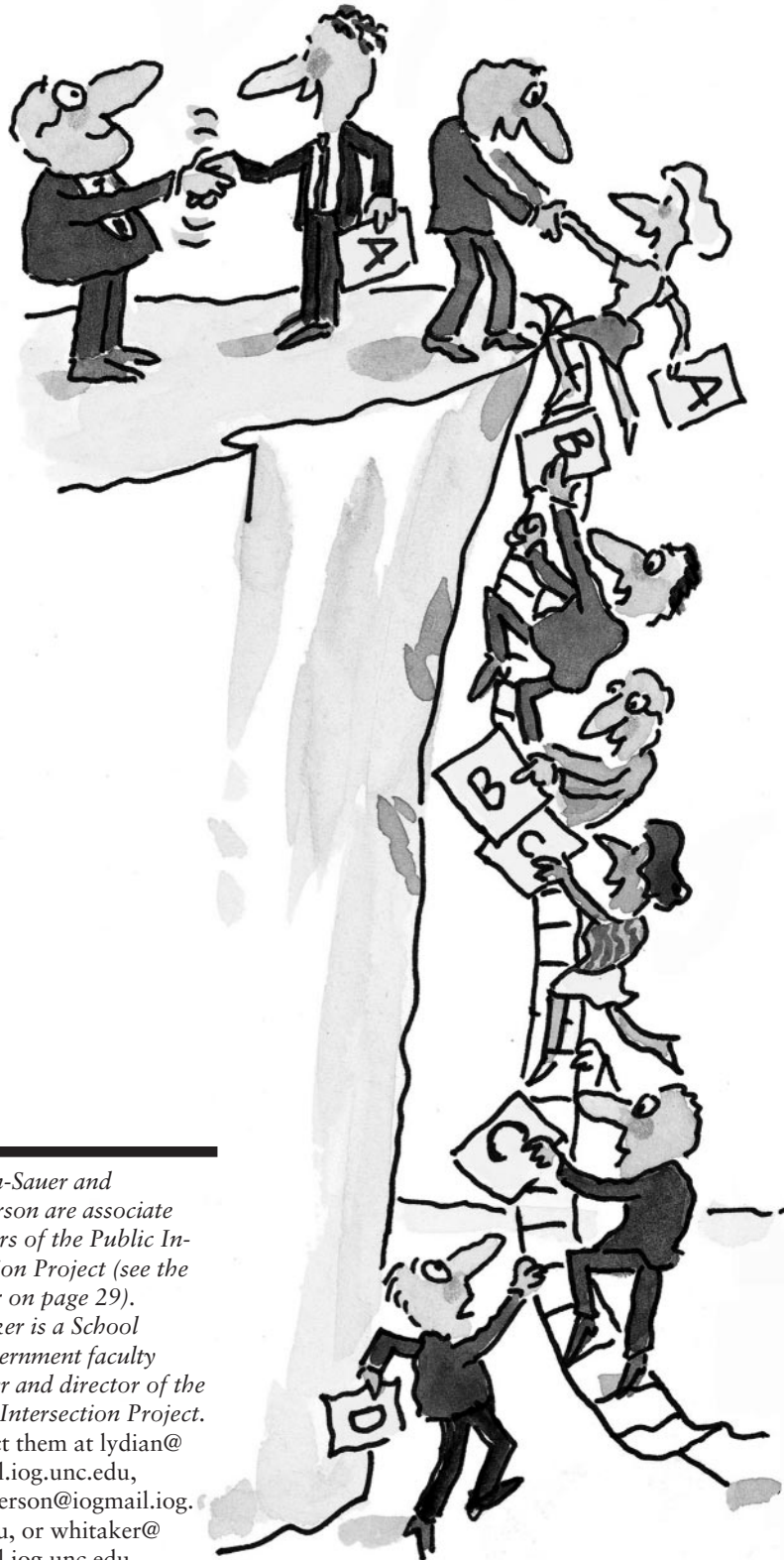


Building Community Capacity to Meet Public Needs

Lydian Altman-Sauer, Margaret Henderson, and Gordon Whitaker



Altman-Sauer and Henderson are associate directors of the Public Intersection Project (see the sidebar on page 29). Whitaker is a School of Government faculty member and director of the Public Intersection Project. Contact them at lydian@iogmail.iog.unc.edu, mhenderson@iogmail.iog.unc.edu, or whitaker@iogmail.iog.unc.edu.

Local governments accomplish many public purposes by working through nonprofit organizations. North Carolina cities help fund nonprofits' programs to revitalize neighborhoods, encourage the arts, provide after-school activities, feed and shelter the homeless, and support economic development. North Carolina counties support similar activities, and they also use nonprofits to deliver a wide variety of human services, to fight fires, and to provide emergency medical assistance.¹ Instead of setting up departments and hiring personnel to carry out such programs, governments often support nonprofits to do so.

Governments have good reasons for using nonprofits. Unfortunately, however, some of the very attributes that make nonprofits attractive partners for government also may present challenges to their successful operation. Government officials can work with nonprofit leaders to address those challenges. Some already provide such support. Having stronger nonprofit partners increases governments' ability to accomplish community goals.

This article identifies benefits that local governments receive from working with small community nonprofits, challenges that these nonprofits often face in developing internal strength, reasons that governments help address these challenges, and strategies that governments use to provide such assistance.

Why do governments work with nonprofits?

Governments work with nonprofits because they often can engage citizens more easily, cost the public treasury less money, act more flexibly, and explore new options more readily than governments. They also can be creative partners for local government. Each of these can be an important advantage in addressing public problems.

Engaging citizens more easily: Many public programs, from crime prevention to increased literacy to neighborhood revitalization, depend on actively engaging people in changing their own behavior. When program success demands public involvement, nonprofits can be more effective than government agencies. For example, sometimes community organizations have greater credibility than government in fostering healthier behaviors,

creating support for neighborhood change, or reaching marginalized populations. Many nonprofits also mobilize volunteers to address public problems. In recruiting and training volunteers and organizing their work, nonprofit

organizations increase people's awareness of public needs and heighten their concern about addressing those needs. In addition to engaging volunteers, many nonprofits publicize their concerns widely to inform broader communities, encourage changes in behavior, or raise funds. Lacking government authority to legislate change or regulate behavior, nonprofits rely heavily on persuasive public appeals and strong personal commitments to advance their causes.

Costing the public treasury less money: Using nonprofits to deliver services can save local governments money. Volunteers provide much of the labor in community nonprofit programs, for example. More often than not, the paid staff members of nonprofits provide their services at below-market rates because of their commitment to the organization's cause. Most nonprofits also actively solicit contributions of money or materials from private donors. To the extent that nonprofits supplement government funds with others' gifts of labor, money, and material, local governments leverage their own investments by partnering with nonprofit programs.

Acting more flexibly: Because nonprofits are private corporations, they have considerably more operational flexibility than local governments. Nonprofits face fewer procedural hurdles in creating,

revising, and eliminating positions; in hiring and firing staff; in buying and selling property; and in establishing, changing, and ending programs. Thus, nonprofits often can respond to new opportunities or react to emergencies more quickly than local governments can. For example, many local governments work with nonprofits to negotiate, buy, prepare, and sell land to encourage economic development. Nonprofits also often have

greater policy flexibility than local governments.

Exploring new options more readily: Because local government boards represent the entire community, creating majority support for innovative programs sometimes can be difficult for a gov-

ernment. Nonprofits often need not build such widespread agreement before trying out a new approach to address a public problem. Because of their openness and ability to change, nonprofits originate many public programs or develop new ways to deliver them.

Being creative partners for local government: "Nonprofits are used to solving problems with limited funds, and that forces them to be resourceful and entrepreneurial," says Jane Kendall, president of the North Carolina Center for Nonprofits, which helps nonprofit organizations across the state use effective management and leadership practices to improve their communities. "Their creativity often forms the basis of public policy. Name a well-run government program, and you'll usually find that it was modeled after something started in the nonprofit sector.

"Investing in strengthening nonprofits is a smart move by government,"

continues Kendall, "because it leverages the impact of public dollars, taps the privately donated dollars that nonprofits attract, and provides services that government would otherwise have to provide itself. Nonprofits are not a frill. They are vital partners for government."²

What is the economic impact of nonprofits?

Local governments often act strategically to attract new business to the community. They sometimes take persuasive, supportive roles in keeping or expanding established businesses. Elected and appointed officials provide this support to business and industry because they see economic development as one of the functions of local government. They value the contributions that businesses make to a healthy local economy, recognize how local residents benefit from the jobs and services that businesses provide, and appreciate the purchases and the tax payments that businesses make. Government officials also want to avoid the debilitating economic and psychological impact that the loss of an employer can have on citizens. Their interest is in sustaining the long-term viability and health of the community. That same interest can motivate their support for building the sustainability of nonprofits.

Depending on local circumstances, local government officials might have other reasons to consider supporting nonprofits, along with the private businesses and industries in their communities:

- Both businesses and nonprofits provide jobs within their communities and generate a demand for support services, such as places to eat lunch, buy office supplies, or use day care.
- Both businesses and nonprofits can attract resources from outside the community. For businesses this comes in the form of capital from external

Governments work with nonprofits because they often can engage citizens more easily, cost the public treasury less money, act more flexibly, and explore new options more readily than governments.

The Public Intersection Project

The Public Intersection Project, an undertaking of the School of Government at UNC at Chapel Hill, helps businesses, philanthropies, governments, nonprofits, and faith-based organizations improve communication, relationships, and collaboration and develops materials for use in addressing local problems. For more information, see www.publicintersection.unc.edu.

investors. Nonprofits generate a different kind of investment: contributions, grants, contracts, and government funding, from both inside and outside the community.

- The profits generated by businesses ultimately revert to the owners, who may or may not live in the community. Nonprofits are required to reinvest all their profits to carry out their missions. The missions of community-based nonprofits are typically focused on the local community. Therefore, nonprofits' earnings usually stay in the area.

When a nonprofit is as large as Duke University in Durham or Wake Forest University in Winston-Salem, its overall health affects nearly every corner of the local community. More often, though, nonprofits are overlooked as an important part of the local economy. Many community nonprofits are like small businesses. Their collective impact is diverse and significant, especially to the employees, clients, and residents whom they touch. Yet because each is small, its individual contributions frequently are overlooked or undervalued.

The growth of the nonprofit sector warrants a closer look at the impact that it has on the economy. According to a recent study commissioned by the North Carolina Arts Council, the economic impact of the nonprofit creative sector in North Carolina is \$723 million annually. This represents 6,669 direct full-time jobs.³

"Nonprofits improve the quality of life by creating programs for the arts, health, recreation, education, youth, and seniors—all essential for economic development," says Kendall, "and they put funds back into the local economy by spending \$19.8 billion a year."⁴

"Nonprofits themselves are a major employer," Kendall adds. "In 2002, nonprofits provided 224,393 jobs across the state, and it looks like the 2004 figures will be even higher."⁵

Nationally the nonprofit sector is expanding faster than either business or government. *Employment in the Nonprofit Sector*, a study by a Washington-based organization of nonprofits and other philanthropies, reports,

Organizations are no stronger than the people who work in them. To develop, deliver, and maintain effective programs, any organization needs skilled workers who reliably carry out their responsibilities.

[T]he average annual growth rate in employment for nonprofits (2.5%) was significantly higher than for business (1.8%) or government (1.6%). The number of Americans employed in the nonprofit sector has doubled in the last 25

*years. Nonprofit employment represents 9.5 percent of total employment in the United States, with total employees numbering 12.5 million.*⁶

What special challenges do nonprofits face?

Nonprofits' reliance on volunteers, dependence on donors, flexibility of operation, and openness for policy development also can pose challenges to building and sustaining strong, effective organizations. State authority and regulations typically create considerable legal and financial stability for local governments. Nonprofits' sustainability depends on how well they meet the challenges of staffing, funding, organizing, and targeting their work in the particular cultural and legal context that nonprofit status entails.

Reliance on volunteers: Organizations are no stronger than the people who work in them. To develop, deliver, and maintain effective programs, any organization needs skilled workers who reliably carry out their responsibilities. Depending on volunteers to do much of the work presents special challenges for many nonprofits. For one, the financial incentives of employment do not apply. People volunteer to work for nonprofit organizations because they want to advance a particular cause or they like the social benefits associated with participation. Thus, successful recruitment, motivation, and retention of volunteers call for an understanding of and a response to the reasons that people volunteer to serve.

Volunteers do not necessarily come prepared with the skills that nonprofits need, and they may not be available to work when the nonprofit most requires their efforts. In many communities the volunteer labor pool may be limited and not offer nonprofit managers much choice in selecting workers. Thus, recruitment, training, and timing are critical for productive volunteer involvement.

Because paid staff members in many nonprofits are underpaid relative to what they might earn in business or government, they may resemble volunteers in terms of their incentives and the suitability of their training.

In many nonprofits the particular mission of the organization is the primary motivation of both volunteer and paid staff members. Their interest and attention are likely to be on the organization's programming rather than on its administration. Having too few people with the requisite administrative skills and interest can be a major challenge to sustaining a nonprofit. Providing effective programs and services over time depends largely on effective management of the organization's operations, finances, and legal responsibilities.

Dependence on donors: Uncertain revenues are another challenge that nonprofits confront. Depending on donors for much of their funding leaves many nonprofits guessing about revenue projections and scrambling for funds. Leaders of nonprofits must focus on maximizing current funding sources and looking for new ones. Managing these funding sources and the programs that they fund demands constant attention from nonprofit staff and volunteers. Getting past these daily tasks to focus on issues that might enhance the organization's sustainability over the long haul is challenging for them.

Nonprofit funding often is unstable because few individual or organizational funders commit to continuing financial support far into the future. For example, most local governments fund for a year at a time, even if the tradition of support goes back for decades. Federal funding sources might allow several years of funding but require reapplication after each calendar year. Philanthropies typically make funding commitments for one to three years.

Some nonprofits have developed fees for service or product sales to help stabilize their funding, but those options are not viable for many nonprofits that specialize in public goods.

Finally, many philanthropies favor funding new initiatives or specific program activities, as do most government grant programs and service purchases. These preferences can result in an unhealthy overemphasis on program expenditures to the neglect of administrative services and equipment. By inadequately supporting such activities as record keeping, reporting, and training, funders inadvertently threaten an organization's ability to continue operating its programs.

Flexibility of operation: The operating flexibility that makes nonprofits valuable partners for government also can challenge their sustainability. Instead of having the guidance of statutory provisions and state agencies like the Local Government Commission, nonprofits depend primarily on the judgment and the self-regulation of their own managers and board. Nonprofit executives, as well as the boards that hire and direct them, need the knowledge and the interest to develop and use effective, honest management practices. Otherwise, the organization and its programs cannot be sustained over time.

Openness for policy development: The ease with which nonprofits can adopt and implement new programs can present challenges for local governments. The stability of government-supported programs can be threatened if a nonprofit's emphasis shifts to new initiatives because of changes in other funders' priorities or the attention of the nonprofit board or staff.

Why might local governments help nonprofits develop their sustainability?

Local governments might help nonprofits develop their sustainability because they have a direct interest in the sustainability of the nonprofits that they choose as their service delivery partners. As one North Carolina local government executive described his relationship with a nonprofit partner, "Each organization's success is tied to the other's."⁷ A nonprofit's capacity to carry out its work

shapes the quality and the cost of its government-funded services. If a public service is important enough to fund, government officials are likely to want that service to be delivered effectively, fairly, and efficiently.

For example, government officials think an existing neighborhood teen center is ideally situated to work with at-risk youth. Local government has targeted this population as needing attention. The teen center is in the right location. Its staff members have the right motivations and skills. They also enjoy the trust of the target population. Yet government officials discover that this nonprofit organization lacks adequate infrastructure or leadership to track and report expenditures to government standards. The government's choices are to invest in the nonprofit in order to enhance its sustainability, to overlook the reporting problem and hope the nonprofit resolves it, to adjust reporting expectations, or to withdraw support and perhaps doom the nonprofit's services.

In deciding whether to invest in the nonprofit, government officials should consider several key questions:

- How likely is it that the nonprofit will initiate and maintain the work desired by the government?

- What are the chances that the nonprofit will misspend funds and create a scandal?
- Will the nonprofit be able to find other funding, or to engage staff and volunteers adequately, in order to carry on the desired work without government support?

Local governments also may have an interest in the sustainability of nonprofits that they do not fund. For example, a government might have to address additional community problems or assume responsibility for funding new programs if particular nonprofits perform inadequately or cease to operate. Or government officials might want to encourage civic engagement and broader participation in community affairs through volunteerism in nonprofits. Or government officials might want to encourage the positive economic and program impacts that the community receives from a nonprofit that acquires funding from non-government sources, such as foundations and the private sector.

What is "sustainability"?

Sustaining a nonprofit requires significant continuing effort. In a book titled *Effective Capacity Building in Nonprofit*



Supporting the Capacity-Building Efforts of Nonprofits

Following are some ways in which local governments can support the capacity-building efforts of nonprofit organizations.

Aspirations = Mission and Goals

- Respond to nonprofits' requests for feedback or guidance
- Provide relevant information that might shape nonprofits' decisions about goals and programs
- Engage nonprofits in dialogue and visioning regarding community problems
- Exchange perspectives on how the nonprofits fit into the big picture for the community

Strategies = Plans

- Allow staff to offer their facilitation or planning skills to nonprofits
- Invite nonprofits to participate in government or community planning
- Volunteer to participate in nonprofits' planning processes
- Share information about potential changes or trends that might affect nonprofits

Organizational Skills = In-House Skills

- Invite nonprofit staff to attend training offered to government staff.
- Allow government staff to offer training or one-on-one assistance to nonprofits
- Offer training to staff of all funded nonprofits, particularly training in new accountability expectations, such as performance measurement or outcome evaluation
- Invest in training opportunities for key nonprofit staff

Human Resources = Staff, Board Members, and Volunteers

- Encourage government staff to volunteer at nonprofits through supportive leave policies
- Recognize and celebrate volunteerism publicly
- Advertise nonprofit volunteer opportunities in government publications
- Encourage exchange of information and common skill-building events among staff of both nonprofits and government, especially if client populations or interests intersect
- Encourage local training facilities or educational organizations to offer classes relevant to nonprofit management

Systems and Infrastructure = Processes and Physical Resources

- Offer in-kind support, such as used furniture, office space, and staff assistance
- Share information and engage in joint problem solving to design efficient systems of collecting data, tracking clients, or responding to clients' needs, especially when nonprofits and governments work with the same clients at different stages of a common process
- Coordinate design of application and reporting forms and processes with other local funders and the nonprofit community

Organizational Structure = Legal, Managerial, and Hierarchical Configurations

- Through advice or training, share expertise of staff, particularly that of finance, accounting, and human resources departments
- Offer to provide administrative support services or expertise to nonprofits on a continuing basis, as a contract or a contribution

Culture = Practices, Attitudes, and Philosophies

- Respect the ways in which nonprofits' programs complement government's activities
- Use cultural differences to advantage when designing multipronged approaches to reach constituents or solve problems

Funding = Money

- Permit nonprofits to include reasonable administrative costs along with direct program costs in their funding requests to government
- Explore the possibility of long-term contracts with nonprofits that have a proven track record of meeting government expectations
- Encourage creation of a long-term nonprofit funding plan with other local governments, United Way, and community philanthropies

Value = Community Commitment

- Demonstrate and publicize ways that nonprofits' missions, values, and programs are consistent with local government's goals
- Acknowledge partnerships with nonprofits, and celebrate their programmatic contributions to local government's mission

Organizations, the authors developed a model to use in defining nonprofit capacity.⁸ It includes seven elements:

- **Aspirations:** an organization's mission, vision, and overarching goals, all of which combine to convey its common sense of purpose and direction

- **Strategies:** the plans for actions aimed at fulfilling the organization's aspirations

- **Organizational skills:** the sum of an organization's capabilities for managing itself—skills like performance measurement, planning, resource management, and external-relationship building

- **Human resources:** the skills, experience, potential, and commitment of the people who make up the organization—board, staff, and volunteers

- **Systems and infrastructure:** the processes, physical assets, and technology that support the organization and its work

Wake County's Efforts to Sustain Nonprofits

In the 1990s the Wake County Department of Human Services shifted from considering local nonprofits that it funded as charities to regarding them as partners. Subsequently the staff began instituting changes in internal practices to reinforce that philosophy.¹ One change set up Community Partnership Funding, an annual process in which organizations would compete for grants.² Two other changes, which supported capacity building by nonprofits, offered training opportunities and more secure contractual relationships.

Training opportunities: Wake County's Community Initiatives Program offers training and technical assistance to some of the county's nonprofit partners. One model that the Community Initiatives staff use for providing this training is called PECOS (Partnering to Enhance Community Organizational Structures). This model was originally developed as a component of a federal grant to stop the spread of sexually transmitted diseases. The federal funding required that the county's health programs work with community-based organizations to better reach people in need of the services. Federal grant requirements directed the county to design and deliver ways to strengthen the community-based organizations. The rationale was that when community-based organizations are well managed, they are more likely to meet government's service objectives.

Wake County soon recognized the benefit of sharing the training opportunities with nonprofit partners that did not focus on health-related issues. The Community Initiatives Program began offering training and technical assistance to applicants in the Community Partnership Funding program in fiscal year 2003–04. Interested organizations complete an internal evaluation and risk assessment of their organization. Community Initiatives staff, using input from the participating nonprofits and topics commonly identified in the risk assessments, design and offer training on topics such as board development, resource development, fiscal infrastructure, and strategic planning. The community-based organizations typically send their directors, board chairs, and financial officers.

Concerned that nonprofits submitting competitive applications might be reluctant to admit their internal challenges to application evaluators, Wake County decided to create a wall of confidentiality between Community Initiatives staff and the team that reviews the annual Community Partnership Funding applications. The intention was to encourage more open communication between nonprofits and capacity builders. In the first year that the training was offered, seven community nonprofits participated in the sessions.

Renewable contracts: Originally, all nonprofits competing for grants through Wake County's Community Partnership Funding had to reapply every year. Wake County staff realized, however, that their interest in partnering with some of these nonprofits was not likely to change, both because the organizations were highly effective and because the services they provided met the government's work objectives. Also, staff realized that these same organizations had submitted the top proposals for a number of years. They already had proven that they were capable of providing services of consistently high quality. The staff recommended developing a separate process for funding these long-term partners to provide key public services.

In 2003–04, ten projects operated by seven community nonprofits were pulled out of the annual competitive grant process. Annual contracts were negotiated with the relevant nonprofit for each of the ten projects. The amount of the 2002–03 funding (\$391,500 of \$735,000) was shifted to program managers within the Wake County Department of Human Services. Responsibility for contract administration also was placed with those program managers.

These shifts have created efficiencies for both the county and the nonprofits. Renewing a contract requires less effort than working through the steps of the competitive application process. A greater prospect of recurring funding provides more financial stability for the nonprofits. As a result of the county's removing these projects from the competitive-grant process, each program manager and the nonprofit staff who oversee the project are more directly connected and have more opportunity to build mutual accountability.³

Notes

1. More information about the Wake County Department of Human Services' relationships with nonprofits is provided in Margaret Henderson et al., *Deciding to Fund Nonprofits: Key Questions*, POPULAR GOVERNMENT, Summer 2002, at 33, 35.

2. Community-based organizations that apply through Community Partnership Funding are evaluated on five key criteria: (1) community impact, (2) outcomes, (3) fiscal planning, (4) structure, and (5) organizational capacity. Criteria 3, 4, and 5 reinforce the importance of internal planning and infrastructure, as well as the organization's fit with the larger community.

3. Mutual accountability involves shared expectations about each party's responsibilities to the partnership, discretion in carrying them out, certain reporting requirements, and participation in reviewing and revising the relationship. See Margaret Henderson et al., *Establishing Mutual Accountability in Nonprofit-Government Relationships*, POPULAR GOVERNMENT, Fall 2003, at 18.

- **Organizational structure:** the combination of governance, organizational design, coordination, and individual job descriptions that shape the legal and management structure
- **Culture:** the connective tissue that binds the organization's values, prac-

tices, behavior norms, and philosophies to its performance

This model takes into account the multidimensional and interconnected nature of capacity, but it ignores two essential elements of organizational sustainability that characterize a nonprofit's unique context in American society:

- **Funding:** the financial resources that an organization needs to operate both programs and administration
- **Value:** the status that the organization holds in the minds of community members and leaders and the priority that is placed on its services, programs, and viability

A Funding Process for Nonprofits

As local governments begin their conversations about a funding process for nonprofits, answering the following questions may provide a framework for their discussions and decision-making.¹

Two Preliminary Considerations

- Why do we want to fund nonprofits?
- Why do we want to have a formal process for making funding decisions?

Four Key Questions in Designing the Funding Process

- How will we identify community needs that we want to help nonprofits address?
- How will we obtain nonprofits' proposals for meeting community needs?
- How will we review proposals?
- How will we make funding decisions?

Note

1. Adapted from Margaret Henderson et al., *Deciding to Fund Nonprofits: Key Questions*, POPULAR GOVERNMENT, Summer 2002, at 33. See the complete article for a full discussion of how to develop an allocation process.

These two aspects warrant, and might even dominate, discussion among local stakeholders: Where does the money fit in? How does the nonprofit fit into its community?

Funding helps organizations secure human resources, develop skills, and set up the necessary infrastructure to support programs and administration. The amount and the security of funding are critical considerations in the long-term health of any organization.

Nonprofit sustainability also can be affected by its place in and relationship to its community, or "community value." External events such as a natural disaster or a soaring economy can affect a nonprofit's efforts to build capacity. A nonprofit that fulfills a broadly valued community function is likely to meet with greater success in building capacity than is an organization that enjoys only limited support. In fact, a nonprofit's niche in the community and its match with government's goals will likely motivate government to consider how it might get its needs met through the community-based organization.

A nonprofit must attend to all nine elements. The interplay of them is fluid and will change as circumstances do. Yet if any element falls below common standards of performance, red flags should go up. When an element is too poorly developed, the overall organization faces a significant threat to its long-term survival. The perceived distance

or subtlety of the threat might dilute the motivation of board and staff to pay attention to all elements. Unfortunately the pressures of limited time or resources can force attention to be paid to the symptoms of problems rather than the underlying causes.⁹

An element also can be overdeveloped. For example, most nonprofits would celebrate if given a state-of-the-art computer system, but they literally might not know what to do with it. If they did not also receive training for staff or continuing technological support, the ultimate value of the contribution would be compromised. If the organization did not use its enhanced data-collection capabilities for new levels of evaluation or accountability, then the net gain of having the computer system would be nil as far as the community is concerned. In developing sustainability, all the elements of capacity should be nudged along at a similar pace to ensure that steady organizational progress occurs.

Even though discussions about sustainability often revert to a focus on finances, it is critical to remember that sustainability is not just about the need for money. To maintain itself in the long run, an organization must be capable on many fronts.

How can local governments support nonprofits' sustainability?

Organizations require solid policy guidance and administrative infrastructure—board leadership, staff time, expertise,

and equipment—to sustain their programs. However, donors and grantors tend to be more interested in funding programs (feeding hungry children or providing hospice care). Nonprofits often struggle to build the leadership and administrative capacity necessary to support their programs.

There are many ways in which local governments can assist nonprofits in building capacity for long-term service (see the sidebar on page 32). Local governments in North Carolina already use many of the practices suggested. For example, across the state, through local Smart Start organizational planning for early childhood services, county agencies and community-based organizations engage in dialogue about aspirations and strategies for meeting children's needs.

Some local governments also help nonprofits build capacity. For example, Orange County has a standing practice of allowing nonprofit employees to attend training sponsored by its human resources department. Also, staff of that department have spent time advising and supporting start-up nonprofits on issues related to staffing, benefits, and personnel management.

In a more formalized arrangement, Wake County's Community Initiatives Program offers training and technical assistance to some of the county's nonprofit partners (see the sidebar on page 33).

Reflecting on their tenures as nonprofit directors, coauthors Altman-Sauer and Henderson recall benefiting from expertise and resources shared by local governments. Staff from the court system, law enforcement, and child protective services helped train nonprofit volunteers. The head of a county personnel department reviewed revisions to a nonprofit's personnel handbook. The school system loaned surplus office equipment to a nonprofit's new satellite office.

In terms of funding, local governments can contribute to the dependability of nonprofits in two basic ways: by funding administrative functions and by stabilizing funding sources to the extent possible.

For example, Concord allows nonprofits to apply for grants under four categories: one-time project grants, start-up grants for new programs, start-up grants for new nonprofit agencies, and sustain-

ing grants. According to Randy Harrington, budget and management analyst,

Sustaining grants fund core operational expenses such as overhead costs, including rent, utilities, director's salaries, phone, etc. Agencies must be providing an essential service that the City would have to provide at a potentially greater expense if the nonprofit agency were not available to do so. The nonprofits that received sustaining grants in FY 2003–04 serve diverse missions across the arts, health and human services, local history, and international partnerships.¹⁰

Wake County has shifted certain highly accountable nonprofits from participation in its competitive-application process to support via renewable contracts within human service programs. The nonprofits still are subject to annual review, but the change has created efficiencies of time and effort while contributing to both the security of the funding and the direct connections between government and nonprofit program staff (see the sidebar on page 33).

In the Charlotte area, local governments have chosen a nonprofit to administer particular funds. For the last twenty-five years, the Crisis Assistance Ministry (CAM) has provided assistance

to help people who face short-term financial problems remain in their homes. Since 1984, CAM has had responsibility for distributing the county's general assistance (more than \$1 million per year). In addition, it distributes funds for energy or emergency assistance, for both Charlotte and the county. CAM has a close working relationship with the Mecklenburg County Department of Social Services. Funded originally by the faith community, it now has substantial government funding. Mecklenburg County provides office space and pays for about 55 percent of its operating expenses. United Way pays about 40 percent of its operating expenses, and the faith community makes up the remaining 5 percent.

How might local governments partner with nonprofits to build sustainability?

Often, competing interests surround the decisions of whether and how to fund the capacity-building efforts of nonprofits. When government officials want to increase the likelihood that their communities will benefit from sustained services over the long run, they can choose to take a role in supporting these capacity-building elements.

Helping build sustainability can be an ad hoc process in which a local govern-

ment chooses to work with specific nonprofits, case by case. Alternatively a local government might decide to set a policy regarding its relationship with a larger class of nonprofits by taking the following steps:

1. Determine which nonprofits are doing work that merits government support and how the government can reconcile choosing those organizations over other nonprofits in a way that is fair and equitable (for sample questions to ask in considering funding requests from nonprofits, see the sidebar on page 34)
2. Decide which capacity-building elements the government is prepared to support
3. Reach consensus with the nonprofits about the elements that are most crucial to building their capacity
4. Decide how to work with the nonprofits to build capacity in a manner that is fair to both parties and consistent with the goals of local government

The first and second steps are decisions to be made by the local government, perhaps in consultation with other local funders. The third and fourth steps, however, should be conducted jointly with the nonprofits. A government can only *assist* a nonprofit in building capacity. It cannot act on behalf of the nonprofit without the nonprofit's full participation and commitment.

Governments do not face this challenge alone. Foundations and other philanthropies also are concerned about nonprofits' capacity. Many are considering the impact of their grant-making practices on the sustainability of nonprofits.

Businesses too are engaging in community philanthropy. For example, the Bank of America Foundation is increasing its annual giving overall, and targeting support in part to local nonprofits through the Neighborhood Excellence Initiative.¹¹ Over the next two years, the foundation will provide \$200,000 in operating funds to two neighborhood nonprofits in each of thirty selected markets served by the bank. According to the foundation's president, Andrew Plepler, "Organizations are really starving for that operating support to build their capacity and sus-

Recent Popular Government Articles on Nonprofits and Local Government

Evolution of a Nonprofit, Part 1: Determining the Organization's Orientation, by Margaret Henderson, POPULAR GOVERNMENT, Fall 2004, at 16.

Evolution of a Nonprofit, Part 2: Shifting Orientation from One Person to the Community, by Margaret Henderson, POPULAR GOVERNMENT ONLINE, Fall 2004.

Establishing Mutual Accountability in Nonprofit-Government Relationships, by Margaret Henderson, Gordon P. Whitaker, & Lydian Altman-Sauer, POPULAR GOVERNMENT, Fall 2003, at 18.

Deciding to Fund Nonprofits: Key Questions, by Margaret Henderson, Lydian Altman-Sauer, & Gordon P. Whitaker, POPULAR GOVERNMENT, Summer 2002, at 33.

Local Government Contracts with Nonprofit Organizations: Questions and Answers, by Frayda S. Bluestein & Anita R. Brown-Graham, POPULAR GOVERNMENT, Fall 2001, at 32.

A Primer on Nonprofit Organizations, by Gita Gulati-Partee, POPULAR GOVERNMENT, Summer 2001, at 31.

How Local Governments Work with Nonprofit Organizations in North Carolina, by Gordon P. Whitaker & Rosalind Day, POPULAR GOVERNMENT, Winter 2001, at 25.

Strengthening Relationships between Local Governments and Nonprofits, by Lydian Altman-Sauer, Margaret Henderson, & Gordon P. Whitaker, POPULAR GOVERNMENT, Winter 2001, at 33.

Hiring a Director for a Nonprofit Agency: A Step-by-Step Guide, by Kurt J. Jenne & Margaret Henderson, POPULAR GOVERNMENT, Summer 2000, at 25.

All articles are available online at www.sog.unc.edu/popgov/.

tainability.”¹² In addition to providing financial support, the foundation is investing in leadership development sessions for the nonprofits’ top leaders.

The Independent Sector, a national alliance of nonprofits, foundations, and corporations, recently endorsed a statement that does the following:¹³

- *Calls on funders to opt for general operating support over project support when feasible and when the goals of the two organizations are “substantially aligned.”*
- *Encourages funders, when providing project support, to pay “the fair proportion of administrative and fundraising costs necessary to manage and sustain whatever is required by the organization to run that particular project.”*
- *Calls on nonprofit organizations to engage in “top-notch performance . . . in strategic planning, financial management, evaluation, development, and ultimate impact.”*

Local governments also can partner with community philanthropies in helping nonprofits build sustainability. Municipal and county governments, United Way, and community foundations often work on the same problems and fund the same nonprofits. Unfortunately the local funders do not always consistently share information or engage in problem solving together.

Not relying on informal relationships, the Alliance for Human Services in Henderson County provides a connective structure among local funders. In the alliance, staff of the community foundation, the county, and United Way meet to share information with and about community-based organizations. The three entities still make funding decisions independently. The difference is that they each know what the others plan to do. In this way they can think strategically about the cumulative impact of their funding, as well as the effects of the individual projects that each supports. They also are well positioned to problem-solve in response to community events, such as the closing of a furniture manufacturing plant in Hendersonville or the flooding from Hurricanes Frances and Ivan.

What lessons can governments learn about building capacity?

As local governments, nonprofits, and philanthropies look together at these elements to assess which are most crucial to a nonprofit’s capacity, governments might want to consider a few key points:

- The need for capacity building is not limited to the nuts and bolts of an organization (funding, human resources, systems and infrastructure, or organizational structure). Although these practical elements often draw immediate attention when things go wrong, aspirations, strategies, and organizational skills fundamentally guide an organization and deserve periodic review and readjustment.
- Effective capacity building rarely addresses only one element in isolation. Changes in one area almost always require corresponding adjustments in others.
- Prudent leaders do not wait for a crisis to begin dealing with capacity gaps, nor do they oppose efforts to build capacity.
- Capacity building can be hard to fund, hard to launch, and hard to carry out. Doing all of this takes a long time, and the need may not be apparent to key stakeholders inside or outside the organization. Success depends on having good leadership and management, patience, and periodic celebrations to acknowledge progress.

Notes

1. Gordon P. Whitaker & Rosalind Day, *How Local Governments Work with Nonprofit Organizations in North Carolina*, POPULAR GOVERNMENT, Winter 2001, at 25.

2. E-mail correspondence between Jane Kendall, President of the North Carolina Center for Nonprofits, and Margaret Henderson, Associate Director of the Public Intersection Project (Sept. 1–2, 2004) (on file with Henderson).

3. Dinesh K. Dave & Michael R. Evans, *JUST THE TICKET: THE ARTS WORK IN NORTH CAROLINA* (Boone, N.C.: John Walker College of Business, Appalachian State Univ., for the N.C. Arts Council, 2004), available at www.ncarts.org.

4. This figure was calculated by the North Carolina Center for Nonprofits working in collaboration with the National Center for Charitable Statistics. It is the latest available

and is based on 2004 data from Form 990s filed with the IRS after the completion of fiscal year 2002. E-mail correspondence between Kendall and Henderson.

5. These figures were calculated by the North Carolina Center for Nonprofits working in collaboration with the North Carolina Employment Security Commission. They are from the second quarter of 2002. The center is working with Johns Hopkins University on a more extensive study of nonprofit employment in the second quarter of 2004. E-mail correspondence between Kendall and Henderson.

6. *Employment in the Nonprofit Sector*, in NONPROFIT ALMANAC: FACTS AND FINDINGS (Washington, D.C.: Independent Sector, 2004), available at www.independentsector.org/PDFs/npemployment.pdf.

7. Interviews by Lydian Altman-Sauer with key executives of a local government and a nonprofit that collaborate, in Charlotte, N.C. (July 6, 2004).

8. MCKINSEY & COMPANY, *EFFECTIVE CAPACITY BUILDING IN NONPROFIT ORGANIZATIONS* (Washington, D.C.: Venture Philanthropy Partners, 2001). This framework is applicable to any kind of association structure (businesses, families, civic groups, etc.). The language might have to be adjusted to reflect other situations. The publication is available at www.venturephilanthropypartners.org/learning/reports/capacity/capacity.html. Also available is a self-assessment grid that organizations might use in evaluating how they currently function and assessing how they might want to change.

9. Defining reasonable indicators of organizational capacity can be difficult, particularly for small or new nonprofits. *Standards for Excellence: A Self-Help Tool for Nonprofits’ Organizational Effectiveness*, published in 2002 by the North Carolina Center for Nonprofits, offers useful guidelines. Copies are available by contacting the center at (919) 790-1555 or www.ncnonprofits.org/standards.html.

10. E-mail message from Randy Harrington, Budget and Management Analyst, City of Concord, N.C., to Margaret Henderson, Associate Director of the Public Intersection Project (Aug. 2004) (on file with Henderson). For more information, go to www.ci.concord.nc.us/finance_4_4.asp, or contact Randy Harrington at (704) 920-5261, harringr@ci.concord.nc.us.

11. For a fuller discussion of this initiative, see Todd Cohen, *Focus on Neighborhoods*, PHILANTHROPY JOURNAL, Sept. 20, 2004. To retrieve the article, go to www.philanthropyjournal.org/, and search for “Focus on neighborhoods.”

12. *Id.*

13. INDEPENDENT SECTOR, *GUIDELINES FOR THE FUNDING OF NONPROFIT ORGANIZATIONS* [press release] (Washington, D.C.: 2004), available at www.independentsector.org/issues/buildingvalue/opsupport.html (last updated May 17, 2004). The complete statement also is available at this website.