



Giving 2.0™ Guide: Defining Criteria for Your Giving Decisions

Investment criteria set parameters for how individual philanthropists and institutional philanthropy professionals make giving decisions. These tend to fall into three categories: issue area/systems/ecosystem criteria, nonprofit criteria and gift-use criteria. For example, under nonprofit criteria, potential parameters include geography/location, lifecycle stage, annual operating budget and scalability.

Within each major category, you will determine which criteria to prioritize. Developing a clear set of investment criteria will help you make more informed investments that align with your or your institution's philanthropic purpose, risk profile and scope of resources. This guide will help you define your risk profile and introduce you to various investment criteria within each major category.

Risk Profile

Your or your institution's philanthropic risk profile will inform your investment criteria. A risk profile describes the amount of risk you are willing to take on to pursue your social change goals. It is a relative decision based on your or your institution's philanthropic purpose, social change goals, asset portfolio, values and public needs, and may or may not align with your for-profit investing profile or your institution's endowment investment strategy and risk profile.

To help determine what risk profile makes the most sense for you or your institution, consider questions including but not limited to the following:

- Will you fund a first-time social entrepreneur or a leader with minimal social change experience?
- Do you prefer to invest in new and unproven pilot programs, interventions still under development or evidence-driven methods?
- Do you prefer to invest in seed/early-stage organizations or those with proven track records that exceed five years?
- How willing are you to publicly support/receive credit for a grant or approach that might be seen as controversial?
- How do you feel about being an inflection point funder (e.g., being the first institutional/individual funder or funding an evaluation that creates an evidence base)?
- What is an acceptable failure rate? How do you consider failure against the value of learning opportunities?
- Are you willing and/or capable of providing additional funding should unanticipated evaluation results present themselves or other challenges emerge?

LAURA ARRILLAGA-ANDREESSEN FOUNDATION

EDUCATING AND EMPOWERING ALL TO GIVE. LIVE AND LEAD IN A WAY THAT MATTERS MORE.
VISIT OUR WEBSITE LAAF.ORG

- How comfortable are you investing outside of the United States, particularly in countries with nascent civil societies and/or democracies?

By answering these questions, you can begin assessing where you or your institution land(s) on the risk tolerance spectrum. High-risk funders tend to prioritize innovation and entrepreneurship, even if it may lead to potential criticism, failure or a lack of intended impact. Moderate- to low-risk funders prioritize more established organizations and consistently growing or stable budgets/endowments who have a track record of evidence-based success. The lowest-risk funders typically only value reputation and longevity, and frequently channel their giving resources to the institutions that touch them directly, such as universities, schools and religious institutions. For more information on determining your risk profile, please refer to "[Risk Management for Philanthropy: A Toolkit](#)."

1

The following section outlines three categories of criteria and lists possible criteria you may choose to prioritize, depending on your or your institution's social change goals, scope of resources and risk profile.

Issue Area/Systems/Ecosystem Criteria

Understanding an issue area ecosystem is an essential component of the due diligence process. It provides critical insights to consider when developing your investment criteria. Common investment criteria at the ecosystem level include but are not limited to:

- **Issue area crowdedness:** What types of sub-issues within this issue area ecosystem are overfunded and underfunded?
- **Required capital:** What types of assets or capital are required to make progress (e.g., financial, beyond-the-dollar, political, etc.) to achieve your social change goals?
- **Target population:** Are there specific populations within this ecosystem that are overlooked/neglected/underserved?
- **Political context:** What is the current political climate around your particular social issue? Is it aligned or opposed to your social change goals? Will your goals require public support and/or policy change, and if so, at the local, state or federal level?
- **Players/Support and opposition:** Are your social change goals controversial or do they require a significant change in the status quo? Are there people and organizations with whom you can partner and/or leaders and institutions that might actively work against your efforts?

Nonprofit Criteria

Common investment criteria at the nonprofit level include but are not limited to:

- **Budget size:** What is the nonprofit's annual operating budget? Is there a budgetary level under or over which you prefer to fund?

¹ "Risk Management for Philanthropy: A Toolkit," Open Road Alliance, January 2017, <https://openroadalliance.org/resource/risk-management-toolkit/> (July 26, 2021).

- **Funding base:** What is the breakdown between different types of funders (corporate, foundation, individual, board, government)? Is the organization dependent on a single large funder over multiple years? Does the organization have a successful earned revenue model?
- **Signaling effect:** Will you be one of the nonprofit's first individual or institutional funders? Will your investment give a nonprofit credibility that will potentially attract other funders? Will your investment, based on its size and your reputation, discourage other funders from participating?
- **Lifecycle stage:** Do you prefer to fund organizations at a particular stage of development and evidence-based track record? Are you interested in scaling nonprofits with proven impact to new geographic areas? Would funding the merger of two nonprofits appeal to you?
- **Reputation:** Are you willing to attach your name to the values and political positions of the nonprofit? Has the nonprofit received harsh criticism for any reason? How has the nonprofit handled any controversial situations or leadership challenges in the past?
- **Scalability:** Is the nonprofit's service/program model one that could scale to other populations/geographies/contexts? Is the model geographically/population-specific in how its programs consider and align with local social/cultural/sociological norms, or could it easily be applied in a different context with a different population? Is the fundraising model dependent on a local leader/founder, and might it not be as successful with different leadership?
- **Type of service:** Does the nonprofit provide direct services to beneficiaries, or does it engage in higher-level systems or policy change work? What type of service or outcomes do you want to prioritize, given your social change goals?
- **Board diversity:** Do its members provide a wide, diverse array of skills, experiences, backgrounds, intersectional identities and/or leadership? How often does the board meet, and how engaged is the board? Does the board have 100 percent participation in annual funding? Does the board include beneficiary voices?
- **Geography/Location:** Where are the nonprofit's headquarters located? This is particularly important for gifts of financial, intellectual and human capital. Does it serve beneficiaries in a specific geographical location or across multiple communities, cities or regions?
- **Leadership:** Is the executive director and/or nonprofit leadership receptive to/representative of beneficiary voice and/or the community it serves? How experienced are the executive director and leadership team?
- **Beneficiary voice:** Does the nonprofit have processes that integrate beneficiary voice into program design and evaluation? Are beneficiaries represented in the board and/or staff? Does the nonprofit successfully measure the intermediate- and long-term outcomes its programs/services have on beneficiaries?
- **Strategy:** Can the nonprofit's leadership clearly articulate their vision, specific social change goals and strategic plan to achieve impact? Does the nonprofit have a clear theory of change with specific short-, intermediate- and long-term goals and indicators of success? Is the theory of change rooted in evidence or an empirically sound hypothesis?

Gift-Use Criteria

There are myriad types of gifts/grants to consider beyond funding programs, including physical infrastructure, capital campaigns, evaluations, infrastructure needs, salaries and scholarships. Four common types of gifts allocate funding to nonprofit endowments, programs and services, general operating support and organizational capacity-building.

- **Nonprofit endowments:** These investment funds give the nonprofit the ability to make consistent withdrawals from invested capital. Donating to an endowment helps ensure the sustainability and longevity of the nonprofit's programs and operations. Often endowment funds primarily cover operating costs, as those funds are more difficult to raise than program funds.
- **Programs and services:** A majority of grants/gifts are designated for programs/services. This type of grant gives funders a feeling of greater control over how their donation is spent, because they can associate a number of people served/land protected/animals rescued/etc. with a specific investment amount. Donors also might assume that the potential impact of a program grant is easier to track and measure, based on the reported impact of the service provided. Importantly, program outputs do not necessarily translate into outcomes and impact (e.g., just because an individual participates in a program, that does not necessarily result in the program having an intended effect on that individual), so funding an evaluation can prove more valuable to understanding what is and is not working and if nonprofit intentions align with measurable impact.
- **General operating support:** GOS offers nonprofits the freedom to spend the grant/gift however they determine will best create impact. These funds can be used for internal support or operations, such as rent, salaries, energy bills, human resources, communications, phone bills, office supplies, transportation costs, internet service, etc.
- **Capacity-building grants:** These investments entail anything that helps advance or enhance the infrastructure and/or operations of a nonprofit, with the goal of helping it run more effectively as a business. These gifts may entail items such as developing a new marketing strategy and corresponding materials, new financial/accounting/donor tracking systems and training, a new website and social media plan, a capital campaign planning process and consultant, a formal strategic planning process led by an outside facilitator or formal evaluations of programs and services.

Investment Profile Examples

1. Conservative
 - a. *Budget:* At least a \$10 million annual budget
 - b. *Lifecycle stage:* Wide range of dedicated institutional and individual support with a 10 year-plus track record of measurable social impact and formal evaluation
 - c. *Leadership:* Seasoned leadership team with ties to the beneficiary community
2. Moderate
 - a. *Budget:* At least a \$2 million annual budget

- b. *Lifecycle stage*: Five- to seven-year track record with at least one external evaluation providing evidence of program effectiveness
 - c. *Scalability*: Innovative and effective programs/services with potential for replication
3. High Risk Tolerance
- a. *Budget*: Preference for being the first institutional funder for an organization with an annual budget under \$1 million
 - b. *Lifecycle stage*: One- to three-year track record of program implementation, nascent stages of data collection and measurable impact, and small staff
 - c. *Strategy*: Innovative and early-stage model that likely has not gone through a formal evaluation