

Strategic Co-Funding: A Working Definition

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Out Of Philanthropy's Funding Maze

Strategic Co-Funding: Roadmap #1: Strategic Co-Funding

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We use the term “Strategic Co-Funding” to specify 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.

Strategic Co-Funding not only operates with a view to the overall needs of an initiative, it expands its pool of donors and funds to achieve the initiative’s agreed-upon outcomes.

A Strategic Co-Funding initiative is shaped by solution requirements, rather than funders’ needs and limitations. It 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.

Not all joint funding needs to be Strategic Co-Funding. An example of appropriate project-driven cofunding might be a regional emergency fund that provides disaster relief and funds specific rebuilding projects. In contrast, when funders seek to solve a long-term problem, Strategic Co-Funding is called for. A group of funders aiming to improve the economic health of Latino communities, for example, would need to take a Strategic Co-Funding approach. The result might be a \$100 million, 10-year plan for revitalizing 10 communities.

Individuals who lead or guide foundations and forward-thinking government agencies, as well as those who manage their own major giving, can spur the use of more Strategic Co-Funding in the coming years. This article and its accompanying tool are especially for them.

For-profit firms seeking development and growth capital have several known avenues to try, one of which— for businesses with particular profiles—is venture capital. VC firms raise and consolidate money from multiple investors and call it “co-investment” or “syndication,” clearing the way for cash to flow easily from investors to emerging businesses. Nonprofit organizations poised for growth face a maze of possible funders, most of whom will fund, at best, very small pieces¹ of what is needed, for a very limited time.

Any serious discussion of nonprofit capital market deficiencies has to start with an acknowledgement that there is no obvious way out of this maze. Expanding social needs are being addressed by nonprofits with very limited funding options.² Grant seekers put extensive resources into navigating unclear and unpredictable restrictions. This fragmented funding landscape weakens the sector and ultimately limits impact, detracting from the very community efforts that the funds are meant to support.

Funding becomes more accessible when it is aligned in appropriate categories and funds can move more effectively when they are aggregated. By aligning and aggregating diverse capital sources via co-funding, philanthropists—both foundations and forward-thinking individuals—can lead the way to a more robust nonprofit capital market.

Start-up companies and nonprofit organizations are very different, but VC investors and philanthropic donors face some similar challenges. Often the organizations they fund have developed with big plans but limited budgets, lack of comparable efforts on which to base projections, and near-term goals that are hard to quantify.

- 1 For an analysis of the ways in which the pieces are not just too small, but also of the wrong kind: "Overholser, G. M. 2005. Defining, Measuring and Managing Growth Capital in Nonprofit Enterprises, Part One: Building is not Buying, Nonprofit Growth Capital: 11: Nonprofit Finance Fund." The differentiation of growth and operations funding is explored further in William Foster's "Money to Grow On," Fall 2008, Social Innovation Review.
- 2 This article focuses on a subset of nonprofits that does not include religious, higher education, hospital, or museum institutions and their funding sources.