

BRIEFING PAPER

TOPIC

6

How Can Grantmakers Aggregate Resources to Grow Impact?

REFRAMING THE CONVERSATION:

A GEO BRIEFING PAPER SERIES ON GROWING SOCIAL IMPACT

In the midst of a mounting imperative to achieve better and more results, grantmakers of all kinds are shifting the way they think about scale, emphasizing not size or reach but impact. Growing impact doesn't necessarily require organizational growth or the wholesale replication of programs — it may instead require expanding an idea, technology, advocacy or policy change. With impact as its central focus, the philanthropic sector is forging some promising new pathways for innovation, working beyond the traditional constraints of individual grants, initiatives or organizations to more intentionally grow what works.

One way many grantmakers are seeking to innovate is by reshaping their role in the nonprofit capital market. Just as each nonprofit organization's capital structure differs, there is a wide array of organizations, intermediaries and types of support, including grants, loans and bonds, that constitute the nonprofit capital market.¹ Yet raising capital remains a slow, time-consuming endeavor for many nonprofits. And raising growth capital is particularly difficult.

Nonprofits must frequently chase small grants and spend enormous resources in what Cynthia Gair, managing director of programs at REDF, a San Francisco-based venture philanthropy organization that invests in nonprofit-run social enterprises, calls the “twisting paths and blind alleys” of dysfunctional grantmaking.² And, the Center for Effective Philanthropy has found that grantmakers do not do much to help grantees navigate these paths. The typical foundation provides just 22 percent of its grantees with assistance in securing funding from other sources; most frequently this is in the form of suggesting other grantmakers, which is not viewed as especially helpful by grantees. The typical foundation goes beyond this for only 12 percent of its grantees — for instance, providing personal introductions to other potential grantmakers and attending fundraising meetings with grantees — even though grantees report these are the activities that make a difference.³

For organizations seeking to grow, however, philanthropic capital represents an important source of flexible funding. At scale, recurring revenue from individual donors and

¹ See, for example, Jed Emerson, “The U.S. Nonprofit Capital Market: An Introductory Overview of Developmental Stages, Investors and Funding Instruments,” in *REDF Box Set: Social Purpose Enterprises and Venture Philanthropy in the New Millennium*, Melinda Tuan with Jed Emerson (San Francisco: REDF, 2000), 193.

² Cynthia Gair, *Roadmap #1: Strategic Co-Funding*, Out of Philanthropy's Funding Maze (San Francisco: REDF, 2008), 7.

³ Center for Effective Philanthropy, *More than Money: Making a Difference with Assistance Beyond the Grant* (Cambridge, Mass: CEP, 2008), 9.

foundations, sizable though it may be, may constitute just one of several sources of revenue.⁴ But prior to a nonprofit organization achieving scaled impact, foundations are uniquely positioned to provide capital and other resources to help it get there. As Gair has noted, “Unlike government funders of social mission activities, private and corporate foundations have a great deal of latitude in deciding what and how they fund.”⁵ This makes the distinction between the role played by philanthropy and government crucial.

Nancy Roob of the Edna McConnell Clark Foundation and Jeff Bradach of the Bridgespan Group have written of this distinction: “Taking proven programs to scale entails two kinds of costs: the one-time expense of building capacity for growth, and the recurring operating expenses required to sustain ongoing programs. Broadly speaking, the former is the province of philanthropy, while the latter is where government funding needs to come into play ... Leveraging what private philanthropy has

nurtured, government can play a critical role in enabling organizations to achieve their full potential impact.”⁶

Ultimately, says Carla Javits, REDF’s president and CEO, “The best solutions are likely to require *multiple* actors participating over long periods of time. Government may indeed be able to act as a ‘take out’ — but only in some cases ... or for some elements of social innovation. But the likely scenario for long-term success is the difficult dance that engages *all* of the sectors over time.”⁷

So while they are not the only source, foundations do constitute a singularly important source of funding in the context of organizational growth and scale. And grantmakers can *increase* the value of the growth capital they provide, and their impact in the long term, by joining together to provide large amounts of flexible funding and other support.

About This Paper Series

This briefing paper is the sixth topic in a series from GEO’s *Scaling What Works* initiative, which will be released throughout 2011. Authored by Dara Major, the collection pulls together the best thinking, research and actionable approaches to scaling impact, as well as provides additional resources for grantmakers that would like to dive deeper into paper concepts and questions. Individual papers delve into topics such as understanding approaches to scale, developing grantee evaluative capacity,

structuring and financing scale, and more. To access the latest topic and learn more about *Scaling What Works* and how you can get involved, please visit www.scalingwhatworks.org.

⁴ For instance, in a national survey of human service organizations, including Goodwill; Boys & Girls Clubs of America; the American Red Cross; homeless shelters; food banks; and child care centers, the Urban Institute found that government funding accounts for over 65 percent of total revenue. Elizabeth Boris et al., *Human Service Nonprofits and Government Collaboration: Findings from the 2010 National Survey of Nonprofit Government Contracting and Grants* (Washington, D.C.: Urban Institute, 2010), 5.

⁵ Gair, *Roadmap #1: Strategic Co-Funding*, 2.

⁶ Nancy Roob and Jeffrey L. Bradach, “Scaling What Works: Implications for Philanthropists, Policymakers, and Nonprofit Leaders,” (The Edna McConnell Clark Foundation and The Bridgespan Group, April 2009), 4.

⁷ Carla Javits, “Government vis-à-vis philanthropic ‘take-out’ strategies,” *Fuel for the Field*, April 24, 2009, <http://blog.redf.org/2009/04/24/government-vis-a-vis-philanthropic-take-out-strategies>.

COLLECTIVE ACTION:

THE POTENTIAL OF CO-FUNDING

According to FSG, collective impact happens when a group of cross-sector actors commits to a common agenda for solving a specific social problem and agrees to be accountable to an overarching goal. In other words, collective impact is a result of collective action. “Collaboration is nothing new. The social sector is filled with examples of partnerships, networks, and other types of joint efforts. But collective impact initiatives are distinctly different. Unlike most collaborations, collective impact initiatives involve a centralized infrastructure, a dedicated staff, and a structured process that leads to a common agenda, shared measurement, continuous communication, and mutually reinforcing activities among all participants.”⁸

Thoughtful, collective action drives collective impact — and is crucial in the context of scale. Growth capital is episodic — and it accompanies a growth process that is itself risky, requiring new skills and financial tools, as well as patterns of change that are inherently, if temporarily, destabilizing and almost always unpredictable.

Grantmakers can help grantees to successfully navigate their way through this risk by aligning around a shared vision of success, coming together to provide large amounts of growth capital and building in flexibility to enable grantees to acquire and act on feedback effectively.

To do this well, grantmakers of all kinds are experimenting with various models of joint funding, including capital aggregation, pooled funding and strategic co-funding.

For instance, individual donors are increasingly pooling support through intermediary organizations, such as Kiva.org, which uses the power of the Internet to create a global community of small-scale lenders whose loans are combined and provided to entrepreneurs around the world by microfinance institutions.⁹ The Social Impact Exchange, a national membership association initiated by Growth Philanthropy Network, is spearheading the development of a broad-based capital marketplace to provide an efficient flow of capital to scalable social solutions.¹⁰ These approaches can also potentially increase access to capital without necessarily having to grow organization size.

Of these various models, strategic co-funding offers a framework for flexibility to nonprofits and the significant promise of collective impact by grantmakers. REDF defines strategic co-funding as:

joint funding that has a particular set of goals aimed at solving a long-term problem. Strategic co-funding supports solutions to social problems in much the same way that venture capital-style money aggregation supports the development of a new company. Unlike much of current nonprofit funding, it is solution-focused, rather than project-focused, and it is driven by the long-term strategy and overall needs of an initiative. More than a casual “contribute-if-you-want-to” pooling of dollars, it requires drive, strategic focus and long-term commitment.¹¹

What distinguishes strategic co-funding from other forms of joint funding is its primary focus on impact, rather than grantmaking needs and limitations. Gair notes that strategic co-funding “has a clearly articulated social mission goal that has an accompanying funds-generating goal, which is based on analysis of the total funds and time required to achieve the social mission and includes planning for funds required beyond what the co-funding group will provide.”¹²

⁸ John Kania and Mark Kramer, “Collective Impact,” *Stanford Social Innovation Review* 9, no. 1 (Winter 2011): 36.

⁹ For Additional information, see www.kiva.org.

¹⁰ For Additional information, see www.socialimpactexchange.org.

¹¹ Gair, *Roadmap #1: Strategic Co-Funding*, 3.

¹² Gair, *Roadmap #1: Strategic Co-Funding*, 3.

REDF argues that the two primary benefits of strategic co-funding are that it brings nonprofits more money and more efficient money:

- ▷ **More money** — “Money attracts money, and philanthropists are best positioned to expand donor pools because people like to put their money into pots that others previously ‘vetted.’ Just as venture capital investors seek their peers’ vetting of specific investments, philanthropists can influence each others’ funding choices.”
- ▷ **More efficient money** — “When money is aggregated via a co-funding group, fundraising and reporting can be reduced dramatically for ... grantees. Philanthropists, too, can be more efficient by decreasing due diligence and monitoring duplication while more effectively aligning funding, policy, and practice.”¹³

For grantmakers struggling with shrinking endowments that seek to maximize the impact of their investments, strategic co-funding seems like a promising solution.

STRATEGIC CO-FUNDING

IN PRACTICE

In their work for Nonprofit Finance Fund’s Capital Partners division, Craig Reigel and George Overholser have observed, “Even with thoughtful and detailed plans made upfront, the growth path is uncertain and requires a great deal of flexibility — the flexibility to use capital differently, the flexibility to act on data as you learn and grow. Though the process itself is risky, together grantmakers and grantees agree to take that risk for an important potential benefit. So it’s important for both to paint a reasonable picture upfront, and then have latitude to learn, course correct and grow.”

To be effective, growth capital must be of a sufficient level needed to achieve scale, long-term and therefore predictable, and flexible so that it may be put to different uses depending on the challenges encountered by the nonprofit along the way.

Strategic co-funding supports the effective delivery of growth capital by creating a single, shared line of focus that supports grantmakers and grantee alike. Both agree to connect around a common goal and single theory of change — the grantee’s — and to communicate progress according to a single, shared plan.

Grantmakers engaged in strategic co-funding are experimenting with new ways to conduct what are considered standard grantmaking practices. These grantmakers are developing new skills, such as fundraising (raising or pooling funds with peers) and embracing shared processes, including common evaluation metrics. Some are applying innovative grantmaking practices to traditional replication strategies, while others are applying cutting-edge grantmaking practices to new diffusion strategies. These practices include the following:

DUE DILIGENCE. Grantmakers engaged in strategic co-funding conduct due diligence in collaboration or designate a “lead” to conduct diligence on behalf of a group of grantmakers rather than one by one. Venture Philanthropy Partners aggregates capital from individual philanthropic investors, foundations and corporate partners. It then conducts due diligence on the nonprofits in which it invests, manages its philanthropic investments, leverages funds aggregated more than dollar for dollar and provides strategic assistance. Engaging with other grantmakers to conduct due diligence enables grantmakers and grantees to avoid duplication of effort and enhance learning for all parties.

COMMON REPORTING AND EVALUATION. The Edna McConnell Clark Foundation has pioneered a new approach to providing growth capital through its Growth Capital Aggregation Pilot. Coordinating with 22 other funders, the foundation supports the expansion and long-term sustainability of high-performing nonprofits not only by jointly raising and pooling up front growth capital but by coordinating with grantees to reduce evaluation and grant-related transaction costs.¹⁴ This relieves an enormous burden on grantees *and* helps maintain focus on a shared learning agenda (see p. 5 sidebar).

¹³ Gair, *Roadmap #1: Strategic Co-Funding*, 10.

¹⁴ For additional information, see <http://www.emcf.org/partnerscapital-aggregation/growth-capital-aggregation-pilot/>.

Access to data across grantmaking organizations has traditionally been one barrier to learning in philanthropy, as has a lack of clear agreement on how evaluation findings will be used. Grantmakers engaged in strategic co-funding build in specific learning goals up front and make smart use of intermediaries to help guide a collaborative evaluation process. Over time, this may increase the scope and quality of evaluative data available to the field. And by working closely with other grantmakers to collaboratively design, fund and implement evaluation, the field may eventually realize the potential of building knowledge about not just the discrete results of a single action, grant or cluster of grants, but the underlying mechanisms that make it effective in a variety of settings.¹⁵

AGGREGATED GRANTS. Grantmakers may pool funds through funding “syndicates” to support a specific organization’s growth plan or to spread an idea. For example, in 2007, grantmakers pooled support for VolunteerMatch’s efforts to achieve scale and permanently close its long-term revenue gap by raising \$4.2 million in growth capital. The process was supported by the Nonprofit Finance Fund’s Sustainable Enhancement Grant methodology, to facilitate and communicate progress in raising and administering this growth capital.

Earlier this year, the Duke Endowment, George Kaiser Family Foundation, Tipping Point Community and Open Society Foundations joined EMCF as co-investors in the True North Fund, a new public-private fund with resources from the Social Innovation Fund, as well as philanthropic partners. The True North Fund will help youth-serving nonprofits become better positioned for growth and demonstrate how public and private dollars can help programs with strong evidence of effectiveness to scale. As with EMCF’s previous capital aggregation programs, all True North Fund co-investors will support a single growth plan developed by the grantee and agree to common evaluation metrics. So far, co-investors “have committed a total of \$17 million over three years to help those grantees that meet their own grantmaking criteria fulfill a portion of their Social Innovation Fund matching fund requirement and expand and evaluate their programs.”¹⁶

The Edna McConnell Clark Foundation’s Growth Capital Aggregation Pilot Learning Agenda

Assuming a coordinating role among investors on behalf of their grantees raises the stakes for EMCF in terms of leadership, partnership and accountability. Consequently, the foundation has outlined a learning agenda of questions that it seeks to answer during the course of the pilot project:

- ▷ What has been the experience of our co-investors and what can we learn from them? For what types of funders is this approach most compelling and useful?
- ▷ What value does the co-investment approach add to this group of grantees and are there lessons to be learned that can be applied to other EMCF grantees at different stages of organizational development? Have there been unintended negative consequences?
- ▷ How must EMCF operate differently to succeed in such collaborative ventures? What skills must we adapt and what new ones must we add?
- ▷ Once the growth capital is drawn down after three to five years, will we and other investors be able to exit these grantee relationships effectively? Did grantees achieve the goals of their growth plans, including raising sufficient reliably renewable funding and reaching long-term financial sustainability?

¹⁵ For perspectives on improving the flow of nonprofit data, see Maisie O’Flanagan et al., “The Nonprofit Marketplace: Bridging the Information Gap in Philanthropy” (report for William and Flora Hewlett Foundation, Menlo Park, Calif., 2008); and Cynthia Schuman Ottinger, “A Dearth of Data Hides Nonprofit World’s Impact,” *Chronicle of Philanthropy*, February 7, 2010.

¹⁶ The Edna McConnell Clark Foundation, “The True North Fund: Co-Investors & Capital Aggregation,” accessed June 22, 2011, <http://www.emcf.org/?id=296>.

AGGREGATED ORGANIZATIONAL ASSISTANCE BEYOND GRANTS.

Given the unpredictable nature of growth, assistance beyond the grant check can be critical during the scaling process. Yet most foundations do not provide this type of assistance to any of their grantees — and grantees seldom find what is provided to be useful, according to research by the Center for Effective Philanthropy.¹⁷

One way grantmakers have increased the value of this support is by coming together to deliver a multifaceted package of aggregated organizational capacity assistance for individual grantees. Venture Philanthropy Partners, on behalf of its individual donors, provides grantees with growth capital in the form of unrestricted, multiyear grants *and* “strategic assistance” in the form of coaching, mentoring, guidance on board development and support for maintaining a focus on growth plans, milestones and more.¹⁸ It is precisely this kind of support that enables growing nonprofits to strengthen the key internal systems needed to collect and use data as feedback in the scale-up cycle.

There is no one-size-fits-all approach to providing growth capital, but clarifying your approach is key. Grantmakers who seek to support intentional growth should consider adopting a portfolio approach to the management of their grants. Start by simply having direct conversations with grantees about how you see your role with each grant under management and consider devoting a portion of your future resources to either pooled funding or strategic co-funding collaborations. Perhaps only a small percentage of your portfolio will be devoted to “building” rather than “buying.”¹⁹ Either way, take the time to build your own knowledge and skills to improve your own capacity to collaboratively co-fund. As Overholser has observed, “By far the best way for grantmakers to learn about *how* to scale is by *doing* a strategic funding deal with someone you want to learn with.”

WANT TO BE A GRANTMAKER

THAT AGGREGATES SUPPORT

TO FACILITATE GROWTH?

Growth capital must be of a sufficient level needed to achieve scale, long-term and therefore predictable, and flexible so that it may be put to different uses depending on the challenges encountered by the nonprofit along the way.


Nurturing a scaling process similarly entails more collaborative, systematic *and* flexible approaches to providing capital and effectively using feedback. Grantmakers that seek to provide growth capital, increase leverage and reduce transaction costs for grantmaker and grantee alike should consider the following approaches:

1. ***Help grantees pool support from other grantmakers and engage in collaborative or strategic co-funding with other grantmakers*** — Put impact at the center, rather than grantmaking needs and limitations.
2. ***Work closely with other grantmakers as well as grantees to design and implement collaborative practices*** — This includes due diligence, common reporting and evaluation, aggregated capital and aggregated organizational assistance.
3. ***Adopt an ecosystem mindset*** — Start by simply having direct conversations with grantees or other funders of organizations you support about how you see your role with each grant. Consider taking a portfolio approach to your collection of grants and devoting a portion of it to support intentional scaling. Build your own knowledge and skills in this area.

¹⁷ Center for Effective Philanthropy, *More than Money*.

¹⁸ To learn more about Venture Philanthropy Partners' approach or to read “Growing What Works,” reflections by President and CEO Carol Thompson Cole, visit www.vpppartners.org.

¹⁹ George Overholser, *Nonprofit Growth Capital: Defining, Measuring and Managing Growth Capital in Nonprofit Enterprises, Part 1: Building Is Not Buying* (New York: Nonprofit Finance Fund, 2005).



About *Scaling What Works*

Launched in 2010, *Scaling What Works* is a multiyear learning initiative of Grantmakers for Effective Organizations, a thought leader for promoting grantee-centric philanthropic practices that lead to more effective results. With the support of a coalition of 22 funders, GEO aims to expand the number of grantmakers and public sector funders that are working together to broaden the impact of high-performing nonprofits. Through *Scaling What Works*, GEO will offer trainings, networking opportunities and a host of tools and resources, such as this paper series, to better equip grantmakers to help the nonprofit organizations they support to plan, adapt and grow their impact in creating sustainable benefits for people, their communities and our planet.

For more about GEO and *Scaling What Works*, please visit www.scalingwhatworks.org.

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ADDITIONAL RESOURCES:

- For additional resources on aggregating and providing growth funding, check out the "Useful Links" section of our website, www.scalingwhatworks.org/resources/useful-links.
- ...

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 1725 DeSales St., NW, Suite 404 / Washington, DC 20036
 Tel: 202.898.1840 / Fax: 202.898.0318
 Web: www.geofunders.org