

For nonprofits, even non-finance 'capacity grants' stimulate financial growth

November 29 2016, by Matt Shipman

Research from North Carolina State University and American University finds that so-called "capacity grants" lead to long-term financial growth for nonprofit organizations - regardless of what the grants are for. However, there is no added benefit from capacity grants that focus specifically on financial growth.

Many foundations provide nonprofit organizations with grant funding that can be used to "build capacity," making the organizations stronger and more capable. In practice, these grants focus on anything from expanded personnel training to improving financial practices.

"We wanted to know if these 'capacity building' grants actually improve outcomes for organizations that receive the grants," says Amanda Stewart, an assistant professor of public administration at NC State and lead author of a paper describing the work.

"Foundations put a lot of money into these capacity grants, and usually get reports from grant recipients six or 12 months later," Stewart says. "But we had very little information on the long-term impacts of these grants, so that's what we chose to look at."

To address the issue, the researchers partnered with a large foundation. The researchers looked at grant proposals, both capacity-specific and for more general programmatic needs, that were submitted to the foundation by more than 400 nonprofit organizations, spanning a 12-year period. The researchers then assessed the financial trends for each organization

for three years following the year of each grant decision.

The researchers compared the financial trends of nonprofits that did not receive capacity grants to the data from nonprofits that did receive capacity grants, paying particular attention to three things: the long-term financial impact of receiving any kind of grant; the impact of receiving any capacity-building grant; and the impact of receiving a capacity-building grant that focused specifically on building financial capacity. Financial capacity grants funded actions such as hiring a grant writer or developing an in-depth fundraising plan.

"We found that 184 of the nonprofits received capacity-building grants, and that receiving any capacity grant was associated with financial growth for a nonprofit," Stewart says. "But we also found that receiving a financial capacity grant did not boost financial growth more than receiving any other kind of capacity grant."

Organizations that received any capacity grant grew by around 10 percent in the three years following the grant. Grants that specifically targeted [financial capacity](#) development did not lead to greater long-term financial outcomes than grants that focused on other management or governance issues.

"This tells us that capacity grants are effective investments in nonprofit organizations, but the benefits are not necessarily as targeted as one might expect," Stewart says.

"We think that one benefit of these grants may stem from receiving the explicit imprimatur of a foundation," Stewart adds. "In other words, receiving a capacity grant from the foundation may serve as a seal of approval that makes the nonprofit organization more attractive to other foundations and donors."

The paper, "As you sow, so shall you reap? Evaluating if targeted capacity building improves nonprofit financial growth," is published in the journal *Nonprofit Management and Leadership*. The paper was co-authored by Lewis Faulk of American University.

More information: Lewis Faulk et al, As You Sow, So Shall You Reap?, *Nonprofit Management and Leadership* (2016). [DOI: 10.1002/nml.21247](https://doi.org/10.1002/nml.21247)

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