

Donors often want nonprofit organizations to be sustainable. This is not *always* a goal, because certain kinds of work do not appear to hold promise of being self-sustaining. But other work seems to offer this prospect, and donors will often favor sustainability when feasible.

DEFINITION

What exactly do we mean by saying a program or organization is sustainable, or self-sustaining? The term has been used in different ways. Notably, in the U.S. Christian missions movement, there has long been a school of thought that mission efforts around the world should promptly exhibit the three “selfes”: self-governing, self-supporting, and self-propagating. This has become such a mantra that, despite the awkwardness of the name, the largest family of churches in China is commonly referred to as the “Three Self Church.” Thus, one form of sustainability refers to the idea that a foreign organization depends on indigenous support; it is not funded by mission organizations in the West.

But donors often contemplate local organizations being sustainable too. What they mean is that the organization has created a viable business model that generates income through the sale of products and services. Here “self-sustaining” does not refer to indigenous funding (versus U.S., or foreign, capital), but to internal funding.

A third use of the term occurs when major donors refer to an organization reaching a level of maturity and capacity where it no longer depends on founding donors or major donors. In this case, its established processes and regular donors (monthly, annual, or occasional) sustain the operations without additional, special, major donor funding. The organization’s regular programs are mostly “automatically” funded, though major donor gifts may be needed for capital items, expansion, replication, or program innovation.

ADVANTAGES TO SUSTAINABILITY

If an organization can become sustainable, it may afford the following benefits:

- ✓ It frees up philanthropic capital to be used with other organizations and programs that do not have the capability of being self-sustaining.
- ✓ It possibly facilitates greater growth and expansion of the organization independently of donor funds; like a business that generates sufficient cash to grow without recourse to capital markets (stocks, bonds, private equity, line of credit, venture capital, etc.), the organization is less beholden to others and can control the rate and direction of innovation and expansion.
- ✓ Very possibly, a self-sustaining model is cheaper and more efficient to operate; donation capital is quite costly to acquire and is a substantial drain on the chief executive’s capacity.
- ✓ A self-sustaining program can support a portion of an organization’s financial needs, leaving donated resources to cover other areas. An organization that constructs wells in Africa solved the need for maintenance by forming a related company that provides training and employment to locals and “sells” maintenance services—that portion of its operation is self-sustaining.
- ✓ In some cases it can facilitate the iterative redeployment of capital such as in the making of micro loans or debt or equity investments in small-medium enterprises.

FOR-PROFIT OR NONPROFIT?

At a glance it may appear that a sustainable organization is, or should be, a for-profit organization. Not necessarily. Nonprofit status, at least in the U.S., confers two primary benefits: exemption from the payment of income tax on profits, and an inducement for donors to provide capital by allowing a tax deduction for contributions made. An organization may seek the first benefit while forgoing the second. Plus, there is a certain positioning or branding an organization has on account of being a nonprofit.

Organizations that have an “exempt purpose”—such as education, scientific, religious, and charitable groups—may form as a nonprofit corporation. These have notable disadvantages, most prominently, that they do not allow

the founders or employees (or directors or anyone else) to hold equity in them or build personal wealth through the organization. Compensation is limited to fair and reasonable amounts and does not include a share in the growth of the value of the organization—or an early “shareholder” in The Salvation Army, a \$1+ billion operation today, would be a multi-millionaire!

So, if an organization is eligible, and willing to endure the disadvantages, it is free to select the legal and tax structure that best suits its purpose. There is no reason that a self-sustaining charitable organization *should* become for-profit simply because it is self-sustaining.

SUSTAINABILITY & DEPENDENCY

Becoming self-sustaining is not necessarily the answer to a donor’s desire for a nonprofit to not become dependent on him/her. Nonprofits that depend on donated capital are, by definition, dependent on their donors. That’s unavoidable. If the organization can redesign its business model to generate funds through sales of products and services, it can avoid donor dependency. If it cannot, the best a donor can expect is to have the organization exchange one donor for another (see our *Giving Insights, Dependency: Bad for Nonprofits?*).

Government contracts and grants are a third route for funding—a kind of hybrid between donor capital and sales income where a donor (the government) “buys” services it wishes to have provided to the public. Commonly, organizations that receive government funding become heavily reliant on this single source of capital and then, while “self-sustaining” from a private donor perspective, are, in fact, very dependent.

DONORS & SUSTAINABILITY

Helping an organization move towards sustainability is a sound strategy for a donor, if sustainability is a prudent course for the organization. And it likely is, when possible. Organizations can particularly benefit from the wisdom and experience of businesspersons who have built successful organizations. Such donors may help lay out a path from donor-support to self-sustainability, and help to fund the necessary steps. This process may lead to a “setting free” of the organization to pursue greater and broader goals in the years ahead.

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