

NCVO/VSSN Researching the Voluntary Sector Conference 2009

Title: Granting success—lessons from funders and charities

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Introduction

The way that charities are funded has a direct impact on the lives of those they support. To achieve the best for beneficiaries, charities need to be funded in ways that help them to create the most impact. Funders can strengthen charities, increase their impact and change the lives of beneficiaries, by improving the way that they fund charities. In NPC's experience, funders that take time to understand the needs and approaches of the charities they fund can improve the way those charities work. This has a knock-on effect on the lives of beneficiaries—good grant-making improves more lives.

However, publicly available guidance on this topic for UK funders is limited. There are practical constraints and compromises that affect how donors can fund. This research looks at grant-making practices in the UK to provide guidance to funders on how to approach funding. It specifically focuses on the structure of grants and offers lessons and guidance from grant-makers.

Methodology

This research was based on analysis of interviews with funders, charities and a selection of experts as well as a review of relevant research. Much of the research that was written came from the United States, and often focused on the benefits of good grant-making rather than the barriers that existed to doing it.

Through the course of our research, we interviewed 17 staff from UK trusts and foundations to understand what motivates their decisions on funding, and how they overcome various practical considerations. The selection of funders interviewed was very diverse. They varied in the total amounts they give; the amount invested in making grants; the issues they address; and their level of engagement with the issues and organisations they support.

NPC has spoken with hundreds of charities since its inception, and has frequently heard that the structure of grants impacts their work. For this report, we reflected on this prior experience as well as interviewing a handful of charities which had previously had issues with some grants, to hear more details of their experiences.

Findings

Why does grant structure matter?

Research shows that the size and length of funding affects charities in many ways. Short-term funding places a burden on organisations—making staff recruitment and retention difficult, as well as having a direct impact on beneficiaries if they are unsure if the service will continue to run.^{1,2} If funding has been given for a pilot study then short-term funding may not give the charity enough time to prove that the intervention has worked.

Many charities told NPC about their experience with small amounts of funding. They said that whenever they have received less money than they asked for, it has delayed the start of work, reduced the amount of work, and affected the viability of the charity. Funding that is inappropriately large can possibly have a detrimental effect on the charity if it means that the charity grows too quickly.³ Smaller and shorter grants also increase administration costs to charities.⁴

There is a great deal of literature about the problems that restricted funding can bring. Restricted funding stops charities being as flexible, innovative and timely as they could be.^{5,6} It also affects charities' ability to respond to emergencies or extraordinary events.⁷ The literature also shows that restrictions, particularly when full cost recovery is not applied, harms charities infrastructure.^{5,8} All these things affect the quality of service offered to beneficiaries.

Size and length: issues raised by funders

Our research asked funders what considerations they took into account when deciding the size and length of grants. There were several issues that many funders mentioned:

Capacity of the grant-maker: Many grant-makers told NPC that the amount of available staff time affects decisions about size and length of grants. Lack of time to spend on assessing applications means that some funders are wary of giving larger grants.

Diversity: Many funders want to have diversity in their grant portfolios. The desire to spread grants around between various charities can be because of several reasons: different areas of interest; gaining knowledge about the sector through their grant-making; and a desire to spread risk.

Dependency: Many funders fear that large or long grants will mean that charities become dependent on them, and when funding is withdrawn will be left with insufficient money to continue the work.

Attributing impact: One way that some trusts think about attributing impact is in terms of instrumentality—how likely is it that this work would have happened without this grant? For these funders it is easier to identify and attribute the impact of larger, longer grants.

Fairness: A few grant-makers limit the size and length of grants so that they can provide at least some funding to a greater number of applicants in the interest of 'fairness'.

Tradition: A few grant-makers said that the size and length of their grants is influenced by tradition.

Trust in the charity: Sometimes grant-makers suspect that the amount the charity has budgeted for is too big, and sometimes grant-makers give charities less than they ask for when they suspect this.

Size and length: Guidance for donors

Many funders disagreed that all the above considerations should influence the size and length of grants. The problem of the grant-maker lacking capacity to give bigger grants has been solved by other grant-makers by persuading trustees to invest in more staff or by finding ways to use existing staff time better. Most funders disagreed with the notion of 'fairness' presented above, saying that a key task of funders is to discriminate between applicants, and funders should be wary of compromising the quality of their funding under the weight of applications they receive.

Most funders felt that dependency is a natural consequence of funding that should be managed, rather than avoided. Some funders felt that their policies on size and length of grants were 'habits' developed over time, and perhaps should be reviewed regularly.

But a number of the considerations above could not be solely solved through other methods. Successful funding is a trade-off between diversity and risk-spreading against efficiency and effectiveness. Below are some of the trade-offs that have to be made.

Resource constraints

Most donors have fixed amounts to give. If funders' means are limited, they could choose to fund a small group of charities well. Or they could fund activities that require small amounts of funding but still achieve impact. Small sums, carefully targeted, have achieved tangible change.

Multiple missions and interests

Funders may want to fund work in different locations, fund different issues, or fund a range of activities addressing the same issue. A balance has to be struck between funding in a number of areas and giving enough to create an impact in each.

Most social and environmental problems can be tackled in more than one way—for example: by scientific or clinical research; by providing direct services to people; or by lobbying for change. A combination of approaches can be effective. Funders may feel that they want to attack an issue from many sides, especially if they coordinate the approaches. This is justified as long as charities' effectiveness is not compromised by grants that are too small.

Diversity and knowledge

Some funders learn a lot about a sector by funding a range of different charities, which enables them to compare different approaches. Others learn more by funding across a range of sectors. Such knowledge could usefully be shared with charities and other funders.

Sharing this knowledge and using it constructively would help to mitigate some of the disadvantages and costs of having a broad portfolio of small-sized grants.

Using smaller grants to attract other funders

Funders may want to part-fund an activity or project to encourage other, more suitable funders to pay for work on a larger scale, for example, when an activity is suitable for government support.

Restrictions: issues raised by funders

Our research asked funders what considerations took into account when deciding whether or not to give restricted funding. There were several issues that many funders mentioned:

Funders restrict to ensure charities deliver their mission: Most grant-makers give funding with specific aims in mind and the alignment between their goals and the work of the charity was an important consideration in deciding whether to give unrestricted funding.

Funders use restrictions to influence reporting, evaluation and attribution: Some foundations place restrictions on their grants because they believe that this makes it easier to report what was achieved with the funding.

Funders use restrictions to manage reputation risk: NPC spoke to some funders who worried that if funding was unrestricted, it could be used for something that would reflect badly on the foundation.

Funders use restrictions to manage dependency and exit strategies: Dependency can be a particular problem when providing unrestricted funding because a funder may be unsure what the money will be spent on. This means that the funder may not know what would be a suitable point for exiting, and the grantee might not be sure how long it should expect to be funded.

Funders restrict because they do not know the charities well enough: Many grant-makers told NPC that in order to give unrestricted funding they want to be assured that the charity will make good decisions about where to spend the money, and that it has systems in place to ensure accountability and transparency. Clearly, grant-makers who give restricted funds also want to know this, but the bar can be much higher for unrestricted funding.

Funders use restrictions to influence charities or sectors: Some grant-makers told NPC that they used restrictions to influence charities. Some foundations told NPC that they believed that *'Restrictions that aren't too onerous can help charities to plan how they are going to spend the grant properly.'*

Charities may deliberately seek restricted funding: NPC's interviews revealed that while restrictions are often set by donors, charities also place restrictions on themselves when they apply for grants.

Restrictions: Guidance for donors

A well-run charity will be the best judge of how to spend money to help beneficiaries most effectively. If a funder has fully assessed a charity, and believes the charity worthy of funding, then unrestricted funding will be the most beneficial. Many of the concerns of funders above, can be mitigated by other means than unrestricted funding. There are exceptions, which are described below.

Aligning objectives between funder and charity

Sometimes the missions of funders and charities are not fully aligned. In some cases, donors may risk working outside their charitable objectives if they give unrestricted funding to a charity that works with several beneficiary groups. In these cases, the missions are very different, so restrictions may be appropriate. But funders should avoid giving where the misalignment between the charity and funder mission is great.

Reputation risk

Funders may occasionally have to protect their reputation by retaining control over what their funding is spent on. Such funders include those that are accountable to parliament, fundraise from the public, or are corporate foundations.

Influencing the charity

Restrictions can be used to influence a charity. If a funder has particular knowledge of an issue, of an intervention, or of a charity itself, the funder may be well-placed to identify unrecognised opportunities. Funders need to justify clearly why they are imposing such restrictions.

Presentation of financial circumstances

In some cases, charities raising funds find it helpful to show that some of their funding is restricted to specific projects. If funding is restricted, it can be easier to ask other funders for money for operating costs and other projects, without putting them off by having large unrestricted reserves.

Giving unrestricted funding

Funders unaccustomed to giving unrestricted funding will have to adjust to judging the outcomes of the whole organisation they are funding, rather than tying funding and monitoring to a specific project. This may require investment in staff, time and resources, but in return, the impact of the funding should increase.

Non-grant financing

In some areas, a funder might have a greater impact by offering non-grant financing in the form of a guarantee or loan. Funders are increasingly offering this option to charities.

Many types of charitable activity are not suitable for loans. But where loans can be used, they have benefits—recycling of money, building the capacity of organisations, and bringing new sources of money to the sector.

If grant-makers are going to make loans, it can make more sense to use specialist intermediaries rather than developing loan expertise in-house. These intermediaries can then undertake financial assessments and manage relationships, reducing the risks and costs to the grant-maker.

How should charities react?

Charities do not always respond when funders try to improve their funding practices. Most funders said that when they tried to improve their funding practices, they were hampered by the behaviour of charities. Funders who tried to extend their funding period found that charities did not apply. Funders also found that charities tended to apply for the average amount that had been given in the year before, starting a vicious cycle and making it difficult for funders to raise the average amount.

Charities can play their part in making the relationship with funders more open and trusting, so that funders feel happier making large, unrestricted donations. Funders said, for instance, that they appreciated it when charities approached them early with problems.

Conclusions

Making decisions about size, length and restrictions on grants is about finding ways to make funding work best for beneficiaries, while navigating around the constraints and risks that arise in funding relationships. By reflecting on the implications of grant structure, grant-makers can improve their funding so that it has the greatest impact. This can change the way that charities work and, ultimately, deliver better outcomes for beneficiaries.

- 1 Amicus *Short term funding short term thinking*.
- 2 ACEVO and New Philanthropy Capital (2004) *Surer funding*.
- 3 McKinney, R. and Kann, H. (2004) *Lottery funding and changing organisational identity in the UK voluntary sector*. *Voluntas* 1b (1).
- 4 The Centre for Effective Philanthropy (2004) *Listening to grantees: what non-profits value in their foundation funders*.
- 5 Lumley, T. and Botham, C. (2007) *Trading for the future: A five-year review of the Execution Charitable Trust and New Philanthropy Capital*. New Philanthropy Capital.
- 6 Huang, J., Buchanan, P. and Buteau, E. (2006) *In Search of Impact: Practices and perceptions in foundations' provision of program and operating grants to nonprofits*. The Centre for Effective Philanthropy.
- 7 Cohen, R. (2007) *A Call to Action: Organizing to increase the effectiveness and impact of foundation grantmaking*. National Committee for Responsive Philanthropy.
- 8 Bolton, M. (2008) *Strengthening the hands of those who do: a review of a decade of project grants awarded under the Baring Foundation Strengthening the Voluntary Sector Programme*. Baring Foundation.
- 9 Grantmakers for Effective Organisations (2007) *General Operating Support*.