

New
Philanthropy
Capital

Granting Success, NPC's research sharing lessons from funders and charities on effective grant-making.

As long ago as the 4th Century BC, Aristotle said *'To give away money is an easy matter and in any man's power. But to decide to whom to give it and how much and when and for what purpose and how, is neither in every man's power – nor an easy matter.'*

Agreeing that grant-making is not an easy matter, the charity I work for decided to do some research in this area, which was published earlier this year.

I work for New Philanthropy Capital, a research house and consultancy which examines the effectiveness of the charitable sector. New Philanthropy Capital has worked with many funders since it was set up in 2002 as well as talking to hundreds of charities. Because of our experiences working with these people we wanted to do some research into grant-making to help grant-makers, both new and existing, learn from others in the sector. The idea was to produce a practical piece of research, which looked at the barriers to giving good funding, and produced recommendations for funders. Although there are many aspects of grant-making that we could have focused on, we choose to look at three areas: size and length of grants; restricted funding; and non-grant financing.

Today I'm going to talk briefly about the methodology of the research, and some of the findings and recommendations that we made. The recommendations for funders are not black and white, as not all grant-makers have the same objectives, nor do all charities have the same needs from their funding.

But first the methodology.

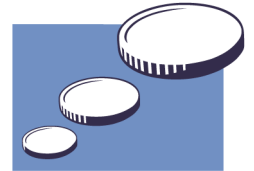
The first stage of the research was a literature review. When we did the literature review, we did not find much research, and that which did exist came from America. Most of the literature described the benefits of better funding practices and was often quite polemic, but did not discuss the barriers to giving it which was what we wanted to explore in this research.

This literature review was complimented by a semi-structured interview with staff from 17 foundations. These foundations were a mixture in terms of the amount of money they gave away and the approach they took. The interview asked them what factors they took into account when deciding size and length of grants, restrictions and whether or not to give non-grant financing, and then prompted them about other factors that had been discussed in the literature, to explore how much they took them into account. In this way we could see which factors were considered important by everyone, and which some funders had managed to work around.

We also talked to charities that NPC knew had had problems because of poorly designed funding, and to specialist providers of non-grant financing.

Onto the findings.

The size and length of grants is important to charities for many reasons. Short term funding can cause problems with staff retention, problems in showing the impact of the project, and problems with securing follow-on funding.



New
Philanthropy
Capital

As Marcus Hulme has said, small grants can make a big difference to charities, but when they are inappropriately small they too can cause problems. An underfunded post or project can cause delays to it starting, difficulties finding suitable people for a post, or result in the overheads of a charity not being fully funded. There are similar problems from funding that is too long or too big.

These problems are quite well known, so why do funders still give charities funding of an inappropriate size or length? Funders have their own constraints and objectives to balance against those of charities. We asked funders what factors they considered when deciding the size and length of grants.

They mentioned several different things:

- The resources of the fund (money)
- The capacity of the grant-maker (staff)
- Wanting diversity in their grant-portfolio
- Not wanting charities to become dependent on them
- Wanting to make sure that they could attribute what their funding had done
- Wanting to be fair to all the charities that applied
- Following traditions and habits within the grant-maker
- And the level of trust that they had in the charity.

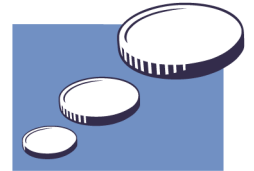
Some of these were constraints that all funders have to work within—unfortunately we have to accept that grant-makers do not have unlimited funds—but others were factors where there was more of a debate between the grant-makers about what should be done.

The first three in my list—the resources of the fund, the capacity of the grant-maker, and wanting diversity in their grant-portfolio—are considerations that all grant-makers have to work within. Even within these there were still lessons from funders about making sure the funding was still best used—for example, one funder, who couldn't afford enough staff to make the model it was using work, moved to making larger grants over a longer period because it wanted to concentrate on making fewer, better grants and researching the effectiveness of its grant-making, rather than giving grants robotically which is what it had fallen into. Lots of funders want diversity in their grant portfolio, for lots of reasons, like not wanting to put all their eggs in one basket, or wanting to know more about a sector. But if a grant maker feels that they are having to compromise on the size and length of funding because of this, they should make sure that they are not seeking diversity for diversity's sake, but are doing something with the knowledge they gain.

The last five in my list—dependency, attributing impact, fairness, tradition, and trust in the charity—are factors that other funders had been able to work around, so that they did not compromise the impact of the funding.

For dependency—while some grant-makers were very worried about charities becoming dependent on them, other grant-makers were more relaxed about it, one grant-maker said 'charities are by definition dependent on grant-makers'. What these grant-makers felt was important was to consider the risk of dependency at the start of funding, and decide whether or not to accept the risk and whether to build in exit strategies to help manage the risk. Rather than waiting to the end of funding to worry about what happens next.

Those grant-makers that were worried about attributing the impact of their grants wanted to have bigger or longer grants so that there was clearly something that they could point to and say that it could not have been achieved without their help. This is fine as long as the funding is appropriate to the project.



New
Philanthropy
Capital

There were a few funders who felt that they should give something to every charity that applied to them, or at least a significant proportion of those that applied. However, most funders were less tolerant of that view, one in particular said that giving '£2000 to a charity that asked for £20000 is simply presenting them with a bill for £18,000'.

There were some funders who gave as an average a certain amount of funding because that is the way that the grant-maker had always operated. But most grant-makers felt that it was important to review the policies of the grant-maker regularly to check that they still matched the needs of charities.

There were some funders who mentioned that, on occasion, they liked the work of a charity but were worried that the charity had put too much into the budget. In these cases they had cut the budget, which is fine if they were right, but could damage the work if they were wrong. Other grant-makers had found ways around this, such as giving a small amount of money for the charity to do some scoping work.

So, of the eight considerations that grant-makers mentioned there were three factors that all grant-makers have to take into account: the resources of the grant-maker, the capacity of the grant-maker and the need for diversity in their grant-portfolio. But even within those constraints grant-makers can still do their utmost to make sure that the funding has the most impact. For most of the other considerations, there are ways to work around them, so that grant-makers do not need to compromise the effectiveness of the funding.

The next topic we looked at was restricted funding.

Restricted funding, is where the funder specifies what the funding can be spent on—and this specification can be at different levels, which have different burdens on a charity. Restrictions affect how innovative and flexible charities can be—both to their clients and external events—they also affect the infrastructure of a charity. So they harm charities' ability to develop .

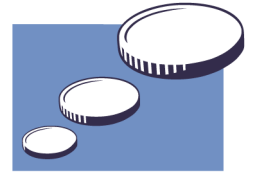
The factors that funders considered when deciding whether to restrict funding were:

- ensuring that charities deliver the outcomes that funders want
- influencing reporting of the grant
- managing reputation risk
- managing dependency
- not knowing the charities well enough
- influencing charities or sectors
- or because that what charities ask for

When we asked grant-makers about what influenced their thinking about whether or not to give restricted funding, it became clear that there were some factors that all funders were constrained by, and some that only applied to a sub-category of funders.

So a funder that is sensitive to reputational risk may restrict because it wants to make sure that the funding is not spent on anything that may compromise its reputation. This category includes fund-raising grant-makers, those with high accountability requirements, and ones that are tied to a corporate who is worried about its image.

Another sub-category was engaged funders who used restrictions to influence charities. These were funders, who for instance, wanted to make sure that a charity invested in infrastructure as well as front-line work.



New
Philanthropy
Capital

But the major reason given by funders, and which affects all funders, was to ensure that charities' work was aligned with the aims of the funder. Normally funders looking to fund, say, environmental work, will fund environmental charities. But sometimes, a funder might give a grant to a refugee charity who is using refugee volunteers to do an environmental project. Here restricting is reasonable because the aims of the two organisations are not aligned, and the grant-maker would not want its money spent on some of the charity's other work.

Three of the reasons given—dependency, reporting, and not knowing the charity well enough—were reasons that most funders had managed to work around. Dependency had been accepted as an innate problem within the grant-making world. Others funders had worked around reporting by looking at the impact that the whole charity had achieved rather than asking for the impact of 'their project'. In terms of not knowing the charity well enough other funders had found that they had had to invest in their own capacity to ensure that they could give unrestricted funding and this had brought benefits in terms of the quality of their grant-making.

The last reason given is interesting—that charities sometimes ask for restricted funding. Funders mentioned this in size and length as well, that charities are sometimes their own worst enemy asking for small pots of restricted funding because that is all that they believe they can get. This annoys those funders who are trying to give more appropriate funding.

The last section of the research briefly looked at whether or not grant-makers should give non-grant financing.

We spoke to several specialist providers of non-grant financing, as well as trusts and charities. The overwhelming message here, from everyone we spoke to was that loans are useful for the sector, but they are not for everyone, both grant-makers and charities, as they require a lot of capacity. Therefore, if a grant-maker thought that non-grant financing was for them, then they should partner with another organisation that is used to making loans.

So overall, how should grant-makers and charities respond?

Firstly when deciding the appropriate size and length of grants—grant makers should do their best to keep the effectiveness of the grant at the forefront of their mind. They will have to balance this against their resources, their capacity and how much diversity they want in their portfolio, but other considerations that they may be tempted to take into account can be mitigated in other ways.

Secondly, when deciding to give restrictions, there are certain situations where restrictions are suitable. These are if there is a mismatch between the grant-maker's mission and the charity's mission, if the funder is particularly sensitive to reputation risk, or if the funder wishes to influence the charity through the grant.

Thirdly, if grant-makers want to offer non-grant financing they must make sure that they have the capacity to assess charities' ability to repay the loan, match the loan terms, and manage the relationship on an ongoing basis. The best way to be sure of this, may be to partner with another organisation.

The problem of the right way to give grants away has troubled people throughout the years, but NPC hopes that our research will help funders, both new and existing, overcome some of the barriers to giving away appropriate funding.

***Angela Kail was speaking at the NCVO/VSSN Researching the Voluntary Sector conference.
7-8 September 2009***