What Philanthropy Can Learn from Bankers about General Support and Multi-Year Grants

By Sean Dobson

Bankers have become a tad unpopular these days, considering they had a hand in, well, melting down the global economy. However, bankers do usually get at least one thing right: They know how to pick and finance winning organizations. It's humiliating but true: Philanthropists can actually learn from – uggh – *bankers*.

I was guided to this uncomfortable insight while reflecting upon the thoughtful new report from the Center for Effective Philanthropy (CEP), "*Grantees Report Back: Helpful Reporting and Evaluation Processes*."[1] CEP surveyed 24,000 grantees about foundation reporting requirements and found that, "On average, grantees do not find current reporting and evaluation processes to be very helpful in strengthening their organizations and programs."

As a former executive director of a nonprofit organization, I was not surprised by CEP's findings. I spent way too much time (usually late at night, after I had completed my "real work") filling out byzantine forms, asking for metrics unrelated to the actual strength and success of my organization or the project under review.

True, some of the better foundations provided useful evaluation tools that forced me to poke my head up from the trenches and look around and see the bigger picture with regard to my organization, its performance and our current project.

Nevertheless, the CEP report proves, beyond a shadow of a doubt, that most reporting requirements are net time-wasters.

If the CEP report illuminates the problem, unfortunately, it proposes a mere partial solution; CEP finds that the foundations that are most likely to avoid the pitfall of imposing onerous and irrelevant reporting requirements are those that bother to establish a trusting, respectful and listening partnership with grantees.

Amen to that. My tenure as a nonprofit executive director would have been more pleasant and productive if I had dealt with more program officers who viewed me as an equal partner with a common mission, asked me to fill out a reasonable after-action report and then – *gasp* – actually discussed it with me.

In other words, foundation officers need to be more courteous. Yes, the world would be a better place if people were nicer to each other.

But the sector needs more than a lesson from Miss Manners. We need systemic change in practice. In particular, I wish the CEP report had also stressed the prescription CEP itself in other reports[2] (as well as Grantmakers for Effective Organizations [GEO], NCRP and others)[3] has advocated for years: more general operating support and more multi-year support grants.

GENERAL OPERATING SUPPORT

By definition, if a foundation gives general operating support, it is not imposing a detailed agenda on the grantee. Instead, it is making a judgment that this nonprofit has a proven track record of success in advancing the foundation's goals and therefore should be given the grant based on the probability of continued success. It also trusts that the grantee knows how to recognize success.

In such a case, the foundation would accept the grantee's own internal metrics of progress, which are usually pegged to a multi-year strategic plan, as after-action reporting. The only financial documents neces-

sary would be the grantee's audited financial statement of the previous year plus a board-approved prospective organizational budget.

MULTI-YEAR FUNDING

Most nonprofits have multi-year strategic plans and missions too complex for progress (or lack thereof) to be definitively measured in one-year increments.

For example, the campaigns I ran for an advocacy nonprofit almost *never* concluded in one year – victory or defeat could only be determined after several years, and defeat usually had positive benefits for the organization because the act of waging a campaign brought in new members, new funders, more publicity, more contacts, more experience and more knowledge. As Nietzsche famously observed, "What does not kill me makes me stronger."

WHAT ABOUT ACCOUNTABILITY?

News flash: Multi-year grants *can* be evaluated on an annual basis. That's because, as mentioned above, if the grantee has a proven track record of success, it almost certainly follows a multi-year strategic plan with annual targets – the same annual targets that would serve as good milestones for the underwriting foundation to review during the course of the multi-year grant.

PROGRESS ON AN ISSUE NEVER HAPPENS OF ITSELF OR BY MAGIC

Regardless of their impact based on after-action reporting, do general support and multi-year grants constitute good grantmaking in a broader sense?

If your foundation aims to reduce hunger, can bowls of soup ladle themselves? If your foundation seeks to safeguard civil rights, do legal reforms automatically get upheld or enacted?

Only strong nonprofit organizations can catalyze and guide the kind of collective action needed to help solve big social problems. General support and multi-year funding help build strong nonprofits because they make responsible, multi-year budgeting and planning possible.

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Yet, maddeningly, the level of support in philanthropy has barely budged over many years in terms of the percentage of grant dollars for general operation and multi-year funding.[4]

This level would finally rise if foundations emulated their more pragmatic counterparts in the for-profit sector - yes, the bankers.

LEARNING FROM BANKERS

When a Wall St. banker invests in, say, Texaco, does he or she stipulate that Texaco may only use the money to drill in Bahrain or refine the crude only in Louisiana? No. The banker simply judges Texaco's decades-long track record of creditworthiness and profitability and then invests (either as a loan or equity) in the form of "general operating support." Almost always, such investments extend longer than a single year. In other words, the banker is humble enough to recognize that he or she does not know as much about the oil business as Texaco does. That's why the banker cuts the check and then gets out of the way.

Of course, this analogy is not perfect. For example, bankers only want

New and Renewing Members

American Association of University Women
Annenberg Institute for School Reform, Brown University
Blue Avocado
Boston Foundation
Campion Foundation
Chicago Coalition for the Homeless
Clowes Fund, Inc.
Dalia Association
Eisner LLP
Empire Justice Center
Fabrangen Tzedakah Collective
Hammer and Associates
Hill-Snowdon Foundation
James Irvine Foundation
Joyner and Associates
Korean American Community Foundation
Mitchell Kapor Foundation
Northwest Workers Justice Project
Proteus Fund
Public Welfare Foundation
Seattle Human Resources Coalition
Sisters of the Road
Southern California Grantmakers
Southern Coalition for Social Justice
Southern Partners Fund
Tides Foundation
Unitarian Universalist Veatch Program at Shelter Rock
Warner Foundation
Wholonomy Consulting
William and Flora Hewlett Foundation
Winthrop Rockefeller Foundation

repayment with interest and don't care if the borrower becomes stronger organizationally as a result of the investment. Foundations don't require collateral to make a grant.

But foundations and bankers are engaged in basically the same enterprise: investing in organizations to help them succeed. Smart financiers pick winners based on long-term performance, provide the financing and then let them do what they do best, secure in the knowledge that the recipient's long-term track record of success obviates the need for customized, hyper-detailed reporting.

Why don't more foundation officers adopt this commonsense mode of investment, especially considering how much easier it would make their own lives by reducing their administrative responsibilities? A 2008 report by GEO uncovers one answer that accords with common sense: Foundations whose staff and board members have had hands-on experience running nonprofit organizations engage in better grantmaking practices, above all general operating support and multi-year grants.

Of course, not *all* grants should be general operating support and multi-year grants. There will always be a limited need for project-specific and one-year grants. To ensure effective grantmaking in those rare cases, in addition to CEP's recommendations referenced above, grantmakers will find useful the recommendations given by Project Streamline.

CONCLUSION

CEP's report finds that trusting and listening relationships between foundations and grantees correlate negatively to burdensome and time-wasting reporting requirements; therefore, those types of relationships should be encouraged.

But foundation officers need to do more than practice random acts of kindness. They need to emulate their hard-headed counterparts in the banking sector by making general operating support and multi-year grants the default type of philanthropic investment. ■

Sean Dobson is field director of the National Committee for Responsive Philanthropy. Prior to joining NCRP, he helped found and then lead the Progressive Maryland Education Fund and its 501(c)(4) sister organization, Progressive Maryland, Inc., which together build power and advocate for working families.

Notes

1. Ellie Buteau and Timothy Chu, "Grantees Report Back: Helpful Reporting and Evaluation Process," *Data in Action* (San Francisco, Cambridge: Center for Effective Philanthropy, January 2011) http://www.effectivephilanthropy.org/assets/pdfs/Data%20in%20Action/CEP_DatainAction_GranteesReportBack.pdf.
2. Andrea Bock, "General Operating Support Remains the Exception," *The CEP Blog*, December 6, 2010, http://www.effectivephilanthropy.org/blog/2010/12/general-operating-support-remains-the-exception/. See GEO's "The Money," http://www.geofunders.org/the-money.aspx. Also Rick Cohen, *A Call to Action* (Washington, D.C: NCRP, March 2007) http://www.ncrp.org/index.php?option=com_ixxocart&Itemid=41&p=catalog&parent=4&pg=1.
3. Bock, op cit.
4. Visit: http://www.projectstreamline.org/project-streamline.