Dear fellow philanthropists:

Our ability to achieve greater impact depends, in part, upon our willingness and our capacity to protect our grants and investments from unexpected disruption. In other words, in order to maximize impact, we must tackle risk. We can do this by integrating more explicit risk management practices into our philanthropic pursuits.

We have a significant gap in our sector, demonstrated by the frequency with which well-planned projects are derailed by a variety of risk factors. Data collected by Open Road Alliance show that donors do not commonly include the discussion, assessment, and management of risk in their budgets, application forms, or other grant practices. The result is that up to one-fifth of grant-funded projects are vulnerable to project delays and disruptions, reduced impact, and less than optimal results for the beneficiaries at the center of the work.¹

To begin to address this gap, Open Road Alliance, Rockefeller Foundation, and Arabella Advisors convened the Commons, a task force consisting of leading practitioners from every facet of the philanthropy marketplace, to examine ways to meet the challenge of managing for risk. The result of many hours of discussion is an initial set of 10 adoptable and adaptable tools to help anyone engaging in strategic philanthropy plan for contingencies and mitigate risk.

With its diverse membership of representatives from foundations, nonprofits, impact service providers, nonprofit attorneys, wealth advisors, and philanthropic associations, the Commons is uniquely positioned to examine the topic of risk from many perspectives. We invite you to explore this toolkit in detail, apply these tools to your own philanthropic practice, and join us in this call to action to change the way philanthropy discusses, assesses, and manages risk. We also are ready to assist you, in any way that would be helpful, in developing your own practices for risk assessment and mitigation.

Sincerely,

Laurie Michaels
Founder, Open Road Alliance

Judith Rodin
President, Rockefeller Foundation

¹ In 2005, Open Road conducted a 400-respondent survey, which shows that approximately one in five projects will need contingency funding: http://openroadalliance.org/resource/risk-philanthropy-funders-dont-ask-non-profits-dont-tell-2015-survey-report/.
# Members of the Commons

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EXECUTIVE SUMMARY

There is a system failure in philanthropic practice that is diluting impact and costing funders potentially billions of dollars a year. This glitch is the absence of common risk management practices as an integral part of the grant-making process.

The data are clear. In a recent survey of 200 donors and 200 nonprofits, risk management is absent as a common practice, and the topic of risk itself is often missing from the conversation between funders and grantees. Consider this:

- In the survey, both funders and nonprofits report that one in five projects is negatively affected by unexpected events.
- However, only 17 percent of funders set aside funds for contingencies.
- Moreover, 76 percent of funders reported that they do not ask potential grantees about possible risks to the project during the application process. Grantees report that 87 percent of applications they complete do not ask for risk assessments.

In short, although funders and nonprofits agree that 20 percent of our social impact is at risk, most of us do nothing about it.

Risk is a fundamental component of philanthropists’ success. Philanthropists invest money to achieve certain specified outcomes, and like any investment, that transaction is governed by the interplay between risk and return. While philanthropy has taken strides in recent years to build out the monitoring and evaluation systems necessary to measure and determine our return—described as impact—we routinely ignore the risk half of the equation.

When funders and grantees ignore risk, we jeopardize the impact we seek to achieve. Moreover, without the tools to assess and manage risk, we cannot knowledgeably take the risks necessary to achieve our goals. Yet, as shown above, we rarely have straightforward conversations about risk, and funders don’t have effective tools that can help them implement basic risk management practices.

To address this gap, Open Road Alliance, Rockefeller Foundation, and Arabella Advisors convened the Commons—a diverse task force that represents all facets of philanthropy, including foundations, nonprofits, impact service providers, nonprofit attorneys, wealth advisors, and philanthropic associations. The Commons confirmed that the lack of open conversation about potential risk is a major problem for the field, and developed a first set of user-friendly tools to help funders implement better risk practices. These tools are broadly applicable across the philanthropic sector and can help all types of funders, from those first beginning to discuss risk internally to those who are evaluating the effectiveness of their risk management strategies after several years. With this toolkit, we seek to encourage funders to establish a deliberate risk profile and integrate risk management into their philanthropic practice.
The Commons defines risk as: the likelihood that an event will occur that will cause some type of undesirable effect. While risks objectively exist in all things, whether or not a funder or nonprofit chooses to take risk is a subjective evaluation. Although the existence of risk refers to a potentially negative event, choosing to take risk can be profoundly positive.

To underline this point, the Commons created a framework to draw the important distinction between risk culture and risk management. Risk culture speaks to a funder’s appetite or tolerance for risk, which is a subjective choice. In contrast, risk management is solely concerned with the prevention of negative or harmful consequences in the face of existent risks. It addresses the fact that risk is inherent no matter our appetite for it.

The Commons developed relevant tools for funders to address both aspects of risk. The risk culture tools help funders define and describe their risk profile, define what choices they want to make, and integrate risk into their organizational culture. The risk management tools position funders to incorporate risk management policies and practices into their communications with grantees, budgeting processes, and internal governance. Risk management is designed to decrease the likelihood and/or effect of existing risks.

**Considering Risk: Subjective vs. Objective**

**RISK CULTURE**

*Subjective Concept*

- A funder’s appetite or tolerance for risk
- Define and describe your risk profile
- Determine what choices you want to make
- Integrate risk into your organizational culture

**RISK MANAGEMENT**

*Objective Concept*

- Steps to prevent negative or harmful consequences in the face of existent risks
- Create and incorporate risk mitigation practices into:
  - Internal governance
  - Budgeting processes
  - Grantee communications

**RISK PROFILE:**
- High Risk Taking
- Moderate Risk Taking
- Low Risk Taking
Below is the list of tools the Commons developed to address risk culture and management practices in philanthropy:

**Tools for Risk Culture**

- How to Talk About—and Determine—Your Appetite for Risk
- How to Create a Risk Profile Statement
- How to Incorporate Your Risk Profile into Your Organizational Culture

**Tools for Risk Management**

- How to Set Aside Contingency Funding
- How to Build Contingency Protocols
- How to Incorporate Risk Management into Governance Practices
- How to Incorporate Risk Management into RFPs and Grant Application Forms
- How to Incorporate Risk Management into Monitoring and Evaluation
- How to Implement Non-Financial Risk Mitigation Strategies
- How to Build Effective Funder-Grantee Relationships

Philanthropy has evolved to insist on valuing and measuring impact, which has greatly enhanced our understanding of what works. We are in much the same position now with risk management as we were 15 years ago with monitoring and evaluation. We know that at least one in five philanthropic investments is affected by unpredictable variables. We hope that the use of these tools will empower the philanthropic community to communicate more clearly about risk, become more skilled at risk management, and ultimately drive greater impact in the world.
ABOUT THE TOOLKIT

As you review the 10 tools, keep in mind these principles:

- **These tools are meant to be used.** They were created by those on the ground, are based in real world experience, and were designed such that funders can easily adopt or adapt them to align with their own internal practices.

- **Anyone pursuing strategic philanthropy can use these tools.** We have designed these tools to be straightforward and streamlined, and to be a useful starting point for all funders whether large, small, old, or new. For funders who already have risk management systems in place, these tools can serve as a helpful checklist or reminder to ensure that they are following comprehensive best practices for risk management and mitigation. Whenever possible, these tools also include separate guidance for specific types of funders, such as international funders, donor collaboratives, or other groups.

- **The impact one expects to achieve is often proportional to the risk one takes.** While it is important to plan for and manage risk, taking risks can be positive—and often necessary—resulting in larger upsides and outsized impact. The Commons does not take a stand on what a funder’s risk profile should be; rather, it maintains that all funders should be deliberate about where on the spectrum of risk appetite they sit (overall, by program area, or even project by project), and then affirm that profile through internal policy and procedure.

- **Funders should right-size these tools in a manner befitting their risk profile and level of grantee engagement.** When it comes to grant making, one size (and approach) does not fit all. The Commons urges funders to apply these tools in a way that aligns with their risk profile and appropriate level of engagement with grantees. For example, a higher-risk-taking funder should expect the need for extensive and more sophisticated risk management practices. Yet, even risk-taking funders may need to temper their practices to right size, for example, the depth of their risk assessments with the size of the grant being considered.

- **These tools incorporate the nonprofit perspective.** Nonprofit representatives on the Commons provided direct input during tool development and reviewed all draft tools to ensure that when funders implement these tools they would not pose a burden to nonprofits but rather accelerate impact and, in general, improve transparency and communication between funders and grantees. In fact, a key finding of the Commons is that the risk management practices enclosed can only be effective when pursued in conjunction with strong funder-grantee relationships.

- **This toolkit is the first step in the development of a comprehensive practice of risk management.** Like monitoring and evaluation, we expect the tools and practices for risk management to evolve, improve, and iterate over time, as more experience and data become available. As such, this toolkit is not intended to be the final guidelines for best practice, but rather the beginning of a broader conversation that will include an increasing number of contributors to iterate, expand, and improve this practice over time.

- **Additional supplemental content is available online at** [www.openroadalliance.org](http://www.openroadalliance.org). Within this document are multiple embedded URL links to additional resources, templates, examples, testimonials, and reflections from practitioners. Both this toolkit and additional materials are available online for open-source use.
DEFINING RISK

Currently, the concept of risk is ill-defined within philanthropy, with no standard taxonomy or framework for assessment. To address this, the Commons offers a definition and a proposed framework for discussing the concept of risk in philanthropy. This framework is not meant to be exhaustive, but rather to outline important categories of risk that can help the philanthropic sector engage in clear, productive conversations about risk.

In general, **risk is the likelihood that an event will occur that will cause some type of undesirable effect.** These events can occur anywhere, anytime. They may be predictable or not, controllable or not, and caused by internal or external variables. Risk is a spectrum, and for this reason, identical events may be deemed more or less risky based on the eye of the beholder. In short, risk is relative.

Moreover, while labeling something as a risk usually implies the possibility of a negative or harmful effect, taking that risk can be a profoundly positive or even necessary choice. While the existence of risk is objective, the choices one makes in the face of that risk are profoundly subjective. The objective versus subjective sides of risk can also be described as the difference between risk culture and risk management.

Risk culture refers to the concept of risk as a subjective choice. Risk culture speaks to a funder’s willingness to take certain risks—i.e., an appetite or tolerance for risk.

In contrast, risk management speaks to the objective existence of risk, regardless of one’s appetite or tolerance for taking it. Risk management, therefore, is solely concerned with the prevention of undesirable or harmful consequences in the face of existing risks. Risk management speaks to the grant-making process and the steps that funders and nonprofits can take to either reduce the likelihood of a risk or reduce the undesirable effect of that risk.

In both risk culture and risk management, there is no such thing as zero risk.

Risk Taxonomy

Even with the distinction between risk culture and risk management, a discussion of risk in philanthropy can quickly become confusing. To maintain clear terminology and to help funders compare and prioritize different types of risk, the Commons proposes the following risk taxonomy specifically designed for the philanthropic sector:

- **Financial Risk.** Financial risk refers to events that could cause a foundation to lose money or financial value. Funders often think of this category in terms of a foundation’s endowment or corpus, but funders should also consider the value they place on the financial cost of a grant or other investment made for the purpose of social impact. This lens motivates impact-oriented questions such as: How much money are we willing to risk to achieve impact? In what scenarios would we rather lose money or lose impact? When are we willing to spend more to ensure desired impact?

- **Reputational Risk.** Reputational risk refers to events that could cause a foundation to lose face or experience some type of perceived embarrassment. In philanthropy, this could include making a grant that may result in poor public perception or that embroils the name of the funder in a controversy. Funder appetite for reputational risk varies, but funders with a commitment to learning or innovation may need to be more open to reputational risk.
- **Governance Risk.** Governance risk refers to events that could affect compliance with legal, tax, or good governance practices. This may include conflicts of interest, inappropriate organizational structures, and/or inexperienced or unqualified boards. Unlike financial or reputational risk, and given the underlying legal factors, the Commons does not recommend that a funder take governance risk without simultaneous steps to mitigate that risk. It is important to note that even with mitigation, governance can still be affected by unknown or unpredictable risks, such as the death of a board member or a change in law that demands a sudden change in governance structures.

- **Impact Risk.** Impact risk refers to events that could negatively affect the intended impact of a project. This is also called implementation or execution risk. To the Commons, this is a critical area for philanthropy, as risks to impact are risks to our reason for existence. Impact risk—i.e., events that could derail impact—can occur at the grant and portfolio level and at the project and organizational level. Evaluating and managing impact risk is the primary focus of the work of the Commons and typically the type of risk the members had in mind in developing this toolkit.

Within all of these categories of risk, various kinds of negative events can affect impact, and these events can be further broken down into additional categories (political, environmental, social, logistical, etc.). The Commons did not endeavor to catalogue everything that could go wrong, but rather to discuss how the philanthropic sector prepares for and responds to the inevitable presence of risk in its work. This framework is designed to address everyday risks, rather than catastrophic events such as natural disasters or large-scale conflicts, which require entirely different forms of risk management and preparation.³

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² For example, funders may choose to take governance risk in the case of investing in a nonprofit with an inexperienced board but should consider taking steps to bolster the board as part of their engagement.

³ For more on risk management and resiliency practices related to large-scale natural and humanitarian disasters, see the National Center for Disaster Preparedness and the Center for Disaster Philanthropy.
TOOLS FOR RISK CULTURE

Risk culture refers to an organization’s attitude toward risk and its appetite or tolerance for taking versus avoiding risk. The risk culture tools endeavor to help funders define where they are on a risk appetite spectrum and where they want to be. These tools also seek to bring internal and, potentially, external clarity to the process by which they make choices regarding taking risks.

It is important to note that defining risk culture is value neutral. Being risk averse is not objectively better than being risk taking, and vice versa. In a similar vein, while risk often takes on a negative connotation, it can be a positive or even necessary idea in the context of risk culture. For example, innovation is dependent upon taking risk as, by definition, the innovator is trying something new and unproven. Similarly, the general wisdom that “without great risk, there can be no great reward” underscores the positive side of a risk-taking culture. Yet, we also know that certain endeavors may be “too risky.” Where this line of risk tolerance falls is ultimately a subjective choice, and a funder’s risk appetite may differ when considering an individual grant versus a portfolio of grants.

Many in our sector have said that philanthropists should be the ultimate risk-takers. Regardless of whether one agrees with this statement, the Commons believes that all funders should understand where they sit on the risk appetite spectrum and what that means for their programs. This intentionality is essential to developing policies and practices commensurate with that risk profile and to articulating those policies to staff members and grantees.
Risk is a core component of innovation, learning, and continuous improvement. By fostering reflective conversations about risk internally, foundations will be better positioned to mitigate and minimize undesirable risks. They will also be better able to take risks that could result in outsized impact, to ascertain lessons from less successful grants, and to contribute to improving philanthropy’s discourse about risk by sharing their experiences.

As a first step to assessing risk appetite, funders should have internal conversations to better understand how they define and perceive risk from cultural and operational perspectives. These conversations are best positioned to begin at the board of directors or executive level. While this conversation can often be facilitated internally, an organization may consider bringing in a neutral facilitator if the conversation is expected to surface conflicting perspectives on what the foundation is and should be doing in terms of taking risk.

Below is a list of considerations and set of guiding questions designed to support such a discussion. Ideally, board members should discuss these questions and highlight where consensus and disagreement exist. As an outcome of this discussion, funders should be able to determine where they align on a risk appetite spectrum by matching their answers to the risk-profile descriptions below. Additionally, in examining their past practices, funders can identify their own areas for improvement when it comes to taking or mitigating risks in the service of impact.
## Considerations Affecting Risk Appetite

### General Attitudes Toward Risk
- How does our organization define risk?
- When should we take risks, and when shouldn’t we?
- Are we more concerned about losing money, losing face, or losing opportunities for greater impact?
- How willing are we to partner with organizations that lack clear strategic plans, have trustees with minimal experience, lack a clear organizational structure, or pose another governance risk?
- How willing are we to associate our name with a grant, project, partnership, or approach that might be seen as controversial or reflect poorly on us?

### Attitudes Toward Innovation & Failure
- Do we prefer to invest in innovative or tried-and-true methods?
- Do we prefer to invest in new organizations or those with longer track records?
- How comfortable are we investing in geographies that are new to our grantee?
- What is an acceptable failure rate? What does failure mean to us?
- How do we respond as a funder when one of our grants fails?

### Risk Profile of Existing Portfolio
- Looking at grants over the past three grant cycles or years:
  - What percentage were high-, medium-, or low-risk grants?
  - What percentage went to start-up organizations or pilot projects, and what percentage went to established organizations or ongoing projects?
  - What percentage of grants failed? (Hint: If the answer is zero, you may not be getting the full picture of your grants.)
  - Does our grant portfolio over the past three years match what we believe is our ideal risk profile? If not, why not?

### Budget Flexibility
- How often have we exceeded our annual grant-making budget due to unexpected events? By how much?
- Under what circumstances are we willing to provide additional off-cycle funding to projects in our portfolio due to unexpected events? Does this appetite level change for what we perceive as high- or low-risk grants?
- Do we (or do we plan to) set aside contingency resources at the project or portfolio level?

### Internal & External Communications
- How often do our board and staff discuss risk management, failure, and the trade-offs between risk and reward?
- Do we communicate our risk profile openly among staff or external audiences such as potential grantees?
- Do we ask about potential risks in RFPs and grant applications?
- How willing are we to facilitate open conversations about risk with applicants before and/or during a grant?
- How willing are we to work with applicants and grantees to mitigate risk before and/or during a grant?
Risk Appetite Spectrum
To help funders and the community at large determine their risk appetite, we have developed a basic spectrum, outlined below.

**HIGH RISK TAKING**
If your answers demonstrated a higher willingness to take risks and learn from failures, then you are likely a high-risk-taking organization. Innovation is critically important to you, even if it means occasional failure, financial loss, or loss of face. You are willing to exceed your annual grant budget due to unexpected events to ensure that your projects yield high social impact returns, which in turn allows you to take greater risks. Your organization likely believes that taking risks is essential to achieving social change, so you make sure your portfolio includes high-risk grants with commensurately higher returns. A relatively high percentage of your grants supports new ideas or start-up projects, and you are well-suited to invest in new and innovative nonprofits that may have a longer time horizon for impact.

**MODERATE RISK TAKING**
If your answers tended to waver between high-risk and low-risk approaches, you are likely moderate when it comes to risk taking. You probably believe that taking occasional risks can yield greater impact, but only when balanced by other long-term, established projects. You are sometimes willing to exceed your annual grant budget when the likelihood of impact is greater than the potential for risk. Your portfolio likely includes a balance between first-time and repeat grants, and you might be willing to fund a small percentage of higher-risk projects, with most of your grants focusing on proven organizations or established projects with shorter timelines. You recognize that in focusing on tried-and-true, shorter-term projects, you may be forfeiting potentially greater impact from longer-term or riskier endeavors.

**LOW RISK TAKING**
If your answers demonstrated a desire to make conservative decisions in pursuit of your goals, you are likely a low-risk-taking organization. Stability and proven methods/organizations are very important to you as you seek to achieve impact. You likely prefer not to associate your name and reputation with an unproven idea or controversial program. Fiscal conservation is important to you and thus you tend to remain within your annual grant budget, and you are less likely to fund first-time projects or younger organizations whose methods are not yet proven. You may be most comfortable funding short-term projects that you can easily oversee. Your portfolio may consist mostly of repeat grantees whose level of impact is proven and where the likelihood of disruption is minimal, even if that means forfeiting opportunities for greater impact with alternate, less proven endeavors. Leaders of your organization may be less comfortable fostering conversations about risk.
**HOW TO CREATE A RISK PROFILE STATEMENT**

A risk profile describes the amount of risk, on an organizational or programmatic level, that a funder is willing to accept in pursuit of its goals. Funders should draft risk profile statements and circulate them internally so that staff members may align themselves to the risk culture of the organization. Funders may also consider publishing their risk profile on their website and including it in RFPs and grant application forms, so that external stakeholders can understand how well their work aligns with the funder’s stance on taking risk.

What follows is a template outline that funders may consider as a starting point for statement. In general, a profile statement should begin with an overall statement of risk appetite, followed by relevant considerations on specific types of risk. Funders can use this tool to develop an organization-wide risk profile statement, or program-specific risk profile statements, should they have programs with different risk appetite levels.

The Commons has also developed a complementary tool, *How to Talk About—and Determine—Your Appetite for Risk*, which funders may wish to refer to when determining their risk profile.

**Risk Profile Outline**

**Statement of Overall Risk Appetite**

This brief paragraph should provide a general overview of the funder’s or program’s risk appetite. Based on discussions that ensue from the conversation guide, executive directors and boards should have a sense of how risk-taking or risk-averse their organization or program is, and through which types of investments they are most comfortable pursuing their objectives. In this section of your risk profile, consider including the following information:

- Where you, as a funder or program, fall on the risk appetite spectrum
- The goals of your organization or program and during what period of time
- Which categories of risk you are most concerned about
- The percentage breakdown of your grant-making portfolio in terms of high-, medium-, and low-risk grants
- Circumstances in which you are comfortable with failure

**Sample Language from Funders**

Through its own research, the Commons saw funders use the following language:

- We are very comfortable with risk. Foundations have “creative capital” and can test solutions that others may be afraid to try.
- We are comfortable with risk in the sense of new programs, start-up organizations, and funding something where results may be hard to see (leadership skills in youth, for example), but we want some evidence based on facts that what we are doing has a good chance of success.
- We think we should mitigate risk. There are enough good organizations and needy endeavors that have fairly certain outcomes.
- We want to avoid risk altogether. This is not our money and we have the obligation to ensure every dollar achieves its goals.
Statements that Address Specific Types of Risk

Financial Risk
In describing your organization’s or program’s approach to financial risk, consider including the following information:

- Describe your budget and other policies regarding contingency funding for unforeseen roadblocks that occur during project implementation
- Define the percentage or amount by which you are willing to exceed your annual budget to provide contingency funding. Some funders may not want to share a specific percentage of contingency externally, but the Commons encourages funders to establish this percentage internally.
- Describe your level of willingness to invest in new organizations or projects
- Describe your level of willingness to invest unilaterally or as a first funder
- Describe where financial risk ranks in importance among other types of risk

Reputational Risk
Consider including a few sentences about your organization’s or program’s approach to reputational risk:

- Describe how you think about your reputation in relation to your grantees, the community within which you operate, and/or via other filters
- Describe when your reputation may affect your actions, and if so, how
- Describe the risks that you believe would damage your reputation, and what the consequences would be
- Describe where you are willing to risk possible impact to your reputation
- Describe where reputational risk ranks in importance among other types of risk. Consider the statement: “I’d rather lose face than...”

Governance Risk
Consider including a few sentences about your organization’s or program’s approach to governance risk:

- Describe what considerations of a grantee’s governance are most important to you for achieving impact (e.g., organizational structure, conflicts of interest, ability to provide reporting, strength of the board)
- Describe where governance risk ranks in importance among other types of risk
- Describe under what circumstances you are willing to invest in a grantee that has poor governance structures and the extent to which you are prepared to help the grantee improve its governance structure through financial or non-financial means
Impact Risk
Whereas the above risks focus primarily on risks to the foundation, impact risk refers explicitly to risks that could affect intended impact. Impact risk can occur both at the project and portfolio level. Consider these guiding questions to draft a few sentences about your organization’s or program’s approach to impact risk:

- Describe where impact risk ranks in importance among other types of risk
- Describe under what circumstances you are willing to invest in a higher-risk project for the chance to achieve greater impact
- Describe how far you are willing to go to ensure impact
- Describe your approach to innovation and learning
HOW TO INCORPORATE YOUR RISK PROFILE INTO YOUR ORGANIZATIONAL CULTURE

Setting a risk profile at the board level is a critical first step in establishing a funder’s risk culture. But like all organizational values, foundation leaders need to take deliberate steps to implement and live those values throughout all levels of the organization. By taking steps to incorporate your risk profile into your organizational culture, funders can not only align standards, but also embrace risk as a pathway to learning. Establishing your organization’s risk profile and adopting risk-related tools are critical first steps. However, to truly learn from risk and failures, you will need to make risk management part of your daily practice and grant making. This document provides some ways to do so.

1. **Make sure your organization has established a clear risk profile.** Refer to *How to Talk About—and Determine—Your Appetite for Risk*, which provides a list of discussion questions to help your board clarify its risk profile. Then use *How to Create a Risk Profile Statement* to draft a customized risk profile for your organization to circulate among staff members and use to train new employees.

2. **Hold regular conversations with board and staff members.** Emulating a common practice among doctors who gather every Monday morning to discuss the past week’s failures and mistakes, funders should institute regular conversations about risk and failure to keep the topic front and center. Main topics may include: the foundation’s core values, its risk appetite (overall or within distinct programs), the right balance between risk and reward, the benefits of taking certain risks, and opportunities to learn from failure.

3. **Communicate your risk culture to external stakeholders.** Consider posting your risk profile statement on your website and include it in RFPs to help potential funder partners and grantees gain a better sense of whether you are a good match. In addition, existing grantees may value this indirect guidance on when to communicate about challenges and what new investment opportunities may be appealing to you.

4. **Include risk in your RFP and M&E processes.** Asking a risk-related question of potential grantees in an RFP paves the way for a transparent conversation about risk, and the applicants’ responses will help you assess whether a mutual fit exists. (See *How to Incorporate Risk Management into RFPs and Grant Application Forms* for more specific guidance and sample language.) Program officers should also share risk assessments with the board when writing a summary for the grant docket to make risk a regular conversation between staff and board members. This is also a good test of whether you as a funder are actually working in a way that is aligned with your intended risk profile and approach.

5. **Don’t penalize program officers if a grant fails.** Offer incentives to your staff members for taking smart risks (in line with your profile) and embracing full or partial failure as actionable learning opportunities. Create space and opportunities for your program officers to discuss the good, bad, and ugly of their experiences in their monitoring reports and status updates. Structure your grant reports such that you do not overly focus on the past but instead seek to draw lessons that can be directly applied to future projects. See *How to Incorporate Risk Management into Monitoring and Evaluation* for more specific guidance and sample language.

6. **Discuss risk management in annual performance conversations with staff members.** Staff members should be rewarded for taking smart risks, applying your risk profile to investment recommendations and decisions, practicing good risk management with their grantees, exercising good use of contingency resources, and taking advantage of opportunities to learn from failure. Consider identifying specific key performance indicators for employees that are related to your risk profile and intentions.
TOOLS FOR RISK MANAGEMENT

While establishing a risk profile and incorporating it into your culture is a critical first step, without the appropriate structures in place to manage existing risk, the intentions of an organization’s risk profile become moot. In other words, if one lacks the capacity to identify and manage risk, one can never actually take risk. Because risk is inherent in philanthropic work, mitigating risk is a best practice for all funders, requiring effective policies and tools. With these policies and tools in hand, funders will be able to position themselves to take, in the words of Dr. Judith Rodin, the president of the Rockefeller Foundation and co-convener of the Commons, “smarter risks rather than safer bets.”

Risk management is the implementation of specific policies or procedures designed to either reduce the likelihood that a certain risk event will occur and/or to reduce the potentially harmful effects of that event should it occur. Like monitoring and evaluation, risk management is an ongoing process.

The risk management process includes the following four steps, which are also illustrated in the graphic on the following page.5

- **Risk assessment:** Identifying, evaluating, and prioritizing among risks based on likelihood and potential consequence
- **Risk mitigation:** Determining and taking steps to manage identified risks
- **Contingency planning:** Developing alternative plans in the event that the unexpected or unpredictable happens
- **Risk monitoring:** Determining processes that can actively monitor known and new risks as they arise

The Commons focused its thinking on managing for risks that affect impact rather than for legal or financial protection. As such, the tools that follow are specifically geared toward the grant-making process and funder-grantee relationship, rather than considerations that are internal to a foundation alone.

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5 Variations on this cycle have been studied and documented widely. The graphic is adapted from the Charity Commission’s “The Risk-Based Approach,” 2011.

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**Risk Assessment at St. David’s Foundation**

St. David’s Foundation developed a risk assessment matrix to track its grantees’ operational and financial risks. The matrix scores grantees on factors such as: grant amount as a percentage of the grantee’s annual budget; existence of other funding for the program; availability of recent audited financials and financial backup; board competence and stability; and staff expertise. After scoring grantees, St. David’s Foundation categorizes them as being low risk, some risk, medium risk, or high risk. In addition to determining an overall level of risk, the matrix also identifies the specific risk factors for each grantee. By assessing risks this way, the foundation can minimize surprises and be proactive in helping grantees mitigate risks in advance when possible. A tool of this sort is ideal for donors who know their partners relatively well – for instance, St. David’s Foundation typically attends at least one grantee board meeting per year.
The Risk Assessment Cycle

- **Assess and prioritize risks:** Understand how the risks might present themselves.
- **Determine and take steps to mitigate** against and manage the risks identified.
- **Create contingency plans based on level of risk.**
- **Communicate contingency plans and decision-making protocols with all key stakeholders.**
- **Monitor project, take note of lessons learned.**
- **Assess risk as new projects arise or as changes are implemented.**
- **Consider input from key stakeholders such as staff members, beneficiaries, and like-minded organizations.**
- **Review and consider feedback from all stakeholders.**

Adapted from the Charity Commission

There are many available tools that help organizations identify and assess risks, such as the PESTLE framework or SWOT analysis. Given this, the Commons focused on developing tools to assist in the risk mitigation and contingency planning phases of the risk management cycle. These topics include funder/grantee communications, project budgets, RFPs, governance structures, monitoring and evaluation processes, etc. Funders can use the following tools at every stage in the grant-making cycle.
HOW TO SET ASIDE CONTINGENCY FUNDING

Funders should set aside contingency funding as part of their organizational and grant budgeting processes. Every foundation should have contingency funds, although the size and scale of its contingency resources will depend on its risk profile and the type of organizations and projects in its grant-making portfolio. This document provides guidance on how funders can determine what amount of contingency resources would be appropriate.

1. Set aside contingency resources at your foundation and inform your staff members of their purpose.
   Consider setting aside a portion of your grant-making budget to deal with the inevitable but unexpected challenges that your grantees will face. You can establish contingency funds at the project or portfolio level as either a set dollar amount or a percentage. Make sure staff members are aware of these contingency resources and of the criteria and decision-making protocols for accessing them. Managing contingency funds centrally can help ensure both efficiency and open communication around utilizing contingency funds.

2. Determine an appropriate amount of contingency resources based on:
   a. Your foundation’s general risk profile. Refer to How to Talk About—and Determine—Your Appetite for Risk. If your foundation is investing in projects that have a higher potential of unknowns or variables that can affect impact, it will likely require more contingency resources than if you are investing in more understood efforts where the risks are more overt, easily mitigated, and/or less likely.
   b. The composition of your grant-making portfolio. Assess how much of your portfolio is made of high-, medium-, and low-risk investments. If your portfolio leans toward higher-risk grants, you will need to set aside a larger percentage of your budget for contingency funding. In addition, examine your track record of funding. If your portfolio skews toward start-up organizations and first-time, planning, experimental, or learning projects, then you may need to set aside more contingency resources than if you typically fund well-established organizations and proven or well-understood projects.6

Contingency Funding for Donor Collaboratives
Setting aside contingency funds can be a particular challenge for donor collaboratives where no funder is solely responsible for the outcomes of the project. Here are a few suggestions to address this:
1. Have a conversation with all stakeholders upfront to establish a plan.
2. Consider having everyone contribute equally or a weighted amount, or having one funder pick up the tab.
3. Create an escrow of contingency by setting aside the funds internally or paying into a third-party account that is only accessible based on agreed-upon criteria.

6 Certain high-risk strategies, such as challenge grants or venture philanthropy models, may make the deliberate choice not to have contingency funds as the purpose of the strategy is to fail fast.
c. **Your grantees’ financial situation.** Analyze your grantees’ financials. If your grantees tend to have less cash on hand and lower unrestricted net assets, then you will likely need a larger contingency fund.\(^7\)

d. **Your track record of contingency requests.** Poll your staff members to see how many contingency requests they received over the past year and the total dollar amount of those requests. Keep in mind that these figures may be artificially low if you have not historically had a policy or practice of contingency funding.\(^8\)

e. **Your assessment of future risk factors.** Consider increasing your contingency fund if there are factors that may lead to greater risks—for example, a shift in your risk profile or an external event (e.g., an election for a funder that invests in advocacy activity) that may have an outsized impact on one of your program areas.

### 3. On an annual basis, assess how your contingency funds have been used and whether the resources you set aside were sufficient.

Review your grantees’ interim and final reports to determine whether specific challenges arose that can be more effectively addressed upfront in future budgeting processes. Determine whether the contingency requests you received exceeded your available resources and whether requests you had to decline were particularly troubling for your staff members. Consider additional questions that allow you to reflect on your approach to contingency, such as:

a. What additional impact might your grantees have been able to accomplish if you had had more contingency resources on hand?

b. How might shifts in your foundation’s or program’s strategy lead to increased/decreased risk in the future?

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7 Financial stability (a.k.a. enterprise risk) at a nonprofit is a key risk that can have significant consequences on any project. For more on enterprise risk at the nonprofit level, see: [Risk Management for Nonprofits and The Nonprofit Starvation Cycle](http://openroadalliance.org/risk-in-philanthropy-funders-dont-ask-nonprofits-dont-tell-2015-survey-report/).

HOW TO BUILD CONTINGENCY PROTOCOLS

The Commons encourages funders to map out a clear process for managing and responding to contingency fund requests. This document outlines specific steps funders should consider when building out their contingency protocols.

Set Aside Contingency Resources
Determine how much in contingency resources to set aside. See How to Set Aside Contingency Funding for a list of guiding questions to help you determine the appropriate size and scale of contingency resources.

Establish Decision-Making Protocols
In your bylaws, outline decision-making protocols that clarify the roles your program director, executive director, board, executive committee, and/or fast-acting decision-making committee should play, as well as any specific voting procedures and the timeline for making a decision. In the case of a fast-acting decision-making committee, your bylaws should outline who will serve on the committee, how it makes decisions, and the process by which one would convene a session.

Communicate Process to Grantees
Be sure your grantees know who to contact if they encounter a challenge with their project. Do this by including emergency contact information (a name, phone number, and email address) in grant agreements. As you are able, in your grant agreements, clarify when grantees can anticipate a response to such a request and how long it typically takes to process contingency funds, if approved.

Communicate Decision to Grantees
Important information to share when responding to your grantee’s request will include: the amount of contingency funding approved, when the grantee should expect to receive the funding, and any additional requirements/expectations (e.g., a subsequent narrative or financial report on how the contingency funding was spent). If the request is denied, provide the reason(s) for the denial, which will help grantees avoid bringing similar requests in the future.

Establish Criteria
Develop a list of criteria for evaluating requests for contingency funding. Possible criteria may include: urgency of request, the level of impact at risk for the project, the likelihood that contingency funding preserves desired impact, grantee’s operational and administrative performance to date, confidence in grantee’s ability to manage future risks, and the level of alignment with the type(s) of risk you are willing to cover.
HOW TO INCORPORATE RISK MANAGEMENT INTO GOVERNANCE PRACTICES

Funders should consider embedding best practices for risk management into their governance and decision-making structures. This document provides specific guidance on how funders can modify their governance approaches with specific policies and procedures to address risk and offers sample bylaw language for funders to adopt or adapt.

1. Ensure your bylaws establish a fast-acting decision-making committee. This committee, whether synonymous with the executive committee or some other group, is often necessary to respond to risks and contingencies in a timely manner. When risks arise, neither funders nor grantees can wait until the next pre-scheduled board meeting. Your bylaws should clearly explain who serves on this committee, how it makes decisions, and the process by which one would convene a session. Ideally, this committee would meet on an as-needed basis when an urgent request from a grantee arises that requires immediate action.

2. Consider granting your executive director and/or program directors authority over some contingency funding. Giving staff members more authority to make decisions and manage contingency funding will make them partners in risk identification and management throughout project implementation. It also creates more ownership among staff members to determine when contingency funding is critical for preserving impact. Funders may also decide that some contingency funding should remain under the authority of the board or an organization-wide committee to deal with unexpected risks that may arise. The appropriate division of contingency resources depends on your risk profile, whether different programs operate at different risk levels, and whether there are specific types of risks about which you are most concerned. If staff members are involved in these decisions, make sure that risk management is part of annual performance evaluations and that program officers are incentivized to address risks proactively throughout project implementation. Possible approaches include:
   - **Example A:** The executive director is authorized to disburse up to 10 percent beyond the original budget of the project for contingencies. Contingencies that need greater than 10 percent or $50,000 must go to the fast-acting decision-making committee for approval.
   - **Example B:** The executive director has sole authority over a $100,000 contingency fund each year to use for grantee contingencies. While the ED holds sole discretion over disbursement, these funds may only be used according to the contingency criteria laid out by the board.

3. Include contingency funding as part of your organizational and grant budgeting processes. Consider setting aside a portion of your grant-making budget to deal with the inevitable but unexpected challenges that your grantees will face. You can establish contingency funds at the project or portfolio level as either a set dollar amount or a percentage. Ultimately, the size and scale of your contingency resources depends on your risk profile, the type of organizations and projects in your grant-making portfolio, and the scale of your grant making. See [How to Set Aside Contingency Funding](#) for more guidance on how to set a contingency budget.
4. Establish clear criteria and decision-making protocols for evaluating requests for contingency funding. Having specific criteria and guidance in place for your staff members and grantees will ensure that you treat each request fairly. If staff members are empowered to play a role in these decisions, such clarity will help them evaluate different requests equitably. Possible criteria may include: urgency of request, the level of impact at risk for the project, the likelihood that contingency funding preserves desired impact, grantee’s operational and administrative performance to date, confidence in grantee’s ability to manage future risks, and the level of alignment with the type(s) of risks that you are willing to cover. Decision-making protocols should address who the main decision makers are, the voting procedures, the timeline for making a decision, and responsibility for communicating decisions back to grantees.

5. Deploy contingency resources in a way that aligns with your own processes. For example, if you are a large institutional funder and want to minimize bureaucratic hurdles, you may be best served by considering contingency funding to be a supplemental grant rather than a new grant and by treating the contingency funding more as operational support rather than programmatic support. Other options may include: 1) transferring the contingency funds to a third party at grant execution, or 2) providing contingency as part of a grantee’s individual budget, which it could then repurpose as operating reserves if it does not end up needing the funds during project implementation. Remember that contingency can take other non-monetary forms, such as no-cost extensions, technical assistance, connections to other funders, and borrowing/seconding staff members, which may be easier for you to deploy. For more, see How to Implement Non-Financial Risk Mitigation Strategies.

6. Build processes to reflect on risk after the fact. Funders should reflect both internally and with grantees on risks that occurred during grant cycles and consider whether the risks were predictable/preventable or not. This may include engaging in a risk audit or post-mortem discussions with grantees about whether either party could do anything differently next time. In addition, funders should discuss internally the risks that arose in their portfolio so they can identify patterns, such as recurring risks overall or with a particular grantee. Sharing these trends with the board and organization as a whole will also help hone your risk profile.

Risk Management in Practice: Budget & Finance at the Rockefeller Foundation
At the Rockefeller Foundation, the board and staff have created a flexible contingency budget structure in two ways. First, every year the board authorizes the president to go above the annual budget by as much as five percent to ensure the success of the foundation’s initiatives. This discretionary contingency fund allows the foundation to move quickly in order to support grantees and initiatives that may be facing unexpected obstacles. Second, by working within an initiative-based strategy, the board also approves multi-year initiative budgets, which allows Rockefeller’s executive team and CFO to manage the budgets in a portfolio rather than a grant docket approach. This enables the foundation staff to respond to unexpected needs and shift funds from one area to another.
HOW TO INCORPORATE RISK MANAGEMENT INTO RFPS AND GRANT APPLICATION FORMS

Funders can help pave the way for more transparent exchanges with nonprofits about potential risks to impact by raising the topic of risk in RFPs and grant application forms, which should align with their risk profile. This document provides specific guidance on how funders can do that, and offers sample language for funders to adopt or adapt.

1. Include your risk profile statement in RFPS and grant application forms.
Help potential grantees understand whether they are a good match for you by explaining your risk appetite level upfront. Your risk profile should include:
   a. A description of your overall risk appetite level and a brief explanation of your reasoning
   b. How you define risk and what you see as the right balance between risk and reward
   c. Guidance on when/where you are willing to take risks and when/where you prefer to be more conservative
   d. Considerations on the benefits of taking certain risks and opportunities to learn from failure
   e. An overview of the makeup of your investment portfolio (e.g., percentage breakdown of high-, medium-, and low-risk grants, restricted vs. unrestricted funding, amount set aside for learning grants)

2. Include at least one risk-related question in RFPS and grant application forms. Asking such a question paves the way for an open conversation about risk, and the applicants’ responses will help you assess whether a mutual fit exists.9 Possible questions that lend themselves to written responses include:
   a. Specify the top three risks you may encounter during the course of this project, the steps you will take to mitigate these risks, and how we (as the funder) could help.
   b. What kinds of events could happen to derail the intended impact of your project?
   c. What risks have you encountered implementing similar projects in the past, and how did you react/respond?

3. Discuss risk with grant applicants. When it comes to risk, written responses are not sufficient, and the Commons encourages funders to engage in conversation with applicants about potential risks to impact. Make it clear that you view yourself as a partner—consistent with your risk profile—in helping them tackle risk mitigation and management. Sample questions that lend themselves to an in-person interaction include:
   a. When you consider this project, what keeps you up at night?
   b. What obstacles do you foresee with project implementation?
   c. What can I do—either now or down the road—to help you mitigate risks to impact?

4. Request financial documentation. As part of the RFP or grant application form, consider the following financial information to help you analyze the financial standing of the organization.10 Specifically, you should:
   a. Review the organization’s project budget and overall organizational budget to make sure they are realistic, as it is not uncommon for nonprofits to under-budget in order to competitively secure a grant.11

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9 Be aware that many nonprofits are hesitant to share potential risks for fear that it will jeopardize funding. Reassure your grantees that this is not a test for flaws, but rather an opportunity to begin a conversation that can help ensure impact.

10 Financial stability (a.k.a. enterprise risk) at a nonprofit is a key risk that can have significant consequences on any project. For more on enterprise risk at the nonprofit level, see: Risk Management for Nonprofits and The Nonprofit Starvation Cycle.

11 See Project Risk and Impact: A Case Study from International Development.
b. Request the two most recent IRS Form 990s, so you can review the balance sheet for assets and liabilities, and consider the amount of unrestricted net assets held, as these assets are often the only source for nonprofits to “self-insure” their programs.

c. Request cash flow projections for the next 12 months to assess fundraising and spending trends. Understanding where the organization may face cash flow crunches will also allow you to better time your gift(s) to avoid being the source of a crunch and/or possibly alleviate anticipated cash flow shortfalls.

d. Inquire about currency hedging practices, if the nonprofit works internationally.

Ideally, such requests would not require more work by the applicant, particularly if you remain flexible about the format/structure of the information provided. For example, request the budget in the nonprofit’s own format rather than in your template. Not only is this less work for the grantee, but it can also be helpful for you as the funder to identify potential risks or areas where you can help or serve as a resource (e.g., financial analysis, strategic planning, staff development). Last but not least, if you see something that concerns you, do not write off the applicant, but instead engage him/her in a conversation as he/she may be able explain the circumstances surrounding your concerns.

5. **Right-size your RFP and grant application form to better align with the risks at hand.** Higher-risk projects may require deeper vetting and therefore risk assessment and mitigation, whereas lower-risk projects and/or repeat grantees may benefit from a more streamlined proposal or application form. Likewise, you should consider the size of your investment relative to the cost of the project and/or the budget size of the organization. A relatively small investment, risky or not, requires less due diligence. Additionally, you should align your processes based on the sector and geography. For example, if you are investing in a large international project, consider asking a question about the risks posed by the subcontractors, in addition to assessing risks with the primary grantee.

6. **Be prepared to respond to risk-related questions from applicants.** As you broach the topic of risk with grant applicants, they are bound to pose questions that you will want to be ready to address. Common questions that may arise include:

   a. Tell me more about your risk appetite level.
   b. What types of risks are you more comfortable with as a funder?
   c. Have you ever had a grant that failed? How did you react, and what did you learn?
   d. Have you ever had a grantee that needed contingency funding to prevent a project’s impact from being jeopardized? How did you react, and what did you learn?
   e. What information would you need from me if I encountered a significant obstacle during project implementation? Who should I contact in such a scenario?

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12 Many nonprofits may not have cash flow projections as a pre-existing report, and producing one could exceed the organization’s abilities and/or be an outsized burden. Funders should understand where their grantees sit and right size their requests accordingly.
HOW TO INCORPORATE RISK MANAGEMENT INTO MONITORING AND EVALUATION

Risk management does not end with the grant check. Unlike due diligence, risk management is an ongoing process, as risks themselves are dynamic and shift over time. As such, funders should align their monitoring and evaluation processes with the level of risk anticipated for each portfolio or project. Funders should continue to engage grantees in conversations about risk throughout project implementation, and tailor the frequency and depth of these exchanges to align with their risk profile. This document provides specific guidance on how funders can address and mitigate risk through the monitoring and evaluation process and offers sample language for funders to adopt or adapt.

1. **Right-size your reporting requirements to better align with your risk profile and the risks at hand.** For example, allow repeat grantees or lower-risk grants to submit more streamlined interim and final grant reports. In contrast, for high-risk projects, you may want to request more detailed reporting so you are well-positioned to partner with your grantee to help address and mitigate risks as they arise. See the box to the right for an example tool to monitor projects based on their level of risk.

2. **Go beyond only asking your grantees what challenges they are facing.** Such a question—posed at a mid-implementation point—will likely result in a stock answer. Instead, take the time to connect verbally and ask your grantee more nuanced, engaging questions, such as:
   a. What about this project is keeping you up at night? How have your concerns changed since project launch, if at all?
   b. It sounds like things are going really well overall. What’s not perfect right now?
   c. You’ve told me about the good and the bad—now tell me about the ugly.
   d. Has the project faced risks that were not only avoided but yielded significant return/impact?

3. **Revisit the topic of your grantees’ financials.** Take the time to gather updated financial documentation from your grantee, including cash flow statements, if available, and reexamine any concerns you had regarding the nonprofit’s financials at project launch. Make sure to go beyond the project budget to really assess the ongoing health of the organization overall, which is critical to its ability to overcome project-level challenges. Important questions to ask your grantee include:
   a. Have you faced any cash flow crunches (inside or outside of this project) since we last connected? If so, why?
   b. Since the last time we talked, did you not receive any funding that you had been anticipating? If so, why?

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**Risk Management in Practice: Risk Scorecard**

At Open Road Alliance, the recoverable grants team developed a Risk Scorecard that assesses individual grants across a range of roughly 30 pre-identified risk factors that include balance sheet strength, liquidity, management quality, operating methodologies, country risk, regulatory risk, and others. Categories are weighted according to Open Road’s risk profile and preferences. Based on qualitative and quantitative assessment, each recoverable grant is then assigned a “risk level category,” which determines the extent of monitoring and reporting. For example, a project in the lowest risk category is only asked to have a 30-minute verbal check-in with the portfolio manager once a quarter, whereas those in the highest risk category may be asked to submit monthly financials along with an in-person site visit every quarter. During these check-ins, risk levels are reassessed and scores are shared and discussed with grantees.
c. How have your revenue projections for the next six months shifted, if at all, since we last spoke?
d. Do you anticipate having any grant funds left over? If so, how do you plan to allocate these resources?

4. **Use the final grant report to identify actionable solutions for both funder and grantee.** Rather than simply using the final report as an opportunity for grantees to reflect on challenges they faced and lessons they learned, the Commons encourages funders to use the final report to push both themselves and their grantees to think about what they might consider doing differently in the future. Making the final report template forward-looking and actionable—or even conducting a face-to-face exit interview—will make the exercise more useful for grantees, and position them to identify solutions and better mitigate and manage future risks. Sample questions may include:
   a. In hindsight, what would you have done differently in terms of project implementation? What might you change next time in terms of staffing, partners, resources, etc.?
   b. If implementing a similar project in the future, how might you shift your approach?
   c. How could we as a funder be a better partner to you in the future? What do you need more or less of from us?

5. **On an annual basis, assess how risk has affected your portfolio. Funders should review the risks that have arisen to identify patterns and course correct if needed.** For example, funders may find that they consistently encounter the same type of risk in their portfolio and could proactively address this with grantees moving forward. In addition, funders may realize that risks frequently occur with one particular grantee and that having more in-depth and/or frequent conversations about risk with that grantee could help alleviate this issue.
HOW TO IMPLEMENT NON-FINANCIAL RISK MITIGATION STRATEGIES

Financial support is not the only way to mitigate risk, and it is not necessarily the most effective measure in every circumstance. Additionally, some funders are unable or unwilling to set aside contingency funding. In those cases, providing non-financial support could make the difference in preserving impact. This document outlines non-financial strategies that funders could consider pursuing to partner with grantees in addressing and mitigating risks.

1. **Approve a no-cost extension.** Assess whether the grantee needs to fulfill its activities within a specific time frame in order to achieve the desired impact, or whether a longer project timeline would be acceptable. Communicate with and listen to the grantee to understand the urgency of its activities and the feasibility of extending the project period. Consider who the beneficiaries are and what is at stake for them, how the grantee’s approach is tied to external factors that are time-sensitive, and how flexible the implementing staff members’ time is. Be sure to communicate with your own staff members, in addition to the grantee, to agree upon a new time frame for the project.

2. **Offer pro-bono technical assistance.** If specific technical expertise could help the grantee overcome the unexpected challenge, try to identify someone from your own organization (or externally) who could provide his/her expertise at no cost to the grantee. Communicate with the grantee to assess the needs for the project, as well as the time and level of effort required by your staff member. Communicate with your own staff members (or broader network) to identify someone with the skills and availability required to provide technical assistance. Finally, work with the grantee and your staff members to establish the parameters of this assistance.

3. **Loan or second relevant staff members.** If the grantee experiences an unexpected change in its staff (e.g., urgent family or medical leave, a sudden staff member departure) that could compromise its project’s impact, consider loaning one of your own staff members to fill the gap. Communicate with the grantee and your staff members about the timeline and any specific needs for the project, and assign a staff member who has the skills and availability to support the project.

4. **Connect the grantee to other funders.** If over-reliance on one or a few funders is endangering a grantee’s impact, help the grantee build relationships with additional funders. In doing so, you can leverage your own investment and bring on new partners to help share the responsibility of mitigating future risks. To identify the right funders, look for those who are aligned in terms of mission and strategy, as well as their risk profile.

5. **Adjust expectations for milestones.** If roadblocks are making it challenging for your grantee to meet milestones, consider whether you should adjust your expectations. It is important to note that achieving impact and success are not necessarily the same thing. Impact may be objectively measured, but success is an inherently subjective measure that is built on an initial set of expectations. Setting realistic expectations can therefore help avoid disappointment, even if there is a loss of objective measures of impact. To this end, ask the grantee to generate an updated project plan, and review the revised milestones with your grantee and your staff members. Seek your grantee’s input on opportunities for you to serve as a partner in helping to mitigate future risks and in ensuring that the project meets the revised milestones.
HOW TO BUILD EFFECTIVE FUNDER-GRAnteE RELATIONSHIPS

All members of the Commons agreed that one of the most fundamental aspects of risk management lies within the funder-grantee relationship itself. Research shows that one of the primary barriers to successful risk management is a lack of transparency and trust between funders and nonprofits. Indeed, without transparency, the preceding suggestions regarding policy and procedure is just paper. While managing risk is a shared responsibility, funders are in a unique position to implement practices that foster an environment that allows nonprofits to be more transparent about possible risks to impact and more trusting of funders as partners for impact.

1. Lead by example. Funders can lead by example by developing a risk profile statement and then sharing this information both internally and externally. This statement should include:
   a. A description of your overall risk appetite level and a brief explanation of your reasoning
   b. How you define risk and what you see as the right balance between risk and reward
   c. Guidance on when/where you are willing to take risks and when/where you prefer to be more conservative
   d. An overview of the makeup of your investment portfolio (e.g., percentage breakdown of high-, medium-, and low-risk grants, restricted vs. unrestricted funding, amount set aside for learning grants)

Circulate your risk philosophy internally in order to:
   a. Foster alignment on risk appetite throughout all levels of your organization
   b. Train new staff members on how to think about risk when evaluating grant-making opportunities
   c. Encourage a culture of more open conversations about risk both internally and externally

Also consider posting your risk philosophy externally, including on your website and in RFPs and grant application forms, as this information is helpful for several external audiences, including:
   a. Potential grantees, who want to gain a better sense of whether you are a good match
   b. Existing grantees, who may value indirect guidance on when to communicate about challenges and what new investment opportunities may be appealing to you
   c. Other funders, who may be interested in partnering with you

2. Start the conversation. Given the power dynamics inherent in philanthropy, it is generally incumbent upon funders to start the conversation about risk, and to put the often-taboo topic on the agenda. Ask open-ended questions about potential project challenges to grant applicants. In your RFP or grant application form, include at least one question for applicants that will help illuminate potential risks to project impact. Such questions may include:
   a. What obstacles do you foresee with project implementation?
   b. What could happen to derail the intended impact of your project?
   c. When you consider this project, what keeps you up at night?
   d. What can we as a potential funder do—either now or down the road—to help you mitigate risks to impact?
3. **Be accessible.** Include emergency contact information in grant agreements. Make sure your grantees have a name, phone number, and email address for someone to contact if/when they encounter a project challenge. While this typically may be their program officer, in larger organizations or in cases where trusting relationships may be a concern to a grantee, having a third-party ombudsman may be an option to consider. As able, also clarify the timeline in which grantees can anticipate a response and guidance on how long it typically takes to process contingency requests, if approved.

4. **Encourage empathy.** Proactively take steps to ensure your staff understand the daily realities and challenges of nonprofit work. Consider hiring staff members who have been on the other side of the funding equation. Encourage your staff to volunteer, serve on the board, or be involved directly in a nonprofit organization outside of their role as a funder. Experiencing the other side builds empathy for the challenges facing nonprofits. They may also be in a better position to have open conversations about risk with grantees and to serve as an effective partner on risk mitigation during project implementation.

5. **Adopt additional grant-making practices that build resiliency within nonprofits.** The more resilient a nonprofit organization is, the higher the likelihood of it being able to manage risks and therefore achieve maximum impact. Pending your risk profile, you should consider a variety of specific grant-making practices and approaches to build nonprofit resiliency at the project and organizational level. These include:
   a. Providing unrestricted funding to enable your grantees to adapt quickly and efficiently to evolving on-the-ground needs. With unrestricted funding, grantees are more likely to be able to handle contingencies themselves.
   b. Executing multi-year grants—preferably spanning at least three years—to generate a longer-term relationship with your grantees and provide them with space to plan, implement, and adapt; as well as time to develop trust so that they can speak openly about potential, new, and emerging risks to their impact.
   c. Communicating about shifts in your risk profile or trustees’ interests. If you are limiting or eliminating funding, provide funding for a transition year, during which you continue to provide grant funding while helping your grantee to identify additional funders.
   d. Accepting grant applications on a rolling basis, which will allow grantees to seek funding when they need it most and not have to plan around your specific grant-making cycles.
   e. Streamlining the application process for repeat/long-term grantees and right-sizing the forms and requests you make of applicants depending on the risk level at hand (e.g., for low-risk grants or repeat grantees, consider shortened application and reporting forms).
   f. Setting aside funding explicitly for learning grants and communicating more openly about your various grant-making methods and range of grant sizes.

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13 Learning grants, which may be more applicable to large funders, are grants that support innovative projects and therefore may have a higher risk of failure. Learning grants allow funders to experiment with and learn from new and different approaches to solving problems.
### ADDITIONAL RESOURCES

#### Risk Culture

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<tr>
<td>The “Other” Investment Policy Statement</td>
<td>Henry L. Berman</td>
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<tr>
<td>We Need to Stop Treating Nonprofits the Way Society Treats Poor People</td>
<td>Vu Le</td>
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<tr>
<td>Understanding Risk Tolerance in Grantmaking</td>
<td>John R. Ettinger and John T. Ettinger</td>
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<td>Risk</td>
<td>John Bare</td>
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<td>IssueLab on Risk &amp; Philanthropy</td>
<td>Foundation Center [4]</td>
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#### Risk Management

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<td>Contingency Funding in Philanthropy: Open Road Alliance</td>
<td>Open Road Alliance</td>
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<td>Risk in Philanthropy: A Framework for Evaluation</td>
<td>Open Road Alliance</td>
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<td>How to Complete a Risk Assessment</td>
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<td>11 Questions Nonprofits Should Ask to Assess their Risk Management Practices</td>
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<td>Risk Management for Nonprofits</td>
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<td>The Risk Assessment Cycle</td>
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<td>On Risk</td>
<td>Grantmakers In Health</td>
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[4] This resource includes approximately 70 documents that have been published on risk during the past 19 years. It is important to note that while the majority of these documents talk about risk, very few offer actionable or tangible recommendations for managing risk.
Launched in 2012, Open Road Alliance is a private philanthropic initiative that supports non-profits and social enterprises after they have encountered an unexpected obstacle. It provides the fast, flexible contingency funding that’s often not available in traditional grantmaking structures. With a portfolio of 100+ investments and counting, Open Road is developing an expertise on philanthropic risk – and a theory on what can be done to mitigate it. The organization’s goal is to make managing risk as commonplace in philanthropy as it is in business. To accomplish this, Open Road conducts research, collects data, and shares best practices for the assessment and management of risk with the goal of protecting the integrity and impact of the original project. To learn more, please visit www.openroadalliance.org.

For more than 100 years, The Rockefeller Foundation’s mission has been to promote the well-being of humanity throughout the world. Today, The Rockefeller Foundation pursues this mission through dual goals: advancing inclusive economies that expand opportunities for more broadly shared prosperity, and building resilience by helping people, communities, and institutions prepare for, withstand, and emerge stronger from acute shocks and chronic stresses. To achieve these goals, The Rockefeller Foundation works at the intersection of four focus areas—advance health, revalue ecosystems, secure livelihoods, and transform cities—to address the root causes of emerging challenges and create systemic change. Together with partners and grantees, The Rockefeller Foundation strives to catalyze and scale transformative innovations, create unlikely partnerships that span sectors, and take risks others cannot—or will not. To learn more, please visit www.rockefellerfoundation.org.

Founded in 2005, Arabella Advisors helps philanthropists and investors who are serious about impact to achieve the greatest good with their resources. Arabella employs a team of more than 150 people across four cities who provide strategic guidance for effective philanthropy. For this initiative, Arabella served as a critical thought leader and strategic partner in convening the Commons and creating the tools.