5 Myths of Traditional Philanthropy

Responses to Common Misperceptions About Trust-Based Philanthropy

1

MYTH: Unrestricted funding Is risky

FACT: Unrestricted funding is considerably less risky and more impactful

Many foundations restrict their grants to specific projects, which inhibits organizations from using these funds for everyday operating costs, such as office rent or non-project-related staff. Besides disregarding the basic costs required to keep an organization running, restricted dollars give funders a disproportionate amount of power over what grantees can and can't do. For some, this practice is fueled by a deeply rooted concern that we are putting our foundations at risk if we can't direct how the funds are spent.

Some funders might be reasonably vigilant about making sure their funds aren't being used for activities they are not legally permitted to support, such as lobbying or political campaigns. In this case, unrestricted support is significantly less risky for funders, because unlike project-specific support—which is totally directive—unrestricted funding allows grantees to implement a wide range of strategies based on their perceived need. By definition, the inherent flexibility of unrestricted funding limits funder liability for how funds are spent.

Restricted funding, however, comes with other risks. For example, what if the conditions for a proposed project change? Funds that lack flexibility create a risk that grantees will not do the most important or most relevant work, but rather will do the work that they were funded to do, despite shifts or changes. When grantees have flexible, unrestricted support, they have the space to bring their full expertise—and their communities' needs—into the work they do.

Other funders might simply be concerned about whether unrestricted funding is being used well. If this is the concern, first you must ask yourself: Do you believe grantees are inherently untrustworthy? The vast majority of nonprofit leaders are in the work because they passionately believe in what they're doing, living and breathing their mission and vision 24/7. We must inherently trust that these leaders are much better equipped than we are to make decisions about grant allocations.

Funds that lack flexibility create a risk that grantees will not do the most important or most relevant work

6 Practices of Trust-Based Grantmaking

1. Provide multi-year, unrestricted support
2. Do the homework
3. Simplify & streamline paperwork
4. Be transparent & responsive
5. Solicit & act on feedback
6. Offer support beyond the check

trust-based philanthropy project

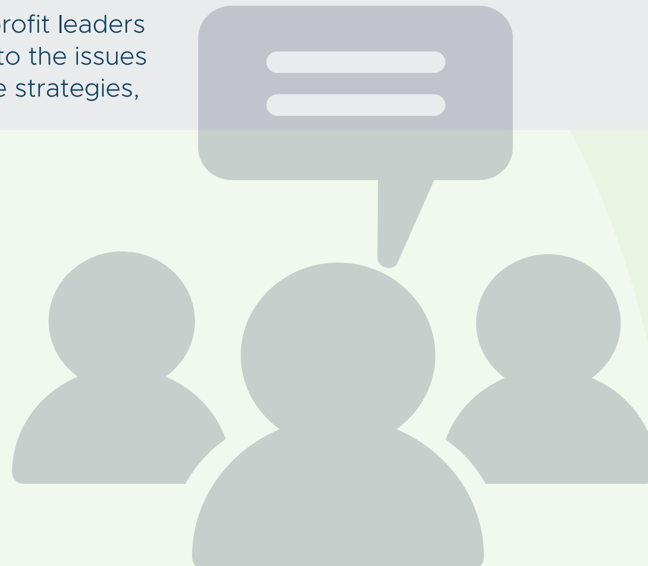
Special thanks to Dimple Abichandani who conceptualized and contributed to this resource.

2 MYTH: It’s the funder’s role to set strategy

FACT: Nonprofit leaders are closer to the issues at hand

Many funders have been led to believe that the only way to achieve our big picture goals is to set a strategy, identify the action steps and types of grantees that need to be deployed in order to fulfill that strategy, and come up with a way to measure that really great plan. While this may sound great to foundation boards and strategic planners, this approach perpetuates a power imbalance in the sector. Rather than seeing grantees as issue experts with their own visions and strategies, it essentially assumes grantees as subcontractors that are hired to carry out a vision.

The reality is that nonprofit leaders are often much closer to the issues at hand, and likely have strategies, insights, and ideas that can inform a foundation’s big vision. It is crucial for funders to listen and learn from grantees’ strategies and determine how we can support them in achieving that. Not the other way around.



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3 MYTH: Detailed narrative and financial reports are required by law

FACT: The IRS requires virtually no documentation for grant recipients

Many foundations have evolved their reporting practices to be very labor-intensive, often requiring grantees to provide lots of financial and narrative detail to prove the funds were spent a particular way. Why has this come to be the norm, when the IRS requires virtually no specific documentation related to a foundation’s grant recipients?

The instance when it would be most prudent for foundations to procure a financial report would be when they make project grants, as they would want evidence that project funds were not used for lobbying (which would be the only concern of the IRS). But for general operating support, there is no legal requirement for financial reports. (Another reason why trust-based principles are optimal when practiced together!)

Of course, in order to do our jobs well, funders need to know what outcomes or lessons have come about as a result of our support – but there are many ways to do that beyond traditional written reports. Trust-based philanthropy encourages us to think more expansively about how we get that information, especially since traditional narrative reports can eat up hours of time for nonprofit leaders (and foundation staff too). It can be much more informative – and enjoyable – to engage in a discussion about lessons, challenges, and opportunities. In fact, it’s exactly in those interpersonal conversations when you get tidbits that often can’t be captured in a written report. And the more time you take for getting to know grantees, the more you are able to build a relationship of mutual trust.

4

MYTH: Painstaking application processes are best practice

FACT: Intensive applications can have unintended negative consequences

Many foundations employ a multi-step grant application process, often involving letters of intent, audit data, board bios, staffing composition, and a detailed narrative proposal that answers dozens of questions about past accomplishments, future plans, staffing goals, measures of success, and the list goes on. While having a written description of a nonprofit's intent for funds can be a useful way of understanding that organization's vision and thinking, there is no legal requirement for the scale of paperwork that has come to be the norm.

These rigorous application processes typically require anywhere from 10 to 20 hours of a grantee's time – time that could be spent doing the actual work. This also inadvertently creates more work for foundation staff to review and ensure compliance with all submission requirements – time that could be spent getting to know to know a grantee and the issues they're working on.

Moreover, complex and burdensome application processes can serve as a barrier for small-staffed organizations or for those that don't have formal development training. This can inadvertently exclude interesting and effective organizations that are aligned with a foundation's mission and vision.

Complex and burdensome application processes can serve as a barrier for small-staffed organizations

5

MYTH: The most important skillset for a funder is issue expertise

FACT: Philanthropy requires interpersonal skills that are often overlooked

Being a good funder is about understanding how social issues are interconnected, and being intentional about how to resource related efforts.

While it is useful for funders to have some level of experience in the issues that a foundation is investing its resources, it is a common operating myth that this is the most important skill set. In fact, there are qualities that are required of a grantmaker that should be given much greater priority than issue expertise alone. Being a good funder is not necessarily about substantive expertise on a particular issue, but about understanding how social issues are interconnected and being intentional about how to resource related efforts. The capacities that make someone good at this work are humility, an intention toward collaboration, being a good listener, and an ability to connect the dots.

At the end of the day, the purpose of foundations is to provide resources to support good work that's aligned with our vision and values. In this context, our job is to make good judgment calls about where to put the resources and how to support our partners who are advancing efforts we believe in. Once we make those decisions, the day-to-day decisions of what to do with those funds should lie with the grantee partners. After all, they are the ones closer to the work. The more space we give them to make decisions, the more space they have to lead, and the more likely a foundation is to have their mission and goals realized.