organizations have reported lower costs, largely because the private fundraising consultants they had used previously charged a much higher hourly rate. Additionally, the three organizations have each secured significant funding above prior fundraising levels. At the same time, sharing the position allowed the three groups to partner on certain grants and fundraising efforts where they have common interests, rather than competing against one another.

Source: Foundation Center, "Collaboration Database: Collaboration Case Study on a Shared Development Director" (New York, N.Y.: Foundation Center, 2010), http://collaboration.foundationcenter.org/search/searchGenerator.php (accessed July 19, 2010).

Form a New Collaborative Organization

For some organizations, it may make sense to create a new collaborative entity to manage certain shared administrative services for all the partner organizations. Under this arrangement, as with the formal partnership, each organization retains its own management staff and status as a 501(c)(3) organization. However, for various reasons, the partner organizations decide to create a new collaborative entity to provide back-office services to each partner organization (see *Examples of Shared Services Organizations* on page 24).

One of the best-known examples of a collaborative entity based on shared administrative services is the MACC Alliance of Connected Communities (MACC Commonwealth), a collaboration of more than two dozen human services agencies in Minnesota's Twin City region.[21] MACC Commonwealth is an independent organization, with joint control from member partners, whose sole focus is to provide back-office services for each member. This structure enables each member organization to contribute to MACC commonwealth in a manner that does not negatively affect its own balance sheet and also helps remove individual liability; both are potential areas of concern for organizations considering such an arrangement. As a result of MAAC Commonwealth, all partner organizations have reported lower administrative costs and improved administrative capacity.

[21] Foundation Center, "Collaboration Database: Collaboration Case Study on MAAC Commonwealth" (New York, N.Y.: Foundation Center, 2010), http://collaboration.foundationcenter.org/search/pdfs/Pages%20from%2042.pdf (accessed June 15, 2010).

Examples of Shared Services Organizations

The shared services organizations described below provide shared administrative services to member organizations.

Shared Services Organization	Services Provided	Participating Organizations	Geographic Service Area
MAAC Commonwealth Services Inc.	• Finance • Human Resources • Information technology • Facilities management	Non profit human services organizations	Minneapolis / St. Paul, Minnesota
Center for Social Innovation	• Shared office space • Internet and phone service • Shared office equipment	Diverse group of 180 organizations focused on social innovation	Toronto, Canada
Third Sector New England's Fiscal Sponsorship Program	• Financial management • Accounting • Contract management • Employee relations and benefits management • Information systems	Small "social change" groups that do not have their own 501 (c)(3) status.	New England and New York City
Program Children and Family Services Center	• Office space and meeting rooms • Internet and phone services • Human resources • Financial services, including shared benefits	Nine non profit organizations focused on providing improving services to children and families	Charlotte, North Carolina

Source: Jackie Cefola, China Brotsky, Roxanne Hanson, *Shared Services: A Guide to Creating Collaborative Solutions for NonProfits* (San Francisco, C.A.: Non Profit Centers Network and Tides, 2010).

Conclusion

Leaders of youth-serving nonprofit organizations continue to experience challenges in sustaining and enhancing the infrastructure that supports their organization. This infrastructure, or organization capacity, includes sound financial and accounting systems and processes, sufficient professional development opportunities for staff, and strong data and evaluation systems. New financial reporting requirements from the federal government, along with increased expectations from funders to show the outcomes being achieved with their support, require nonprofit organizations to invest in organizational capacity or face the likelihood of less funding in the future.

This brief highlights four strategies youth-serving nonprofit organizations can pursue to find resources and supports to help them strengthen their administrative and management systems. Nonprofit leaders can take steps to ensure they build adequate overhead rates into contracts and grants. They can look to new federal, state, and private funding to directly support capacity-building. Nonprofit organizations can also look to local and national intermediary organizations for technical assistance to help them build their organizational capacity or enhance key administrative and management functions. Finally, they can form partnerships to share administrative services to lower costs and focus more on program operations and client outcomes.

The nonprofit organizations highlighted in the brief have taken steps to address the challenges to building their capacity. In addition, the profiles of various foundations reveal that many in the foundation community realize the need to support the organizational capacity of nonprofit grantees and have crafted innovative approaches to do so. Also recognizing this need, federal, state, and local governments have recently created new sources of funding to provide technical assistance to help support and maintain the organizational capacity of nonprofits that work to achieve key goals of government agencies.

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http://socialinnovation.ca/

Children and Family Services Center
http://www.childrenfamily.org/

Community Foundation of Sarasota County- Non Profit Resource Center
https://www.cfsarasota.org/NonprofitCenter/tabid/53/Default.aspx

Community Network for Youth Development
http://www.cnyd.org/home/index.php

New School Venture Funds
http://newschools.org/

MACC Commonwealth Services, Inc
http://www.macccommonwealth.org/

Robin Hood Foundation
http://www.robinhood.org/home.aspx

Silicon Valley Social Venture Fund
http://www.sv2.org/

Social Venture Partners
http://www.svpseattle.org/

The Afterschool Corporation
http://www.tascorp.org/

Third Sector New England
http://www.tsne.org/site/c.ghLUK3PCLoF/b.1352209/k.B068/Nonprofit_Capacity_Building_Leadership__Management_Support.htm

Tipping Point Community Foundation
http://www.tippoint.org/

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About The Finance Project

Helping leaders finance and sustain initiatives that lead to better futures for children, families, and communities.

The Finance Project is an independent nonprofit research, training, consulting, and technical assistance firm for public- and private-sector leaders nationwide. It specializes in helping leaders plan and implement financing and sustainability strategies for initiatives that benefit children, families, and communities. Through a broad array of tools, products, and services, The Finance Project helps leaders make smart investment decisions, develop sound financing strategies, and build solid partnerships. To learn more, visit http://www.financeproject.org.

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