General Support Vs. Project Support: A 77-Year-Old Debate Revisited

This inquiry into funders' and nonprofits' attitudes highlights innovative ways to meet the need for operating support.

By Michael Seltzer and Michael Cunningham

In the late 1980s, a perennial philanthropic debate took on new urgency. It centered on a question nearly as old as organized philanthropy itself: Should private funders support a particular project of a grantee, or should they provide "general" operating support to be used as the organization's leadership sees fit?

THE DEBATE

In 1913, Jerome Greene, then secretary of the Rockefeller Foundation, wrote in a memorandum: "It is unwise for an institution like the Rockefeller Foundation to assume permanently or indefinitely a share of the current expenses of an endowed institution which it does not control. Such a continuing relation inevitably carries with it a continuing responsibility for the conduct of the institution that is aided. The relation should therefore not be entered into unless with the deliberate intention of assuming such responsibility."

Michael Seltzer is a senior consultant on nonprofit institutions and philanthropy with the Conservation Company, 130 West 42nd Street, Suite 801, New York, N.Y. 10036. He also serves as executive director of Funders Concerned about AIDS, an affinity group of the Council on Foundations, and as senior technical assistance consultant to the New World Foundation. Michael Cunningham is an author who works in the publications department of the Carnegie Corporation of New York. Both authors have written extensively on philanthropic matters for regional and national philanthropic publications.

Over the past 77 years, debate has continued between those who believe that a funder's role should center on particular projects, and those who maintain that the most effective nonprofit work is done when the money is offered over a longer period with no strings attached. The needs of nonprofit institutions are often practical, requiring unrestricted dollars to cover such pedestrian expenses as rent and utilities. Funders, however—be they foundations or corporations—may well prefer to earmark their limited funds for accomplishing a specific set of social objectives.

That's the essential dilemma. Grants for general operating support have fluctuated from a high of 23 percent of all grants in 1979–80 to 16.2 percent of grants in 1988–89 (see Figure 1). These figures are based on the Foundation Center's Grants Index, which covers grants of $5,000 or more made by the nation's largest private, corporate, and community foundations.

Many corporate leaders are also looking for ways to grow more "focused" or "targeted" in their grantmaking. Carol Reuter of New York Life Insurance Companies, says, "Corporations are aiming for more focused giving and more bang for the buck. This shift began in the mid-seventies, when companies were looking for concrete ways to demonstrate social responsibility."

A. N. Scallon, director of Corporate Support Programs for IBM Corporation, said at a workshop convened by the Conference Board in 1986: "Attention must be paid to the essential elements of any well-run program: defined priorities, planning, budgeting, and evaluation. With limited dollars, it behooves us to be more creative, more strategic, and more focused to get maximum impact from our programs."

Increasing economic pressures on nonprofit organizations make the dilemma a literal matter of life and death for some. Christopher F. Edley, president of the United Negro College Fund, noted in a speech to the annual meeting of the Independent College Funds of America, "Those corporations insist on feeding us caviar when our schools are starving for rent and bread and water."

Pablo Eisenberg, president of the Center for Community Change, a national public policy and technical assistance organization committed to strengthening community-based organizations in very low-income communities, sums up the importance of operating support for his constituency: "It is absolutely crucial. In a small organization, staff perform multiple roles. There is no way that staff members' time can be accurately apportioned among different programs. Unrestricted grants provide badly needed financial flexibility to grassroots organizations. If you look at some of the major nonprofits that have made a real impact over the last 30 years, such as the NAACP Legal Defense Fund, they have only been able to exist due to a strong base of general support."

Some funders strongly advocate general support despite the widespread trend toward more focused grantmaking. Elizabeth McCormack, former direc-

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tor of the Rockefeller Family Philanthropic Office and a current trustee of the John D. and Catherine T. MacArthur Foundation, said in an October, 1988, speech sponsored by Independent Sector, "Foundations, funds, and charitable trusts have a daunting task. It is their role to take the initiative, but at the same time to make sure that they do not substitute their judgment for that of the institutions which are on the battlefield, and which are far more apt to understand problems than those who work in the funding arena, which, by its very nature, is an ivory tower."

She added, "It will help the funder to realize that an institution needs general operating funds more than anything else. Too often project grants cost an institution rather than support it. The grant seldom covers all the costs involved. The institution must spend its own money to complete the foundation-funded program. Its own money is better spent, I submit, to pay the rent and the telephone bill. Service on a board will teach the funder this hard lesson."

**THE CHANGING FINANCIAL PICTURE**

As noted, the debate is perennial. Yet, it has taken on special urgency in the last 10 years as the financial picture for nonprofits has undergone some drastic changes. Let’s look at the current situation in the four major areas of nonprofit fundraising: government funding, private contributions, corporate philanthropy, and foundation giving.
geted, grantmaking. In the April 20, 1988, issue of the Chronicle of Higher Education, Ronald J. Coman, administrative director of the Kraft Foundation, said, "There must be greater emphasis on what's in it for the corporation. Otherwise, more and more corporations will view philanthropy as the Victorians viewed sex: a moral duty to be performed without any expression of joy."

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During this period of tremendous volatility in corporate America, marked by mergers, acquisitions, and leveraged buyouts, corporate contributions officers are looking for ways to defend their charitable budgets on the basis of a company's strategic priorities. This has also led to an interest in making more project-specific grants, presumably to demonstrate concrete results more readily. One nonprofit executive director explained, when interviewed for this inquiry, that he addresses this concern by including very clear evaluation components in his organization's general-support requests. His organization is then able to demonstrate to its unrestricted funders the impact of their support.

This "bottom-line" concern has even begun to affect the allocations priorities of the more than 2,000 affiliated United Ways of America. According to local United Way officials, this trend has been "donor-driven" by corporate givers who are demanding more accountability for their contributions. Local United Ways, which have always been a bedrock source of unrestricted dollars for their member agencies, are increasingly changing from agency budgeting to program-related budgeting. This shift is intended to increase United Way's ability to support specific programs rather than the general operations of grantees. At the same time, program-related budgeting provides a mechanism by which United Way can bring pressure to bear on member agencies to keep their programs relevant.

Foundations

Foundations increasingly favor project-specific support. According to the Foundation Center's Grants Index, foundations have awarded fewer general-support grants over the past five years. The general-support grants that have been made during that time have been reduced in dollar amount by approximately one quarter, on the average, and the concurrent outpouring of social activism left a legacy of hundreds of newly-minted nonprofits struggling to initiate and implement reforms. While foundations are generally sympathetic, their own limited resources enable them to fund only a small percentage of the proposals they receive. One way to stretch their money is to fund more specific projects, and leave nonprofit organizations to their own devices in procuring additional dollars for operating expenses.

CURRENT GRANTEE PERSPECTIVES

Nonprofit leaders are crying out—and crying out more vociferously—for increased general support at a time when such support is on the wane. At the first grantor/grantee dialogue co-sponsored by the New York Regional Association of Grantmakers and the Nonprofit Coordinating Committee of New York in June, 1987, the need for more general operating support emerged as the single most compelling concern of nonprofits. Similar pleas were made at gatherings hosted by the Donors' Forum of Chicago and by the Johnson Foundation at Wingspread, both held in 1985, and at the June, 1986, annual meeting of the Minnesota Council on Foundations.

Cynthia L. Cromer of Visions/Services for the Blind and Visually Impaired, says, "The health of the nonprofit sector is at risk because many foundations are reluctant to fund an organization's general expenses. Consequently, nonprofits are forced to 'create' new projects in an effort to capture foundation funding. The core of a nonprofit's services must be secure if that organization is to branch out into new avenues of programming."

While foundations yearn for immediate, concrete results, many significant advances accrue slowly, from a lifetime's work based on small but accelerating changes. This may partially explain why so many people are enamored of the MacArthur Fellows Program; the ultimate in unrestricted grants. The John D. and Catherine T. MacArthur Foundation has awarded 319 grants to give "exceptionally talented and promising individuals the opportunity to focus their creative energies on issues they find critical to the enhancement of our world." Recipients may use the funds as they see fit. They are not required to accomplish any specific result.

Gregory Farrell, past executive director of the Fund for the City of New York, a private operating foundation and public charity established by the Ford Foundation, wrote in the Fund's 1982–84 report, "We are impressed by the need for more general support—core financing for important entrepreneurial organizations which work in difficult fields with meager resources but nevertheless achieve success and credibility and show the way for others. Bertram Beck, past director of the Community Service Society, once called these efforts 'flagship organizations,' and we think the name is still apt."

The New York Public Library System, which operates 85 libraries throughout three boroughs of New York City, employs 3,000 people and provides free access to more than 41,000,000 books and other materials each year. The library system must raise a total of $127,000,000 every 12 months to cover basic operating costs, 27 percent of which must be assembled from private gifts. Chairman Andrew Heiskell characterizes this annual obligation as "constant and daunting."

The burgeoning requests for general support on the part of nonprofits arise from a number of factors: the need to maintain core programs; nurturing for newer, less experienced nonprofits; and gaps in government support. Let's look briefly at each.

The Need to Maintain Core Programs

Ongoing core programs are beset by such prosaic expenses as staff salaries, rent, and related administrative costs. More than that, these expenses cannot be included in project budgets. Yet, core programs remain the source from which new initiatives eventually spring. Given the fragility of nonprofit funding today, exclusively project-specific support can actually undermine the recipient's financial condition by contributing to its limbs without attending to its heart.

Unrestricted grant dollars enable recipients more easily to develop new programs and projects. Many new ideas are never developed due to lack of discretionary money for investment at the early
stages. In these instances, unrestricted revenues serve as a source of venture capital for new initiatives. An organization unduly preoccupied with its own survival is not likely to develop much in the way of new or innovative projects.

**Nurturing for Newer Nonprofits**

According to *Giving USA: The Annual Report on Philanthropy*, corporate and foundation giving comprises 10.2 percent of the entire philanthropic pie. Such sources are, however, generally more known to nonprofits than prospective individual donors large and small. Organizations that have been weaned on grants are often bewildered, intimidated, or under-informed about strategies for securing support from individuals (strategies which include memberships, direct mail, planned giving, and sales of products and services), which remain the major sources of unrestricted support.

Budgeting in the nonprofit sector is a learned skill, and is not possessed by all in equal measure. Some smaller organizations doing highly valuable work may lack financial expertise. Unrestricted funding enables such an organization to pool its revenues rather than engage in more sophisticated bookkeeping, which may burden a small staff.

**Gaps in Government Support**

As stated earlier, most nonprofits that receive government support find that those grants and contracts do not sufficiently cover all the related costs of their work. Foundations and corporations have traditionally been relied upon to help “bridge the gap” with unrestricted support not offered by most government agencies.

**CURRENT GRANTOR PERSPECTIVES**

If there is in fact a move away from general operating support among foundations and corporations, it has much to do with the fear that ongoing general-support grants to the same set of grantees will lead to a static grants list year in and out, allowing few openings to support new efforts.

Charles E. Curran, past president of the Kansas City Association of Trusts and Foundations and a current trustee of the H&R Block Foundation, says, “Foundations are the best source of support for new, daring, experimental efforts.” He recommends general support for new efforts during their start-up periods, and stresses that those periods should be expected to extend from three to five years, rather than the more widespread allowance of one to two. He also condones general support for special-purpose funders whose goals are highly focused, noting, “It makes sense to pick out several agencies whose mission and activities closely match your own purposes.”

“However,” he adds, “if a foundation has a broader scope, I don’t think it makes sense to provide unrestricted support. Once organizations have successfully finished their start-up period, their funders should wean them off general-support grants in favor of project-specific support. Project grants do need to include more imaginative overhead formulas, especially in the case of smaller organizations.

“Continuous general-support grants foster tremendous dependency on the part of the grantee,” he says. “They’re locked in, and the funders are locked in. Giving unrestricted support to long-standing, established agencies does them a disservice. What you, as a funder, often do is get trapped into supporting an agency that has become obsolete or irrelevant, and may exist only as a result of your support.”

**DEVELOPING A GRANTMAKING STRATEGY**

Obviously, no one type of grant is right for every occasion. Each grant must hinge upon an individual situation. For some purposes, project support is clearly preferable to general support; for others, the converse.

Geri Rivard, program officer of the Lucille and David Packard Foundation, prefers to award general-support grants to organizations new to the foundation that might be perceived by some as “high-risk” grantees. These recipients generally receive one-year grants which can be renewed every year, usually up to four years.

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David Ford of Chase Manhattan Bank supports a balanced contributions program that provides both general support and some targeted “impact” grants. Chase currently makes approximately 1,600 grants totaling more than $10 million each year. While Chase previously awarded only general-support grants, Ford is now identifying opportunities for directing increased dollars for designated purposes to organizations ready to move up to new levels of service. For example, Chase recently announced a major gift for a membership-building campaign to the New York Botanical Garden, where Chase will match new memberships for two years.

Ford says, “General support is certainly a crucial need. However, a corporation can’t provide significant grants to all deserving organizations. One form of a balanced program funds many organizations with relatively small annual contributions but also funds those organizations on the edge of significant growth, and enables them to push forward.”

Since 1979, the Robert Sterling Clark Foundation has awarded general-support grants to a limited number of cultural institutions each year. These awards are designed, according to executive director Margaret Ayers, “as an incentive to reward good management behavior that will help organizations function effectively and achieve their artistic mission.” Grantees are eligible to apply in the fourth year for management support grants.

Large national foundations with diverse program interests may have the hardest time defining a specific policy on core support versus program support. The Ford Foundation, for example, supports grantees that range in size from major academic institutions to community development corporations. It is readily apparent that no single standard is available—or even desirable—for gauging the appropriateness of one type of support or another for a prospective grantee from such a wide field. For that reason, Ford makes both designated and undesignated grants. Over the years, the foundation has also broadened the grantmaking strategies available to its program officers to include endowment support and program-related investments for certain grantees. Today, there are no preset procedures, and each proposal is evaluated on its own particular merits.

However, some basic criteria can be
across several different program areas within the foundation. In some cases, it may be in the best interests of both funder and grantee to consolidate several separate program grants into one general-support grant.

- The work of a particular grantee is of ongoing, historic interest to the funder.
- The funder is interested in building and sustaining institutions within particular fields of endeavor.
- These circumstances ought to make program officers’ task easier, as they decide whether to recommend a grant for core operating expenses. However, such a decision remains a complicated, and highly individualistic, choice.

The choice can perhaps be further clarified by enumerating some of the specific questions a funder should consider in establishing overall grantmaking policies. These questions fall into two main categories: those that address the interests of the funder (internal), and those that concern the good of the grantee (external).

**Internal Factors**

Some of the intra-organizational factors influencing grantors’ decisions about whether to offer general or project support include:

- **Grantmaking budget**: How can the grantor’s budget be apportioned fairly between general and project support?
- **Mission and objectives**: Will any shift in the level of project or general support have an impact on the funder’s program goals? Will the institution still be able to accomplish what it hopes to achieve as a grantor?
- **Disposition of trustees**: Will trustees or corporate officers be supportive of any change? Or will they be opposed?
- **Evaluation**: Will staff be able to evaluate requests for either general or project support, or will they need additional training? How can staff evaluate the results of a general-support grant?

One creative strategy for grantees is to include a self-evaluation component from unrestricted grants. Grantees should work to alleviate this concern up front.

**External Factors**

Funders must also consider the impact of any change in general versus project support policies on new and existing grantees. Some of these considerations include:

- **Long-term dependency**: Will the projected change add to grantees’ dependency on the funder, or will it, in fact, strengthen their independence and long-term viability?
- **Financial needs of prospective grantees**: Will a change in grantmaking strategy contribute positively or negatively to grantees’ ability to secure sufficient financing from other sources to support their work?
- **Innovation**: Will an increase in general-support funding lead to less experimentation and creativity on the part of grantees? Or will it instead encourage organizations to take more risks in planning new programs?

Weighing these factors should help a grantmaker determine whether a change in grantmaking priorities would serve the best interest of both the funder and its grantees.

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**MEETING THE NEED FOR OPERATING SUPPORT**

Fortunately for both grantors and grantees, most prolonged discussion about general support seems eventually to lead to a certain accord on both sides. While project support is vitally important, unrestricted support must be a part of the grantmaker’s menu as well.

Innovative measures some grantmakers are taking include:

- **Unrestricted grants to smaller-budget organizations** to enable them more fully to capitalize their core budgets. The Philadelphia Foundation, for example, offers such support to grantees whose budgets do not exceed $400,000 per year.
- **Bridge grants to long-standing grantees** before support is terminated, to assist them in making the transition. For example, the Ford Foundation and the New World Foundation have made endowment grants to several long-term grantees to equip them with a new, perennial source of undesignated funds.
- **Unrestricted grants to particular organizations** whose mission and programs closely correspond to the purposes of the grantmaker.
- **Full underwriting of related administrative costs of program or project grants**. By underwriting such costs, funders are not unduly straining the core budgets of nonprofit organizations. For example, the Rockefeller Foundation states in its guidelines for applicants, “Although we seldom give general or core support, we try to ensure that the full direct costs of a project are taken into account in the calculation of grant budgets.”
- **Core support grants to established project grantees**. Peter Goldberg, president of the Prudential Foundation, suggests that grantors go so far as to consider providing general-support grants to organizations that have already been awarded project grants.
- **Creation of grant “award” programs**. For instance, the Beatrice Foundation of Chicago and the HCA Foundation of Nashville give out sizable, unrestricted cash awards for excellence to nonprofit organizations that “exemplify improvement and achievement in management.”
- **Finally, some funders have made general support their prime form of grants**.

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**AN EMOTIONAL PLEA**

Debate over general support raged in philanthropic circles at the turn of the...
"Foundations are the best source of support for new, daring, experimental efforts."

century, and it rages in those same circles today. Today's debate, however, takes place among a vastly enlarged contingent of funders and nonprofits, whose concerns are exponentially more complex. It is set against a backdrop of ever-increasing competition for foundation dollars, and of continued volatility in the corporate sector.

The current financial squeeze, exacerbated by the unprecedented numbers of nonprofit organizations now engaged in vitally important work, makes the question of general support perhaps the most emotionally-charged issue in the grantmaking world today. Funders bemoan their limited resources, and worry about how best to apply them to a world that is not providing adequately for the bulk of its population. Nonprofits both large and small find that their energies are increasingly diverted from their larger missions to the immediate problem of survival.

General-support grants are not the sole solution to the financing problems faced by nonprofits in the 1990s. Still, the plea for unrestricted funding from some many organizations cannot be ignored. It demands a creative, carefully considered response from organized philanthropy.

Methodology

In 1988, the Ford Foundation asked Michael Seltzer, one of the authors of this article, to conduct an inquiry among private grantmakers (both foundation and corporate) regarding their current attitudes toward unrestricted or general-support grants. As part of that inquiry, interviews were conducted with a select number of grantmakers across the United States. Regional associations of grantmakers, the Council on Foundations, and Independent Sector all hosted programs on the issue. During a two-year period, more than 2,000 grantmakers and nonprofit organizations participated in over 20 programs. Publications such as The Foundation Directory and The Foundation Grants Index were also reviewed to ascertain any shifts in funding trends.

This inquiry had the advantage of an advisory committee composed of nine foundation and corporate grantmakers. They were: David Arnold and Susan Berresford, the Ford Foundation; Sandra Gray, Independent Sector; Dan Martin, John D. and Catherine T. MacArthur Foundation; Kathyrn Smith Pyle, Samuel S. Fels Fund; Jackie Reiss, Minnesota Council on Foundations; Jack Shakely, California Community Foundation; Hildy Simmons, Morgan Guaranty Trust Company; and Marie Wilson, Ms. Foundation for Women, Inc.

Selected References


Seltzer, Michael, Securing Your Organization's Future.


*Starred publications are available through The Society For Nonprofit Organizations' Resource Center. Members of the Society receive discount prices on Resource Center books. For more information, contact the Society's Resource Center at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (608-274-9777).