

When Is a Seed Grant Not a Seed Grant?

When it is an operating grant, and that's quite frequently, by the way.

Let's stop playing this shell game and give nonprofits the kind of grants they really need.

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Not long ago, I went behind enemy lines to speak before the National Association of Professional Fundraisers. As a foundation trustee, the situation made me nervous, though it proved to be enlightening. When I mentioned that grant requests for “new” initiatives are often thinly disguised requests for operating support, a fundraiser protested, “But that’s my job disguising our operating needs as new program initiatives and writing them up as seed grant requests!”

“No Operating Support” might as well be engraved in stone over the entrance to most foundations. Only 15 percent of foundation grants provided general operating support last year, whereas 49 percent of foundation grants in the same period were designated for new program development, specific projects or seed grants.

As we all know, a significant share of new program funds surreptitiously meet operating needs. So, why do foundations and charities play this game with each other?

The Too-Easy Payoff

The guilt lies on both sides. We foundation trustees, faced with vague goals and the difficulty of evaluating results, like the easy reassurance that our money has “done something” by pointing to a specific program that we created.

We also don’t want grantees to become dependent on our annual support. And, if we just gave operating support to the same worthy grantees every year, we would miss all the stimulation of analyzing and debating new ideas and proposals.

Ultimately, it is human nature to find the specific more compelling than the general; we can visualize it more clearly. Providing institutional support will never capture our interest as much as a concrete project. In the

fierce competition for grant dollars, this one factor can make all the difference.

And charities are culpable, too. Few new programs can achieve a stable financial base in the limited amount of time foundations typically allocate to seed grants. This leaves the charity with the choice of continuing the program (and increasing the burden on its operating budget) or terminating it and replacing it with a new one that will, once again, qualify for seed funding. Ultimately, it falls to the development office to think up an endless series of projects that that look new to funders, but can be accomplished without changing priorities, staffing or budget.

So, while foundations search for projects that “make a difference,” the need for operating support forces development offices to construct projects that make as little difference as possible.

Stop the Shelling

Even when the innovation is real, foundations can do a disservice to nonprofit management by over-emphasizing new initiatives. It takes exceptional management to run multiple innovations and effective core operations simultaneously. New programs not only take management time, they fragment organizations and drain operating budgets. Few nonprofits can accurately analyze whether a program grant covers all the hidden costs involved.

I don’t mean to suggest that foundations shouldn’t fund new ideas or that nonprofits can’t innovate. But the prevailing “shell game” of project support serves neither the real operating needs of charities, nor provides the level of commitment—from either the grantee or the grantor—that’s necessary for meaningful and self-sustaining new initiatives.

A foundation that provides no operating support is like a pharmaceutical company that conducts research, but never actually produces any drugs. The research is important, but no one gets cured. Helping people in need on a daily basis is inherent in the very idea of philanthropy. By providing operating funds to well-run nonprofits, foundations help put ideas and research into practice every day. This may advance a foundation's real mission more effectively than does a constant push for innovation and change.

Only funders can initiate this change, however. No nonprofit would dare disadvantage itself in the competition for funding by asking for general operating support without a clear signal that it would be welcomed.

And, if foundations are serious about making a difference, they must recognize that it takes more than one isolated seed grant to make a change in the world. Launching a new initiative is a complex undertaking years in the making, requiring knowledgeable and persistent support and careful oversight. In my experience, new projects take an average five-to-seven years to stabilize. It takes time to recruit key staff, climb the learning curve and raise additional funding.

What is needed is a balance between operating support and new initiatives. If a foundation's trustees and staff decreased by half the number of new project-related grants they support annually, they would have the time to more carefully select new initiatives. They'd also have funding available to stay with projects until they succeed.

One Thriving Tree

None of the common categories of grant support—seed grants, annual operating support or endowment funds—are sufficient by themselves. That's been my experience as trustee of the Paul P. Dosberg Foundation, where we've found that some of the most rewarding grants have combined all three.

For example, the Dosberg foundation has long been interested in economic development in Israel. We funded a program at the University of Pennsylvania's Wharton School of Business that used American and Israeli business school students to assist Israeli companies entering the U.S. market. Initially, we provided three years' worth of annual seed funding to expand the program and test new initiatives.

At the end of the seed grant period, when most foundations move on, we decided instead to endow the program. The structure of our support was unusual, however: We contributed only about one-third of the funds needed for a permanent endowment and specified that, for the first five years, the endowment could spend twice the normal payout in order to give the program time to raise other money. We also provided separate funding to hire a development consultant. While forcing the program to develop other sources of funding, the length of our commitment made that challenge realistic, and during the next five years, the program tripled its endowment.

We still monitor the program annually, and will continue to do so. We remain the project's most knowledgeable funder, and often fund specific projects that strengthen the core program. In addition, we have begun to fund related programs at other institutions because we find that creating synergistic and mutually reinforcing initiatives magnifies the impact of our funds.

We made our first grant to this particular program more than a decade ago. Our primary attention has long since turned elsewhere, but we have the time to stay involved because we initiate only one new project every two or three years. Of course, we could make many more seed grants, but one thriving tree seems a lot better than scattering many seeds that never sprout.



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