



# Chapter II: Effectiveness

## Erratum Notice for Multi-Year Funding Data

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November 2, 2012

In September 2012, NCRP learned that because of a programming error at the Foundation Center, the data on multi-year funding included in this publication were inaccurate. NCRP released a factsheet titled [\*The Philanthropic Landscape: The State of Multi-Year Funding\*](#) this fall. This factsheet includes corrected data for the 2004-2006 period covered in this publication. The factsheet serves to replace the multi-year data analysis included in the Effectiveness chapter of this book, as well as additional data on this type of grantmaking included in the data appendix. All other data have been validated. NCRP's recommendation that grantmaker's provide at least 50 percent of grant dollars as multi-year funding remains unchanged.

## Criterion II: Effectiveness — At A Glance

A grantmaker practicing Philanthropy at Its Best serves the public good by investing in the health, growth and effectiveness of its nonprofit partners.

- a) Provides at least 50 percent of its grant dollars for general operating support
- b) Provides at least 50 percent of its grant dollars as multi-year grants
- c) Ensures that the time to apply for and report on the grant is commensurate with grant size

- > The ability of nonprofits and grantmakers to be effective—to have impact on the issues, causes and communities they care about—is of paramount importance.
- > General operating support is fundamental to enhancing grantee impact; it provides organizations with the flexible funding they need to achieve their missions effectively. In the aggregate, only 16 percent of grant dollars is provided for general operating support. But 125 exemplary foundations (15.5 percent of our sample) provided at least 50 percent of their grant dollars for general operating support, meeting the benchmark for Philanthropy at Its Best.
- > Multi-year funding also is crucial for the health, growth and effectiveness of nonprofits. This funding allows grantees to respond to crises and opportunities, maintain staff continuity and organizational leadership, overcome unforeseeable challenges and improve planning. Disappointingly, more than 40 percent of foundations in our sample did not provide *any* multi-year grants. Leading the field, however, 132 foundations (16.3 percent) provided 50 percent or more of their grant dollars as multi-year grants. This is the benchmark for Philanthropy at Its Best.
- > Applying for and reporting on grants primarily facilitate accountability, but these activities also can help grantees clarify their thinking and improve their work. However, too often, applications are needlessly complicated and evaluations are not used appropriately, creating significant burdens for grantees. Exemplary grantmakers understand the important concept of the net grant and ensure their application and reporting requirements are proportional to the grant size and useful for all parties.
- > Because grantmakers rely primarily on grantees to carry out their charitable purposes, exceptional funders engage nonprofits in meaningful partnerships, which help both parties advance their missions and contribute to the public good. This creates an environment of trust and maximizes the social benefit of philanthropy. Grantmakers committed to true partnership provide sufficient overhead in project grants, fund capacity building and leadership development, and interact with grantees in respectful and responsive ways as part of enhancing effectiveness.

# Chapter II: Effectiveness

Long-term and unrestricted funding supports the learning and innovation needed to have an impact. If foundations are serious about leadership development and supporting their nonprofits, start with giving leaders what they say they most need – multiyear, unrestricted, general operating support.

– John Esterle, Executive Director  
The Whitman Institute<sup>127</sup>

Institutional grantmakers rely primarily on non-grantmaking nonprofits to carry out their charitable purposes and maintain their tax exempt status. Considerable attention has been paid in recent years to increasing the social value and public benefit of philanthropy, with a special emphasis on efficacy. There are many compelling reasons for foundations to invest in their grantees' effectiveness; unfortunately, too few grantmakers provide the types of support needed most by grantees. In addition, a majority of grantmakers overburden their grantees with excessive administrative requirements, diminishing sector-wide impact.

Research consistently suggests that when grantmakers provide general operating support and multi-year funding, the civil society sector is able to maximize impact. Making application and reporting requirements commensurate with grant size is another way in which exemplary grantmakers can enhance the sector's effectiveness. Investing in the long-term sustainability of a strong, diverse and enabled nonprofit civil society sector by engaging grantees as true partners is an important corollary to help foundations achieve their own missions.

Many contend that there is an insurmountable power differential between grantmakers and grantees because of the "power of the purse." This dynamic creates an imbalance in the important relationship of the supply and demand sides of the nonprofit sector. Re-conceiving the power asymmetry as a relationship that reflects true partnerships offers funders one way to help grantees understand that they are working toward the same goals. A grantmaker's *reliance* on its grantees to carry out its charitable purpose places an impetus on the funder community to identify ways that engage grantees on a level playing field. When grantmakers treat their grantees as true partners, they can work toward building a relationship premised on mutual trust. By providing generous grant dollars for true general operating support, making commitments of two or more years in multi-year grants, and demonstrating trust in its grantees by making administrative requirements commensurate with grant size, a foundation displays exemplary philanthropy in practice.

## GENERAL OPERATING SUPPORT

Improving the effectiveness and impact of the civil society sector remains a salient and increasingly researched issue. NCRP, Grantmakers for Effective Organizations, the Center for Effective Philanthropy, CompassPoint, researchers at the Center on Philanthropy at Indiana University and many foundations and grantees have highlighted the importance of the types of grants or the resources needed to bolster the infrastructure and internal capacity of nonprofits as important to the health and impact of grantee organizations. As the Center for Effective Philanthropy (CEP) states, “Ultimately, the beneficiaries of better

We know enough about the field and organizations and their behavior to know that organizations need patient financial support. We know these organizations are most in need of general operating support and most in need of the assurance and the confidence that our support will be there.

—Gregg Behr, Executive Director, the Grable Foundation<sup>128</sup>

foundation–grantee relationships are not just grantees and foundations, but the people and issues they seek to affect through their work. By working more productively together, foundations and grantees can create more positive social impact. This, after all, is the ultimate goal of both parties.”<sup>129</sup>

General operating support is fundamental to enhancing grantee effectiveness and impact. Yet, institutional philanthropy has a history of preferring project or program support over general operating support. A 2002 board briefing document developed by the Council on Foundations notes that the debate about which type of support is a better strategy dates back about a century, nearly as old as institutional grantmaking itself.<sup>130</sup> NCRP historically has advocated that grantmakers increase significantly the proportion of grant dollars allocated as core, unrestricted support.<sup>131</sup> Table 2.1 summarizes key highlights of NCRP’s recent research and work on this issue.

General operating support<sup>132</sup> is unrestricted funding that an organization may use as it best sees fit to achieve its mission. The unencumbered nature of true core support offers myriad benefits to grantmakers

and grantees alike. It eases administrative burdens on both and allows funders to invest in an entire organization and mission. As Carol Watson, program officer at the Rockwell Fund, notes, “The strategy should be to invest in organizations that are successful and to trust them to do the social engineering.”<sup>133</sup> Unlike program support with predetermined metrics and outcome measures, general operating support provides both parties with the needed flexibility to increase the impact of the democratic civil society sector. Moreover, such support does not imply a lack of accountability. In its 2007 Action Guide for funders, Grantmakers for Effective Organizations (GEO)

debunks several common misperceptions about providing core support. Among these is the issue of a perceived lack of accountability in this type of support compared to restricted program support. GEO counters this, noting that “there is very little difference in accountability between project and general operating

support. In both cases, the grantmaker needs to work with the grantee to design evaluation questions that clarify the *impact* of the grantee’s work.”<sup>134</sup>

Some foundation leaders also recognize the importance of core support. Paul Brest, president of the William and Flora Hewlett Foundation, raises several salient issues in his 2003 discussion of strategic philanthropy in the *Stanford Social Innovation Review*. Notably, he links the importance of providing operating support with maximizing impact in his framework of “strategic philanthropy.”<sup>135</sup> Kathleen Buechel and Esther Handy highlight the F.B. Heron Foundation and the Whitman Institute’s approaches to successful core support funding. Both foundations emphasize attribution or collective impact: Heron uses a performance scorecard to assess overall organizational success and Whitman states that “the direct role our funding plays is less important to us than the overall success of the organization”<sup>136</sup> when assessing operating support initiatives.

In addition to research done by NCRP, GEO, CEP and others, Jeanne Bell et al.’s survey of nearly 2,000 nonprofit executives and program managers also

demonstrates the value that grantees place on flexible general operating support. The analysis found that “respondents ranked providing more unrestricted and multiyear support as the two funder actions that would most help them in their work.”<sup>137</sup> These findings are reinforced by a recent series of focus groups done by GEO that found that executives from foundations and grantee organizations alike believe that providing more general operating support would be one of the most beneficial ways grantmakers can support nonprofit success.<sup>138</sup> As noted in the *Harvard Business Review*, “by helping grantees to improve their own capabilities, foundations can affect the social productivity of more resources than just their slice of the whole.”<sup>139</sup>

**Credit: contribution and attribution**

In an important 2008 supplement to its *Action Guide*, GEO returned to the issues of accountability and presumed ceding of control. As the supplement notes, “Compared with grants for specific programs or projects, general operating support requires grantmakers to give up some control over where the money goes. This does not mean, however, that grantmakers have to give up on the expectation that their investments will yield demonstrable results. Rather, grantmakers need to think about assessment in a different way. *This means changing the focus from program-level outcomes to the social impact of the organization as a whole.*”<sup>140</sup> This returns institutional philanthropy’s focus to its bottom line—to maximize the social benefit and impact of its contributions by investing in the long-term effectiveness of its grantees. By demonstrating trust in their nonprofit partners in this way, and looking at alternate metrics and accountability models for core support, the lack of control or the perceived inability to measure success is defrayed.

As GEO notes in debunking the perceived myth of a funder’s loss of influence and impact in developing programs to solve problems, “increased general operating support can lead to greater impact for both parties. General operating support also can strengthen the relationship, leading to more influence for the grantmaker and a more productive partnership. Instead of supporting part of a program, the grantmaker is contributing to the organization as a whole.”<sup>141</sup>

NCRP, GEO, researchers at Harvard University and grantmakers that provide substantial core support are among those that emphasize the importance of reconceiving the grantmaker’s role in terms of credit: it

**TABLE 2.1 RECENT NCRP WORK ON CORE SUPPORT**

- 2002 *State of Philanthropy*. Biennial publication included several analyses and commentary that highlighted the need for increased core support.

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- 2003 *The Core of the Matter*. Findings summarized conclusions from NCRP’s convening of nonprofit leaders that 50 percent of grant dollars should be provided in this way.

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- 2003 *Axis of Ideology: Conservative Foundations and Public Policy*. Research demonstrated impact of long-term core support among conservative foundations, noting that mainstream foundations were less likely to provide support in this way.

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- 2004 *Standards for Foundation and Corporate Grantmaking*. Publication called for 50 percent of grant dollars for unrestricted support. NCRP presented testimony to the Senate Finance Committee advocating for significant increases in core support by grantmakers.

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- 2005 *Not All Grants Are Created Equal*. Report demonstrated that conservative foundations were more likely than mainstream ones to provide core support.

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- 2007 *A Call to Action: Organizing to Increase the Effectiveness and Impact of Foundation Grantmaking*. Report summarized findings from nonprofit leaders’ focus group discussions convened by NCRP in 2005 and 2006 from urban and rural areas.

is the foundation’s *contribution* to the organization as a whole that is important, not the *attribution* of certain outcomes to a particular funder. As Brest states, “Providing general operating support is no different from any other activity that depends on many peo-

ple's contributions ... where no individual makes a difference, but where aggregate contributions are critical."<sup>142</sup> Similarly, Chuck Hamilton, executive director of the Clark Foundation, notes the important role that core support plays in addressing community needs and states, "Knowing where the money is going can be overly seductive. Some foundations make the mistake of looking at the number served vs. the number actually helped. We have to get comfortable with evaluating operating support — looking at financials and other paperwork, trusting the organization by talking with them"<sup>143</sup> Even the Council on Foundations noted this needed paradigm shift to rethink institutional philanthropy's approach to how it perceives credit. The 2002 board briefing document includes quotes from prominent grantmakers of varying types in support of operating support. The "collective glory" of grantees' overall work, "trust," and investments in capacity building and infrastructure are among the benefits highlighted by the Pew Charitable Trusts, the Albert Kunstadter Family Foundation and J.P. Morgan Chase.<sup>144</sup>

Buechel and Handy address the challenge of measuring the impact of general operating support based on funder perspectives articulated at the 2007 *Capital Ideas* symposium cosponsored by Harvard's Hauser Center for Nonprofit Organizations and the Nonprofit Finance Fund. They encourage funders and grantees to engage in deliberate conversations about the effectiveness of core support, to share metrics tied to organizational health and outcome measurement, and to suggest identifying appropriate ways for grantmakers to get credit for their core support contributions to grantees. As Hank Beukema of the McCune Foundation notes in addressing the perceived loss of credit, "We need to encourage these funders to share the stage with others and to take a longer term view." This statement echoes CEP's findings that core support alone is insufficient; rather, core support provided with a sufficient time frame is what grantees value most in their funders.

### Accountability

Despite the findings about the benefits of general operating support, some grantmakers still believe that core support diminishes accountability compared to project-specific support with predetermined metrics of success. To address this perceived "accountability gap," some foundations have taken steps toward trying to build accountability mechanisms into core sup-

port grants. One prominent example comes from the William and Flora Hewlett Foundation. Paul Brest advocates providing more grant dollars to "negotiated general operating support," grants that allocate funding toward core operations with caveats and restrictions to preserve accountability. Such support is defined as a grant in which "the funder engages in a due diligence process, which culminates in an agreement about what outcomes the organization plans to achieve, how it plans to achieve them, and how progress will be assessed and reported."<sup>145</sup>

The California Wellness Foundation uses a similar but more flexible approach to core support grants, clarifying the impact of the grantee's work and designing an evaluation mechanism in partnership with the grantee. In its 1999 annual report, this funder noted the demands of fundraising and project-specific grants as placing "contrived requirements" that negatively impact grantee effectiveness. The report succinctly summarized the benefits of core support: "Nonprofit organizations are given the opportunity to assess and address internal needs. ...With the aid of unrestricted grants, nonprofit organizations can strengthen their infrastructures, reevaluate missions and otherwise set themselves on a strategic course for long-term success. Above all, core operating support can serve as a catalyst, opening the door to discussions of 'big picture' topics and investing in the vision and ideas of nonprofit leaders."<sup>146</sup> Gary Yates, president and CEO of the foundation, explained its decision to begin providing half of its grants in the form of core support. Noting that other funders remained "ambivalent" about core support, he said that the change could be one of the most strategic ways for the foundation to support its grantees. Addressing the value that core support adds, he said, "While project funding tends to stretch and even weaken nonprofits, core-operating dollars can have the opposite effect: strengthening organizations and helping them stay focused on their mission. Now that's adding value!"<sup>147</sup> The California Wellness Foundation's grantmaking demonstrates how core support and program support grants are complementary. When the foundation announced its decision to provide half of its grants as core operating support, it remained committed to providing the balance of its grants as program support to ongoing health initiatives.

The Sobrato Family Foundation, which provides exclusively general operating support grants to nonprofits in Silicon Valley, places even fewer restrictions

on grantees, Sobrato's executive director Diane Ford says, "Our bottom line is to build robust, healthy local organizations to serve local public needs. It makes sense to give them the money and let them put it where they need to put it to fulfill their missions. They know best where that is."<sup>148</sup> Another example is the Hawaii Community Foundation, which was struggling with how to measure impact and then realized how much of the qualitative information it had was, in fact, rife with metrics. This funder's impact metrics evolved from the stories that their organizations shared with them. The experiences of the Hawaii Community Foundation are especially relevant for rethinking impact and assessment of core support grants.<sup>149</sup>

The 2002 Council on Foundations (COF) board briefing document lists six reasons that some funders prefer general operating support over program support:

1. Helps grantees build and sustain their capacity and infrastructure. "An organization cannot be effective without efficient operations and strong management."
2. Contributes positively to grantee sustainability.
3. Keeps grantees focused on mission.
4. Core support creates a more level playing field because it builds trust and improves the relationship between the funder and the grantee. "Limited or short-term project funds can lead to less than successful endeavors and frustration on both the

part of the funder and grantee."

5. By giving grantees more control, they are enabled to generate innovative solutions. "It is a grantee-centered approach instead of an approach powered by a funder's agenda."
6. General support grants align with the long-term interest of the foundation's board. "The board can become engaged in thinking about the big-picture needs of the community."<sup>150</sup>

Grantee organizations ultimately are accountable to their communities and constituents. This is the non-profit sector's *raison d'être*: social impact. Accountability from a grantee to a grantmaker also is important for numerous reasons, the most obvious being disclosure of how grant dollars were used. True general operating support and accountability are not, however, mutually exclusive.

### Flexibility

Institutional grantmakers can find that providing core support helps them meet their own interests. For example, NCRP's *A Call to Action* highlights the work of Woods Bowman, Elizabeth Keating and Mark Hager in the section on "organizational slack," a concept very familiar to many in the private sector who link it with organizational effectiveness. "Slack" is a buffer of resources that allows an organization to adapt to changes in the environment, respond to new opportunities and adjust programmatic priorities based on on-the-ground realities. As Rick Cohen, for-

## CORE SUPPORT AND MEASURABLE IMPACT<sup>154</sup>

The Blue Shield of California Foundation provides one example of a grantmaker that found ways to quantify the impact of its core support grants. The foundation sponsored the Core Support Initiative, providing more than \$12 million in flexible financing to nearly 200 community health clinics in California "to cover whatever [the clinics] need most, from utility bills to hiring new staff to expanding services." Survey results following com-

pletion of the initiative in 2006 found that fully 98 percent of respondents singled out the substantial role core support played in their ability to cover operating expenses, sustain service levels, and cover uncompensated costs. Beyond maintaining the infrastructure of these clinics, "respondents cited how core support funding helped them to augment their visibility, credibility and legitimacy. In addition, half the clinics leveraged Blue

Shield of California Foundation grants to raise additional public or private funds." One clinic even described how flexible funding allowed for new hires to relieve overtaxed clinical care personnel, increase training and correspondingly boost the morale of staff members. This foundation identified the measurable impact of its grantees and attributed impact to the type of support it provided that allowed for this impact: core support.



mer executive director of NCRP and author of the report, states in discussing organizational slack, “Because they don’t have to be immediately and restrictively pumped into program operations, unrestricted resources can be used for important organizational slack purposes that enhance effectiveness and impact. In their view, investment income is a particularly appropriate source of revenue but the proportion that will be able to generate large sums for this purpose is slim.”<sup>151</sup> Grantees, particularly smaller organizations, often lack investment income and thus unrestricted core support serves as the organizational slack instead, allowing grantees the flexibility to adapt to ever-changing environments and to respond to program opportunities and crises.

Dennis Derryck and Rikki Abzug highlighted the “shock absorption” that core support provides grantees and note that insufficient flexibility can leave a grantee vulnerable, especially in the wake of pressing needs. In the words of an urban nonprofit participant in NCRP’s focus group discussions, “Core money gives you time for relationship-building, for forward-thinking.”<sup>152</sup> NCRP and Bell et al.’s interviews and focus group discussions with grantee staff, particularly executive leaders, consistently reflect increased trust in the grantmaker–grantee relationship as an important outcome of providing general operating support as well.<sup>153</sup>

### MULTI-YEAR FUNDING

Providing multi-year grants is crucially important for the health, growth and effectiveness of nonprofits. A significant portion of the literature on multi-year funding links this type of support with overall foundation

investments to build and strengthen nonprofit infrastructure.<sup>156</sup> A report from the Center for Effective Philanthropy (CEP) found that the type, duration and size of grants all are intimately connected with nonprofit perceptions of the impact of the grant on effectiveness. CEP found that general operating support grants of sufficient size and duration generated the highest ratings.<sup>157</sup> But, as the CEP report states, core support alone is insufficient to ensure a grantee organization is enabled to succeed and increase its impact. Core support must be provided with a long enough timeframe for the grant recipient to demonstrate its impact. As CEP states, “Most grants are simply too small and short term for it to matter much to grantees whether they are for program or operating support. ... It is not operating support alone that generates higher ratings of impact on the grantee organization, but rather operating support of sufficient size and duration.”<sup>158</sup> Additionally, policymakers and business gurus, including Hillary Rodham Clinton, Bill Bradley and Jim Collins, also have noted the inefficiencies generated in the nonprofit sector from the lack of multi-year funding and core support.<sup>158</sup>

Taken together, lack of sufficient flexible core support funds with unrealistically short timeframes negatively influence the civil society sector’s effectiveness and decrease grantee impact. As a rural youth nonprofit organization’s representative stated during an NCRP focus group, “Being a model program and having all these national replications ... a five-year grant initially ... allowed us time to implement the program and evaluate it over a period of time that really showed results.... [With] a one to three year grant, you don’t have the time to do that, and it’s just like continually starting over again

when you have those short term grants. So that the fact that somebody had the foresight to offer a five-year grant really made the difference for us. It was the thing that helped us to be successful and nationally recognized.”<sup>160</sup>

Multi-year funding, much like general operating support, provides nonprofits with the needed flexibility to

In recent years, however, funders have become increasingly conscious of their grantees’ need for long-term, multi-year funding commitments to support organizational growth and sound infrastructure. General operating support and longer-term grants naturally align with the more forward-looking and performance-centered evaluations...

— Kramer et al., FSG Social Impact Advisors<sup>155</sup>

respond to both crises and opportunities. This funding allows grantees to maintain staff continuity and organizational leadership, overcome unforeseeable challenges and improve planning. Multi-year grants generally reduce the administrative burden for grantmakers and grantees. Similar to core support, once the goals and objectives of the grantee organization are agreed upon, both parties are free to make more strategic use of their time. Multi-year funding is distinct from continuing support; multi-year grants offer grantees a firm commitment of funding for more than one year, while continuing support grants are a series of renewable one-year grants from a foundation to the same grantee. Continuing grants are important, but exemplary grantmakers provide multi-year grants.<sup>161</sup>

There appears to be emerging consensus across the civil society sector that multi-year funds are as fundamental to impact and effectiveness as core support grants. GEO's *Change Agent Project* included focus group discussions with nonprofit executives who articulated increasing the amount of multi-year funding as integral to grantee success. Bell et al.'s survey of nonprofit executives found that more multi-year support ranked second only to more general operating support among the types of support that funders could provide to help leaders of grantee organizations better implement their work.<sup>162</sup> Case studies conducted as part of an overhead study by Indiana University's Center on Philanthropy solicited feedback from grantee CEOs as well. The findings were similar to those seen in Bell et al.'s research. The short timeframe of most foundation grants was associated with grantee leadership burnout and frustration. Previous NCRP and GEO focus group discussions with nonprofit CEOs found similar results.<sup>163</sup>

Kevin Bolduc et al. of CEP addressed the length of funding in assessing foundation practices that improve grantee satisfaction. While the survey analysis did not find an association between multi-year funding and grantee perceptions of foundations, it notes that this may be attributable to the fact that very few of the grantees surveyed actually received multi-year funding (60 percent were one-year grants and 19 percent were three years or longer in duration). Moreover, CEP's analysis found that close to 80 percent of respondents had received grants from the same foundation and many reported receiving continuous funding. As CEP concludes, "The transactional nature of this relationship, while not detrimental to

**TABLE 2.2 FOUNDATION AWARDED MULTI-YEAR GRANTS OF TWO OR MORE YEARS SOMETIMES, OFTEN OR ALWAYS\*\*\***

RESPONDENT	PERCENT
All respondents	60
\$10 million or less	47
\$10–\$50 million	57
\$50–\$100 million	62
\$100–\$400 million	73
More than \$400 million	81

\*\*\*p≤0.001<sup>169</sup>

grantee satisfaction, does tend to increase the administrative burden on the grantee and the foundation."<sup>164</sup> In short, it is possible that grantees simply do not receive adequate long-term funding and, thus, are less inclined to link the duration of the grant with what they need when assessing their funders. Moreover, the administrative burden noted by CEP echoes the frustrations of constant fundraising discussed in this section. Although continuous funding is beneficial, NCRP sees such grants as necessary but insufficient. Thus, exemplary grantmakers provide multi-year grants of at least two years or more.

Multi-year grants make it easier for nonprofits to overcome the challenges identified by Bell et al.'s survey of nonprofit CEOs; notably, these challenges are exacerbated by the paucity of real core support.<sup>165</sup> As with unrestricted support, multi-year grants make it easier to maintain staff continuity and foster organizational leadership. Confirmed multi-year support allows for better planning and reasonable compensation.

Participants in NCRP focus group discussions raised frustrations about the lack of multi-year funds as an impediment to their ability to meet their missions. As a staff member of a rural youth nonprofit stated, "Giving us two- or even three-year grants, because that way the issue of training staff, you know that you're going to have the money over time, the investment is not going to be lost ... *Grants over a two- to three-year period would really be helpful to organizations for stability.*"<sup>166</sup> Coupled with the longer timeframe needed to achieve specific organizational outcomes raised in these discussions, the stability and flexibility provided to grantees allows them to make better use of their resources and time, depending on organizational needs.

A 2008 GEO survey, *Grantmaking Practices that Support Grantee Success: Survey Report*,<sup>167</sup> asked respondents questions about multi-year funding, i.e., grants with a duration of two or more years. GEO's analysis of the data suggests a positive association between foundation size and the likelihood of providing multi-year support. Respondents from larger foundations were substantially more likely to report providing multi-year grants; the smallest foundations reported providing the least number of such grants (47 percent) compared to the largest foundations (81 percent).<sup>168</sup> These figures represent the low and high bounds observed in GEO's analysis. A comparable proportion of the smallest foundations surveyed stated that they renewed one-year grants. Table 2.2 is adapted from GEO's report and shows the association between foundation asset size and provision of multi-year support.

cally link this work with impact and effectiveness. NCRP encourages those engaged in and supporting exemplary philanthropic practice within the sector to conduct additional research on this issue. Moreover, because the Foundation Center tracks this type of support, NCRP's preliminary analysis of multi-year grants, discussed in depth later in this chapter, makes a needed contribution to the sector to begin collecting data for future longitudinal comparisons and time-series data.

### ADMINISTRATIVE REQUIREMENTS

Grantees encounter considerable variability about what is needed for a grant application to be considered by a funder and spend significant time producing unique grant proposals, reports and evaluations, customized by individual funder. To avoid this counterproductive scenario, a grantmaker that practices exemplary philanthropy seeks to simplify application and reporting requirements and makes reasonable administrative requirements of its grantees.

The concept of the "net grant"<sup>173</sup> is particularly relevant to grantmakers in determining what defines "reasonable" application requirements. The Nonprofit Finance

Fund led by Clara Miller has made an important contribution to the field by introducing this idea. The "net grant" is the total grant with the grantee's fundraising, reporting and other administrative costs subtracted from the overall amount. Minimizing the transaction costs of fundraising for grantees has immediate benefits for both funders and grantees.<sup>174</sup> For example, shifting away from cumbersome customized grant applications to simple letters of inquiry, making funding guidelines readily available on a foundation's web site and reducing the turnaround time for grant proposals are some generally agreed upon good grantmaking practices to rethink the grant application process.<sup>175</sup>

A recent report by Project Streamline identified ten ways in which current practices by foundations create significant burdens on the time, energy and

Our sector faces an effectiveness paradox. Funders, striving to be strategic and diligent, adopt what seem like sensible application and reporting requirements. But these practices—multiplied by thousands of grantmakers—place a heavy burden on organizations seeking funding, hampering their ability to be efficient with their time and effective in their missions.

—Jessica Bearman, Project Streamline<sup>172</sup>

The type of foundation also influences whether or not the funder is likely to provide multi-year support. The GEO survey compared the type of foundation with the likelihood of providing this support and found that corporate (73 percent) and private foundations (67 percent) were much more likely than community foundations (36 percent) to report making multi-year grants.<sup>170</sup> This finding is in keeping with community foundations' provision of general operating support. These foundations are less likely than their corporate and independent counterparts to provide general support. However, community foundations reported providing a higher proportion of their grant dollars as core support relative to three years ago.<sup>171</sup>

Beyond the works discussed above, there is a scarcity of research on multi-year grants that specifi-

effectiveness of nonprofits. It is a thorough and compelling report that gives collective voice to what nonprofits have been saying for years. The report was commissioned by several grantmaking associations, funder affinity and collaborative groups, and the National Council of Nonprofits.<sup>176</sup> This collaboration is a positive example of donors and grantees working together to identify the areas in most need to improve the civil society sector. NCRP is encouraged that this project will continue dialogue with funders and grantees to identify and overcome impediments to effectiveness.

Among the ten key areas identified by Project Streamline as “flaws in the system,” several relate directly to making administrative requirements more reasonable. The research surveyed 858 foundations, held focus group discussions and conducted interviews with foundations, nonprofits and intermediaries. Project partners worked with the Center for Effective Philanthropy (CEP) to review findings from a set of CEP Grantee Perception Reports. CEP used data from perception reports of 170 foundations and coded 540 grantee recommendations; the center also conducted regression analyses to determine statistical significance and the predictive power of four variables related to administrative requirements.<sup>177</sup> Project Streamline’s report demonstrated that administrative requirements were identified by grantees as a signal of lack of trust between the funder and the grantee, something clearly detrimental to moving toward a more level playing field or engaging in a partnership model. Further, the report found that fully 13 percent of all foundation dollars is spent on administration,<sup>178</sup> suggesting that current administrative requirements create inefficiencies among funders as well.

### Evaluation requirements and efficiency: A philanthropic paradox

Evaluations in particular have the potential to be a drain on the time of nonprofits and foundations alike. According to Alana Conner Snibbe, senior editor of the Stanford Social Innovation Review, “Boards and funders don’t misuse evaluations because they are dumb or lazy, or even because they are ornery. Instead, their misuses and abuses reflect the fact that good evaluation is extremely difficult.”<sup>179</sup> These findings are similar to those identified by both Project Streamline and GEO’s research. Project Streamline’s research found that very few foundations actually use grant reports in a meaningful way: they do not inform future grant making and many are “shelved” and never read.

## GRANTMAKER PRACTICES THAT NEGATIVELY IMPACT SECTOR EFFECTIVENESS

1. Significant variability in grant application and reporting requirements
2. Singular approach to requirements regardless of grant size
3. High costs of grant applications that might not be worth the effort
4. Transferring grantmaker administrative requirements onto grantees
5. Diminished grantee trust from overly burdensome administrative requirements
6. “Reports on a [grantmaker’s] shelf” sometimes never are read
7. Grantees engage in “fundraising gymnastics” to satisfy administrative requirements
8. Funders overemphasis on due diligence, negatively impacts grantee effectiveness
9. Counterproductive attempts to streamline strategies such as e-filing
10. Self-imposed funder inefficiencies – 13 percent of foundation dollars spent on administration of grants

*Adapted from Drowning in Paperwork, Distracted from Purpose: Challenges and Opportunities in Grant Application and Reporting by Project Streamline (2008).*

General operating and multi-year support require a different set of metrics than project-specific grants. GEO notes, “As grantmakers consider how to assess the impact of general operating support, they should make sure their assessments do not stand in the way of the broader goal of improving the capacity of nonprofits to deliver meaningful results. This means using assessment as a platform for promoting learning and continuous improvement among grantees. It also means using assessment as a platform for a stronger grantmaker-grantee relationship and ensuring that assessment does not become an added burden for grantees.”<sup>180</sup>

Institutional grantmakers also should recognize that qualitative data are just as meaningful as quantitative data. NCRP and Bell et al.’s survey and focus group discussions with nonprofit CEOs found that these two types of support ranked higher than any other grantmaking practice among nonprofit leaders.

CEP's research also found that core support of sufficient duration ranked highest among surveyed grantees. Especially when considering long-term sustainability of philanthropic interventions, patience is essential—results may not be measurable using any metrics for several years. There are, however, interim and continuous progress indicators that can serve the intermediate role of demonstrating that impact is in its nascent forms.<sup>181</sup>

### Foundation theory and practice – a disconnect that impedes impact

Many foundations believe that evaluation should be useful for informing future grantmaking decisions and for improving program design or making mid-course corrections. This is especially relevant for core and multi-year grant reporting requirements. Although these types of support often require a grant report, the form of the report is similar to an evaluation because a) it often looks for demonstrable organizational impact; b) of the longer timeframe of these types of support; and c) of the different measures and metrics used to assess impact. Of course, to get evaluations of sufficient quality to produce these benefits foundations need to allow nonprofits to invest in the capacity to conduct meaningful evaluation. Core support can be used for a variety of ways that build evaluative capacity, such as staff training in monitoring outcomes or funds for external consultants who can conduct evaluations more rigorously without additional upfront investments. Yet, despite the rationale for evaluations of long-term unrestricted grants to serve this purpose, studies comparing foundation theory with practice find a consistent gap in this area.

In 2004, the Urban Institute partnered with GEO to produce an important report authored by Francie Ostrower. *Attitudes and Practices Concerning Effective Philanthropy*<sup>182</sup> remains a seminal publication; it is the first large-scale survey of the U.S. foundation world's own perceptions of its variable attitudes and practices. The report found several areas in which foundation self-reported grantmaking practices differed greatly from actual grantmaking practices. The 2008 GEO survey discussed in this chapter was conducted as a follow-up survey to the 2004 report, and repeated many, though not all, of the same questions. The 2008 GEO survey thus allows for some longitudinal comparisons, though with cautions and caveats about drawing conclusions for some areas.

Ostrower's analysis found that final reports were the most common way that foundations monitor whether their funds were spent in accordance with the grant parameters. However, a survey of 300 nonprofit CEOs and executive directors in Ohio and New York shows that there are insufficient resources for evaluation. Fully 75 percent said they do not feel they have enough time for evaluation, 61 percent felt they lacked the staff capacity for it, and 45 percent voiced a sense of a lack of funding for evaluation.<sup>183</sup> This suggests that grantmakers often make high demands of their grantees to demonstrate impact without providing sufficient funds for their grantees to conduct formal evaluations. Foundations ought to: a) make evaluations more meaningful in terms of self-evaluations and grantee evaluations; b) provide funds that allow grantees to invest in their evaluative capacity if the funder demands rigorous evaluations; and c) not try to emulate the private sector in terms of evaluation.

## YOU CAN'T MEASURE EVERYTHING THAT MATTERS

"Climate change" or global warming is a pertinent example for the effectiveness paradox created by the "tyranny of measurement." The environment is a pure public good because it meets the two criteria of being non-rival and non-exclusive. Non-rival means that once the "good" is provided, the resource's availability is not impacted by another individual's

consumption of it, while non-exclusive means that nobody can be kept from consuming the good once it has been provided. But how does one quantify or evaluate the impact that environmental justice groups working to address global warming may have on future generations? The impact will take time to materialize, and the benefits likely will be time-

delayed or qualitative. Can we really quantify the positive impact of clean air for the future? Does not having a metric tied to this crucial work diminish today's investment when it ensures future security? This is the kind of nuance of the depth and breadth of work undertaken by our vibrant nonprofit sector that should inform all evaluations.

This final point is crucial: much has been written about the professionalization of the nonprofit sector or holding the civil society sector to metrics established in the private sector. Not only is there a significant difference in the core reason for evaluation (profit maximization versus social impact or benefit), but private sector evaluations are not immune to problems any substantial evaluation presents. It is arduous work to conduct a rigorous evaluation, and making measurement more meaningful means learning from “failures,” which can serve as learning opportunities for funders and grantees. Identifying issues or barriers as they arise also provides the chance for midcourse corrections, allowing more effective use of human and financial resources for the balance of a grant period, including a core support grant or multi-year funding. And a program that looks like a “failure” in the short-term may in fact yield high returns in the long-term. This is especially so for grants made with an eye toward long-term sustainable change. Institutional philanthropy and the nonprofit sector’s approach to evaluations must be informed by these issues, compelling grantmakers to rethink what the real purpose of evaluation is and how to make it more useful for both parties.

#### Grant dollars per hour of administrative requirement

In its 2008 follow-up survey to Ostrower’s report, GEO found that only 12 percent of foundations surveyed reported collecting data on the length of time a grantee needs to meet administrative requirements.<sup>184</sup> The GEO survey notes that larger foundations are twice as likely as smaller counterparts to have collected this information. Yet, there remains a significant knowledge gap that results in foundations underestimating the amount of time it takes grantees to meet administrative requirements.<sup>185</sup> Foundations with a median grant size of \$50,000 reported that grantees spent a median of eight hours for reports and evaluations and a median of ten hours for administrative requirements related to fundraising. In contrast to these estimates, the Center for Effective Philanthropy’s survey of grantees reported that respondents spent a

median of ten hours on evaluation and reporting and a median 20 hours on development-related administrative requirements.<sup>186</sup> Because the GEO and CEP surveys analyzed grantmakers and grantees with similar funding parameters and found such different results, this example highlights the importance of actively soliciting grantee feedback.

The 2008 GEO survey asked respondents to estimate the amount of time a grantee spends on meet-

A program that looks like a “failure” in the short-term may in fact yield high returns in the long-term. This is especially so for grants made with an eye toward long-term sustainable change. Institutional philanthropy and the nonprofit sector’s approach to evaluations must be informed by these issues ...

ing its administrative requirements along with an estimate of median grant from the funder. GEO members provided a median of \$2,500 in grant dollars per hour of administrative requirements compared to \$1,500 provided by non-members. As the analysts note, the \$2,500 aggregate median grant dollars per administrative hour aligns with figures reported by CEP in its survey of grantees that gauged more than 100 foundations of variable types and sizes. These analyses suggest that the \$2,500 figure is a relatively accurate estimate of current practice trends in the sector. As with all the metrics established by NCRP in this book, current giving trends inform where exemplary philanthropy begins but Philanthropy at Its Best must aspire to improve current trends. A more reliable way to establish reasonable administrative benchmarks is found in GEO’s in-depth analysis of these data, discussed in detail in the *Setting the Bar for Philanthropy at Its Best* section later in this chapter. GEO’s quartile analysis shows that some exemplary grantmakers provide more than \$3,500 in grants per administrative hour.<sup>187</sup>

All of the above point to the need for a paradigm shift that moves the asymmetric power relationship between grantmakers and grantees to one of true partnership and mutual trust. Fundamental to this paradigm shift is ensuring that a foundation’s administrative requirements are reasonable and commensurate with grant size.

## PARTNERSHIPS

Grantmakers rely on their grantees to carry out their charitable purpose, compelling institutional philanthropy to reconsider seriously the nature of the relationship it has with its non-grantmaking partners. In a true partnership, the funder that controls the supply side (the funds) and the grantees that identify and address the demand side (social and community

Beene of the William and Flora Hewlett Foundation stated, “From the funder’s perspective, it gives us greater leverage for organizational change. Because the grant is so highly prized, people are willing to take seriously our concerns about what they’re doing or not doing, and I think it’s much more of a partnership relationship. We also have a really broad sense of the whole organization. For both of us, I think the

dialogue is more realistic and more targeted and more honest.”<sup>191</sup>

Clara Miller of the Nonprofit Finance Fund notes, “Deeply ingrained ‘best practices’ frequently add cost and reduce management flexibility in already difficult operating conditions. We end up hurting organizations we mean to help.” Highlighting that much capacity building is intended to strengthen

It’s the difference between coming up with an idea yourself for how you think social outcomes should be achieved and funding people that do that versus looking for the best organizations out there that are already doing it and asking how to help them do it better. We are not at odds with the grantee. We are getting behind their plans and the set of results that their board is focused on to begin with. We provide the “glue money” that is hard to raise and helps you build the capacity you need to grow and enhance your programs.

—Nancy Roob, President, the Edna McConnell Clark Foundation<sup>188</sup>

needs) do not confront an insurmountable power differential. Rather, exemplary grantmakers engage grantees in a meaningful partnership that helps both parties advance their mission and contributes to the public good. Not only does this maximize the social benefit of philanthropy, it creates an environment of trust in which problems can be identified and resolved more efficiently and learning opportunities on several fronts are enhanced. Recently, Arthur Schmidt, founder of GuideStar, suggested nine strategies to implement his proposed core doctrine of augmenting institutional philanthropy’s social value. For the purposes of the grantmaker-grantee relationship, one recommendation stands out: “shattering the benefactor/supplicant condition endemic in grantmaker/grantee relationships...”<sup>189</sup> Asked by Bell et al. what executive directors at grantee organizations liked the least about their jobs, one responded, “I hate the power dynamics with funders,” while another stated, “I hate having to prove to funders what we do all the time. I hate the bureaucracy around money and the sort of prejudice of it, the irrationality of it and the competition around it. I think the system is broken.”<sup>190</sup>

Some foundations find significant value from the funder perspective in leveling the playing field by providing core support. For example, in 2002, Melanie

nonprofit management, she states that “much greater leverage resides in improvement of funding practices, where both funders and nonprofits create broader and more powerful system change.”<sup>192</sup>

There are several ways that grantees who receive exemplary core and multi-year funding can use their funds to demonstrate the effectiveness of these grants. For example, many nonprofits will use these funds to diversify their funding base by shoring up their income development infrastructure. This is crucially important for grantmakers to understand as it allays a perennial concern about creating funder dependency if a grantee relies exclusively on a short list of foundations for these grants.

Nonprofit partners that receive sufficient levels of flexible unrestricted funds can also exercise care and judgment in determining what best meets their needs to fulfill their charitable purpose. Enabled with these grant dollars, they can use their discretion to invest in capacity building and leadership development, two increasingly researched and effective strategies that ensure the long-term health of the U.S. democratic civic sector.

### Capacity building and leadership development

Capacity building helps nonprofits improve their operations, infrastructure and effectiveness. Capacity

building grants are more restrictive than core operating support, but are valuable because they recognize that strong organizations are needed to create impact. If an organization receives a sufficient amount of true general operating support as defined in this chapter, the need for capacity building and leadership development grants decreases.

Investing in capacity is not a new concept; in the 1970s, the *Harvard Business Review* included an article coauthored by Richard Mittenhal, president of the TCC group, which highlighted the extant underfunding of nonprofit capacity. As he noted then, “The majority of large national foundations continue to limit funding to special programs and short-term projects, creating disincentives to good management, rather than supporting the organizational capacity building that nonprofits need.”<sup>193</sup>

Investing in leadership development can be an incredibly beneficial form of capacity building that accomplishes two objectives. First, it addresses the staff continuity issues raised by grantees and, second, it advances opportunities to transition leadership to the next generation of civil society leaders. The Center for Creative Leadership distinguishes between leader development as “the expansion of a person’s capacity to be effective in leadership roles and processes” and leadership development as “the expansion of the organization’s capacity to enact the basic leadership tasks needed for collective work: setting direction, creating alignment, and maintaining commitment.”<sup>194</sup>

Grantees that receive sufficient core support can use these funds to enhance both leader and leadership abilities. Moreover, because shared objectives between a grantmaker and grantee discussed earlier lead to positive social impact, nurturing leadership at the community level is yet another dimension to consider in the ways grantmakers provide funds to nonprofits.

Building community-level leadership is an example of “collective leadership,” also known as inclusive, relational, participatory, cooperative and shared leadership.<sup>195</sup> Because of these characteristics, collective leadership lends itself naturally to the nonprofit sector, which seeks to enhance the public good, and especially to groups that work in relationship with each other to provide human services and work toward social change.<sup>196</sup> “The collective leadership model ... raises questions about the utility of leadership development programs that are focused exclusively on the executive director. Rather, the idea is to

create holistic, vertically integrated programs that reap rewards from the entire organization and, often, for the broader community.”<sup>197</sup>

An important issue that emerges in GEO’s research on leadership development is coupling it with capacity building: leadership development is a type of capacity building and capacity building is a form of leadership development.<sup>198</sup> NCRP extends this argument further: providing long-term unrestricted core support in the form of true general operating support and multi-year grants enables grantees to use their discretion in determining individual organizational needs, be they for capacity building or leadership development. Moreover, because these types of grants have demonstrated measurable impact and display an important level of trust between the grantee and grantmaker, they reinforce the need to shift to meaningful partnerships that lead to a potentially higher net benefit for the entire U.S. nonprofit sector. NCRP’s position is reinforced by the findings in Bell et al.’s survey of nonprofit CEOs regarding what changes institutional grantmakers could make to facilitate survey respondents’ jobs and make them more effective. General operating support ranked first and multi-year funding ranked second, while investments in executive leadership, specifically coaching and professional development, ranked last.<sup>199</sup> As the report notes, this does not mean that leadership development is irrelevant; rather, it indicates that nonprofit CEOs would be more effective if they had flexible funds that they could use at their discretion.

### The role of the program officer – competing demands

The role of the program officer, usually the exclusive point of contact between grantmakers and grantees, emerges here as crucial. Because the majority of interactions with the foundation happen through the program officer, she or he plays a critical role in establishing a sense of trust and partnership between a foundation and its grantees. A program officer can take simple steps—such as returning phone calls in a timely manner—that demonstrate responsiveness to the grantee. Additionally, being honest with grantees about the prospects of securing funding results in immediate efficiency gains, showing respect for the time of overworked nonprofit leaders. Some particularly helpful program officers take the additional step of referring applicants to other potential funders. In sum, the program officer’s central role in mediating and building the important relationship with grantees



can be made more meaningful by adopting simple mechanisms that demonstrate responsiveness.

Some program officers want authentic feedback from grantees, but honesty is hindered by the threat that grantees feel in sharing negative experiences. This highlights the importance of seeking anonymous feedback from grantees. Third-party or neutral external actors can often help foundations elicit the needed anonymous feedback on their performance. Independent consultants present funders with an opportunity to get authentic feedback that is not euphemized because of the threat of lost funding.

### Overhead in project grants – providing sufficient funds to cover indirect costs

It may not always be appropriate to make a general support grant; some situations require project grants. In such a scenario, true partnership means ensuring that grantees receive sufficient funding for overhead. Unlike general operating support, program support or project support is designated to cover the expenses of a particular project and frequently is subject to strict monitoring and evaluation. Although program support may cover some overhead costs, the funding is restricted to “carry out specific activities”<sup>200</sup> and cannot support general operating expenses unassociated with the project. Moreover, research demonstrates consistently that the overhead provided in project support grants is insufficient.<sup>201</sup> Ensuring that an appropriate level of overhead is included in restricted project funding is essential to good grantmaking.

An Urban Institute study found that restricted program support without sufficient overhead actually undermines grantee capacity. Ken Wing and Mark Hager’s research found that smaller nonprofit organizations with the most restricted program support had the greatest difficulty in paying for overhead expenses, leading to diminished capacity and inconsistent outcomes. As they note, “Small size combined with restricted funding is a double whammy that appears to almost guarantee inadequate organizational infrastructure.”<sup>202</sup> Wing and Hager advocate increasing overhead support because of the positive association between such grantmaking and grantee impact.<sup>203</sup>

Patrick Rooney et al. found that 69 percent of foundations supported overhead expenses and nearly half made grants for general operating support. Their foundation survey results are in direct contrast to the perceptions of grantee organizations they surveyed. Fully two-thirds of surveyed health and education service

organizations said they lacked adequate support to cover administrative and core operating costs. “Over half, 53.4 percent, reported the cause of their inadequate overhead funding was foundations desiring to support programs and not administrative expenses.”<sup>204</sup> The survey’s findings suggest that foundations may be more willing to cover overhead expenses in project grants than grantees generally believe. Yet, the lack of core support articulated by grantees in this research as well as previous NCRP interviews<sup>205</sup> with nonprofit leaders underscores why real general support grants are needed to maintain a robust nonprofit sector, enabled to respond to crises and opportunities alike.

### Long-term sustainability

Exemplary grantmakers recognize that true partnerships extend beyond supporting individual organizations. Instead, these funders acknowledge the importance of ensuring the long-term sustainability of the entire U.S. civil society sector. The Nonprofit Finance Fund and Harvard University’s Hauser Center for Nonprofit Organizations convened a diverse group of nonprofit stakeholders in 2007. As the title of the convening, *Capital Ideas: Moving from Short-Term Engagement to Long-Term Sustainability*, suggests, this group sought to develop recommendations to address the persistent undercapitalization of the nonprofit sector, to elicit a paradigm shift in the way that funders view their investments in their grantees and to identify appropriate tools that would enhance the U.S. nonprofit sector as a whole. The issue of nonprofit sustainability is a salient lens for reviewing the financial mechanisms funders can use to increase their impact. Yet, foundation impact does not increase in isolation. Rather, by providing support in the form of core grants with a minimum of a two-year commitment, funders can create an enabled civil society sector that makes these organizations more effective and sustainable in the long term. As the report from the convening concluded, “Although business techniques are necessary, they are not sufficient. Market discipline is crucial in some areas, but social problems addressed by nonprofits exist often because markets are not working effectively. There also is an issue of perspective. When financial incentives are given to middle- and upper-class people, it is called *policy*, when funds are given to low-income and low-wealth people, it is called *subsidy*. Funders should make more policies for the communities we care about.”<sup>206</sup>

When institutional philanthropy engages grantee

organizations in a relationship that reflects true partnerships premised on trust, it enhances the long-term sustainability of the civil society sector. GEO's research presents several case studies that highlight foundations such as the Grable Foundation, the Forbes Fund, the Bruner Foundation and the Charles Stewart Mott Foundation, among others that engage in different practices to include grantees in more substantive and meaningful ways. These foundations focus on improving grantee effectiveness by working towards true partnerships. A few exemplary foundations take partnerships to a higher level and include the grantee voice in decision-making processes of the foundation. Others include nonprofit partners in the grants process while some include constituent representatives on the board of trustees. NCRP supports all these exemplary practices; many of them are addressed more extensively in Chapter 3 of this book.

The need for more core support grant dollars of sufficient duration is even more pronounced when looking at the issue of partnerships and sustainability. Renowned former Stanford business school professor and current-day business management consultant Jim Collins concisely stated the importance of general operating support: "Restricted giving misses a fundamental point: To make the greatest impact on society requires first and foremost a great organization, not a single great program."<sup>207</sup> A grantmaker can demonstrate its trust in its grantees by disengaging from the day-to-day operations of the organization, knowing that long-term accountability is ensured. Gara LaMarche, president and CEO of the Atlantic Philanthropies, highlights the importance of general support and multi-year funding as a sign of trust, stating that "trusting [grantees], in a supportive relationship, to set their own course and make their own decisions about programmatic priorities ... is best done with general support that gives organizations the flexibility they need and multi-year grants that provide room to plan and give some relief from the endless cycle of fundraising and the paperwork that most foundations seem to generate."<sup>208</sup>

In 2005, the New Hampshire Charitable Foundation revised its grantmaking guidelines to include multi-year and general operating support grants; it also increased the size of individual grants. As noted by Jennifer Hopkins, director of programs, "It frees [grantees] from crafting a project to fit our guidelines ... and it helps with the problem of being grant-rich but cash-poor because every grant is restricted to a specific project or, even worse, every

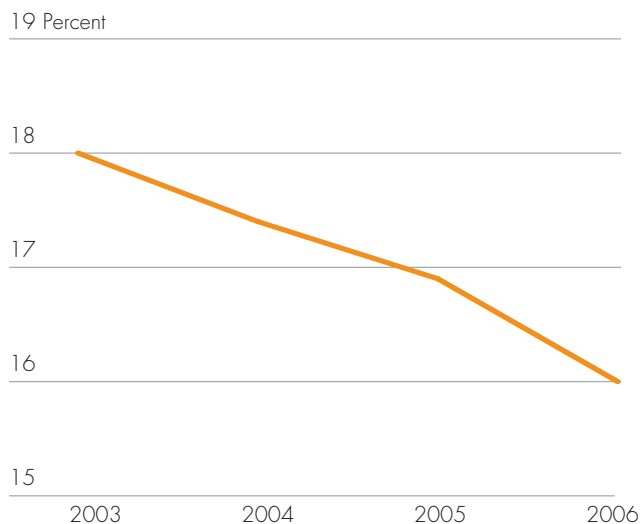
grant does not cover real overhead costs."<sup>209</sup> This exemplary grantmaker assesses its grantees' long-term impact using the organization's strategic plan, an efficient use of already existing resources and an example of a reasonable administrative requirement.

## SETTING THE BAR FOR PHILANTHROPY AT ITS BEST

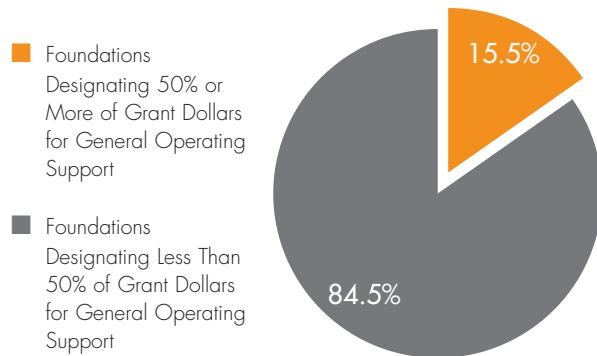
To ensure that our *Criteria for Philanthropy at Its Best* are informed by current practice, NCRP worked with the Foundation Center to produce a custom dataset on general operating support and multi-year funding. The dataset reported disaggregated foundation giving by types of support for a three-year period from circa 2004-2006. NCRP used the three-year mean to avoid the potential influence of high or low outliers that can sometimes be generated in a single year by unusual grants.. The resulting data present a reasonably reliable picture of the percentage of grants or grant dollars each foundation gave based on the two types of support NCRP identified as associated with positive investments in the health, growth and effectiveness of its grantee partners.

There were 809 large foundations in Foundation Center's database<sup>210</sup> with sufficient data to be included in NCRP's analysis of types of support. While there now are approximately 1,200 foundations in the database, some foundations could not be included in the analysis because they did not provide data for all three years. Total average grant dollars awarded by

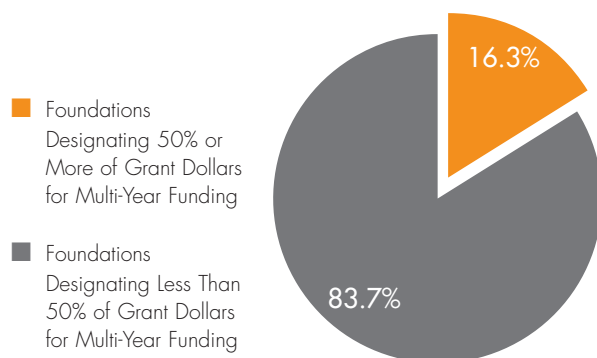
GRAPH 2.1 AGGREGATED GENERAL OPERATING SUPPORT AS A PERCENT OF TOTAL GIVING, 2003-2006



**GRAPH 2.2 PERCENT OF FOUNDATIONS MEETING NCRP'S CRITERIA FOR GENERAL OPERATING SUPPORT**



**GRAPH 2.3 PERCENT OF FOUNDATIONS MEETING NCRP'S CRITERIA FOR MULTI-YEAR FUNDING**



**TABLE 2.3 MEDIAN GRANT DOLLARS AWARDED BY RESPONDENTS PER ADMINISTRATIVE HOUR<sup>217</sup>**

*Based on Funder Estimates of both Median Grant Size and Hours a Typical Grantee Spends on Meeting their Administrative Requirements*

PERCENTILES	ALL RESPONDENTS (N=577)	ALL RESPONDENTS TRIMMED* (N=549)
10th	\$284	\$333
25th	\$625	\$647
50th	\$1,667	\$1,667
75th	\$3,750	\$3,586
90th	\$9,148	\$7,500

*\*Both ends of the distribution were trimmed by 2.5% (the extreme 5% of the data were discarded).*

these 809 grantmakers was \$14,926,350,872 for the time period analyzed.<sup>211</sup>

Of the 809 foundations in NCRP's total sample, 617 foundations provided at least some grant dollars for general operating support.<sup>212</sup> In the aggregate, 16.2 percent of grant dollars was provided for general support. To set a standard metric for Philanthropy at Its Best, NCRP examined individual foundation grantmaking. The 50 foundations that provided the highest proportion of their grant dollars for general operating support gave more than 90 percent of their grant dollars over all three years for general support. These grantmakers comprise just over 6 percent (6.18) of the total NCRP sample. Within this sub-sample, 30 foundations provided fully 100 percent of their grant dollars for this type of support. The median was fairly disappointing, at 13 percent of all grant dollars for general operating support.

These findings are in keeping with aggregate statistics on core support compiled by the Foundation Center, which indicate that general operating support has declined continuously since 2003: it comprised 18.0 percent of grant dollars awarded a percentage of overall giving in that year, 17.4 percent in 2004, 16.9 percent in 2005 and 16 percent in 2006.<sup>213</sup>

Given the background on aggregate general operating support and the median of the NCRP sample, it is unsurprising that there was an exceptionally large group of foundations providing disappointingly low levels of operating support. The 370 foundations that account for nearly 46 percent (45.74) of the total NCRP sample provided less than 20 percent of their grant dollars for general operating support, with 268 of those foundations, comprising more than 33 percent (33.13) of the sample providing less than 10 percent of their grant dollars for these purposes.

**Leading the field, 125 foundations or about 15.5 percent of the total NCRP sample provided at least 50 percent of their grant dollars for general operating support. This is the benchmark for Philanthropy at Its Best. A list of all 125 foundations that currently meet or exceed this benchmark can be found in the data appendix.**

For multi-year grants, 483 foundations of our 809 foundation sample (59.7 percent of the total sample) provided at least one multi-year grant during the three-year time period. This number is disturbing considering the stated constraints on smaller foundations' ability to provide this type of support noted in this chapter. Because the Foundation Center tracks only larger foundations, if smaller foundations were included in the sample, the numbers would be even

lower. Interestingly, these findings align with self-reported data from the 2008 GEO survey, which found that 60 percent of foundations, regardless of asset size, provided multi-year grants sometimes, often or always.<sup>214</sup> For foundations that made any multi-year grants, the median when measuring multi-year grant dollars as a proportion of overall grantmaking was just below 34 percent (33.7).

**Leading the field, 132 foundations or 16.3 percent of the of the total NCRP sample provided 50 percent or more of their grant dollars as multi-year grants. This is the benchmark for Philanthropy at Its Best.<sup>215</sup> A list of all 132 foundations that currently meet or exceed this benchmark can be found in the data appendix.**

Encouragingly, NCRP identified 38 exceptional field leaders; each of these foundations provided more than 75 percent of its grant dollars as multi-year grants. In contrast, 160 foundations provided less than 25 percent of grant dollars as multi-year grants. Additionally, 326 foundations (more than 40 percent of the total sample) provided no multi-year grants whatsoever.

The data available regarding administrative requirements are less robust but some longitudinal comparisons are possible between the GEO's *Grantmaking Practices that Support Grantee Success: Survey Report* and the 2004 Urban and GEO report, *Attitudes and Practices Concerning Effective Philanthropy*. In their 2008 follow-up analysis, GEO used a combination of foundations' own estimates of the time it would take a grantee to fulfill application and reporting requirements with the same foundations' self-reported median grant size to produce a measure of administrative burden; it is the median grant dollars awarded by foundations per administrative hour. In the aggregate, all foundations granted a median \$1,667 per hour of administrative work but GEO's analysis found important differences in analyzing the median amounts granted per administrative hour by foundation type and grant size. For example, when median grant size was \$50,000, foundations reported providing \$2,639 per administrative hour compared to the full 820 foundation sample.<sup>216</sup>

NCRP is not establishing a metric for dollars granted per administrative hour at this time. There are insufficient publicly-available data, especially longitudinal studies, to measure true partnerships between nonprofits and grantees. This is an especially challenging concept to quantify and establish a corresponding metric. At a future date, NCRP and partners may develop survey mechanisms to capture this important element of good grantmaking. Because GEO's survey was anonymous,

we are not able to report the names of the field leaders for this metric. Still, the quartile analysis of GEO's 2008 data in Table 2.2 shows the top 25 percent of its sample reported awarding more than \$3,500 per administrative hour, providing a helpful cut point to draw a possible measure for exemplary philanthropy.

## CONCLUSION

All foundations should focus on the types of support they provide and ensure that a significant proportion of grant dollars is allocated to general operating and multi-year support. Complementing these types of support with minimizing the inefficiencies in current administrative requirements offers great potential to augment the impact and social benefit of institutional philanthropy. Moreover, as this chapter demonstrated, creating a more level playing field by repositioning the power dynamics between foundations and grantees offers significant potential for sector-wide improvements in the U.S. civil society sector. Fundamental components of engagement founded on the values of true partnership include: trusting non-profit grantees, learning to be comfortable with a degree of uncertainty, minimizing the power differential by engaging grantees as true partners, and ensuring that grantees are sufficiently enabled to carry out the work funded by a grantmaker. Reasonable administrative requirements, particularly in terms of application and reporting, would enhance greatly the impact of institutional grantmaking from both the funder and grantee side. A significant body of research demonstrates that there are many already-existing tools for foundations to use to change the dynamics on which their relationships with grantees are based.

Based on the analysis presented in this chapter, NCRP advocates that all institutional grantmakers engage their grantees as true partners by providing sufficient general operating and multi-year support, investments that grantees can use to bolster infrastructure to ensure long-term viability of the civil society sector. By ensuring that application and reporting requirements are commensurate with grant size, both grantmakers and grantees will make more effective use of their time and increase their impact on the communities they serve. As more foundations begin to measure up to the fair and reasonable benchmarks established under this criterion, both grantmakers and grantees will see increased impact and effectiveness, and the vibrant civil society sector of the United States will better-serve the public's most pressing needs.

## Criterion II: Effectiveness

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A grantmaker practicing Philanthropy at Its Best serves the public good by investing in the health, growth and effectiveness of its nonprofit partners.

- a) Provides at least 50 percent of its grant dollars for general operating support
  - b) Provides at least 50 percent of its grant dollars as multi-year grants
  - c) Ensures that the time to apply for and report on the grant is commensurate with grant size
- 

### DISCUSSION QUESTIONS

NCRP encourages staff and trustees of foundations and other grantmakers to engage in serious discussions about each criterion and the chapter that elaborates on the criterion. Sample discussion questions are provided here to help get you started.

- > Which parts of the chapter did you like the most? Why?
- > Which parts did you like the least? Why?
- > Is it important to invest in the health, growth and effectiveness of our grantees? Why or why not? Have we ever held explicit discussions related to this?
- > In what ways do you think our foundation currently invests in the health, growth, and effectiveness of our grantees? Are there other examples from our past?
- > What percentage of our foundation's grant dollars do we estimate are given as general operating support? As multi-year grants? How did we establish those percentages? Do they satisfy us? Why or why not?
- > Considering the mission of our foundation, are there ways we might increase our general operating support and our multi-year grants and still be effective in achieving our goals?
- > Do we think our application and reporting requirements are burdensome to nonprofits? How do we know how long it takes grantees to apply for and report on a grant from us?
- > Do we think our requirements are reasonable considering the size grants we offer? Do we want to consider altering anything about grant size or requirements? Why or why not?
- > Considering the mission of our foundation, are we doing everything we can to promote effectiveness of our grantees?
- > What else from this chapter should inform our current grantmaking priorities?
- > If we want to make any changes based on this discussion, what will need to happen in order to make those changes? What are the next steps?

## NOTES FOR CHAPTER II: EFFECTIVENESS

127. Grantmakers for Effective Organizations. "Investing in Leadership: Young Leaders 'On the Verge,'" *IMPACT newsletter*, (October 2006), 2, <http://www.onthemovebayarea.org/files/GEO%20Article%20on%20OTV.pdf>.
128. Quoted in Grantmakers for Effective Organizations. *Imagine, Involve, Implement: Transforming Grantmaker Practices for Improved Nonprofit Results* (Washington, D.C.: Grantmakers for Effective Organizations, January 2008), 38.
129. Kevin Bolduc, Phil Buchanan and Judy Huang. *Listening to Grantees: What Nonprofits Value in Their Foundation Funders* (Cambridge, MA: The Center for Effective Philanthropy, 2004), 3.
130. Council on Foundations. "At Issue: Project vs. Operating Support – Which is the Better Strategy?" Council on Foundations Board Briefing: Type of Funding, December, 2002, [http://www.cof.org/files/Documents/Governing\\_Boards/BBProjectOperating.PDF](http://www.cof.org/files/Documents/Governing_Boards/BBProjectOperating.PDF).
131. See, for example, many articles written by NCRP cofounder and current board member Pablo Eisenberg on the rationale for increasing grant dollars allocated to unrestricted general operating support. See also Table I for recent NCRP work on core support.
132. General operating support often is used interchangeably with the terms core support, core operating support, general support and operating support.
133. Grantmakers for Effective Organizations. *General Operating Support: GEO Action Guide* (Washington, D.C.: Grantmakers for Effective Organizations, July 2007), 31.
134. *Ibid.*, p. 19. Emphasis added.
135. Paul Brest. "Smart Money: General Operating Grants Can Be Strategic – for Nonprofits and Foundations," *Stanford Social Innovation Review* (Winter 2003): 49.
136. Kathleen W. Buechel and Esther Handy. *The Road Less Traveled: Funders' Advice on the Path to Nonprofit Sustainability* (working paper no. 40, Harvard University, The Hauser Center for Nonprofit Organizations, July, 2007), 8.
137. Jeanne Bell, Richard Moyers and Timothy Wolfred. *Daring to Lead: A National Study of Nonprofit Executive Leadership* (Washington, D.C.: CompassPoint Nonprofit Services and The Eugene and Agnes E. Meyer Foundation, 2006), 33.
138. Grantmakers for Effective Organizations. January 2008, Op. Cit., p. 4.
139. Michael E. Porter and Mark Kramer. "Philanthropy's New Agenda: Creating Value," *Harvard Business Review* 77 (November-December 1999): 124. [http://www.ncbf.org/Philanthropys\\_New\\_Agenda.pdf](http://www.ncbf.org/Philanthropys_New_Agenda.pdf).
140. Grantmakers for Effective Organizations. *General Operating Support vol. 2: Assessing the Impact* (Washington, D.C.: Grantmakers for Effective Organizations, 2008), 5. Emphasis added. The issue of making evaluations more meaningful and looking at alternative metrics is discussed in detail later in this chapter under administrative requirements.
141. Grantmakers for Effective Organizations, July 2007, Op. Cit., p. 19.
142. Paul Brest., 2004, Op. Cit., p. 50.
143. Quoted in Council on Foundations 2002 Op. Cit. p. 7.
144. *Ibid.*
145. Paul Brest, Op. Cit., p. 44.
146. The California Wellness Foundation. *Core Operating Support: Annual Report 1999* (Woodland Hills, CA: The California Wellness Foundation, 1999).
147. Gary L. Yates. "Good to the Core," *Foundation News and Commentary* (July/August 2001).
148. Grantmakers for Effective Organizations, July 2007, Op. Cit., p. 7.
149. Buechel and Handy. 2007. Op. Cit. p. 11. The context of these metrics was executive leadership development but easily can be extrapolated to core support grants as well.
150. Adapted from Council on Foundations 2002, Op. Cit. p: 4-5.
151. Cohen, 2007, Op. Cit. p. 12.
152. Cohen 2007, Op. Cit., p. 13.
153. Mark Hager et al. "Paying for Not Paying for Overhead," *Foundation News & Commentary* 46 (2005); Cohen, Op. Cit.; Bell et al., Op. cit.
154. Blue Shield of California Foundation. *Strengthening the Safety Net: Core Support for Community Clinics* (San Francisco, CA: Blue Shield of California Foundation, 2007), 3. [http://bscaf.com/assets/files/reports/Core\\_Support\\_Evaluation\\_2007.pdf](http://bscaf.com/assets/files/reports/Core_Support_Evaluation_2007.pdf).
155. Mark Kramer et al. *From Insight to Action: New Directions in Foundation Evaluation* (Boston, MA: FSG Social Impact Advisors, 2007), 13.
156. Kristin A. Grønberg and Laney Cheney. *Indiana Nonprofit Capacity Survey Series Report #1: Indiana Capacity Assessment: Indiana Charities, 2007* (Indianapolis, IN: School of Public and Environmental Affairs at Indiana University, May 15, 2007); Grantmakers for Effective Organizations. *Listen, Learn, Lead: Grantmaker practices that Support Nonprofit Results*, (Washington, D.C.: Grantmakers for Effective Organizations, December 2006); Grantmakers for Effective Organizations, January 2008, Op. Cit.; Mark Kramer et al., Op. Cit.
157. Judy Huang, Phil Buchanan and Ellie Buteau. *In Search of Impact: Practices and Perceptions in Foundations' Provision of Program and Operating Grants to Nonprofits* (Cambridge, MA: Center for Effective Philanthropy, December 2006).
158. *Ibid.*, p. 15.
159. Cohen, Op. Cit. p.10; Center for Effective Philanthropy 2004, Op. Cit. p. 15; Grantmakers for Effective Organizations, July 2007, Op. Cit. p. 1.
160. Quoted in Cohen 2007, Op. Cit. p 10-11.
161. NCRP acknowledges that many smaller foundations find it challenging to make multi-year commitments but encourages them to consider real multi-year funding.
162. Bell et al., Op. Cit.
163. Cohen 2007, Op. Cit.; Grantmakers for Effective Organizations, December 2006, Op. Cit.
164. Kevin Bolduc, Phil Buchanan and Judy Huang. *Listening to Grantees: What Nonprofits Value in their Foundation Funders* (Cambridge, MA: Center for Effective Philanthropy, 2004).
165. Bell et al., Op. Cit.; Huang et al., Op. Cit.
166. Cohen, Op. Cit. p. 11. Emphasis added.

167. Grantmakers for Effective Organizations, *Grantmaking Practices that Support Grantee Success: Survey Report* (Washington, D.C.: Grantmakers for Effective Organizations, October 2008).
168. Grantmakers for Effective Organizations. *Is Grantmaking Getting Smarter: A National Study of Philanthropic Practice—Data Highlights* (Washington, D.C.: Grantmakers for Effective Organizations, 2008), 11.
169. Adapted from Ibid. the p-value for this statistic was <0.001 meaning that the probability that these findings do not reflect reality based on self-reported multi-year funding is less than 1 in 1,000.
170. Ibid., p. 10.
171. Ibid., p. 13.
172. Jessica Bearman. *Drowning in Paperwork, Distracted from Purpose: Challenges and Opportunities in Grant Application and Reporting* (Washington, D.C.: Project Streamline, 2008), 5.
173. Kathleen W. Buechel, Elizabeth K. Keating and Clara Miller. *Capital Ideas: Moving from Short-term engagement to Long-Term Sustainability* (Cambridge, MA: Hauser Center for Nonprofit Organizations, Harvard University, and Nonprofit Finance Fund, 2007).
174. Ibid.
175. Bearman, Op. Cit.; NCRP confidential discussions with funders and grantees.
176. Grantmakers for Effective Organizations, Grant Makers Network, Association of Fundraising Professionals, the Association of Small Foundations, the Council on Foundations, the Forum of Regional Associations of Grantmakers and The Foundation Center are the other members of the collaborative. NOTE: the National Council of Nonprofits was called the National Council of Nonprofit Associations at the time that the Project Streamline report was published.
177. The CEP data are available online at [www.projectstreamline.org](http://www.projectstreamline.org).
178. Bearman, Op. Cit., p. 19.
179. Alana Conner Snibbe. "Drowning in Data," *Stanford Social Innovation Review*, 4 (Fall 2006): 40.
180. Grantmakers for Effective Organizations 2008, Op. Cit., p. 25.
181. Please see NCRP's series of *Grantmaking for Community Impact Project* reports for a comprehensive list of interim progress indicators. <http://www.ncrp.org/campaigns-research-policy/communities/gcip>.
182. Francie Ostrower. *Attitudes and Practices Concerning Effective Philanthropy: Survey Report* (Washington, D.C.: the Urban Institute, September 2004).
183. J.G. Carman and J.L. Millensen. "Nonprofit Program Evaluation: Organizational Challenges and Resource Needs," *The Journal of Volunteer Administration*, 23 (2005). Cited in Snibbe, Op. Cit.
184. Grantmakers for Effective Organizations 2008, Op. Cit., p. 4.
185. Ibid., p. 35.
186. Center for Effective Philanthropy. *Analysis of Key Predictors of Grantee Ratings of Process Helpfulness and Time Spent* (prepared for Project Streamline). Based on data from over 14,000 grantees of large foundations (a median grant size of \$50,000.) Grantmakers for Effective Organizations October 2008, Op. Cit. p. v.
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190. Bell et al., Op. Cit., p. 13.
191. Quoted in Rick Cohen. "Cutting to the Core," *Responsive Philanthropy* (Fall 2002).
192. Clara Miller. "Risk Minus Cash Equals Crisis: The Flap about General Operating Support," in *State of Philanthropy 2004* (Washington, D.C.: The National Committee for Responsive Philanthropy, 2004), 122.
193. Quoted in Paul Connolly. *Building to Last: A Grantmaker's Guide to Strengthening Nonprofit Organizations* (New York, NY: The TCC Group, March 2001).
194. Ellen Van Velsor and Cynthia D. McCauley. "Our View of Leadership Development," in *The Center for Creative Leadership Handbook of Leadership Development, 2nd edition*, ed. Ellen Van Velsor and Cynthia D. McCauley, (San Francisco, CA: Jossey-Bass, 2004); cited in Betsy Hubbard, *Investing in Leadership, Vol. I: A Grantmaker's Framework for Understanding Nonprofit Leadership Development*, (Washington, D.C.: Grantmakers for Effective Organizations, 2005), 13.
195. K.A. Allen et al. *Leadership in the Twenty-First Century: Rethinking Leadership*, (College Park, MD: Academy of Leadership Press, 1998); cited in Hubbard, Op. Cit.
196. Hubbard, Op. Cit.
197. Kathleen P. Enright. *Investing in Leadership, volume 2: Inspiration and Ideas from Philanthropy's Latest Frontier*, (Washington, D.C.: Grantmakers for Effective Organizations, February 2006), 15.
198. Hubbard, Op. Cit; Enright, Op. Cit.
199. Bell et al., Op. Cit., p. 14.
200. Brest Op. Cit.
201. Grantmakers for Effective Organizations October 2008, Op. Cit.; Grantmakers for Effective Organizations 2008, Op. Cit.; Rooney and Frederick Op. Cit.; Bell et al. Op. Cit.; Bearman Op. Cit.; Please see Pablo Eisenberg's and NCRP's extensive writings on general operating support.
202. Mark Hager et al. *Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness – Nonprofit Overhead Cost Project Brief No. 3* (Washington, D.C.: Urban Institute & Center on Philanthropy Indiana University, August 1, 2004).
203. Ibid.
204. Rooney and Frederick, Op. Cit., p. 13.
205. Rick Cohen. *A Call to Action: Organizing to Increase the Effectiveness and Impact of Foundation Grantmaking* (Washington, D.C.: National Committee for Responsive Philanthropy, 2007).
206. Kathleen W. Buechel, Elizabeth K. Keating and Clara Miller. *Capital Ideas: Moving from Short-Term Engagement to Long-Term Sustainability* (Cambridge, MA: Hauser Center for Nonprofit Organizations, Harvard University, and Nonprofit Finance Fund, 2007), 27.
207. Jim Collins. *Good to Great and the Social Sectors: A Monograph to Accompany Good to Great* (New York, NY: Harper Collins, November 30, 2005) 24.

208. Gara LaMarche. "When Foundations Should Lead – and When They Should Get Out of the Way," in *Power in Policy: A Funder's Guide to Advocacy and Civic Participation*, ed. David F. Arons (Saint Paul, MN: Fieldstone Alliance, 2007), 34.
209. Grantmakers for Effective Organization July 2007, Op. Cit., p. 36.
210. The search set is based on the Foundation Center's grants sample database, which includes all of the grants of \$10,000 or more awarded to organizations by a sample of 1,172 larger foundations for circa 2004, 1,154 for circa 2005, and 1,263 for circa 2006. For community foundations, only discretionary grants are included. Grants to individuals are not included in the file.
211. This figure is the denominator used in NCRP's calculations; if analyzed within giving sub-samples, these figures would be higher and likely overstate the current giving trends. Using the full samples average total giving provides a more comprehensive framework for analyzing the different types of grants.
212. The Foundation Center's grants classification system does not differentiate between unrestricted core support and negotiated core support; both are included in the general operating support category.
213. The Foundation Center provides online access to highlights in annual giving trends on its website and in its *Foundation Giving Trends* series available online at [www.foundationcenter.org](http://www.foundationcenter.org). These data are only on the proportion of grant dollars classified for general operating support, not general support, which includes other types of giving such as income management.
214. Grantmakers for Effective Organizations 2008, Op. Cit., p. 3.
215. The two metrics described in this criterion are not additive. For example, a grant that is both multi-year and for general support counts towards meeting both measures.
216. Grantmakers for Effective Organizations 2008, Op. Cit., p. 22.
217. Internal GEO communication shared with NCRP.