When the reality of "it takes money to make money," collides with shrinking budgets, nonprofits can face short-term and long-term revenue challenges. Consider the trend among some donors and funders to "restrict" their giving and grantmaking to programs, or direct services. This is a move away from "unrestricted giving" or "operating grants" which allow a nonprofit to use gifts and grants where they are needed most. Restricted giving can reduce funds available for overhead which in turn can limit a nonprofit's ability to support effective programs: "overhead" pays for technology, accounting, fundraising and more, all of which support successful programs.

This trend was documented in a 2009 *Stanford Social Innovation Review* article written by Ann Goggins Gregory and Don Howard. Here are a few powerful quotes from their article The Nonprofit Starvation Cycle.

".... nonprofits settle into a 'low pay, make do, and do without' culture....."

"... we often see clients who are unable to pay competitive salaries for qualified specialists, and so instead make do with hires who lack the necessary experience or expertise."

"The burden of breaking the cycle of nonprofit starvation does not rest solely with funders (and donors). Nonprofit leaders also play a role. As a baseline task, they should commit to understanding their real overhead costs and their real infrastructure needs."

In our work we engage with board members and nonprofit executives on the subject of fund development and fundraising. We have found that there are nonprofits – small and large – who cut expenses related to development and fundraising as a way of reducing overhead. Some cut these expenses in a process of "across the board" cuts. We both understand the tendency, and object to it. The development department – or advancement department as it is referred to by colleges and universities – is a revenue center. A challenging fundraising environment should be met with strategic investments in fund development and fundraising.

We also understand the skepticism that can greet the idea of increasing investment in fundraising: some nonprofits are not confident in the ability of their development/advancement department to meet fundraising goals. Yet cutting the ability of these departments is not necessarily the answer. Instead, pay attention to factors that contribute to the lack of confidence. These can include noncompetitive salaries that fail to attract and retain experienced and talented fundraising professionals; staff whose skills do match well with the type of fundraising your nonprofit needs to focus on; executives without the knowledge or experience to effectively manage and coach the development/advancement team; the setting of unrealistic fundraising goals based on projected budget gaps instead of an analysis of current and prospective donors; and expecting fundraisers to focus on areas other than fundraising.

We encourage board members and nonprofit executives to ensure adequate investment in fund development and fundraising to help ensure nonprofit financial health.

Mel and Pearl Shaw are the authors of "Prerequisites for Fundraising Success." They position nonprofits for fundraising success. Visit them at www.saadandshaw.com .