



THE STANFORD PACS

GUIDE

TO EFFECTIVE PHILANTHROPY



Stanford PACS

Center on Philanthropy
and Civil Society

—
EFFECTIVE PHILANTHROPY LEARNING INITIATIVE

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Introduction

IF YOU ARE READING THIS *GUIDE*, perhaps you have experienced a “wealth event”—a sudden increase in your net worth from an IPO, inheritance, or the like—or perhaps you have been accumulating wealth during your working years. You may have been volunteering your time, including serving on a nonprofit board, and you have likely been responding to requests to give to your alma mater, your children’s schools, religious institutions, and organizations that you or your friends care about. Perhaps, on your own or with the help of your financial advisor, you have started exploring a few “giving vehicles,” such as donor advised funds or foundations.



You may be at an inflection point—a moment of reflection when you realize you would like to be more purposeful in your charitable giving. With more money and possibly time, you’re feeling the mounting pressure of requests. At the same time, you would like to improve your philanthropic impact: you really want to do it well. Though not professionally trained in philanthropy, you aspire to have a professional level of impact in the areas you care about.

This *Guide* is written for donors who are interested in significant and sustained giving. It was born out of our experience at the Stanford Center on Philanthropy and Civil Society in helping donors improve their philanthropic effectiveness. Although much of the *Guide* is relevant to philanthropy across the globe, it is focused on donors making gifts to US-registered charities.

When we use the term “effective philanthropy,” we refer to what’s most likely to achieve your objectives while avoiding unintended harm to others. Effective philanthropy has these essential characteristics:

- No matter how broad the realm of your philanthropic interests may be, you make gifts in few enough areas that you can learn about each of them reasonably well.
- You have a clear sense of the social or environmental goals that you wish to accomplish through a gift or set of gifts.
- You make gifts to organizations in which you have reasonable confidence that they can help achieve your goals—based on their track records, strategies (theories of change) (see **Chapter 6: Theory of Change, Monitoring, and Evaluation**) management, and operations.
- When your goals include benefiting individuals or communities, you ensure that the organizations you support have listened attentively to your mutual beneficiaries to ascertain their needs—and you often can do this yourself.
- The terms of your gifts are designed to achieve your and the grantee’s shared goals while respecting the organization’s autonomy and its need to thrive. When the organization’s activities demonstrate alignment with your goals, you presumptively make multi-year unrestricted gifts for general operating support. When you direct gifts for a particular project, you include reasonable funds for necessary indirect costs, or overhead.
- You engage personally with organizations to the extent that it is useful for your due diligence and monitoring and to the organization—but not just because it gives you pleasure. (You can often achieve your goals effectively just by writing a check.)

- You monitor each organization’s success in achieving your shared goals and consider other “competitive” organizations before renewing your gift.
- Whether or not your particular philanthropic goals include social justice, your grantmaking embodies the principles of diversity, equity, and inclusion (DEI) (see **Chapter 6** for more about DEI).

This is by no means an exhaustive list of effective philanthropic practices, but it’s a good starting place and we will suggest others in the pages to come.

The *Guide* is inevitably donor-centric, because no matter how much you delegate grantmaking decisions to communities, grantees, beneficiaries, and other stakeholders, you cannot avoid choosing which communities or individuals to benefit and how to benefit them. There are good arguments for alleviating global poverty, for mitigating the risks of climate change and pandemics, and for meeting the needs of your own community. There are good arguments for various service-delivery strategies, for policy advocacy and systems change, and for putting cash directly in the hands of beneficiaries and letting them decide how to spend it.

The donors we have worked with pursue a virtually infinite number of goals, motivated by their experiences; by religious, political, and moral beliefs; or by their sense of where the need is the greatest. We do not suggest that you pursue certain goals over others but rather aim to help you clarify your goals and effectively deploy your financial and other resources to achieve them. By the same token, we do not recommend particular strategies. We privilege neither short-term strategies with more certain results nor long-shot, risky strategies. Rather, we provide a framework to help you decide what is most effective for you in different situations.

We understand that philanthropy can be a complex and daunting undertaking. You might be wondering where to start, asking questions such as:

- How can I move from giving reactively—in response to requests from friends, business associates, and organizations—to determining my own philanthropic priorities?
- How do I gain the confidence to make gifts of \$100,000 or more to individual organizations?
- How can I find the right organizations to fund, and how should I approach them purposefully yet respectfully?
- How do I say no?
- How will I know if I’m making a difference?
- How can I avoid failures?

(The answer to the last question is that if you’re doing valuable philanthropy, you can’t avoid failures—but you can learn from them and improve your work.)

Our aim for this book is to simplify the components of effective philanthropy. The *Guide* has two major parts. Part One lays out a series of personal considerations that will help shape your philanthropic strategy. Part Two delves into the tactical practices of philanthropy to help you deploy your resources most effectively.

Part One: Developing Your Plan for Giving

Chapter 1 advises on how you can focus your philanthropy on a manageable number of areas, based on your and (if you wish) your family’s values and interests. **Chapter 2** considers how you might involve family members in your philanthropy. Because you may wish to consult with and learn from others beyond your family, **Chapter 3** considers who else might be of assistance. **Chapter 4** provides an overview of the various vehicles, or structures, through which you can make charitable donations.

Recognizing that much philanthropy can be understood as solving social or environmental problems, **Chapter 5** examines different approaches that nonprofit organizations use to solve these problems. A particular strategy that an organization employs is termed its *theory of change*, which we explain in **Chapter 6**. This is one of the few technical concepts in the *Guide*.

Part Two: Implementing Your Plan

Part Two begins with your search for and assessment of potential grantees—which are, respectively, the topics of **Chapters 7 and 8**. Now you’re almost ready to support organizations. **Chapter 9** asks when and how you might develop a relationship with a particular organization, and **Chapter 10** focuses on the nitty-gritty of making gifts that advance your shared interests. Since you are seldom alone as a funder of an organization or cause, **Chapter 11** explores the ways you can collaborate with others to achieve shared goals.

The majority of the *Guide* focuses on donations to nonprofit organizations. **Chapter 12**, however, explores how you might also achieve your goals by making socially or environmentally motivated investments—in social enterprises and other for-profit firms.

We conclude the *Guide* by summarizing some contemporary thinking about philanthropy and nonprofit strategies and offering suggestions for how you can build your philanthropic practice over time.

Like many other sectors, philanthropy is replete with hyperbolic metaphors and jargon. We’ve all heard about philanthropy that is described as “innovative,” “disruptive,” “transformational,” and “catalytic” and less about what we call “humble” philanthropy—which elevates the knowledge and needs of grantees, their end beneficiaries, and others who have been in the trenches working to tackle the same problems we are now beginning to address. This *Guide* counsels an approach that combines ambition with humility.

C.P. Cavafy begins his poem about Odysseus' journey:

*As you set out for Ithaka
hope your road is a long one,
full of adventure, full of discovery.*

We wish the same for you—an ever-changing journey filled with surprises along the way. No one can be expected to “get it right” from the start—or, perhaps, ever. But we hope that with the help of this *Guide*, you can develop your own impact-driven philanthropic practice.

May you have fair winds and following seas!

—The Stanford PACS Effective Philanthropy Learning Initiative Team

Impact-Driven Philanthropy (IDP)

Throughout this guide, we provide examples of IDP principles and practices that encapsulate our recommendations. In 2015, when Jeff and Tricia Raikes of the Raikes Foundation founded the Impact-Driven Philanthropy Collaborative “to help more donors give more dollars to do the most good,” they offered this definition¹:

Impact-Driven Philanthropy is the practice of strategically using our time, talents, and resources to influence meaningful, measurable change on issues and in communities. Guided by clear goals and strong values, impact-driven philanthropists have a passion for addressing problems and a commitment to partnering with the people closest to the problems we aim to solve. While each person's journey is different, certain core beliefs and practices can guide us to discover the strategies and solutions that will allow us to do the most good for the causes we care about².

Stanford PACS has participated in the IDP Collaborative since its inception.

For Further Reading

We refer to useful readings throughout the *Guide*. If you would like to go deeper into the general topics of this book, we recommend:

- Laura Arrillaga-Andreessen, *Giving 2.0* (2011)
- Paul Brest and Hal Harvey, *Money Well Spent: A Strategic Plan for Smart Philanthropy* (2nd ed. 2018)
- Phil Buchanan, *Giving Done Right: Effective Philanthropy and Making Every Dollar Count* (2019)

Who We Are

The Stanford Effective Philanthropy Learning Initiative (EPLI) is an interdisciplinary team within Stanford's Center on Philanthropy and Civil Society (Stanford PACS). Through teaching, writing, and conducting applied research at the intersection of strategic philanthropy, the behavioral sciences, and design thinking, Stanford EPLI aims to help donors make more informed, outcome-focused decisions and thereby increase their philanthropic impact.

Stanford PACS is a research center that develops and shares knowledge to improve philanthropy, strengthen civil society, and effect social change. Stanford PACS connects students, scholars, and practitioners with three primary goals: building the pipeline of scholars in the field, increasing practice-informing research on philanthropy and social change, and improving the practice and effectiveness of philanthropy and social innovation. Stanford PACS also publishes the preeminent *Stanford Social Innovation Review (SSIR)*.

Authorship & Acknowledgments

This book is a collaborative effort by faculty and staff at Stanford PACS' Effective Philanthropy Learning Initiative (EPLI):

- Erinn Andrews is the director of philanthropy research and education for EPLI at Stanford PACS. She has long been a proponent and practitioner of effective philanthropy. She spent years researching and developing metrics and methodologies to evaluate nonprofit outcomes and impact.
- Paul Brest is former dean and professor emeritus (active) at Stanford Law School and faculty director of EPLI. He teaches and writes about philanthropic and nonprofit strategy and impact investing. He is co-author of *Money Well Spent: A Strategic Plan for Smart Philanthropy* (2nd ed. 2018).
- Adi Greif was a fellow at EPLI. She is a monitoring, evaluation, and learning consultant. She helped draft chapters and led development of the vetting chapter.
- Davey Kim is the program manager at EPLI. Having formerly worked in the global development sector with a specialization in leadership development, he assisted with *Guide* content and user testing.
- Nadia Roumani is a co-founder of EPLI. She is an expert on integrating design thinking, systems thinking, and strategic planning, and she uses these methods to support philanthropists and nonprofit leaders to increase their effectiveness.
- Nina Sun was a senior fellow at EPLI. She is a human rights lawyer and advocate who led the development of much of the *Guide's* content.
- Additional EPLI Fellows who contributed to this project include Sandhini Agarwal, Celina Artusi, Hanna Meropol, and Gillian Raikes. Thanks are due to Nicholas Kristof Branigan for his contributions.

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Contact Us

We welcome and encourage readers to contact us with feedback, suggestions, and personal stories from your own philanthropic journey.

Submit feedback at:

pacscenter.stanford.edu/donorguide

Write to or visit us at:

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To learn more about EPLI visit:

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PART ONE

***Developing Your Plan
for Giving***

CHAPTER 1

Finding Your Focus



THE FIRST STEP TOWARD EFFECTIVE PHILANTHROPY is to decide on your particular interests, or focus areas. This chapter helps you consider the following questions:

- Why should I have philanthropic focus areas?
- What motivates me to give?
- How do I align my values with my tolerance for taking risk?
- What personal values should be reflected in my giving?
- How do I decide what causes or issues to fund?
- How do I allocate my philanthropic budget and time to my focus areas?

If you already have a clear idea of your focus areas and how much funding you plan to allocate to them, skip to **Chapter 3: Learning About Philanthropy With and From Others**.

Focus Areas

Q. Why should I have philanthropic focus areas?

A. Focusing on a small number of philanthropic areas is fundamental to effective philanthropy because:

- **You have limited capacity.** You will have to learn deeply enough about a field to know which organizations to fund to achieve your goals. You will need to conduct adequate due diligence and then make and monitor your gifts. These tasks can require considerable effort. Even large foundations with many staff members typically fund only a handful of program areas. If you're starting off by yourself or with one or two staff members or advisors, funding a few areas is probably your limit as well.

- **Change takes time.** To make and see meaningful change, it is most effective to commit to supporting a focus area for the long term. You are also more likely to sustain investment in a few areas closely aligned with your values, rather than a wide and changing range of issues.

Clearly defining your focus areas creates a framework for decision-making, helps define your philanthropic goals and assess your progress toward them, and reduces choice overload in making giving decisions. Reviewing your values and your motivations for giving can help you home in on focus areas.



Motivations & Values

Even if you are reading these chapters on your own, you may wish to engage others in your philanthropy. (In **Chapter 2**, we explore how to involve family members.) You might ask each family member to articulate their focus areas independently, or to develop a unified family funding strategy. If the latter, consider working through these exercises together.

Q. What motivates me to give, and what values do I want to embody in my giving?

A. Your motivations for giving may include concerns with particular social or environmental problems, the belief that your good fortune obligates you to “pay it forward,” or the desire to use philanthropy to bring your family together or create a legacy. In any event, your personal values will surely guide you to the issues or causes to which you direct your philanthropy.

DONOR STORY

Encountering Poverty and Finding Purpose —*Bill and Melinda Gates*

Bill and Melinda Gates’ concerns for global poverty arose out of a trip they took to East Africa in 1993. To celebrate their engagement, they decided to go on safari. For them, the most memorable part of the trip was not the safari itself but the people they met—it was the first time they had seen extreme poverty. Profoundly affected by this experience, the couple began learning about poverty, inequality, and diseases. In 2000, they funneled their knowledge and philanthropic resources into creating the Bill and Melinda Gates Foundation. For Bill, running the foundation has been “the best job in the world: as thrilling and humbling as anything I’ve ever done.”³

When you read the news, you are likely to have emotional responses to some events. You may feel sad about humanitarian crises or angry about the verdict in a court case. These reactions are usually based on your personal values. Think of your values as guideposts for your giving—they are the principles or standards that you’d like to see shine through your philanthropy.

Value-based giving makes philanthropy more meaningful and personal; it also helps sustain interest in issues throughout the decades it may take to achieve real impact.

Impact-Driven Philanthropy practice: We intentionally draw on our values, ethics, and life experiences to identify the causes we want to address and guide our giving—thereby increasing meaning and joy and inspiring us to sustain our efforts.

Examples of values:

Refer to a longer list of Value Cards at the end of this chapter.

ACCESSIBILITY	EQUITY	LEADERSHIP
ACCOUNTABILITY	FAITH	PEACE
COLLABORATION	FAMILY	RESPECT
COMMUNITY	FREEDOM	SECURITY
CREATIVITY	GROWTH	TRADITION
DIVERSITY	HUMILITY	TRUSTWORTHINESS
EFFECTIVENESS	INNOVATION	UNITY
EMPATHY	JUSTICE	

Use this list as a jumping-off point for reflecting on which values are important to you—as some may resonate more than others. You may also identify other values that are not listed. If you wish to involve family members, including them in the values discussion may lead to more aligned giving.

What values guide your philanthropy?

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Aligning Strategy Around Sustainable Development Goals—*Janine Firpo*

I've become a big supporter of the Sustainable Development Goals (SDGs), and I think more and more people are using them too. They seem to be showing up everywhere. The SDGs have become a framework for how I make all my decisions. I picked 5 SDGs that most closely reflected my values—and now all of my money, all of it, is being invested against those goals. That includes my philanthropy.

One of my SDGs is number 11, which relates to building sustainable cities and communities. For me, homelessness falls within that goal. Therefore, part of my philanthropic dollars are going toward fighting homelessness. As an example, I am donating to Samaritan, an innovative company in Seattle that is using beacons to connect citizens to the homeless and the homeless to services that can help get them off the streets.

And I have found that by using the SDGs and being strategic about my giving helps me not feel guilty when I have to say no.

Risk Tolerance

Q. What is my philanthropic risk tolerance and how does this align with my values?⁴

A. Knowing your motivations and values is important. It's also important to know how these align with your tolerance for risk. Some philanthropists are willing to support promising start-ups, while others prefer to donate to organizations with longstanding track records. Some philanthropists are willing to shoot for the moon to achieve ambitious policy goals, while others feel more comfortable supporting the delivery of services that offer predictable benefits.

We recommend that you write a paragraph that captures your attitudes toward risk. Write a draft below:

Example risk profile statements:

1. I am very comfortable with risk. I want to test solutions that others may be afraid to try. I am comfortable supporting new programs, start-up organizations, and ambitious but well thought-out strategies whose results may be uncertain.
2. I want to see major changes, but, given my public profile, I'm concerned about reputational risk. So while I'm willing to fund innovative approaches, I don't want to be the first funder. To mitigate potential reputation concerns, I may also use an intermediary vehicle or make my donations anonymously.
3. I'm not very comfortable with risk. I like knowing where my money is going and what I am getting for it. I'd rather get a predictable, lower impact return than invest in a new solution that is unproven—even if it has greater potential for impact.

My Risk Profile Statement:

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Interests

Q. How do I decide on my philanthropic interests and which causes to fund?

A. Where would you like to make a difference? Now that you have reflected on your motivations and values, it's time to identify your philanthropic interests. Will you focus on the environment, homelessness, education? If you are looking for ways to identify these causes, we recommend two tactics:

- “looking back”
- “clean slate”

Looking Back

By reviewing your past giving, you can identify patterns and trends in your philanthropy. Have certain causes received greater proportions of your giving or time? Do those causes align with your values, interests, and philanthropic aspirations? Have any gifts given you special satisfaction—or not? The insight you glean from looking back can help you decide how to focus your giving in the future.

ACTIVITY LOOK BACK AT YOUR GIVING

Think about your giving over the past several years. In the first table below, write the names of the organizations to which you made a contribution, the approximate amount, and the frequency of the donation. In the second table, note the organizations with which you volunteered your time, the amount of time, and the frequency of your involvement.

- Where have you given your time and money in the past, and why?
- Have there been any recent shifts in your giving, and if so, why?

The following table reflects my giving history

from _____ to _____

GIVING OVERVIEW

	ORGANIZATION / EVENT / PERSON	AMOUNT / FREQUENCY (including one-time only)	NOTES
Example	Larkin Street Youth Services	\$1,000 / 3 times within the last 2 years	I was already interested in working on homelessness and a friend told me about the organization.
1			
2			
3			
4			
5			

The following table reflects my giving history

from _____ to _____

VOLUNTEERING OVERVIEW

	ORGANIZATION / EVENT / PERSON	AMOUNT / FREQUENCY (including one-time only)	NOTES
Example	Rescue Mission Soup Kitchen	3 hours / week for 6 months	I really enjoyed interacting with the clients of the soup kitchen.
1			
2			
3			
4			
5			

On the basis of your giving and volunteering history, answer the following questions:

- To which issues or causes did you give the most money and time?
- Does your giving and volunteering history reflect your most important values? If yes, how? If no, why not?
- Do any other themes or trends emerge from your giving and volunteering history?

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Using this exercise, select the causes or issues that are most important to you. With further refinement, these will become your focus areas.

EXAMPLE

When I reviewed the two organizations that I volunteered with (Larkin Street and Rescue Mission), it became clear to me that I care a lot about supporting the basic needs of those facing poverty in my city. I care about equity, and I am motivated by a sense of responsibility to give back to my community in San Francisco. My focus area could then be providing living spaces and food for those experiencing homelessness in San Francisco.

The “looking back” approach has some inherent limitations. For example, you may only be aware of the problems closest to you, which may not align with the areas where you could have the greatest impact. To cast a wider net to develop an intentional giving approach, we suggest that you also explore the “clean slate” approach that follows.

Clean Slate

The “clean slate” approach involves identifying the broad causes or issues that concern you, regardless of your giving and volunteering history.

This approach may be helpful if:

- **You are new to philanthropy.** If you are just beginning to think about philanthropy, this approach will help you choose focus areas.
- **You have generally given reactively.** Reflecting on your giving history, have most of your donations resulted from friends asking or in response to emotionally compelling appeals? If so, the clean slate approach may enable you to think more strategically. (We’re not suggesting that you exclude all reactive giving. Many strategic donors maintain philanthropic budgets for unanticipated opportunities, friends and family, and emergencies.)
- **You feel your current giving is not fully aligned with your values.** Have you been giving mainly to your alma mater, religious institution, and similar organizations and now realize that there are other entities or causes that you also believe are important? The clean slate approach can help you to articulate those areas and focus your philanthropy.
- **You believe that the scope of your current philanthropy may be overly constrained.** In this case, begin exploring issues on the periphery of your vision, or consult some wise friends and colleagues for their ideas.

ACTIVITY CLEAN SLATE

Refer to the Issue Cards at the end of this chapter.⁵ Select up to five issues that most resonate with you and write them down below. Think about how your motivations and values align with your priority causes or issues.



EXAMPLE

I am interested in protecting the environment. I am aware that many of my neighbors do not participate in the county's recycling program because of unclear recycling guidelines and collection schedules. For me, recycling is a concrete program that I can support to contribute to protecting the environment. As a donor, I would like to focus on improving the way our recycling programs operate—striving for them to be more efficient and innovative in making recycling easier within my community.

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Issue Cards

The list in the Annex contains suggested causes under the following broad headings:

ANIMAL RELATED	FOOD & NUTRITION
ARTS, CULTURE & HUMANITIES	HEALTH
CIVIL RIGHTS & ADVOCACY	INTERNATIONAL DEVELOPMENT
DISASTER PREPAREDNESS & RELIEF	LAW & SOCIETY
EDUCATION	SOCIAL SERVICES
ENVIRONMENT	OTHER

As priorities can change over time, you may find it beneficial to reevaluate the issues you support every few years.

Choose Your Target Beneficiaries

In addition to particular issues of interest, you might want to consider focusing on particular populations or geographies. Alternatively, you could consider people's needs independent of geography.

You may decide to focus on supporting the needs of a particular group. For instance, if you aim to increase access to higher education, you may tailor your giving to services for people you believe have particularly great needs, such as students from low socioeconomic backgrounds.

You may wish to focus on the greatest needs of your own community. If so, you might consult a community foundation to help identify those needs.

DONOR STORY

A Pitch for Local Grantmaking—**Leo Linbeck**⁶

I would describe myself as a conservative communitarian and an advocate of the ‘self-governance movement.’ The conservative part goes to the idea that most new ideas are bad. I believe human beings tend to choose things that work over time, not unlike natural selection. The bar is pretty high for finding something else that will work better.

The communitarian piece is built around this idea that we’re social animals. We’re built to live in communities, to relate to people. Centralized, top-down authority structures tend to destroy what is human in us.

Self-governance means that everyone participates in decisions that shape the commons. But if I have no say in those decisions because they’re made 1,500 miles away by a group of people I’ve never met, never will meet, don’t know who I am, and know nothing about me or my neighbors, how’s that going to work? Self-governance means that we don’t have other people impose their vision on us—and, of course, vice versa.

My encouragement to philanthropists would be to focus on where you live, and find the people you can get to know who are committed to addressing something that’s in your community. If it’s in your own backyard, you’re much more likely to have a positive impact because the feedback loop is short and clear.

Adapted from an interview originally conducted by *Philanthropy* magazine (PhilMag.com) for their Spring, 2019 issue.

At the other end of the spectrum, you might be interested in addressing the needs of the world’s poorest people wherever they live or averting global catastrophes, such as climate change or pandemics. These are the goals of the effective altruism movement, which aims to improve the conditions of the world’s poorest people and mitigate catastrophic global harms.⁷ The web-based charity rating service GiveWell⁸ rates some organizations based on their cost-effectiveness in addressing the needs of individuals and communities in the Global South.

Thinking Carefully About Which Causes to Support— *Luke Ding*

The one piece of advice I wish I'd had earlier in my philanthropic journey is to spend far more time evaluating which cause to support. Should I support climate change mitigation, or malaria interventions, or any number of other worthy causes? We know that some charities can do hundreds of times more good with our support than others. So it should not be surprising that some cause areas can do hundreds of times more good with our support than others.

In my early years as a donor, I often chose which cause areas to support based on how intuitive they seemed or how they spoke to me personally. While there was nothing wrong with this, I realized that it went against my goal: to do as much good as I can. As cause selection is such an important factor in determining impact, it needs much more consideration than I originally gave it.

Philanthropic Portfolios: Decide How Many Organizations to Support in Your Focus Area

How many organizations you support in your focus areas depends on your capacity to adequately learn about the area and conduct due diligence on individual organizations. Depending on these capacities, you can make a few large gifts or a number of smaller ones.

Q. Should I treat my giving like a financial portfolio?

A. Most individuals and families diversify their investment portfolios to reduce the risks of substantial losses. Does this imply that you should diversify your philanthropic gifts? Probably not.

Suffering a substantial loss to your portfolio of financial investments may adversely affect your family's wellbeing. The fact that other families on the block are doing just fine is of no help to you. But if you devote all your philanthropic gifts to one or two organizations in your focus area (for example, homelessness or reducing incarceration) and they fail, there are likely to be many other philanthropists supporting other organizations with the same goals. The risks inherent in your own gifts' failing are diversified by many other donors supporting the cause.

That said, you may find it personally stressful to put all your philanthropic eggs in one basket and risk having them all break at the same time. If so, you might want to fund several different organizations in a focus area.

Budgeting

Q. How do I allocate my budget and time for philanthropy?

A. Once you have identified one or more focus areas, it's time to think about how many dollars to allocate to them. You may decide to provide sustained, robust funding in a single focus area. Or, with a sufficiently large philanthropic budget, you can fund several focus areas—if you have the capacity to learn the field and find, fund, and monitor effective organizations in each of them.

If you have several focus areas, consider allocating funds based on how important you believe each focus area to be and how pressing the need is—for example, you might decide to allocate more to organizations working to reduce diseases and poverty than to a local theater group. Consider allocating your volunteer time to where you can make the greatest difference.

DONOR STORY

Aligning A Portfolio With One's Priorities

—*Jan Half*

At this point in my life, I have a very clear idea of my philanthropic priorities: 27% of my giving goes to education-related nonprofits (of which 23% are focused on STEM/STEAM education groups targeting underserved youth), 52% goes to my post-secondary alma maters in the form of scholarships to students in underserved areas, 20% goes to my religious institution (the first gay and lesbian synagogue in San Francisco where I met my partner), and 1% of my giving goes to miscellaneous donations in honor or in memory of others. While my strategy has evolved over the years, my focus on supporting underserved youth has remained consistent. Upon graduating with my teaching credential, I began teaching in the small, rural town of Leland, Illinois. Years later, as a nonprofit executive at MOUSE Squad Student Tech, my focus on helping underserved students persisted and still does to this day.

ACTIVITY SET YOUR PHILANTHROPIC BUDGET

You may already have an amount in mind for your philanthropic budget this year. To begin this process for the first time or to reconsider your allocation, review the question below—on your own or with the support of your wealth advisor.

How much do you wish to allocate to philanthropy in the next year, over the next several years, or for a longer period?

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Once you have determined your annual budget, you can allocate funds across your focus areas. In addition to supporting organizations financially, you may wish to make non-monetary contributions of your time and talent by volunteering, including serving on a board (see **Chapter 9: Engaging Organizations and Developing Relationships With Their Leadership**).

ACTIVITY ALLOCATE YOUR BUDGET AND TIME

In the chart below, list your focus areas and allocate your giving across those areas for the coming year. Also include:

- existing funding patterns or commitments that you'd like to continue, such as donations to your children's schools, your alma mater, or a religious institution
- an "opportunities" budget for unanticipated opportunities, requests from friends and family, and emergency/disaster relief

	FOCUS AREA	SPECIFIC POPULATION W/ GEOGRAPHY	BUDGET ALLOCATION	TIME ALLOCATION
<i>Example</i>	Homelessness	San Francisco	70%	Would like to volunteer at a soup kitchen if my time allows.
1				
2				
3				
4				
5				

Finding Your Focus Takeaways

- ➔ To engage in effective philanthropy, begin by identifying focus areas to which you will devote your funding, time, and talent. Focusing allows you to set boundaries for your giving and channel your capacity into your top-priority issues.
- ➔ Proactive giving that is aligned with your values and motivations sustains interest and is more personally rewarding.
- ➔ Estimate your annual philanthropic budget to enable funding decisions within focus areas.
- ➔ Tailor the budget to ensure that you also have resources to address unanticipated opportunities, giving requests from friends and family, and emergency relief.

Impact-Driven Philanthropy

practice: We don't spread ourselves too thin. Instead, we focus our resources to ensure the best opportunity to make a meaningful difference and learn along the way. We express our trust in the organizations we support through fewer, larger, and multi-year grants.

CHAPTER 1 ANNEX

Value Cards

ACCESSIBILITY

ACCOUNTABILITY

AUTHENTICITY

COLLABORATION

COMMUNITY

CONNECTION

COURAGE

CREATIVITY

CURIOSITY

DIGNITY

DISCIPLINE

DIVERSITY

EFFECTIVENESS

EMPATHY

EMPOWERMENT

EQUITY

EXPLORATION

FAIRNESS

FAITH

FAMILY

FREEDOM

FUN

GENEROSITY

GROWTH

HAPPINESS

HARMONY

HEALTH

HONOR

HUMILITY

HUMOR

INDEPENDENCE

INNOVATION

INTEGRITY

INTERDEPENDENCE

JOY

JUSTICE

KINDNESS

LEADERSHIP

LOVE

LOYALTY

PASSION

PATRIOTISM

PEACE

PERSISTENCE

RESOURCEFULNESS

RESPECT

SECURITY

SELF-
ACTUALIZATION

SERVICE

SIMPLICITY

SPIRITUALITY

SPONTANEITY

STEWARDSHIP

TRADITION

TRUSTWORTHINESS

UNITY

WELLBEING

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WRITE IN YOUR OWN

CHAPTER 1 ANNEX

Issue Cards

This is a compact summary of the Issue Cards. To access a free, downloadable sheet of the cards in their full format, visit our website: **pacscenter.stanford.edu/donorguide**

ANIMAL
RELATED

ARTS, CULTURE &
HUMANITIES

CIVIL RIGHTS & ADVOCACY

DISASTER PREPAREDNESS
& RELIEF

EDUCATION

ENVIRONMENT

FOOD &
NUTRITION

HEALTH

INTERNATIONAL
DEVELOPMENT

LAW & SOCIETY

SOCIAL SERVICES

OTHER

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- Civil Liberties
- Civil Rights
- Democracy
- Intergroup & Race Relations
- Voter Education & Registration
- _____

- Arts & Culture
- Arts Services
- Historical Organizations
- Humanities
- Media & Communications
- Museums
- Performing Arts
- Visual Arts
- _____

- Animal Protection & Welfare
- Veterinary Services
- Wildlife Preservation & Protection
- Zoos & Aquariums
- _____

- Climate Change
- Environmental Education
- Natural Resources Conservation & Protection
- Pollution Abatement & Control
- Recycling Programs
- _____

- Adult Education
- Elementary & Secondary Education
- Graduate & Professional Education
- Higher Education
- Libraries
- Special Education
- Vocational & Technical Education
- _____

- Disaster Preparedness & Relief Services
- Search & Rescue Squads
- _____

- International Human Rights
- International Peace & Security
- _____

- Diseases & Conditions
- Hospitals & Primary Healthcare
- Medical Research
- Mental Health
- Public Health
- Rehabilitative Care
- Reproductive Health
- _____

- Food Programs & Security
- Nutrition
- _____

- Children & Youth Services
- Fair Employment
- Family Services & Assistance
- Housing & Shelter
- Labor Unions
- _____

- Criminal Justice Reform
- Crime Prevention
- Law Enforcement
- Legal Services
- Protection Against Abuse
- Rehabilitation Services
- _____

WRITE IN YOUR OWN

WRITE IN YOUR OWN

WRITE IN YOUR OWN

WRITE IN YOUR OWN

WRITE IN YOUR OWN

WRITE IN YOUR OWN

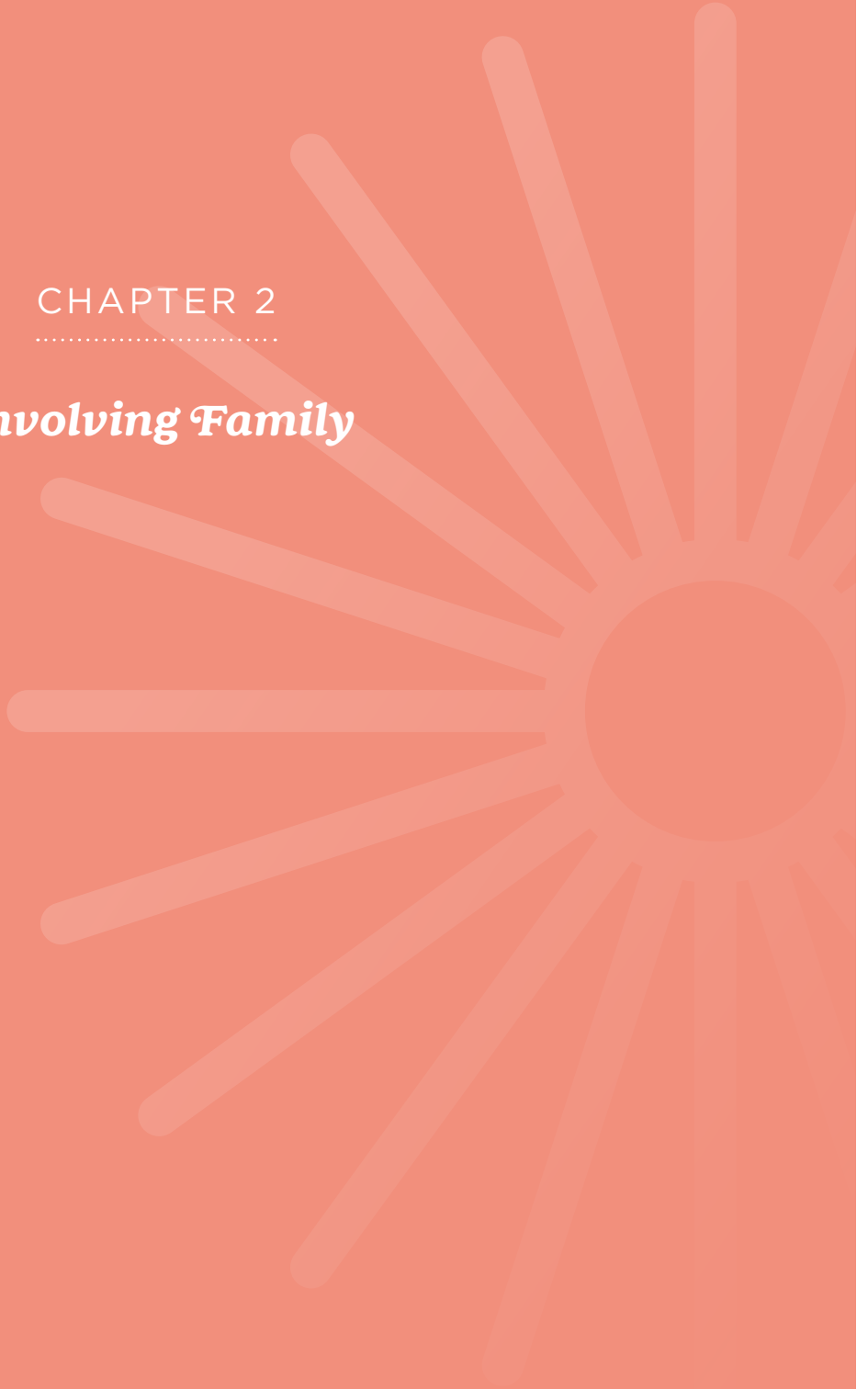
WRITE IN YOUR OWN

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CHAPTER 2

Involving Family



PHILANTHROPY PRESENTS AN OPPORTUNITY to involve your family in one of life's most fulfilling activities: giving back to society. This chapter will help you find answers to questions like these:

- Why should I engage my family?
- What are some ways to involve my family in philanthropy?



Family Engagement

Q. Why should I engage my family in philanthropy?

A. Engaging your family in giving can strengthen relationships, instill values, and develop a meaningful legacy. It can be immensely rewarding for you as well as for future generations who may build on your legacy of charitable giving. You may engage family members in philanthropy in many ways—ranging from asking them to advise or assist you in developing philanthropic goals to developing and implementing a giving strategy to launching family members on their own giving trajectory.

Q. Who is your “family”?

A. That’s entirely up to you. It may include your spouse or life partner, children and stepchildren, children’s spouses and partners, parents, in-

laws, cousins, and other extended family members. Who you include and in what ways depends on your relationships with them and how they can contribute to your philanthropic mission.

Q. When should I start talking about giving?

A. Philanthropic giving may be a regular topic of family conversation, or a discussion may be motivated by particular events or decisions—for example, if you are thinking about⁹:

- changing priorities in your current giving plan
- devoting significant resources to philanthropy
- donating to an institution that provides a naming opportunity for you and your family
- becoming a visible funder for a controversial cause
- leaving much of your wealth to philanthropy rather than to your heirs
- asking family members to have a formal role in philanthropic decision processes (for more information about philanthropic structure for giving, **see Chapter 4: Giving Vehicles**)
- inspiring them to start thinking about their own philanthropy
- excluding from your philanthropic decision-making family members who would expect to be included

Some parents like to talk about giving with their children from a young age. For very young children, modeling and explaining philanthropic behavior can lay a foundation for deeper involvement later on. As children get a bit older, some families set up a “giving allowance” through which the children decide how to donate say, \$100. Teenagers may benefit from participating in family meetings where family members can pitch specific ideas to one another.

Children may also have the opportunity to donate their time to philanthropic efforts. Offering children opportunities to volunteer to address societal and environmental problems, as well as meet people from different backgrounds, can instill a philanthropic mentality from a young age.

As they grow up, children get busy with college, work, their own families, and other competing priorities. Yet many young adults wish to stay or become involved in philanthropy. To help them develop independence while staying connected with the family's values, consider encouraging them to make donations from their personal assets, to be matched by a trust or family foundation. Consider the activities in the Annex to this chapter to further refine your strategy for engaging your family.¹⁰

Q. How can family members contribute to my plan?

A. In some cases, couples have been very successful in developing a shared vision and strategy for their philanthropy. In others, the key to success may be doing philanthropy separately—each with their own set of focus areas, goals, and budget.

Family members can assume varied responsibilities in your shared philanthropy. Which of the following roles align with your and their needs and competencies? (There can be more than one.)

- **Advisor:** This person can act as a sounding board, advising you on your philanthropic goals and approaches to achieving them.
- **Agent:** This person can help you research how and where to give and help make and monitor gifts.
- **Co-Decision-maker:** This person can be your partner in philanthropy, collaborating to determine goals, approaches, which organizations to give to, and how much to give them.
- **Foundation Board Member:** This person may combine aspects of the roles just mentioned and will have shared authority over major decisions and governance.

- **Successor:** This person will ensure that your charitable intentions continue to play a role after your death.
- **Other:** You may have your own ideas about roles and the people who play them.

As a tip: keep your expectations realistic and tailored to each person's capacity, time, and interest.

DONOR STORY

Involving Adult Children—**Sam Ginn, Ginn Family Foundation**

When we first funded our family foundation, my wife and I consulted with our three adult children. I wanted them to grow in life with a sense of philanthropy and giving back. I thought a good way to do that was, in addition to having a seat on the Board, to give them a certain amount of money they could disburse through the foundation. And we've been doing that for 15 years now. I found that my children's ideas of what we ought to give to are not necessarily my own and that has been a wonderful thing.

We generally have three meetings a year: the first round in the spring for everybody to determine what they want to support, another review in the fall, and then at the end of the year we clean everything up to make sure we complied with all regulations.

I heard that involving family like this often causes contention, but I would say for us it has worked extremely well. We are very flexible; for example, if the kids need to give a bit of their portion to someone else's project that year, they do it. Simply put: we just try to do the right thing and sometimes that means getting out of each other's way.

Once the checks are made, they aren't just mailed but are hand-delivered by my kids to the organization, especially the smaller organizations. As an old guy, looking at our station in life, I'm really proud of my kids.

Involving Family Takeaways

- ➔ Engaging your family in giving can strengthen relationships, instill values, and develop a meaningful legacy.
- ➔ There are many ways to engage family members in philanthropy—ranging from informing them and getting advice to involving them in decision-making.
- ➔ To facilitate a productive discussion of philanthropy with your family, we encourage you to reflect on your reasons for involving them and the roles that you would like them to play.

CHAPTER 2 ANNEX

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ACTIVITY REFLECT ON YOUR FAMILY

In this activity, review the questions below and jot down your thoughts.

1. Philanthropic Identity and Values

- How do you think about your philanthropic identity? Is it a continuation of a legacy from your parents or other older family members?
- If your children are grown, what values underlie their philanthropic interests? If they are young, how do you want to engage them in thinking about these issues, if at all?
- What values inform your and your family's giving? Have you written them down—perhaps along the lines of a vision and mission statement? Would you want to involve your family in doing so?
- Do you think about your philanthropy one year at a time, or do you have a vision that takes you well into the future? Either way, how do you feel about the next generation playing a role?
- Are you inclined to spend down your philanthropic assets during your lifetime or to have them administered by others after your death?
- Are you concerned that including your children could subvert their ambition or life paths? Do you feel some hesitations about engaging your children in philanthropy? Have you shared those with them?

2. Involvement of Particular Family Members

- Which family members do you wish to involve and in what ways?
- Will your choices create bad feelings or dissension? If so, how will you handle it?

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It can be helpful to first make a long list of possible candidates and then note those whom you would prioritize.

3. Logistics

- What are your expectations about time investment from family members?
- What are your expectations about the frequency of meetings and decisions?

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4. Communication

- How will you communicate productively with the family members you wish to involve?
- How will you communicate to family members who you do not plan to involve but who might expect to be involved or notified?

5. Decision-Making

- What are your family members' strengths and weaknesses with respect to the roles you would like them to play?
- Over which decisions do you—as the primary donor—want full discretion?
- Over which decisions do you want others to have full discretion? (For example, some donors provide each of their children with funds to donate as they desire.)
- Which decisions should be made collaboratively? How would you like these collective decisions to be made? (for example, by majority vote?)

ACTIVITY INVOLVE FUTURE GENERATIONS

As a donor, you may be interested in involving your descendants in philanthropic giving. This can often be difficult: they may be occupied with school or work; their focus areas and approaches may differ greatly from yours or from one another's; or they may not get along with one another. In any event, here are topics and interactive activities to help you engage the next generations in your philanthropy.

1. Reflect on Family Values

Reflecting on values that you hold, or do not hold, in common will help you and your children or grandchildren, etc. (hereafter, family members) develop common ground for your shared philanthropy.

2. Start a Conversation About Your Past Giving

In starting a conversation with your family members about your philanthropy, consider sharing how your life/experiences led to particular philanthropic interests as well as your giving history with particular organizations. What role has giving played in your life? What philanthropic activities have been most meaningful to you and why?

3. Set up a “Giving Allowance”

Set up a “Giving Allowance” in an amount that you feel would be appropriate to the ages of your family members. Learning by doing provides motivation and experience for the next generation to engage philanthropically.

This activity uses the Issue Cards and Budgeting Coins. To access a free, downloadable sheet of these resources, visit our website:

pacscenter.stanford.edu/donorguide.

Suggested activity format:

1. Lay out the Issue Cards (found at the end of the **Chapter 1: Finding Your Focus**) on a table. Omit any issues that aren't relevant to your family members' age groups, and add any issues you wish using the write-in cards.
2. Ask your family members to select up to three issues that are important to them.
3. Review the back of the cards and circle any specific issues of interest or write in focus areas not listed.
4. Once the issues have been selected, use the Internet or other sources to research organizations involved in the chosen issues.
5. Ask family members to decide on the amount to donate to each issue from their Charity Allowance. It may be helpful to use the EPLI Budgeting Coins. For younger age groups, writing in the amount (even \$25 or \$100) may be easier to understand than percentages. Decide together how you would like to make the donation (online, check, contact the organization, etc.).



CHAPTER 3

LEARNING ABOUT PHILANTHROPY WITH AND FROM OTHERS

PHILANTHROPY CAN BE VERY PERSONAL, and the process of giving can sometimes feel like a solitary pursuit. Though you will inevitably work with many others outside your family—including nonprofits, their beneficiaries, and co-funders—as you develop your philanthropic practice, you can still feel that you are alone at the helm. This chapter answers an important question:

- How can I learn with and from others about the giving process?

You can begin your philanthropic planning by learning more about your selected focus areas from experienced peer donors, philanthropic experts, and other sector specialists. Quite a few organizations offer educational and networking opportunities for both new and experienced donors. You can also hire experts to support you throughout your giving.

Learning Resource: Philanthropist Resource Directory

The Stanford PACS Effective Philanthropy Learning Initiative designed the Philanthropist Resource Directory (PRD)—an inventory of approximately 280 organizations across the United States that support donors’ activities. You can visit it here:

pacscenter.stanford.edu/philanthropist-resource-directory

The PRD includes three types of philanthropic support organizations: education providers, peer networks, and research and data providers.



Education providers: These organizations provide educational supports for donors, including events, workshops, conferences, research, online courses, and programs. The Philanthropy Workshop, the Social Impact Collective, Boulder Giving, and Founders Pledge are all examples of education providers that work directly with donors to support their philanthropic journey.



Peer networks: Some education providers support peer learning. In addition, giving circles are an important type of peer network for donors. They convene a network of peers in learning and collaboration activities, and they may also present joint funding opportunities.

Giving circles can be especially good places to learn about the focus areas you care about because they create philanthropic communities that share knowledge and information. They are usually hosted by nonprofit organizations. Giving circles also allow donors to contribute to pooled funds related to specific issues or geographic areas; donors then decide together how and where to distribute the funds (see **Chapter 11: Funding with Others**). Some examples of giving circles include the Asian Women Giving Circle in New York, the Environmental Defense Fund's Catalyst Giving Circle, the Jewish Venture Philanthropy Fund, Solidaire, Latino Giving Circle Network, and Next Generation of African American Philanthropists.

Affinity groups allow donors to come together around shared issue areas (such as protecting oceans or improving children's health) or locales (for example, the San Francisco Bay Area or Francophone Africa) or identities (such as Asian Americans & Pacific Islanders or women). Affinity groups host a range of activities, including in-person meetings with expert panels, interactive workshops, and social gatherings. Webinars and email subscription lists provide updates on current events related to the group or create a space for group members to share their ideas and experiences. Affinity groups also function as peer networks.

DONOR STORY

Learning with Others at SV2—*Kelly Pope*

A staff member from one of the nonprofits I was involved with told me about Silicon Valley Social Venture Fund (SV2), which my husband David and I joined in 2011. SV2 is a community of more than 200 individuals and families who come together to learn about effective giving and to pool resources to support innovative social ventures.

Early in my career, I wasn't connected to many networks so I didn't understand their value. SV2 taught me just how important being part of a network is in philanthropy. The network helps individuals amplify their impact for social causes and helps accelerate their learning.

I believe that the SV2 year-long learning experience up-leveled my abilities as a philanthropist. I learned to see things from a systems point of view. That's important when you are working to maximize impact.

There is something to be said for learning as a group. Maybe I would have come to it eventually on my own, but it would have been a much harder, longer route. The network at SV2 accelerated my journey. The reason for this is that at SV2, people come first, there is power in the Partnership. The staff and the Partners (members) are forward-thinking and have open minds. So, it's partly the process and the culture, but it's also the people.



Research and data providers: These organizations conduct research and provide data to support donors in their philanthropic efforts. Examples of research and data providers include Stanford PACS' Effective Philanthropy Learning Initiative, GuideStar (by Candid)*, GiveWell, and the University of Pennsylvania Center for High Impact Philanthropy (for more information on GuideStar and Charity Navigator, see **Chapter 8: Due Diligence**).

* In 2019, GuideStar and the Foundation Center merged under the name Candid. candid.org/about

Learning With Others Through the Solidaire Network— *Jane Lerner*

I'm relatively new to this world of philanthropy. I joined Solidaire two weeks after the 2016 election. It was Trump's election that motivated me and brought me to a profound realization that I was not doing enough work, giving enough money or time or energy toward doing better in the world. I was living in a bit of a bubble. I was desirous of a more philanthropic life but I was quite intimidated.

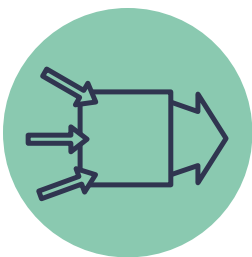
When my mom died, my sister and I came into an inheritance and I was actually quite uncomfortable with this wealth. When I joined Solidaire, I literally knew nothing. I joined not even knowing much about the network but knowing that most of the \$15K membership would be part of a Research & Development grant fund, going to causes that I cared about. I was joining a community of people who were so knowledgeable about social justice work, electoral politics, philanthropy, and how to move money working within a community. Solidaire has provided me with so much knowledge and understanding and community and moved this work forward for me in a way I never in a millions years would have gotten to by myself.

Obtaining Professional Support



Advisors: If you would like professional help with your philanthropy, there is an array of services at your disposal. For instance, if you need help finding effective organizations in one of your focus areas, you might consult an expert in the field. In addition, the Stanford PRD shares philanthropic advisory firms that can support various aspects of your giving, from developing your philanthropic strategy to setting up your giving vehicle, finding and

vetting organizations, and making specific gifts.* Because anyone can print a business card calling himself an expert philanthropic advisor, the PRD does not name individual philanthropic advisors. In addition to scrutinizing an advisor's publications, you should ask for references.



Funding Intermediaries: The Stanford PRD also includes funding intermediaries. This is a catchall term for entities that facilitate donors' contributions to nonprofit organizations. Examples of funding intermediaries are community foundations and funder collaboratives. Some funding intermediaries also have experts who advise donors on their philanthropic strategy and grantmaking. They may also provide administrative assistance and grant management.

Community foundations are public charities** that support donors and nonprofit organizations in particular regions. Donors may contribute to a community foundation's endowment or targeted fundraising campaigns, helping the foundation make grants to local nonprofits; open a donor advised fund hosted by the community foundation (for more information on donor advised funds and other giving vehicles, see **Chapter 4: Giving Vehicles**); create "supporting organizations," which have many of the characteristics of private foundations; or open other types of funds, such as ones that support a single nonprofit or issue area. If you want to outsource selecting local nonprofits, you can make a gift to a community foundation for this purpose. Although the PRD categorizes community foundations primarily as funding intermediaries, many have professional staff who can assist donors in their philanthropy.

* The PRD does not include the myriad wealth advisors—who may be associated with independent consultancies, financial advisory firms, or banks—who can also help you navigate your tax strategy to integrate giving into your overall wealth planning.

** A public charity by definition receives a majority of its funding from numerous sources in the general public; a private foundation, on the other hand, typically receives its funding from one source, such as a family or corporation.

Learning About Philanthropy Takeaway

- ➔ The EPLI Philanthropist Resource Directory (PRD) is a compendium of resources that can help donors learn with others and create a supportive giving community.

A large, stylized sunburst graphic in a lighter shade of blue, positioned in the upper left quadrant of the page. It features a central circle with numerous rays radiating outwards, some of which are thicker and more prominent than others.

CHAPTER 4

Giving Vehicles: The Basics

MANY PEOPLE ARE CATAPULTED INTO PHILANTHROPY because of a wealth event. Often, their first question is what giving vehicle to use to deploy their philanthropic dollars. We hope this chapter will help you answer these questions:

- What are the types of giving vehicles, or structures, that I can use for my philanthropy?
- What are the pros and cons of each, given my interests and circumstances?

This chapter covers commonly asked questions on methods of giving. We discuss:

- direct giving
- donor advised funds (DAFs)
- private foundations
- limited liability companies (LLCs)

A chart at the end of the chapter compares the major characteristics of each vehicle.

There also are less common types of charitable gifts that may suit your particular circumstances—for example, gifts to nonprofit institutions that provide you an income for life and a deduction for the actuarial value of the remainder, and gifts of art or real estate. (You should consult your tax advisor or lawyer about these options, as well as about other ways of giving through estate planning.)

Your donation only qualifies for a deduction if it goes to a qualified charity—one accorded 501(c)(3) status by the Internal Revenue Service (IRS). Other gifts, such as those to political efforts or for-profit social enterprises, are usually not eligible for tax deductions. While this chapter provides basic details on tax deductible gifts, we recommend speaking to a trusted tax advisor if you have any doubts about the deductibility of a gift.

Direct Giving

Q. What is direct giving?

A. Direct giving is the simplest way to make a gift. You can write a check, use your credit card, or instruct your broker to transfer securities to an organization. You can ask your accountant or bookkeeper to track your donations or track them yourself using a money management tool like Quicken or a spreadsheet.

Direct giving is also the most flexible giving structure. You can make gifts to charitable organizations as well as to organizations that do not qualify for tax deductions, such as political campaigns or for-profit businesses with social missions. You have complete control over funding decisions.

Q. What tax deductions am I eligible for when I give directly?

A. If you give to 501(c)(3) charitable organizations, your contributions are generally tax deductible provided that you itemize deductions—i.e., do not claim the standard deduction. Cash gifts to public charities—i.e., 501(c)(3) organizations that are not private foundations—can be deducted up to 50% of your adjusted gross income (AGI); this limit can include gifts of capital gain property up to 30% of AGI, with the rest in cash.* For instance, a taxpayer with AGI of \$100,000 could deduct \$30,000 of non-cash gifts to public charities plus an additional \$20,000 of cash gifts to public charities. For tax years 2018 to 2025, a temporary rule allows taxpayers to deduct gifts to public charities up to 60% of AGI but only if all those gifts are in cash. A taxpayer whose contributions exceed the applicable AGI limit can “carry over” the excess deductions for up to five years.

* The 50% limit may also include cash gifts of up to 30% of AGI to private foundations, or up to 20% if the gifts are in appreciated property.

For gifts of capital gain property to public charities, taxpayers generally can deduct the fair market value of the property if the property has been held for more than one year. Capital gain property includes shares of stock, most other financial assets, and most real estate. The rules can be complicated, so consult your tax advisor about anything other than straight cash gifts.

Donations to 501(c)(4) social welfare organizations and other political organizations are not eligible for individual income tax deductions, even though these organizations may be tax-exempt themselves. Gifts to for-profit businesses are also not tax-deductible even if the businesses have social missions.

Q. Can my gifts be made anonymously?

A. Yes. Your personal tax return is not publicly available. Although public charities must report certain gifts, the names of the donors are redacted when the tax reports are made public.

Q. When might I consider vehicles beyond direct giving?

A. Direct giving is straightforward and easy, but if your giving becomes complex—say, because you wish to develop and implement your own giving strategies (for more information on developing your philanthropic strategy, see **Chapter 5: Understanding Problems, Their Causes, and Approaches to Solutions**)—then you should consider other giving structures. For example, if you want to hire staff to support your philanthropy, or to institutionalize your philanthropic legacy, you may consider establishing a foundation (see below).

Donor Advised Funds (DAFs)

Q. How does a DAF work?

A. A DAF is a unique sort of giving vehicle typically managed by a DAF sponsor—a community foundation or the charitable arm of an investment fund like Fidelity or Schwab. A DAF functions as a charitable investment account, with the sponsor making gifts from the DAF based on the donor's requests. Donors get a charitable tax deduction when they give to a DAF; in exchange, they relinquish aspects of control of the donated funds to the sponsoring institution. For example, the DAF sponsor typically manages the investment of the assets in the DAF, and a DAF holder cannot *make* a grant from the DAF but rather can *recommend* a grant, with the sponsor having approval authority. Typically a DAF sponsor would only decline to make a grant if it does not comply with IRS regulations—for example, the grantee is not a qualified 501(c)3 organization, or the holder wants to use the DAF to pay for their child's college tuition, or if the gift is inconsistent with the sponsor's announced policies—for example, prohibiting grants to hate groups.

Q. Can I withdraw funds from a DAF if I want to use them to support political campaigns or if I just need them for personal expenses?

A. No, you cannot. Your DAF contributions and any income earned from them are irrevocably committed to charitable purposes. If you have any doubts about how much to allocate to your DAF and how much to keep for other expenses, keep in mind that you can add to your DAF anytime you wish.

Q. What if the sponsor doesn't follow my advice?

A. Although you cannot withdraw the funds for your own use, you can transfer funds to another DAF sponsor.

Q. Do I receive income from a DAF?

A. No, once you place funds in a DAF, any income earned on them must eventually be given to charitable organizations.

Q. What are the tax implications of giving to a DAF?

A. The tax implications are the same as giving to any 501(c)(3) public charity, as described above. Because you can contribute very large amounts to a DAF now without committing to particular organizations, it can provide excellent tax benefits especially in the wake of a wealth event.

Q. Do DAFs require a minimum contribution and minimum size of gift?

A. DAFs usually have an initial minimum establishment requirement, often between \$5,000 and \$25,000. With most DAFs, you can recommend grants as small as \$50 and as large as you wish, typically with no additional charge per grant.

Q. How much do DAFs charge for their services?

A. Most DAFs charge an administrative fee based on the amount in your account; usually the fee is a higher percentage when the account is small and declines as the DAF balance increases.

Q. Is there a minimum annual payout from a DAF?

A. While some DAF sponsors require a small minimum annual payout (e.g., \$500), many do not. Some do not permit funds to be dormant for more than a couple of years. There has been criticism of some DAF holders for being too slow to distribute their funds to operating charities. On the one hand, the average payout from DAFs is about 20 percent¹¹—well above the 5 percent payout required of private foundations. On the other hand, many dollars for which donors have received tax deductions are sitting at

length in DAFs rather than going to charities. Your decision to give now or postpone giving to a later time depends on at least two factors:

- The first is the nature of the issues you're addressing with your charitable dollars. If the social or environmental problems you're concerned with are growing faster than your DAF funds, that's a good reason to give sooner rather than later. But you may wish to support perennial causes, such as education and the arts, and have no particular reason to prefer today's beneficiaries over future ones.
- The second is when you feel that you can devote adequate time to charitable giving. One donor may treat his startup's IPO as an opportunity to take a break from business and focus on philanthropy. Another may get right back into the fray and wait until she or family members have time to consider how to use their charitable dollars most effectively.

Q. Can I engage my children or grandchildren in my DAF?

A. Yes, you can involve your children as advisors to a DAF and even allow them to continue to advise gifts after your death. Nothing in the IRS regulations prohibit a DAF from being perpetual through the appointment of successor advisors—though some DAF sponsors may impose their own limitations.

Q. Can a DAF sponsor help find and vet charities in my focus areas?

A. DAFs hosted by many community foundations have well-informed staff who can advise you about charities relevant to your focus areas. Just as with direct giving, however, you may have to rely on your own resources to find and vet effective charities in your focus areas.

Q. Can I make anonymous gifts through a DAF?

A. Yes. If you wish, a gift from a DAF can be presented to the grantee with only the name of the DAF sponsor and therefore be anonymous even to the

organization receiving the gift. Alternatively, based on the DAF holder's wishes, the DAF sponsor can share the name of the DAF holder with the grantee but advise them not to make it public.

Private Foundations

Q. What is a private foundation?

A. A private grantmaking foundation (hereafter, just “private foundation”) is a nonprofit entity with 501(c)(3) tax status, whose funds typically come from one source (e.g., a founding individual or family), and are distributed as charitable grants. (In contrast, a private operating foundation uses its funds mainly to conduct its own charitable activities rather than to make grants.)

The Internal Revenue Code requires a private foundation to expend at least 5 percent of its endowment each year. The required distribution includes reasonable administrative expenses, such as staff salaries, as well as the grants. Individual philanthropists may choose to donate to existing foundations or start their own.

Q. How do I decide whether to start a private foundation? Is there a minimum amount needed?

A. In addition to its required annual payout, operating a foundation entails burdens absent from direct giving and DAFs. Properly administering a foundation and making annual reports to the IRS can be burdensome—though you can outsource many administrative responsibilities to organizations like Foundation Source. Among other things, a foundation must report the recipient organization, amount, and purpose of every grant made on the 990-PF form, which is publicly available. It has become a well-regarded practice for many private foundations to publish their grants on their websites.

In deciding whether a private foundation makes sense for you, consider whether its advantages in achieving your philanthropic objectives justify the burdens. One potential advantage is that all the costs of running a foundation are included in the required annual payout. If you plan to make a large number of complex grants, you may well need staff to manage them. You will probably incur further costs to rent or purchase an office for the staff, as well as legal and accounting costs for reporting and complying with regulations, and so on. (In contrast, you have no significant legal, reporting, or real estate expenses when you give directly or through a DAF.) You should consider whether these expenses actually increase the effectiveness of your charitable activities by at least the same amount as their costs.

Apart from these operational matters, a private foundation provides a good means of having your philanthropy last beyond your lifetime—though this can be achieved through a DAF as well.

All things considered, you should give serious second thoughts to establishing a private foundation with an endowment of less than eight figures.

Q. Are contributions to a private foundation tax deductible?

A. Yes, but like other charitable tax deductions, there are limits. Essentially, you can't deduct more than 30% of your AGI for contributions of cash or more than 20% of appreciated assets to a foundation. Moreover, gifts to a foundation of appreciated assets that are not publicly traded generally cannot be deducted at fair market value; the taxpayer will instead be limited to a deduction equal to basis (which in the ordinary case means the cost). Again, there are many tax complications, including how the deduction for gifts to a private foundation are affected by deductions for gifts to public charities. You should consult your accountant or lawyer before setting up a foundation.

Q. Do assets in a private foundation grow tax-free?

A. Not completely. Unlike public charities and DAFs, which generally do not have to pay tax on their investment income, private foundations must pay a federal excise tax of 2% on their investment income (reduced to 1% in some cases).

Q. Can I make anonymous gifts to or through a private foundation?

A. No. Private foundations must disclose all gifts they receive of \$5,000 or more in a given year. Private foundations also must disclose all grants that they paid or approved. This information generally will be available on the Internet through websites such as GuideStar.

Q. Can a private foundation pay out more than the required 5% of our endowment annually?

A. Yes, you have complete discretion to pay out more than the required 5%. There are no upper limits on foundation spending. If you wanted, you could, in theory, spend down your entire endowment within one year.

Q. Should I put my children on the foundation's board?

A. Children often develop interests quite different from their parents'. As long as you are comfortable with making room in the foundation's priorities for their interests, foundations offer a structured way to involve the next generations in your philanthropy (see **Chapter 2: Involving Family**).

Limited Liability Companies (LLCs)

Q. How are limited liability companies (LLCs) used in philanthropy?

A. While large, staffed LLCs look like foundations, they have no special tax status. For tax purposes, an LLC is a pass-through and is just an extension of your checkbook. If an LLC makes a charitable contribution, it gets the deduction; if it makes a political contribution or socially motivated investment, it doesn't.

Q. If an LLC is simply a pass-through, why bother setting one up rather than writing checks?

A. Suppose that you have hundreds of millions of dollars dedicated to some combination of gifts, political contributions, and impact investments. Imagine paying staff members, consultants, and miscellaneous bills from your personal checking account, withholding income taxes where appropriate, and the like. The LLC is fundamentally a bookkeeping structure to make all of this easier. Placing assets in a charitable LLC also may help protect them from creditors or in a divorce.

Q. LLCs have been criticized for their lack of transparency. What should I make of this?

A. Putting money in an LLC and later giving it to a public charity is neither more nor less transparent than keeping money in a personal account and later giving it to a public charity.

Sean Stannard-Stockton, CFA, CAP, President and Chief Investment Officer, Ensemble Capital

Q. How do you begin a conversation with your clients about giving vehicles and their overall giving strategy?

A. We start conversations with high net worth donors around their personal and philanthropic goals. Once we've established both, we start building out a set of tools—philanthropic vehicles on one side, trusts, retirement accounts, etc. on the personal wealth side—that work together to achieve the client's combined goals. For instance, consider a donor with children who has a goal of giving to charity during life, leaving money to their children, and passing on to their children their values about wealth and giving. This donor might find that a combination of a charitable lead trust, a donor advised fund, and the involvement of their children in both can ensure that their charitable giving is focused on impact and that they can steward their own wealth successfully.

Q. What trends are you seeing in which vehicles clients are choosing and why might this be?

A. We see more and more people using donor advised funds—especially donors who make meaningful annual donations but are not ultra-high net worth. While private foundations are not necessary if the donor only wants to make donations to nonprofits (and doesn't need to hire staff, host events, run scholarship programs, etc.), we continue to see strong interest in foundations by donors who desire more flexibility in both their giving and the management of their investments than is offered by donor advised funds.

Q. Are there mistakes you regularly see clients make that you think could be avoided? What would those be?

A. The main mistake is viewing philanthropic and wealth planning as entirely separate. If instead donors treat their investment decisions and philanthropic allocations as part of an integrated strategy, it enables more effective ways to reach both personal and philanthropic goals. For instance, wealthy donors too often create a philanthropic plan only after experiencing a large liquidity event such as selling a company. But by waiting, they lose the opportunity to do philanthropic planning related to the transaction, such as transferring a portion of the company to a giving vehicle prior to the sale, which captures tax benefits that could be used to enhance their personal and philanthropic capital.

Other Considerations

Q. Whether I’m establishing a DAF or a private foundation, should I plan to spend the charitable funds sooner or later—or leave them for others to spend in perpetuity?

A. Your decision on timeline should be shaped by your goals and the needs of your focus areas. For example:

- Is the problem growing exponentially—making it more urgent to address immediately—or will it remain the same over time? Compare the estimated growth of your charitable funds with the estimated cost of addressing the problem at a future time.
- Can you achieve the greatest impact through a burst of funding now (for example to accelerate research) rather than providing long-term, sustained funding? For an example, the Aaron Diamond Foundation spent down its \$220 million endowment over a decade to fund research that led to drugs to control the HIV virus in the early years of the AIDS epidemic. On the other hand, a scholarship program that ensures access to college for disadvantaged students might well last for decades if not in perpetuity.

When faced with the choice of aiding your intended beneficiaries today or in the distant future, consider this observation by Julius Rosenwald, whose philanthropy aided Black children in the South in the 1920s: “I feel confident that the generations that will follow us will be every bit as humane and enlightened, energetic and able, as we are, and that the needs of the future can safely be left to be met by the generations of the future.”¹²

Q. Can I make political contributions through my philanthropy?

A. Political contributions (other than to certain 501(c)(3) voter registration and “get-out-the-vote” organizations) are not deductible from individual income tax. Contributions to candidates, 501(c)(4) organizations, and other organizations that are not eligible for tax deductions generally

cannot be made by DAFs or by public and private foundations. For political contributions, direct giving (or equivalently, giving through an LLC) is your best option. State or federal law may require the disclosure of political contributions.

Q. Can I support advocacy with my philanthropy? What about lobbying?

A. Advocacy is among the legitimate tools an organization can use to achieve its goals. Advocacy refers to a range of activities that aim to protect rights or promote interests at the global, national, or local levels. 501(c)(3) organizations may engage in some activities aimed at legislation, and may engage in largely unrestricted advocacy to influence administrative agencies and courts. You can make tax-deductible gifts to 501(c)(3) organizations that engage in advocacy through direct giving, DAFs, private foundations, and LLCs.

Lobbying is a subset of advocacy that is highly regulated by the Internal Revenue Code as well as state laws. Generally speaking, lobbying is an attempt to influence legislation through direct communication with members or employees of a legislative body, or indirectly by attempting to influence the public to take action on proposed legislation. Lobbying by a 501(c)(3) organization is permitted if it does not constitute a “substantial part” of its activities. (Section 501(c)(3) organizations are totally prohibited from supporting or opposing individual candidates for elective office.) Within limits specified by tax regulations, community foundations, as public charities, can also conduct or fund lobbying.

With narrow exceptions for “self-defense,” private foundations generally may not lobby, but they may support public charities that do so as long as the support is not directed to the lobbying. If you want to engage in lobbying, consider giving directly to 501(c)(4) social welfare organizations.

Q. What is impact investing, and which of the vehicles allow me to make them?

A. As we'll discuss further in **Chapter 12: Socially Motivated Investing**, impact investing consists of investing in for-profit companies with the goal of increasing their social impact as well as possibly getting financial returns. You can make impact investments by writing a check, through a private foundation, through an LLC, and through some DAFs as well.

Q. Are impact investments tax deductible?

A. The Internal Revenue Code generally does not differentiate between investments intended just to make money and investments that also have a social purpose. Impact investments are not tax deductible per se; income and realized gains are taxable, and losses are deductible to the same extent as for ordinary investments (although losses are deductible only if the transaction was intended to be profitable). But there are at least two ways that you can make impact investments using charitable funds:

- First, the tax code counts private foundations' program-related investments (PRIs) toward their required 5 percent payouts. For all practical purposes, PRIs are investments that expect to sacrifice some profit in order to achieve social impact. But making effective PRIs is more difficult than making gifts; it requires staff with legal and investment expertise as well as knowledge of the particular substantive area. PRIs are really only for very sophisticated foundations.
- Second, an increasing number of DAF sponsors are permitting DAF holders to recommend impact investments from their funds.

Q. What about giving through estate planning?

A. The vehicles that we've mentioned thus far focus on giving while living. Estate planning focuses on preparing for the transfer of your wealth upon your death, and it runs the gamut from drafting a will to establishing trusts and purchasing annuities and insurance. Philanthropy can play a part in all of these—and the Internal Revenue Code has intricate provisions for

how these instruments are treated. An estate planning lawyer can help you explore the possibilities.

Giving to public charities (including through DAFs) and private foundations while alive will generally be more advantageous from a tax perspective than giving upon death. A charitable gift during the donor's lifetime entitles him or her to an income tax deduction and moves assets out of her estate, thus reducing her estate tax. A charitable gift upon death does not yield any income tax benefit beyond the donor's final income tax return, though it does bring estate tax benefits. For this reason, it is sometimes said that giving during life yields a "double benefit" (an income tax deduction plus a reduction in estate tax liability) while giving at death yields only a "single benefit" (a reduction in estate tax liability).

Leveraging Three Giving Vehicles to Maximize Impact— **Matt Rogers, Founder, Incite.org**

We currently use three giving vehicles: a foundation, an LLC, and a DAF. This particular model developed over time as we learned about the most effective tools and activities for our impact work. My wife and I started making grants six years ago, which at that time consisted of writing individual checks to various organizations. We quickly realized that was not an effective grantmaking strategy and we wanted to be more tax efficient while maintaining flexibility to best use our assets for impact.

Establishing a Foundation

Mission related investments (MRIs) were important to us and difficult to accomplish through a DAF, so we set up our foundation which is the primary delivery vehicle for our grants and investments. We make about 7-10% in grants and a similar quantity in MRIs every year and use much of the foundation's corpus for investments in high-impact, high-risk activities, like new battery technologies, power, clean energy, etc.

Flexibility of an LLC

Our next learning emerged as we grew our team. When we hired our first two employees, we could have used the foundation as an employer but quickly realized that would limit the kinds of activities they could perform and the types of organizations we could support to 501(c)(3) public charities. We wanted the flexibility to be able to do whatever it takes; we work in areas like climate change, democracy, voter reform—which are often difficult to engage through a foundation. That's when we decided to set up an LLC, which we use primarily as an organizational and human resources vehicle. An LLC offers more flexibility and with post-tax dollars there are no constraints around what kinds of activities our employees can be doing across impact investing, political giving, and supporting c4 organizations.

Utilizing a DAF

Once I exited from my startup, I maxed out what I could give, 30% of adjusted gross income, to our foundation, so we set up a DAF for the remaining 20%. We use this for other grants that we write; however, the DAF is not our primary giving vehicle and we plan to wind it down over the next couple years.

Giving Vehicles Takeaways









- ➔ There is no one-size-fits-all giving structure. You can practice effective giving through any of the vehicles—beginning with direct giving.
- ➔ While tax considerations are an important factor in your choice of vehicle, consider other factors, such as the complexity of your giving and administrative burden.
- ➔ Foundations can be administratively burdensome, so unless you are planning to hire staff or retain an organization like Foundation Source, consider other giving vehicles as a means to engage in proactive giving.

CHAPTER 4 ANNEX













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Giving Vehicles Comparison Chart













The chart below summarizes the advantages of each giving vehicle. Review it to help you identify the structures most suitable for your philanthropy. We encourage you to discuss these options with your trusted advisor.





CONSIDER-ATIONS	DIRECT GIVING	DONOR ADVISED FUND (DAF)	PRIVATE FOUNDATION	LIMITED LIABILITY COMPANY (LLC)
ADMINISTRATIVE SUPPORT: Do you need support for due diligence and administration, and can support be paid for by tax-exempt dollars?	 The amount of support needed depends on the complexity of your gifts. Support is not tax-deductible.	 The sponsor carries out administrative responsibilities. Beyond checking charitable status, capacity for due diligence varies. Fees to the sponsor are paid from the DAF— post-tax deduction.	 Administrative responsibilities may be performed by paid staff or outsourced—and can be paid from tax-exempt dollars.	 Administrative work is typically carried out by paid staff and is not tax-deductible.
ANONYMITY AND PUBLIC DISCLOSURE: Can you give anonymously?	 Yes	 Yes	 No, private foundations are required to disclose the names of grantees and significant contributors (those who give more than \$5,000 in a year) on the annual 990-PF Form.	 Yes

 = yes
  = no
  = sometimes

CONSIDERATIONS	DIRECT GIVING	DONOR ADVISED FUND (DAF)	PRIVATE FOUNDATION	LIMITED LIABILITY COMPANY (LLC)
ASSET GROWTH POTENTIAL AND INVESTMENT DECISIONS: Will your philanthropic assets increase in value over time? If you can make philanthropic investments, do you have control over how to invest?	 Not as such. Your philanthropic assets are not differentiated from your other assets. If you give assets to charity before selling them, however, you will not pay tax on the gains.	 Yes. Any growth in assets is tax-free, offering the opportunity for greater philanthropic giving in the future. The DAF sponsor is responsible for investment decisions, but this may be negotiated for large funds.	 Yes. Any growth in assets is exempt from income tax, though subject to the 1-2% foundation excise tax.	 No
CONTROL OVER GRANTMAKING: Can you retain control over funding decisions?	 Yes	 Donors can advise the DAF sponsor on how to distribute their funds' assets, but the final funding decisions rest with the DAF sponsor. Except where a proposed grant violates an announced policy, the sponsor will usually act as advised.	 Yes, subject to the approval of the foundation board.	 Yes
DISTRIBUTION REQUIREMENT: Is there an annual distribution requirement in place to keep your philanthropy moving?	 No	 No; though some DAFs have a minimum annual distribution requirement or a policy for funds that are inactive for two to three years. ¹³	 Yes; private foundations are required to distribute 5% of their assets annually.	 No

Giving Vehicles Comparison Chart

CONSIDER- ATIONS	DIRECT GIVING	DONOR ADVISED FUND (DAF)	PRIVATE FOUNDATION	LIMITED LIABILITY COMPANY (LLC)
FAMILY INVOLVEMENT: Can your family members be involved in grantmaking decisions?	 Yes; this involvement will be informal.	 Yes; family members can be named as advisors or successors on your fund or can have their own funds.	 Yes; this involvement can be formal, with family members serving on the board or as staff.	 Yes; this involvement can be formal, with family members serving on the board or as staff.
IMPACT INVESTMENTS: Can you make investments that generate social as well as financial returns?	 Yes, but income made from impact investments may be taxable.	 Yes, an increasing number of DAFs are permitting funds under their management to be used for impact investments.	 Yes, private foundations can make program-related investments (PRIs) and mission-related investments (MRIs).	 Yes, but income made from impact investments may be taxable.
PERPETUITY: Can the structure exist in perpetuity?	 No	 Yes; DAFs can be set up as endowed funds, and named advisors and successors, or the DAF sponsor, can keep DAFs running in perpetuity.	 Yes; the endowment can either exist in perpetuity or be spent down over a period of time.	 Yes

CONSIDER- ATIONS	DIRECT GIVING	DONOR ADVISED FUND (DAF)	PRIVATE FOUNDATION	LIMITED LIABILITY COMPANY (LLC)
POLITICAL CONTRIBUTIONS: Can you make political donations or engage in lobbying?	 Yes; these contributions are not tax deductible.	 No—but public charities—including those to which you recommend donations and those that sponsor DAFs—can engage in lobbying, and community foundations can make grants for lobbying up to a certain limit.	 No—but public charities to which you donate can allocate a portion of unrestricted general operating grants to lobbying.	 Yes; these contributions are not tax deductible.
TAX IMPLICATIONS: What tax implications does this vehicle have for my giving?	You are entitled to tax deductions for the support of 501(c)(3) organizations.	The entire amount given to a DAF is immediately tax deductible.	The donor is eligible for a tax deduction when assets are transferred to the foundation—though on less favorable terms than gifts to public charities and DAFs. The income from assets held by a foundation are not subject to income tax, but foundations must pay an annual excise tax of 1%-2% of net investment income.	When contributions are made to a 501(c)(3) organization, the LLC's members are eligible for a tax deduction; there is no deduction for support given to political activities or impact investments.

CHAPTER 5

Understanding Problems, Their Causes, and Approaches to Solutions



HAVING ARTICULATED A FOCUS AREA, you may be tempted to jump right into finding organizations that operate in that space. However, nonprofit organizations may deploy very different approaches to solving social problems, and it's helpful to begin with a good understanding of the problem you're trying to solve through your philanthropy. This chapter covers two vital questions:

- How can I define the problem that I'm trying to solve to generate a good range of solutions?
- What types of approaches can I fund that might solve the problem?

Impact-Driven Philanthropy

practice: We understand the systems in which the causes are embedded and make intentional choices about the approaches we fund, such as supporting direct services, advocacy, and/or research.

Defining the Problem

Q. I know that I need to understand a problem before I can solve it, but isn't this something I can leave to the organizations I fund, since they have expertise in their areas?

A. Each organization has its own idea of what the problem is and how to solve it. It's like the Indian parable of the six blind men describing an elephant, in which each man sees a different part of the animal. Before you begin picking organizations to support, it's a good idea to get your own sense of the problem you want to solve, its likely causes, and different approaches to solving it.

For example, consider organizations trying to halt the rise of child obesity. They might undertake any of the following:

- teach children about the caloric content of the foods they eat
- provide exercise facilities
- advocate for schools to stop serving sugary beverages
- work to ensure that low-income families have access to affordable fresh vegetables and fruit

Some of these approaches may be more effective than others, and some may fit your tolerance for risk or other personal preferences better than others.

As a second example, consider homelessness in some US cities. Ways to tackle this problem may include on-the-street health services, soup kitchens, shelters, permanent supportive housing, and working to prevent the eviction of families at risk of becoming homeless. You can't choose among these approaches without understanding the causes of the problem. Permanent supportive housing is an ideal solution for adults who are on the margin of productivity—but not necessarily the solution for runaway youth or people suffering from serious mental health problems.

ACTIVITY DEVELOP YOUR PROBLEM STATEMENT

As a guide to understanding the problem you're trying to solve, you may develop a *problem statement* that identifies the groups you're trying to help and articulates the core of the problem. For example, a problem statement for helping a particular homeless population might be: "Veterans, many of whom have served our nation in war zones, suffer the indignity and deprivations of being homeless and on the streets."

Reflect on a problem you're trying to solve in your focus area, and write down the problem statement. In creating your statement, consider:

- Is your problem statement empirically accurate?
- Does it identify its intended beneficiaries?
- Does it describe what really concerns you about the problem?

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Approaches

Q. How do I learn about various approaches to solving the problems that concern me?

A. A good starting place is to conduct Internet research or talk to experts (as we will discuss in **Chapters 7 and 8** on finding and vetting organizations). The goal is not to know the answers for sure but rather to know what questions to ask organizations and to learn enough to prioritize some organizations over others.

First, consider which nonprofit approaches are likely to be effective at solving the problem you've identified. Second, consider which of them best fit your personal preferences in terms of factors such as immediacy, visibility, and riskiness.

Q. What types of approaches do philanthropists and nonprofit organizations take?

A. Nonprofit approaches fall into five broad categories, which sometimes overlap:

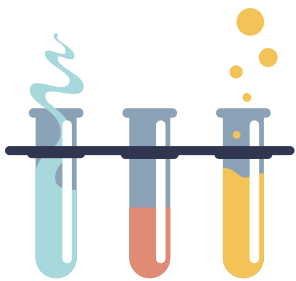
- providing direct services
- supporting research and the development of knowledge
- advocating to change government or corporate policies
- changing societal mindsets and systems
- funding prizes

Q. What are examples of direct services?



A. Providing direct services to individuals (or animals) is the core work of organizations that most people think of as charities: providing food and shelter for the homeless, treating drug addiction, and so on. Scholarships at universities, support for symphonies and museums, and training and capacity-building programs for teachers and nonprofit staff also fit in this category.

Q. What are examples of supporting research and knowledge development?



A. Universities don't only educate students. They, and many other institutions, engage in research and develop and preserve knowledge. Philanthropy has been a crucial element of support for all these endeavors, from huge telescopes to cancer research to books on Renaissance history.

Q. What about advocating for policy change?



A. Consider the advocacy to reduce over-incarceration by a coalition of foundations across the political spectrum, leading to the bipartisan First Step Act; or advocacy to mitigate climate change; or the advocacy efforts for cage-free eggs aimed at corporations, consumers, and governments.

Q. What about changing societal mindsets and systems?



A. In the years following World War II, philanthropists supported the work of Friedrich Hayek, Milton Friedman, and other scholars, who developed and disseminated the concepts of neoliberalism, which became and remains the dominant paradigm of Western societies and economies.

DONOR STORY

How to Impact Public Policy as a Donor

—*Frayda Levy*¹⁴

I believe donors can make a positive impact on public policy, though it's a multi-part process. You have to get the right people elected, and because of that I'm on the board of Club for Growth. You need to elect people who believe in and understand economic liberty, and have a willingness to fight.

Then you have to engage citizens to support and press legislators. That's why I'm involved in Americans for Prosperity. When people willing to stick their necks out for liberty get to Capitol Hill, they need support.

And for the long haul, you need to shape culture. Unless you have people who understand the value of economic liberty, and the dangers from losing it, you're not going to get citizens actively involved. So you have to create a culture that educates and motivates people.

The liberty movement hasn't really had much support from culture-purveying institutions. Yet many people hold our views anyway. Can you imagine if we could engage culture well, how many more people we could bring along?

Adapted from an interview originally conducted by *Philanthropy* magazine (PhilMag.com) for their Fall, 2018 issue.

(Today, some foundations are supporting the development of alternative paradigms.) More recently, philanthropists supported the gay rights movement, which both led to a change in mindsets and in the deeply embedded system of marriage and its attendant rights.

These different approaches don't reflect legal distinctions. They're just helpful ways of thinking about the different sorts of activities that nonprofits might perform. And sometimes a single organization will undertake several such strategies. Consider Planned Parenthood, which both provides reproductive health services and advocates for access to it. Or consider a university, which directly serves students and also conducts research.

DEFINITIONS



Advocacy refers to a broad range of activities that are meant to influence public opinion and public policy. Examples are research, public awareness campaigns, strategic litigation, community organizing, and lobbying.



Lobbying is a type of advocacy aimed at influencing a specific piece of legislation.

Q. Can policy change be pursued by organizations with 501(c)(3) status, to which my contributions are tax-deductible?

A. As mentioned in **Chapter 10 on Making Gifts**, the Internal Revenue Code restricts but does not prohibit all lobbying by 501(c)(3) organizations, and they can also do policy work that does not involve lobbying—for example, educating citizens about the consequences of particular policies. But effective policy change sometimes requires significant engagement in conventional politics. In those cases, you must forgo the tax deduction and give to groups such as social welfare organizations covered by section

501(c)(4) and other provisions of the tax code or give directly to political campaigns.

Q. Do I need to worry about whether a 501(c)(3) organization is going beyond the permissible limits of lobbying?

A. If you are giving to a 501(c)(3) organization as an individual or through a donor advised fund (DAF), you can let the organization worry about what advocacy is and isn't permissible. If you're giving through a private foundation, its lawyer should vet grants to ensure that they do not violate federal or state restrictions on lobbying.

Q What about prizes?

A. *Inducement prizes* typically are intended to increase knowledge. Rather than, say, fund the development of a particular technology, you could offer a prize for whomever comes up with the best technological solution to a problem. For example, in 2010, the X Prize Foundation launched the Oil Cleanup XCHALLENGE, which aimed to spur innovative solutions for how to rapidly and efficiently clean up oil spills from ocean surfaces. Contestants were required to develop systems for oil cleanup with an oil recovery rate of over 2,500 gallons per minute (GPM) and an oil recovery efficiency of over 70%. The winner, Elastec/American Marine, designed a system to recover 4,670 GPM and tripled the industry's previous oil recovery rate.¹⁵

Prizes that *recognize achievements* may be intended to stimulate knowledge development or movement building, or just to honor individuals for their achievement. The Man Booker Prize for literature, Goldman Environmental Prize, and Nobel prizes are well known examples.

We should note that many recognition prizes awarded by schools and other institutions seem motivated mainly by the donors' desire for recognition, and the hassle of administering them is often greater than their social benefits.

Choosing Among Approaches

Q. How can I choose among these various approaches?

A. The fundamental question is which approaches will achieve your philanthropic objectives most effectively. Let's use as an example a contemporary issue that has brought together philanthropists from across the political spectrum: concern about mass incarceration in the United States. It's a problem for people who spend much of their lives in prison, and a problem for their families and communities—and these burdens fall disproportionately on people of color. It's also a problem for taxpayers, who are paying for huge government expenditures on prisons. The *causes* of the problem include:

- **legislation** that criminalizes and sets harsh penalties for certain conduct, including legislation enacting the “three-strikes” rule, which can imprison someone for life for three relatively minor offenses
- **excessive zeal by prosecutors**, most of whom are elected officials and campaign for re-election on a platform based on being tough on crime—meaning long sentences
- **bail and parole practices**, including the practice of using proprietary artificial intelligence algorithms that are hidden from the defense
- the shortage of successful **reentry programs** for ex-offenders, leading to a high level of recidivism
- **social and economic conditions**, such as the lack of a job or place to live

These different causes offer different perspectives on the problem, which, in turn, imply different approaches to solving it—ranging from policy advocacy and systems change to service delivery to non-tax-exempt political activities.

Q. I’ve heard it said that some approaches get at the “root causes” of problems, while others only address “symptoms,” with the implication that it’s better to fund solutions that get at root causes. Do you agree?

A. This is seldom a helpful distinction. Consider the problem of over-incarceration just mentioned. Possible root causes include the legacy of discrimination against people of color and current prejudice. But the most effective solutions, even for the long run, may lie in strategies that respond to more proximate causes. To use another example, the root cause of malaria is a plasmodium parasite, but no one has seriously considered eliminating the parasite entirely (as has almost been done with the smallpox virus). Rather, effective strategies include providing people with insecticide-treated bed nets, and research to develop a vaccine against malaria. And for one more example, the causes of homelessness differ for different populations—for example, families that suffer from housing insecurity because of economic conditions and veterans with PTSD and other disabilities. For the latter group, perhaps the root cause is war.

Q. OK, but suppose that several approaches seem equally promising. How do I choose among them?

A. Begin by learning which approaches have been tried and how they have worked out. Beyond this, consider how they mesh with your preferred “style” of philanthropy and risk tolerance. In *Money Well Spent*, Paul Brest and Hal Harvey mention several personal considerations that philanthropists might take into account. Some prefer that results can be achieved visibly in the near term without much risk of failure; they want to know in advance that they will improve some people’s daily lives. Others are willing to take big risks to bring about large-scale change. Along similar lines, some philanthropists prefer to support strategies that are clear and readily graspable, whereas others are comfortable with indirect and complex processes. Some philanthropists would like their particular contributions to be recognized. Others support work on such a

large scale or with so many actors that they will seldom know whether any one person’s contribution made a difference.

As an example, if you have an activist mindset, you might support grassroots movements against incarceration and mobilize against prosecutors running for election on “tough on crime” platforms. These are risky long shots and you may make enemies, but such efforts can have big consequences.

Or you might prefer approaches that have clearer and more measurable outcomes, such as programs to prevent recidivism. Or you might believe that we need to understand more about what’s causing over-incarceration and about the effects on crime if incarceration is reduced—and therefore would be willing to put money into research.

Approaches Chart

	DIRECT SERVICE PROVISION	RESEARCH AND KNOWLEDGE DEVELOPMENT	POLICY, MINDSET, AND SYSTEMS CHANGE	PRIZES
Likelihood of Success	High	Varies, depending on project scope	Varies, depending on project scope	Depends on how high a bar
Timeline	Short term	Long term	Long term	Typically several years
Visibility of Results	High	Seldom	High	High
Systemic Change	No	Not usually	Yes	Not usually

ACTIVITY PICK AN APPROACH

Choose one cause of particular interest to you.

1. Define the problem you are trying to solve and its causes.

2. What approaches seem effective at solving the problem?

3. Besides effectiveness, which of these factors are the most important to you?

The least important?

Certainty of success

Timeline

Visibility of result

Systemic change

Other:

4. Which approaches seem to best align with your preferences?

Direct Services

Research and Knowledge Development

Policy, Mindset, and Systems Change

Prizes

Understanding Problems, Their Causes, and Approaches to Solutions Takeaways

- ➔ Before you pick organizations to support, it's important to understand the problem you wish to solve and its possible causes.
- ➔ There are five types of approaches to solutions:
 - direct services
 - research and the development of knowledge
 - changing government or corporate policies
 - changing societal mindset and systems
 - funding prizes
- ➔ When choosing among approaches, ask which of them will achieve your philanthropic objectives effectively. Also reflect on how your personal preferences concerning time, risk, and other factors may influence which approaches work best for you.



CHAPTER 6

Theory of Change, Monitoring, and Evaluation: Understanding an Organization's Activities, Outcomes, and Impact

ONCE A NONPROFIT ORGANIZATION has identified the problem it is trying to solve and chosen an approach to solving it, it must develop and implement a strategy to achieve its goals. In the nonprofit world, the framework for describing such a strategy is called a “theory of change.”

This is one of the few jargony terms we use in the *Guide*, but it’s used pervasively enough in the nonprofit and philanthropic sectors that you might as well become familiar with it. And the concept will help you transition from understanding problems to finding and vetting organizations—the topics of the subsequent two chapters. That is, understanding an organization’s theory of change helps you make your own assessment of whether an organization has sound strategies for achieving your shared objectives.

Whether or not an organization uses any particular term is unimportant. What matters is whether it is clear about its intended ultimate outcomes, or goals, and whether it can cogently explain how its activities are likely to lead to those outcomes.

This chapter covers three questions:

- What is a theory of change and why is it important?
- How can an organization know if it is on track with its theory of change and if it is having the desired impact?
- As a donor, how might I develop a theory of change for my giving?

Theory of Change

A theory of change sketches the sequence of causes and effects that underlie a nonprofit's strategy, beginning with the organization's activities and ending with its intended outcome. An organization's theory of change gives you and its leadership a common framework for understanding what it aims to accomplish and how it plans to do it. If the organization is unable to describe the theory of change underlying its programs persuasively, that should raise a red flag (for more information, see **Chapter 8: Due Diligence**).

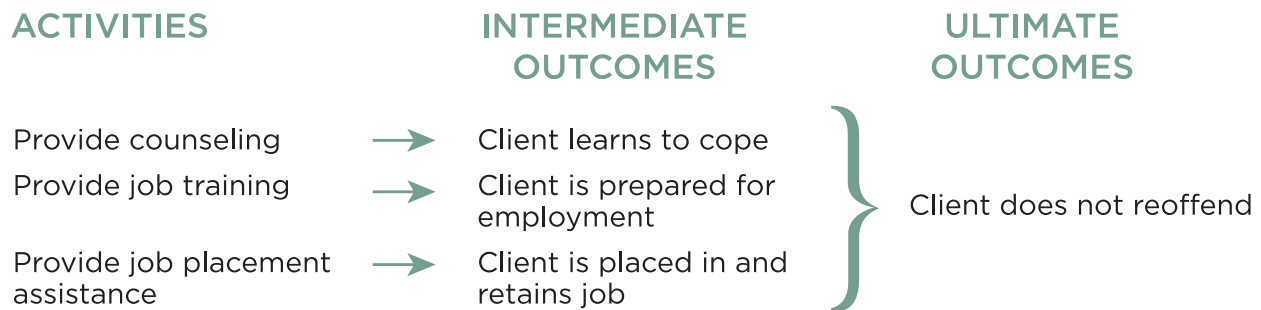
Elements of a Theory of Change

A theory of change incorporates three elements:

- *Activities* describe what the organization does, such as provide particular services.
- *Intermediate outcomes* describe changes—often in beneficiaries' behavior—that are predicted to occur as a result of the organization's activities and necessary to achieve its ultimate outcome.
- The *ultimate outcome* is what success would be in solving the problem the organization is tackling.



We'll illustrate a theory of change by looking at a program designed to reduce the recidivism rate among ex-offenders recently released from prison. The program encompasses three activities: psychological counseling to help beneficiaries cope with everyday problems, job training, and assistance with job placement. Here is a theory of change for this program:

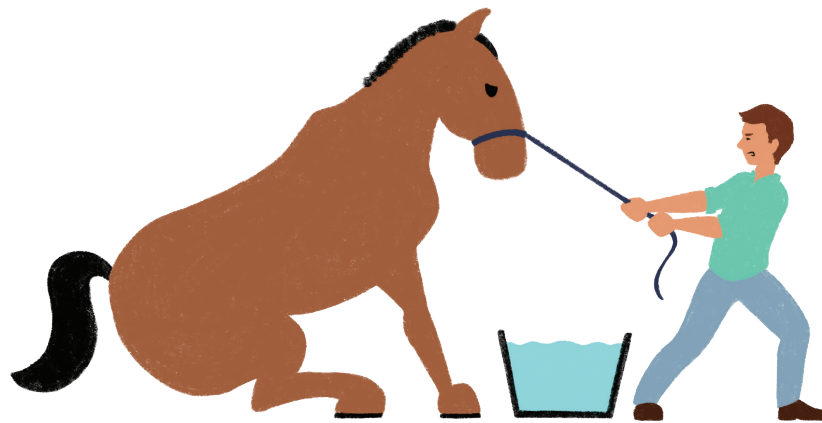


This theory of change proposes that **if** the organization provides its clients with psychological counseling, job training, and job placement assistance, **then** they will learn to cope with the world outside prison, succeed at job training, and acquire jobs. Counseling, job training, and placement are the *activities* the organization conducts. Learning to cope in society, being prepared for employment, and getting and maintaining a job are *intermediate outcomes* that result from those activities. As in this example, intermediate outcomes often involve changes in the beneficiaries' skills and behavior.

Next, **if** beneficiaries learn to cope, acquire new skills, and get jobs, **then** they will be less likely to engage in criminal activities. In other words, the intermediate outcomes will lead to the *ultimate outcome*: not reoffending.

In short, a theory of change is composed of a series of **if-then** statements, or causal claims, that certain activities will result in specified outcomes.

The difference between activities and outcomes is captured in the saying “you can lead a horse to water, but you can’t make it drink.” Leading the horse to water is an activity that the organization conducts. The horse drinking is an outcome for the horse. You might think of the horse’s drinking as an intermediate outcome, with the ultimate outcome being that the horse is adequately hydrated to be healthy and continue on its journey.



At the end of this chapter, we provide a few examples of more complex theories of change from Nurse-Family Partnership and Global AIDS Interfaith Alliance (GAIA).

The Empirical Basis for a Theory of Change

A theory of change is only as good as its empirical underpinnings. Its causal claims must be based on sound evidence. If the causal claims underlying the anti-recidivism program are not empirically sound, the organization likely will fail to achieve its ultimate outcome. For example, the psychological counseling may not be adequate to help an ex-offender from being drawn into criminal activities with his former associates, or the job assistance may be ineffective.

A theory of change that seems intuitively appealing may not actually work in the face of evidence. Consider the Drug Abuse Resistance Education (DARE) program, in which police officers went into classrooms to teach students about the hazards of using illegal drugs. Because of its intuitive appeal and its founders' aggressive marketing, DARE spread to 5,200 communities in all 50 states. At its height, it was operating in 75% of American school districts.¹⁶ Beginning in the 1990s, however, evaluations demonstrated that the program had no positive effects and, indeed, made some students more likely to try drugs.¹⁷ Despite much pushback from DARE, the program eventually made changes based on the evaluation results.¹⁸ Today DARE teaches youth decision-making skills.

Thus, even when a strategy seems intuitively obvious, you should ask your potential grantee what evidence it has about the strength of the causal links in its theory of change.

DONOR STORY

Good Intentions, Ineffective (Even Harmful) Plan— *Jason Sadler*

Jason Sadler, a Florida businessman, started a charity to improve the lives of Africans. His strategy was to collect one million t-shirts and send them to Africa. His website ambitiously explained the idea in these words: "Share the wealth, share your shirts—we're going to change the world." Experts on foreign aid were skeptical, to say the least. First, shirts are not in short supply in Africa, and second, flooding the market with free goods could bankrupt the people who already sell them. After Sadler announced his plan, criticism flooded in, and he abandoned the strategy.¹⁹

Implementing the Theory of Change: Feedback, Monitoring, and Evaluation

Developing a theory of change is not a hypothetical exercise. Before an organization and its funders put time, effort, and money into implementing a program, the theory of change offers a framework for setting out the necessary steps and seeking evidence—typically from research or the evaluation of similar programs—that they are likely to lead to the intended outcome (or not).

If the organization decides to go forward, the theory of change also provides a framework for learning about how its implementation is actually working and to make appropriate course corrections. Among other things, an effective organization seeks answers to these important questions:

- Is the organization reaching its target population and serving their needs? Are there major gaps in its theory of change?
- Are its beneficiaries satisfied with the program? What works well and what can be improved?
- Are the programs creating any unintended harms? If so, how can those harms be avoided or mitigated?

As a donor, you will want to see what the organization plans to do and how well it is meeting its ultimate outcomes or goals (see **Chapter 8: Due Diligence**). Equally important, you will want to know whether the organization is equipped to obtain and use the feedback necessary to make course corrections when things don't go according to plan.

The information that an organization seeks when implementing a program can be described in three general categories: getting beneficiary feedback, monitoring activities and outcomes, and evaluating the ultimate outcome.

Beneficiary Feedback

Virtually every consumer-facing business gets customer feedback—whether through Yelp reviews or questions following an Amazon purchase—that can lead to improving its products and services. Feedback from the beneficiaries of nonprofit organizations is no less important for improving their products or services to ensure achieving their ultimate outcomes.²⁰ Depending on the nature of their beneficiaries, organizations may use anything from open-ended qualitative questions to surveys culminating in net promoter scores.

Monitoring

Monitoring involves tracking activities, intermediate outcomes, and ultimate outcomes as the organization implements its theory of change. We'll illustrate this through the recidivism program described above on page 100:

- **Activities.** To how many clients did the organization provide counseling, job training, and job placement assistance? At what dosage? (Ideally, it also would be valuable to have indicators of the quality of these activities.)
- **Intermediate outcomes.** How many clients are well-prepared for employment, and how many actually get and retain jobs?
- **Ultimate outcome.** How many of the clients do not reoffend within, say, five years?

An effective organization will have metrics for assessing progress at each stage, and it will also have targets—for example: 70 percent of its clients will be in stable employment 12 months after program completion, 60 percent will not reoffend within five years. Ambitious but realistic targets keep the staff accountable to the organization's management and keep the organization's management accountable to its beneficiaries and funders. They are an indication that the program is on course or in need of course correction.

Evaluation

Returning to the anti-recidivism program, suppose that a year after the program was initiated, the incidence of recidivism among its participants has declined by 25 percent compared to the previous year. This seems like a pretty good outcome, but is it the result of the program or some other factors?

Impact evaluation asks and answers an important question that goes beyond whether the intended outcome occurred: did the program contribute to the outcome—or might its clients' reduction in recidivism have happened anyway? Perhaps the anti-recidivism program cherry-picked clients who it thought were most likely to succeed, or perhaps those ex-offenders who were most likely to succeed chose to participate in the program. Perhaps the rate of unemployment had dipped so low that it was easy for participants to find jobs even without the program's assistance.

Why incur the expense of assessing the program's contribution to the outcome? From a service provider's point of view: to improve, expand, revise, or abandon the program depending on the results. From a funder's point of view: to extend, withdraw, or set conditions for further support. And from the broader field's point of view: to improve similar programs.

What makes evaluation difficult is that it tries to compare a program's actual outcome with the outcome that would have occurred even without the intervention—what's technically called the “counterfactual,” because it didn't happen.

In theory, the evaluation technique that can instill the most confidence that the intervention did or did not make a difference is a randomized controlled trial (RCT), in which beneficiaries are randomly assigned to receive or not receive the intervention. This is essentially how new drugs are tested before the FDA allows them on the market. Analogously, the state might randomly assign ex-felons to the anti-recidivism program or leave them to cope on their own—an unfortunate choice but one that may in any event be dictated by budgetary constraints.

In reality, it is often difficult—as well as cost-prohibitive for many nonprofits—to conduct RCTs on social interventions. But other evaluation techniques are available, including comparing the ex-offenders' success in one program to their success in similar programs or in no program at all, even in the absence of random assignment.

Although every organization can gather feedback and monitor its progress, many organizations do not have the ability to evaluate their outcomes. Especially for small organizations, the most that one can expect is that they are faithfully implementing interventions that have been evaluated elsewhere and shown to be effective.

Developing Your Philanthropic Strategy

Most readers will use this chapter to scrutinize an organization's theory of change during the due diligence process (for more in-depth information on due diligence, see **Chapter 8**). If you are confident that the organizations that you support in a focus area are working effectively toward your goals, there's seldom a need to develop your own theory of change for that area.

As you perform due diligence and monitor organizations' work in an area over a number of years, you may develop your own views about which theories of change work or don't work to achieve your goals. For example, you might learn that public awareness campaigns, by themselves, are seldom successful in changing individuals' behavior unless accompanied by targeted behavioral strategies. In effect, you will have developed your own theory of change and use this as a filter for future due diligence.

Beyond this, there may be situations in which you can only solve a problem that concerns you through a set of coordinated grants. Suppose, for example, that you wish to clean up a polluted river and this requires advocating for regulation, providing companies with technical expertise to reduce pollution, and monitoring water quality and health effects. If

you cannot find an organization that's conducting all these activities, you may need to articulate your own theory of change, make gifts pursuant to it, and monitor the progress and impact of your various grantees.

The Theories of Change Underlying Diversity, Equity, and Inclusion (DEI)

For another example of how donors may develop a theory of change for their own philanthropy, we turn to the issue of diversity, equity, and inclusion (DEI), which is extremely important in its own right. With the caveat that the term encompasses overlapping clusters of practice, its component parts might be defined as follows:²¹

- **Diversity** means variation—staff members and beneficiaries who reflect different demographic characteristics and life experiences from a range of identities, perspectives, and experiences.
- **Equity** means ensuring equal outcomes by providing staff members and beneficiaries with the support needed to eliminate unfair disparities.
- **Inclusion** means creating an environment of involvement, respect, and connection—where diverse ideas, backgrounds, and perspectives are harnessed to create value.

Donors and private foundations may have several reasons for incorporating DEI factors in their grantmaking and other practices. The Hewlett Foundation captures the breadth of rationales for DEI in its *Guiding Principles*:²²

The foundation embraces the importance of diversity, equity, and inclusion both internally, in our hiring process and organizational culture, and externally, in our grantmaking and related practices. We care about and hold these values essential both because this is the right thing to do and because it is the smart thing to do.

It is right because, as an endowed institution with significant resources, our choices about how we use our assets have important consequences. In hiring staff and supporting partners to help address critical social problems, we also empower the individuals and organizations we choose. We have a duty to exercise this privilege—for it is a privilege—thoughtfully, mindful of the larger society of which we are part, and of the historical, economic, and cultural forces that shape it. We believe this duty includes a responsibility, in hiring staff and choosing grantees and other partners, to recognize that some groups have been historically disadvantaged, whether by virtue of race, ethnicity, socioeconomic status, gender identity, sexual orientation, ideology, religion, or other characteristics that reflect significant social categories or fractures.

Here we summarize several different rationales for DEI, some or all of which may be relevant to your own philanthropy:

- *Focus areas and goals.* Your own philanthropic goals may center around issues of equity—for example reducing the over-incarceration of people of color or disparities in their health. In this case, you would support organizations that have sound theories of change and the capacity to achieve these outcomes.
- *Increasing philanthropic impact through improved decision making.* There is considerable evidence that, whatever your particular philanthropic goals may be, having a diversity of perspectives among your staff, consultants, and partners tends to result in better decisions.²³ A commitment to DEI may counteract tendencies toward unconscious, or implicit, bias to which all decision makers are susceptible.

To make progress on social issues, one needs to have a deep understanding of the challenges from the perspective of those who are most affected. A successful entrepreneur does not develop a product without engaging potential end-users early in the design process. Similarly, in philanthropy, it is important to engage those

who are closest to the problem in developing solutions. Almost every issue or problem affects different groups of people in different ways. Understanding those who are least well-served is a good first step. Seeking and supporting leaders within these communities and engaging them as partners can lead to greater impact.

One important aspect of a funder's decision making is *selecting* the most effective grantee organizations. Your own commitment to DEI will broaden the search for grantees—particularly smaller organizations led by people of color or with diverse characteristics—that otherwise might be overlooked.²⁴

Another important aspect of decision making is getting accurate and candid *feedback* from grantees. Whatever your goals, you will almost surely benefit from feedback from a broad range of beneficiaries and other stakeholders. Staff and consultants who share backgrounds with beneficiaries and other stakeholders increase the likelihood of open, trusting communications.

- *Increasing grantees' impact.* For many of the reasons just mentioned, your grantees' commitment to DEI will likely improve their performance as well.
- *DEI for equity's sake.* The nonprofit sector is a non-trivial part of the U.S. economy, contributing 5.4 percent to the country's GDP. Nonprofit organizations provide important jobs and opportunities for economic and social mobility. Therefore, you may wish to ensure that your grantee organizations are committed to DEI independent of their mission goals.

How DEI Influenced My Funding Strategy

—**Karen Grove**

As an upper-class, white woman with the privilege to engage philanthropically, the issue that inspired my first philanthropic activism was abortion rights. In 2004, I was incensed about anti-choice efforts to block access to abortion, and I wondered why women of color and low-income women were not putting abortion rights at the top of their agenda. I had no idea how much I did not know.

Thankfully, at reproductive health funder conferences, there were always a few tables of women of color talking about a thing called “reproductive justice.” I didn’t understand what that was, but I could tell it was important, so I introduced myself to the women and started a conversation which grew into a multi-year learning journey. I learned some pretty disturbing things. For example, while women of all races face unacceptable obstacles to abortion in much of the country, women of color experience a range of unconscionable challenges to their ability to have and raise children with safety and respect.

Reproductive justice is just one example of a larger theory of change, which posits that the leaders best able to solve problems are the people most impacted by those problems.

In 2010, we—the Grove Foundation and other reproductive health funders—embraced that strategy and ensured that women of color, immigrant women, low-income women, young women, and other marginalized organizers had the unrestricted multi-year funding they need to collaborate, innovate, and act together. Within ten years, the coalition has achieved goals that had previously eluded the movement for decades.

To develop authentic relationships with impacted communities, the Grove Foundation has applied diversity, equity, and inclusion (DEI) strategies to build our cultural competency as individuals and as an organization. Through concrete changes to our practices, we have hired a more diverse staff and created a more inclusive work environment.

Continued next page

We strive to build equity within our organization by delegating grant decisions to program committees consisting of board and staff members and including all staff members in many decisions, including budgeting. Most significantly, we try to direct most of our funding to underrepresented leaders who are impacted by the problems we seek to solve. We track race, gender, and sexual orientation, and we consider leadership within the executive team and board as well as the executive director and front-line staff.

My personal learning journey (which ultimately became a learning journey about racial justice more broadly) makes me a better funder, board member, friend, and neighbor to people of color and white people alike. The DEI work we've done at the Grove Foundation has made us better funders to our grantees and closer colleagues to each other. And in these dark times, we are inspired and our spirits lifted by the work of the front-line leaders we are honored to support and learn from.

Theory of Change, Monitoring, and Evaluation Takeaways

- ➔ A theory of change provides a framework for understanding an organization's ultimate outcomes or goals and how it plans to achieve them. It does not suffice that a theory of change is intuitively appealing if it isn't based on sound evidence.
- ➔ As it develops and implements a theory of change, an organization should get feedback from beneficiaries and other stakeholders, monitor its activities to assess what is actually working, and make course corrections as needed.
- ➔ Ideally, an organization will rely on some form of evaluation to assess whether it is actually achieving its intended outcomes. But some organizations do not have the resources to conduct evaluations. It may suffice that an organization is faithfully implementing an intervention that has been evaluated elsewhere and shown to be effective.
- ➔ If you have interest and time, you may wish to develop a theory of change and a plan for monitoring the progress of your own strategy in a focus area. These are useful tools for keeping your activities strategic and on course for impact.

CHAPTER 6 ANNEX



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Nurse-Family Partnership's Theory of Change

The Nurse-Family Partnership (NFP) works to improve health outcomes for low-income families with young children. Its core activities are home visits from registered nurses to low-income first-time mothers. The intermediate outcomes include lower rates of cigarette smoking among expectant mothers and parents and fewer instances of child abuse and neglect. Ultimate outcomes include fewer neurodevelopmental impairments and higher preschool language scores.

The NFP has been evaluated in randomized control trials in several different locations. Its theory of change has been shown to be robust.²⁵ This means that given similar cultural and community circumstances, a donor considering funding an organization replicating NFP's approach can feel reasonably confident about achieving positive outcomes.

Nurse-Family Partnership's Theory of Change

GOAL	ACTIVITIES
Improve pregnancy outcomes by improving prenatal health	<p>Home visits weekly in the first month following program enrollment, then every other week until birth of infant</p> <p>Nurses address:</p> <ul style="list-style-type: none"> ▪ Effects of smoking, alcohol and illicit drugs on fetal growth ▪ Nutritional and exercise requirements during pregnancy ▪ Preparation for labor ▪ Basics of newborn care ▪ Family planning following delivery of infant ▪ Adequate use of office-based prenatal care 
Improve child outcomes by helping parents become sensitive and competent caregivers	<p>Home visits weekly postpartum period, every 2 weeks until toddler is 21 months, monthly until child is 2 years</p> <p>The nurses:</p> <ul style="list-style-type: none"> ▪ Educate parent on infant/toddler nutrition, health, growth, development and environmental safety ▪ Promote and assess parent-child interactions that facilitate developmental progress ▪ Promote adequate use of well-child care ▪ Provide guidance in building and fostering social support networks ▪ Assess safety of potential/actual child care arrangements ▪ Refer to other health and human services as needed 

INTERMEDIATE OUTCOMES

Pregnant women display improved health behaviors

- ↓ cigarette smoking
- ↓ pregnancy-induced hypertension
- ↑ use of community resources



ULTIMATE OUTCOME

Newborns are born at full term and with normal weight

- ↓ pre-term delivery among smokers
- ↑ birth weight of babies born to young teens
- ↓ neurodevelopmental impairment

Parents demonstrate sensitive and competent caregiving for infants and toddlers:

- ↓ childrearing beliefs associated with child maltreatment
- ↓ verified cases of child abuse & neglect
- ↑ stimulating home environments
- ↓ safety hazards in home
- ↓ incidents of injuries



INFANTS AND TODDLERS

Child displays age and gender appropriate development

- ↓ language & cognitive/mental delays
- ↑ responsiveness in interactions with mothers
- ↓ distress to fear stimuli

EARLY CHILDHOOD (4-6 YEARS)

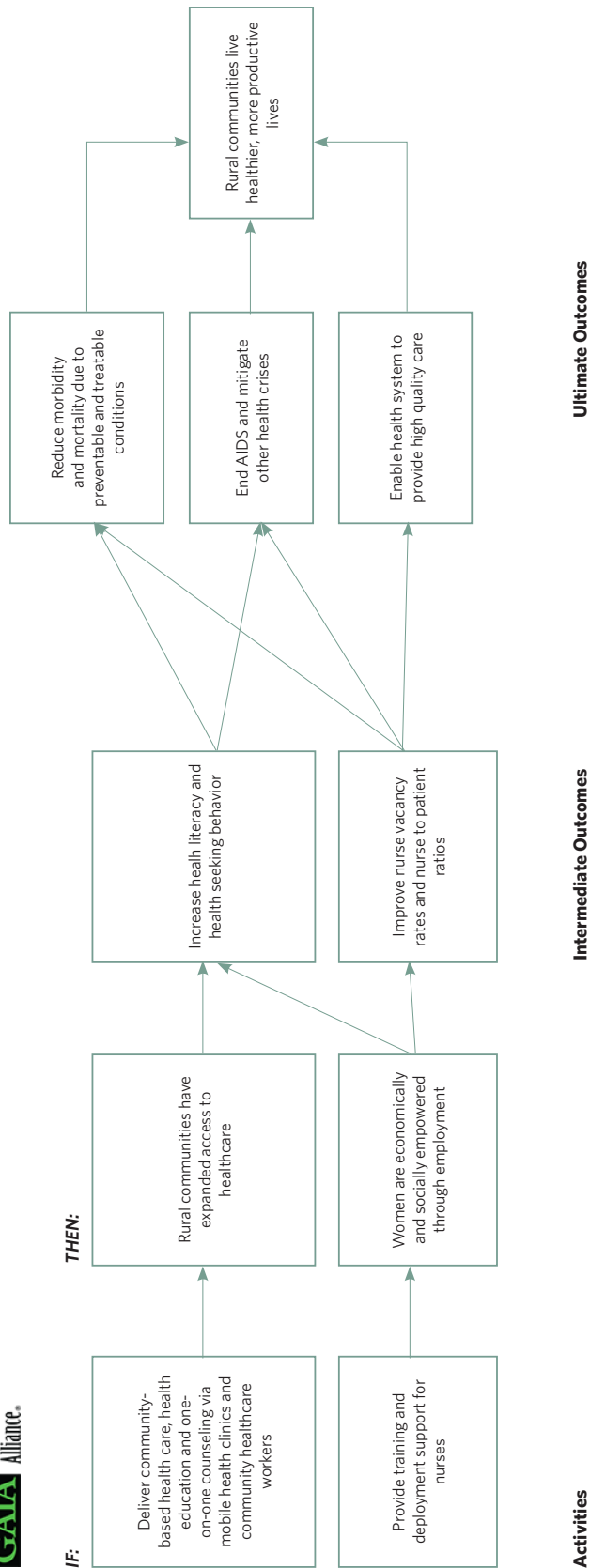
- ↑ preschool language scale scores
- ↑ executive functioning
- ↓ child behavior problems

GAIA's Theory of Change

GAIA seeks to end AIDS and related health crises by improving access to healthcare services in rural Africa. GAIA's community-based healthcare and health worker training programs directly address the needs of the vast majority of the population living in rural areas without access to services, with the overall aim of improving health and productivity in the rural communities where they work.

GAIA collects data; monitors progress; includes outcome evaluations and impact assessments in every program's monitoring, evaluation, and learning plan; and conducts implementation science research to understand and quickly respond to unexpected program results. The organization has published 20 peer-reviewed journal articles and made more than 20 scientific presentations since 2008, disseminating knowledge of what works in remote and rural, high disease-prevalence areas to the global health community.

IF: THEN:



Rural communities and women specifically experience a unique set of health challenges placing them at a disadvantage economically.

Success requires community led solutions, partnering with local stakeholders, and integrating within existing structures and in line with country level strategic objective.

PART TWO

Implementing Your Plan



CHAPTER 7

Finding Effective Organizations



EVEN AFTER YOU HAVE DECIDED ON YOUR PHILANTHROPIC GOALS, you may find it difficult to choose which organizations to fund when a number of them seem to be doing similar work in your focus area. This chapter addresses the question of how to find organizations aligned with your goals. (The next chapter will help you assess the quality of the organizations that you identify.)

You can find organizations by:

- conducting a landscape analysis
- researching grantees of credible foundations
- asking knowledgeable people and networking
- performing online research

A landscape analysis will provide a strong foundation on which to build your philanthropy. If your time and capacity is too limited, then skip ahead to the other ways of finding organizations.

Understanding the Context: Landscape Analysis

A landscape analysis helps you learn about the best research, strategies, and practices in your focus area.



A landscape analysis begins with desk research—Internet searches and literature reviews about a field. You (or a consultant) can supplement this by talking to key stakeholders, including your intended beneficiaries, nonprofits, other funders, scholars, government officials, business leaders, and community members.



If you decide to contact potential grantees, be mindful of the power dynamics between a donor and applicant. Speaking with an organization that might be eligible for your support may raise its expectations for funding. Be clear about your purpose, and be considerate of their time.

Here is an example of an actual landscape analysis conducted in 2014 by the William and Flora Hewlett Foundation to review the trends, priorities, and funding sources of youth-serving organizations in the San Francisco Bay Area.²⁶ The analysis sought to answer four main questions:

- What are most important trends in the youth-serving field, in terms of funding priorities and intervention strategies?
- What is the state of the youth-serving nonprofit community?
- Who are the main funders of youth-serving organizations? What youth funder collaboratives exist?
- Are there gaps in the capacity-building services currently being provided to youth-serving organizations?

The report focused mainly on programs for marginalized and “at risk” youth in the nine counties of the Bay Area.²⁷ It found that:

Impact-Driven Philanthropy

practice: We believe it’s important to learn about and understand the context of the issues we care about.

- 55% of the total funding for disadvantaged youth went to human services (including criminal justice, legal issues, and youth development), 20% went to education, and 13% went to health.
- 79% of grant funding went to two counties: San Francisco and Alameda (which encompasses Oakland).
- Top funding priorities included schools and local education systems as critical sites for centralizing community change efforts, young people's mental health and emotional needs, alignment of K-12 education to career paths, and improving outcomes for foster youth.
- There were relatively few nonprofit organizations outside of San Francisco and Alameda counties, and those that existed tended to operate at a small scale.
- Youth-serving organizations had great needs for capacity building to strengthen their management and governance structures. Specific skill sets that were noted included board development, fundraising, financial planning, and growth planning.

This landscape analysis included a “gap analysis” of geographic locations and activities in need of funding. Although the analysis did not list specific organizations, a philanthropist armed with this information could ask knowledgeable sources or conduct Internet searches to identify potential grantees. (See other ways to find organizations later in this chapter.)

ACTIVITY DIY LANDSCAPE ANALYSIS

UNDERSTAND THE FIELD AND ITS KEY PLAYERS

Basic Questions

RESPONSE

What are the needs of the intended beneficiaries of your focus area?

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Which strategies have succeeded or failed in the past?

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What is the scale of the problem? Where is the greatest need?

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Which nonprofit approaches are being pursued and why?

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Which organizations are the essential players in your focus area? What problems are they trying to solve and why?

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Where are philanthropic efforts from other funders currently concentrated within your focus area?

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How are political, social,
and economic trends affecting
your focus area?

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What does the latest
research in your focus
area show?

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Are there gaps in current
levels of philanthropic
funding?

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How might you build on the
efforts of other funders for
greater impact?

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Who are proponents and skeptics of
specific approaches? What is their
reasoning?

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Which organizations are competing
with each other? Which are
collaborating?

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Which organizations are potential
partners?

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Supplementary Questions – Speaking with Organizations in the Field

What are your views and
experiences in the field?

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What strategies have worked?
What strategies have failed?

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What are you continuing to learn about
the problem you are trying to solve?

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What assets do you bring
to your work?

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What challenges do you face?
What worries you the most?

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What are your priorities?

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What opportunities for solving
problems exist right now?

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If you lack the capacity to conduct a full landscape analysis, consider three other ways to identify organizations to fund:

1. Researching grantees of credible foundations
2. Asking knowledgeable people
3. Shortlisting organizations through online research

Researching Grantees of Credible Foundations

A good way to learn about organizations that have already gone through a due diligence process by trained philanthropic professionals is to examine the grantee lists of foundations that you respect. An increasing number of staffed foundations publish their grantee lists. An Internet search of foundations that fund in the issue areas you're focused on could yield a list of potential organizations for your support. Magnify Community, focused in Silicon Valley, has cultivated a list of almost 400 organizations across 40 issue areas that are recipients of funding from at least one of seven local foundations.²⁸ Other new initiatives like Grapevine work with "professional grantmakers and other thought leaders" to build their list of recommended organizations and "funds" to support.²⁹

Asking Knowledgeable People



If you have limited time to search for organizations on your own, consider asking knowledgeable people for recommendations. You might ask subject matter experts (e.g., an oncologist for cancer research, a development economist for organizations working to meet the U.N. Sustainable Development Goals) or experienced donors in your focus area. These connections can be made through acquaintances, or they can include outreach to professionals. The connections may lead to opportunities to attend events hosted by organizations in your areas of interest. You might also consider talking with the beneficiaries you hope to serve to learn about how they are receiving services and which organizations are best meeting their needs.

FINDING ORGANIZATIONS EXAMPLE

Alleviating Hunger in Washington, D.C.

Suppose that you're interested in supporting organizations that seek to reduce hunger in the Washington, D.C. area. You start by asking your friend who is an active volunteer with community nonprofits. She recommends that you look into D.C. Central Kitchen. When you ask her why, she responds that D.C. Central Kitchen is well thought of not only for its food distribution work but also for its creative approaches to addressing the causes of hunger—for example, providing job training.

If you get nonprofit recommendations from a friend or professional expert, understand the basis for the recommendation and try to ascertain whether their views might be biased. Some questions might include:

- How do you know about this organization? Do you have any affiliation with it?
- What makes you recommend it?
- If you have interacted with the organization, what has been your experience?
- Have you conducted due diligence on this organization? Did that process raise any red flags?

DONOR STORY

“Outsourcing” Finding Effective Organizations Early in the Philanthropy Journey—**Craig Silverstein and Mary Obelnicki, Co-Founders of Echidna Giving**

When we started in philanthropy, we started by giving to re-granting organizations. We were focused in the developing world but knew nothing about the local communities in which we really wanted to see change happen. We were outsiders; we weren’t able to evaluate proposals or evaluate outcomes, so we went to re-granting organizations that are based in the US or the UK or somewhere in the developed world, but they are the ones who evaluate grants and outcomes and have people on the ground in local communities in the developing world.

Initially, we went into it thinking that it was a waste of money to involve a middleman. But we found out that it’s actually a big money saver to involve these middlemen because if we had to go and evaluate these things ourselves and fly out to these communities it would take a long time to do and be very inefficient. It’s actually much better to be working with an organization that can afford to have someone living in these local communities; or ideally someone from that community.³⁰

Shortlisting Organizations Through Online Research



We mentioned above that an Internet search is an important component of a comprehensive landscape analysis. Conducting the search alone is an economical way to find organizations. Searching by your focus area and geographic scope, plus the word “nonprofit” or “organization,” is likely to yield a list that highlights potential grantees. Your search results will often yield “best of” or “top ten” lists of organizations—though you should check on the impartiality of the source. If you have more specific preferences, you can add search criteria for example, geographies, sub-populations, and organizational approaches (e.g., “advocacy” or “research”).

“Homelessness” + “Washington DC”

If you are interested in giving internationally, online searches can help you discover organizations that link you to foreign nonprofits that you might not otherwise find—for example, Give2Asia for Asian development organizations and the Global Fund for Women for women’s empowerment organizations. Internet searches may also yield third-party reviews of organizations, which can be useful in conducting organizational due diligence later on.

For all of their usefulness, Internet searches may not uncover small or new nonprofits. And in many cases, the organizations that appear in the search results may simply have better marketing tactics.

When to Stop Your Search

At some point, you will stop searching for organizations and begin vetting those on your list. When you reach that point depends on how many plausible candidates you've identified, how much time and capacity you have to devote to the process, and your own preferences for comprehensiveness. You may wish to ensure that you don't miss any organizations in the field, or you may be willing to "satisfice" after finding a handful of good candidates.

Finding Effective Organizations Takeaways

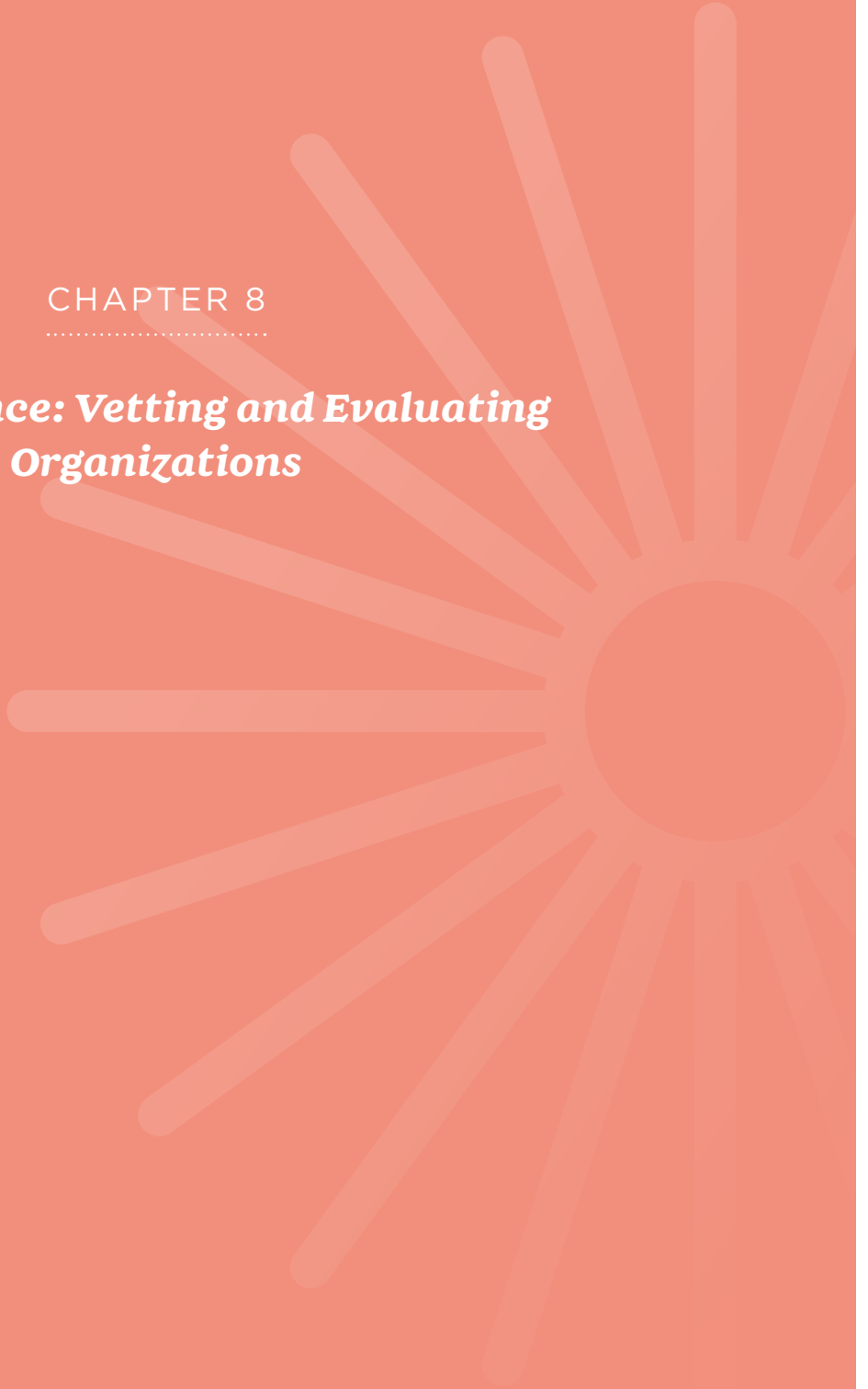
- ➔ Conduct a landscape analysis to learn about approaches, organizations, and research in your focus area.
- ➔ If you are time-constrained, you can find effective organizations by asking knowledgeable people who can help you find potential organizations to support—though it is important to filter out bias in the recommendations that you receive.
- ➔ Another quick option is to do online research, using keywords to narrow your search.

A Landscape Analysis of Education in Turkey³¹

Because of the importance I give to knowledge, we never adopted a “we know the best” approach; we established working groups and organized our programs based on these consultations.... We thought it was necessary to increase the level of education if we wanted to make Bolu [in Turkey] a better place to live. We looked at the reasons that prevented young people from accessing higher education and tried to solve these problems. The low university entrance rates had created strong criticisms of the Bolu Directorate of Education and the educational institutions. The Izzet Baysal University conducted research and stated in their findings that the early education rate was only around 5% and that children who did not have an early education were not likely to be successful in the future. In partnership with the Directorate of Education, support from donors, and technical assistance from the University, we created an education center which could be replicated in other parts of the country. We received comments that a three-party partnership would be highly complicated and that handing over a private initiative to public institutions would be ineffective. But we went on with our work. And we got some wonderful feedback. With its proven success, we now have a model in our hands that could be replicated.

CHAPTER 8

Due Diligence: Vetting and Evaluating Organizations



ONCE YOU HAVE COMPILED A LIST of potential organizations to fund, you'll want to conduct a due diligence process to vet them for effectiveness. Due diligence involves assessing a nonprofit's goals, strategies, and capabilities to determine whether the organization is worth your support. This chapter addresses two essential questions:

- What is due diligence, and why does it matter to my philanthropy?
- How do I conduct the due diligence process—what tools and resources should I use?

Due Diligence: Essential Questions

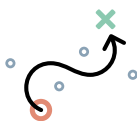
Due diligence covers six basic areas:³²



Legal Compliance: Is the organization in compliance with tax and other regulations?



Goals: What does the organization aim to accomplish?



Strategies: What are the organization's strategies, i.e., its "theory of change," for reaching its goals?



Capabilities: What are its capabilities for implementing these strategies in terms of leadership and human resources, financial capability, and transparency?



Diversity, Equity, and Inclusion: How well does the organization meet your DEI criteria?



Monitoring, Learning, and Evaluation: How does the organization know if it is making progress?

We hope this chapter will help you figure out what's important to know, where to find it, and how to decide whether you have sufficient information to feel comfortable funding an organization.

How to Conduct Due Diligence

Here are the general methods we recommend for finding answers to these questions:

- Search for material available online—from the organization itself or from third parties.
- Talk to people you know who have contributed to or worked with the organization.
- Ask the organization for materials that are not available online.
- If you are prepared to make a significant gift if the information is positive, meet with the nonprofit's leaders.³³

We touched on some of these topics in the preceding chapter. The main source of information about a nonprofit comes from the organization itself. The contents of its website should provide answers to most of the questions above. To avoid creating unintended expectations or imposing an undue burden on the organization, we suggest postponing direct contact with its staff until you're pretty likely to make a gift.

In **Chapter 3: Learning About Philanthropy With and From Others**, we introduced the Philanthropist Resource Directory, which lists different types of donor support organizations. Individuals who join education providers or peer networks may have access to staffed support on activities such as due diligence and vetting. In some instances, community foundations can take the lead in performing due diligence.

Charity Evaluation Websites

Although the primary source of information about an organization is its own website, it is usually valuable to look to third-party sources as well. Several independent websites provide information about nonprofit organizations. GuideStar publishes both an organization's Form 990 tax return and information provided by the organization, including, at times, information that depicts its impact; GiveWell and ImpactMatters provide impact evaluations; and Charity Navigator provides information about an organization's finances and transparency.

GuideStar (guidestar.org) aggregates information about the 2.7 million nonprofits registered as 501(c)(3) organizations in the United States. In addition to publishing their Form 990 tax returns, it categorizes organizations into levels from bronze to platinum on the basis of the amount of information they *self-report*. A gold level distinction from GuideStar means that the organization has provided a sufficient amount of information to answer the "Charting Impact" questions, which include most of the Essential Due Diligence Questions listed above. To reach the "platinum" distinction, nonprofits must also provide at least one sample metric used for evaluation. Most of GuideStar's information is free, but you can access more detailed data for a monthly fee. **CAUTION!** Other than an organization's 990, GuideStar does not vet an organization's data but only provides a platform on which it can share information about its work—so be cautious when reviewing the organization's answers to the Charting Impact questions and responses to the Platinum-level data.

GuideStar's Charting Impact Questions

1. What is your organization aiming to accomplish?
2. What are your strategies for making this happen?
3. What are your capabilities for making it happen?
4. How will you know if you are making progress?
5. What have and haven't you accomplished so far?

learn.guidestar.org/hubfs/Charting%20Impact%20Small%20Group%20Handout%202018.pdf



GuideStar relies significantly on organizations' tax returns. Check to see that they're recent.

- **GiveWell (givewell.org)**, which is aligned with the Effective Altruism movement, identifies the most cost-effective organizations addressing health and other problems among vulnerable populations in the Global South. Its reviews are based on third-party evaluations of impact as well as an organization's transparency and its ability to absorb more funding. In addition to analyzing the evidence base for interventions, GiveWell compares organizations using metrics such as "cost per life saved."

GiveWell recommends specific nonprofits for donors to fund. For example, it recommends the Malaria Consortium as a top charity, having reviewed its seasonal malaria chemoprevention (SMC) program and estimated that "the total cost to achieve the equivalent of four person-months of SMC coverage is \$6.93."³⁴ GiveWell's analysis of the SMC program found that it has a strong evidence base, high cost effectiveness, a good track record of implementation, and room for more funding to scale up its activities.³⁵

GiveWell sets a high bar for the evidence needed to assess an organization. As of June 2019, it published reviews of only eight "top charities" and eight "standout charities."

- **ImpactMatters (impactm.org)** rates the impact of direct service organizations that are focused on health, anti-poverty, education, and similar outcomes.³⁶ It uses a star rating system (one to five stars) based on its estimates of the cost-effectiveness of the nonprofit's programs and an analysis of its financial health and impact transparency. Like GiveWell, ImpactMatters bases its reviews on the outcomes of evaluation studies, but it does not have as high a bar and plans to release over 1,000 reviews in the coming months.

- **Charity Navigator** (charitynavigator.org) rates 9,000-plus US-based nonprofits that have revenues over \$1 million and provides data on another 1.8 million nonprofits in the US. It allows donors to search by an organization's name or category of focus. Charity Navigator's ratings focus on financial health, accountability, and transparency and are based primarily on information provided on an organization's Form 990 and website.³⁷ **CAUTION!** Charity Navigator does not answer many of the questions necessary for due diligence, and it uses overhead costs as a proxy for effectiveness, which is highly misleading (for more information on the importance of overhead costs, see **Chapter 10: Making Gifts**). A four-star rating from Charity Navigator alone is not enough to signal that an organization is worthy of your support.



Like GuideStar, Charity Navigator relies significantly on organizations' tax returns. Be sure that they're recent.

Grantees of Respected Foundations

Another way to vet organizations is to look at the grantees of respected foundations in your focus areas. You often can search the websites of larger foundations for an up-to-date list of the organizations they support. For example, the Gates Foundation has a comprehensive database of grants, which is searchable by name, topic, year, program, and award amount.³⁸ The Ford Foundation has a similar searchable grants database.³⁹ You can find foundations in your focus areas through Internet searches or through (paid) access to the online directory of foundations⁴⁰ run by Foundation Center (now Candid).

Core Due Diligence Questions, Illustrated by Application to an Actual Organization

In this section, we will walk you through applying the due diligence questions to an actual organization: D.C. Central Kitchen.



Is the Organization in Compliance With Legal Regulations?

WHY IS THIS IMPORTANT?

A positive answer to this question will help ensure that the organization is not a scam or a front for terrorist or other illegal activities. If you wish to claim a tax deduction for your gift, you should check that the organization has 501(c)(3) tax status under the Internal Revenue Code.⁴¹

WHAT TO LOOK FOR AND WHERE TO FIND IT:

- Use GuideStar or Charity Navigator to confirm that the organization is a registered 501(c)(3) nonprofit. Alternatively, you can check the IRS website directly.⁴²
- If you are concerned that the organization might be connected with terrorist or other illicit activities, see the US Department of the Treasury's list⁴³ and the Office of Foreign Assets Control's Specially Designated Nationals and Blocked Persons list ("SDN List").⁴⁴
- Nonprofits that are agents of activities for foreign entities or perform activities for them must register with the Justice Department under the Foreign Agents Registration Act (FARA). If the organization seems to have extensive international leadership or financial ties and you want to double-check whether it is fulfilling its legal obligations, you can check the FARA registration status on the Justice Department's website.⁴⁵

CHECKING D.C. CENTRAL KITCHEN'S COMPLIANCE

It's clear from D.C. Central Kitchen's website that it's a domestic organization. You can check on its 501(c)(3) status on Charity Navigator or GuideStar, where you can download its 990.



Goals: What is the Organization Aiming to Accomplish?

WHY IS THIS IMPORTANT?

Clear goals that address well-defined problems are signs that the nonprofit is focused—and therefore more likely to be effective.

WHAT TO LOOK FOR:

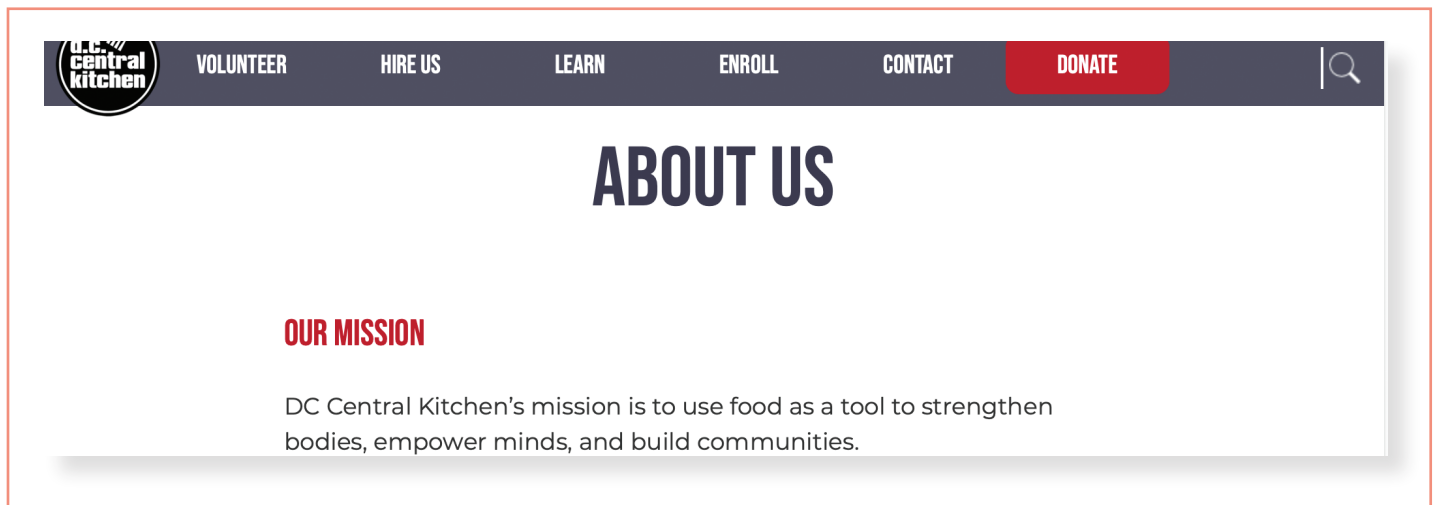
A description or statement of the problem the organization is addressing, its intended beneficiaries, and its goals.

WHERE TO FIND THIS INFORMATION:

- Look on the organization’s website for pages labeled “About Us,” “Our Work,” and the like.
- An organization’s annual report can be another useful resource. It is usually available online, sometimes under the “About Us” page.

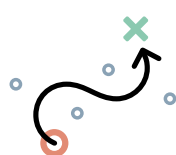
D.C. CENTRAL KITCHEN’S GOALS

You can find D.C. Central Kitchen’s mission statement under the “About Us” tab on its website.



Mission statements are meant to be high-level and fairly broad. So, like many mission statements, this one is pretty general and does not outline specific goals, and you will want to search deeper. You can find a link to the 2017 Annual Report under the “About Us” tab, which defines three reasonably clear and actionable goals:

- create opportunities for meaningful careers
- expand healthy food access
- test innovative solutions to systemic problems



What Are the Organization’s Strategies for Achieving its Goals?

WHY IS THIS IMPORTANT?

An organization with well-defined and evidence-informed strategies is more likely to achieve its goals.

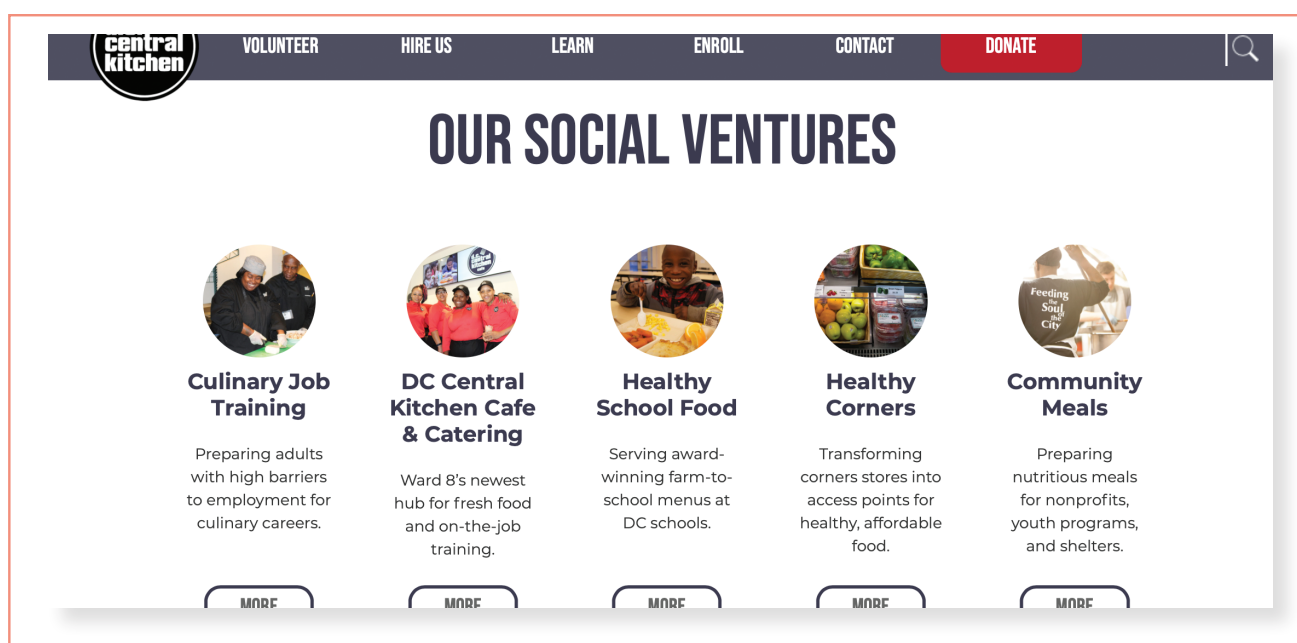
WHAT TO LOOK FOR:

- What approaches—such as providing direct services or advocating for policy changes—does the organization employ (see **Chapter 5: Understanding Problems, Their Causes, and Approaches to Solutions**)?
- Does the organization have a clear theory of change, and is it plausible (for more information, see **Chapter 6: Theory of Change, Monitoring, and Evaluation**)?
- Are the organization’s strategies informed by evidence from social science research or its own prior work?
- What are the risks of the strategies not succeeding? What are the risks of unintended harms to the beneficiaries or others?
- Do the organization’s main activities align with its strategies?

WHERE TO FIND THIS INFORMATION:

Organizations sometimes present their strategies on their websites, through their annual reports, or on their GuideStar and Charity Navigator profiles. Often, you may also be able to infer their strategies by reviewing their activities. If an organization's strategy remains unclear, treat this as a red flag and dig deeper to learn more.

D.C. Central Kitchen's annual report, posted on its website, describes its five main activities listed below.



Checking GuideStar, you also will find that D.C. Central Kitchen provided answers to the Charting Impact questions, including one question on strategy:

DC Central Kitchen fights hunger differently by using career training, job creation, and sustainable business practices to strengthen local food systems and reduce disparities in health and economic opportunity. We operate five social ventures which collectively recover 2 million pounds of food, prepare and distribute 3.5 million meals each year, and train 100 adults with high barriers to employment for culinary careers.⁴⁶



Operational Capabilities: Does the Organization Have Sufficient Capacity to Achieve its Goals?

WHY IS THIS IMPORTANT?

Social impact is not only a product of sound strategies. It requires leadership, management, and staff capacity to successfully implement those strategies and manage the organization.

WHAT TO LOOK FOR:

- *Leadership*—Consider the senior leadership’s background and professional qualifications. A simple Internet search might indicate negative press or other red flags as well as positive information.
- *Board*—Understand the function of the board and who sits on it. Do they have relevant knowledge or expertise? Do they actively oversee the organization’s activities? Do they avoid conflicts of interest?
- *Staff*—Do the staff have successful track records of managing programs, conducting fundraising, and overseeing finance and operations? Does the organization provide staff with training opportunities? Does the nonprofit retain its staff?

For additional resources on governance due diligence, explore the BBB Wise Giving Alliance’s website⁴⁷ and Bridgespan’s Nonprofit Due Diligence Guide.⁴⁸

WHERE TO FIND THIS INFORMATION:

An organization’s 990 includes some information relating to its financial health and governance. GuideStar also asks nonprofits to report whether their boards have reviewed their conflict of interest policy in the last year, assessed the chief executive in the last year, assessed itself in the last three years, ensured an inclusive recruitment process, and provided an orientation process for new members.⁴⁹ Getting a deeper understanding of an organization’s human capacity will likely require in-person meetings.

A Perspective from Bill Somerville: Which Leadership Qualities Matter

I have been in professional philanthropy work for 45 years, starting foundations and trying new ways to manifest grantmaking. My *modus operandi* is to find people I trust, as well as train people to learn to trust in the work they do. From my vantage point, effective social sector leaders:

- **Relentlessly focus on the needs of their constituents.** They are compassionate. They have open hearts and are committed to doing good in the world.
- **Know how to get stuff done!** They have goals and take action. They have an idea of where they are going and what success (results) look like. They focus on the present and on the horizon to be able to take aim.
- **Motivate and inspire members of their community to achieve their highest potential.** They identify talent and strengths in others. They create shared goals and a supportive “can do” culture.
- **Engage their communities and constituents in “the work of doing good.”** They know how to bring consensus but don’t require unanimity to move ahead. They understand that it takes time for others to make up their minds. They collaborate.
- **Are generous and courageous spirits.** They give credit where credit is due. They are willing to share but also know when to stand alone. They are willing to take risks and not afraid of failure. They know how to bounce back when a change in direction is called for.

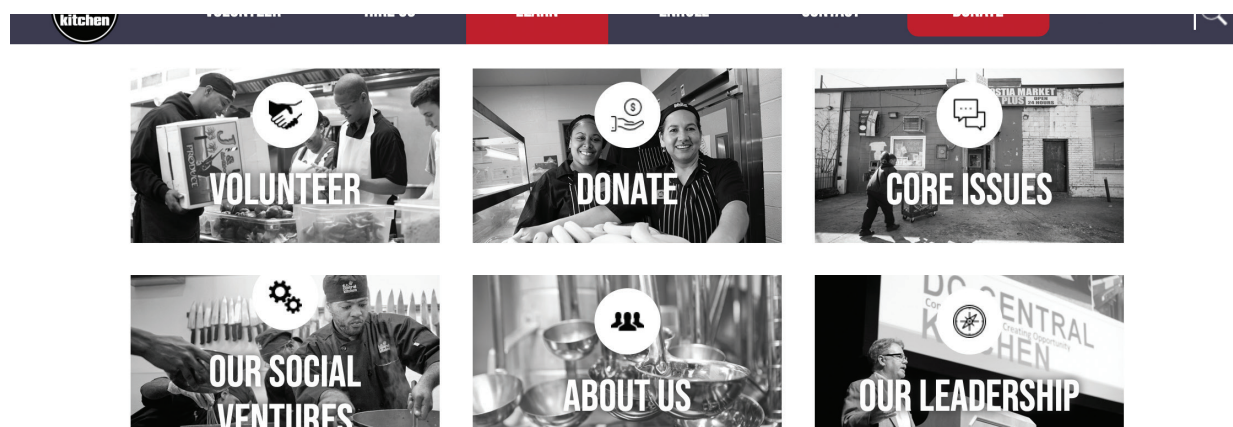
Trust is a basic building block in philanthropy and a vital element in exercising leadership. It allows you to speed up processes, diminish dependence on paper and applications, and honor relationships.

D.C. Central Kitchen's Operational Capacity

LEADERSHIP

D.C. Central Kitchen provides leadership information in two places on its website: a short summary on the “About Us” page and more detailed information on the “Our Leadership” page. On the “About Us” page, it provides information on the extensive awards the D.C. Central Kitchen has won under founder Robert Egger and how it has grown and weathered a recession under current CEO Michael F. Curtin, Jr. The “Our Leadership” page provides executives’ biographies and the names and contact information of staff members. From the information provided, the executives appear to have relevant educational backgrounds and industry experience, including hospitality, restaurants, finance, and development work.

Finding “Our Leadership” in the Learn Tab:



BOARD

The same “About Us” page also provides the names and organizational affiliations of board members. Many members are highly placed in local hospitality, communications, and infrastructure management, which are all related to the nonprofit’s fields of activity.

BOARD OF DIRECTORS

DON SHAPIRO (CHAIR)

Vice President, Food and Beverage
Trade Center Management Associates

HEIDI BIGGS BROCK (TREASURER)

President & CEO
American Forest & Paper Association

GAIL CHAMBERS (SECRETARY)

Associate Director of Infrastructure
Millennium Challenge Corporation

BRADLEY AKUBUIRO

Director, Corporate Communications & Public Affairs

STAFF

Staff titles and pictures are available, but biographies are not. The organization has six executive-level staff and nine other staff members, including some specialized staff members (such as a monitoring and evaluation specialist). This is an indication that D.C. Central Kitchen has more than the bare minimum staff necessary to implement its core programmatic needs.



Financial Capability: Does the Organization Have Sufficient Financial Capacity to Achieve its Goals?

WHY IS THIS IMPORTANT?

A nonprofit must have the financial systems and management to successfully conduct its programs.

WHAT TO LOOK FOR:

- *Revenue sources:*
 - » How diversified are the organization's funding sources? If the nonprofit relies on very few funders or types of funders (e.g., foundation, corporate, individual) and it is not self-evident that funding will continue, the organization's revenue is at risk.

- *Organization's budget:*
 - » Is the budget appropriate for the organization's goals and strategies? (Is it trying to save the entire world on a shoestring?) You might look at specific program budgets as well.
 - » Allowing for some short-term fluctuations, are the organization's revenues generally greater than its expenses? (This information is often available on GuideStar, in annual reports, and in financial documents sometimes provided on websites). If not, does it have a plan for becoming more sustainable?
 - » How long could the nonprofit keep operating if its revenue streams dried up? A healthy funding reserve will allow the organization to continue operating for at least 3–6 months.
 - » If available, review any financial audits and check the notes for any risks or potential problems.
- *Financial transparency:*
 - » Are the organization's financial systems clear, transparent, and credible? It is considered a good practice for nonprofit organizations to publicly disclose their finances. A silver rating on GuideStar indicates financial transparency.

WHERE TO FIND THIS INFORMATION:

A nonprofit organization's annual report will often provide financial information, financial audit reports, and lists of funding sources. Sometimes a nonprofit will have a separate report focused on financial information. GuideStar and Charity Navigator also compile financial information and metrics on many nonprofits.⁵⁰

For additional resources on financial due diligence, explore Finance Unlocked for Nonprofits⁵¹ which includes a set of activities and toolkits that can help you understand the basics of nonprofit financial statements.

If you want to consider additional financial questions as part of your due diligence process, see the Bridgespan Due Diligence Tool.⁵²

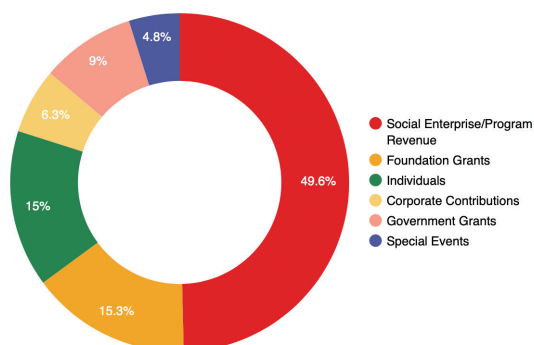
D.C. Central Kitchen's Finances

Let's take a look at D.C. Central Kitchen's financial statements, available halfway down the "Learn" tab on their website along with their annual report. The total 2017 revenue of \$17.7 million is larger than the total 2017 expenses of \$17.157 million, by \$550,592. From the 990, we can see that the revenue was larger than expenses in 2016 as well.

The same information can be found under GuideStar's "Financials" Tab. GuideStar summarizes essential information from the 990 and creates interactive visual displays. For example, GuideStar indicates that D.C. Central Kitchen has cash reserves for 3 months. Although this is a small buffer, the fact that the organization has thrived for years and its revenue exceeded its expenses in 2017 is a good sign.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Contracts	\$ 8,215,986	\$ -	\$ 8,215,986	\$ 7,038,958
Contributions - General	4,290,165	803,068	5,093,233	5,642,103
Contributions - United Way	175,241	-	175,241	130,390
Government grants	665,902	-	665,902	565,644
Contributed services and materials	1,630,842	-	1,630,842	1,762,803
Interest and dividends	133,544	-	133,544	60,752
Special events, net	784,437	-	784,437	511,942
Other revenue	144,690	-	144,690	188,846
Program service sales	863,860	-	863,860	953,774
Net assets released from donor restrictions	<u>634,750</u>	<u>(634,750)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>17,539,417</u>	<u>168,318</u>	<u>17,707,735</u>	<u>16,855,212</u>
EXPENSES				
Program Services:				
Community Meals	5,744,236	-	5,744,236	4,607,494
Healthy School Food	5,872,209	-	5,872,209	4,898,160
Culinary Job Training	1,208,758	-	1,208,758	1,178,845
The Campus Kitchens Project, Inc.	1,141,689	-	1,141,689	1,109,129
Healthy Corners	667,798	-	667,798	708,717
Fresh Start Catering	<u>-</u>	<u>-</u>	<u>-</u>	<u>589,350</u>
Total program services	<u>14,634,690</u>	<u>-</u>	<u>14,634,690</u>	<u>13,091,695</u>
Supporting Services:				
Development	1,025,420	-	1,025,420	920,941
Management and General	<u>1,497,033</u>	<u>-</u>	<u>1,497,033</u>	<u>1,641,127</u>
Total supporting services	<u>2,522,453</u>	<u>-</u>	<u>2,522,453</u>	<u>2,562,068</u>
Total expenses	<u>17,157,143</u>	<u>-</u>	<u>17,157,143</u>	<u>15,653,763</u>

Funding Sources:



Cash Reserves

Months of Cash in 2017

0.4

Average of 0.3 over 10 years



Source: IRS Form 990



Diversity, Equity, and Inclusion (DEI): How Diverse, Equitable, and Inclusive Are an Organization's Operations?

WHY IS THIS IMPORTANT?

“Diversity, equity, and inclusion” encompass hiring, supporting, and advancing people with diverse personal characteristics; providing everyone with fair treatment, access, and opportunity; and creating a respectful and supportive environment. We refer you back to **Chapter 6 on Theory of Change**, where we described four rationales for valuing DEI.⁵³

WHAT TO LOOK FOR:

- **Leadership, staff, and board diversity:** Is the organization diverse and inclusive with respect to characteristics that will best serve its beneficiaries?
- **Beneficiary diversity and equity:** Are diversity and equity considered when choosing beneficiaries, as appropriate to the organization's purpose? Look at the organization's data collection practices. Is it tracking the demographics of its beneficiaries? Are beneficiaries consulted or included in the program design process?
- **Processes for improving DEI:** Does the organization have DEI incorporated into its core values? Does the organization use processes that encourage diversity, equity, and inclusion?

WHERE TO FIND THIS INFORMATION:

Search the organization's website for its core values. If possible, review employee benefits for inclusive benefits like maternity/paternity leave or family leave benefits for adoption, including same-sex parents. If in doubt and you're considering a substantial gift, ask the organization's leadership what it does to promote DEI practices.

D.C. Central Kitchen's Goals Around DEI

These criteria are a bit harder to verify simply by searching online sources. The website doesn't share employee benefits information. However, its core values indicate a mentality of inclusion and equity: "We believe in the transformative power of a job, and that everyone deserves the chance to share in the dignity of work while contributing to our community. We believe in building a more equitable food system that ensures access to healthy, dignified food, and economic opportunity for all."⁵⁴

Under the Board of Directors tab of the Operations section in GuideStar, we also see self-reported information from D.C. Central Kitchen on diversity and inclusion of the board.

BOARD COMPOSITION

Does the board ensure an inclusive board member recruitment process that results in diversity of thought and leadership?

Yes



Monitoring, Learning, and Evaluation: How Will the Organization Know if it Is Making Progress?

WHY IS THIS IMPORTANT?

Effective organizations monitor whether they are on track to achieve their goals or need to change course.⁵⁵

WHAT TO LOOK FOR:

- *The theory of change as a monitoring framework:* An organization's theory of change (see **Chapter 6: Theory of Change, Monitoring, and Evaluation** for more in-depth information)—which describes its activities, outputs, and outcomes as described in **Chapter 6**—is the basic framework for monitoring progress toward its goals. Does it have such a framework?
- *Monitoring*
 - » Does the organization have appropriate metrics and targets for each major step in its theory of change?
 - » Does the organization seek feedback from its beneficiaries and other important stakeholders?
 - » Is the organization regularly reviewing progress to improve its activities?
 - » Are programs being implemented well, on time, and on budget?

WHERE TO FIND THIS INFORMATION:

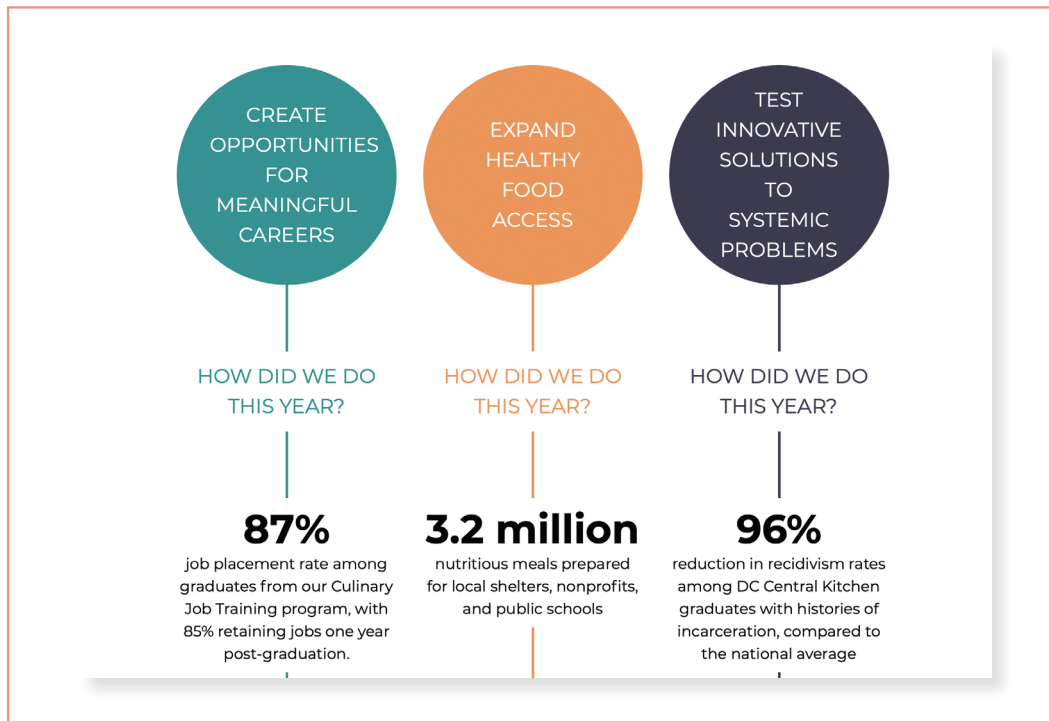
Information about an organization's monitoring processes can be difficult to find online and may require conversations with its staff.

D.C. Central Kitchen's Monitoring and Learning

D.C. Central Kitchen's annual report, found on its website, discloses a limited set of indicators that it uses to monitor its activities. For example, it monitors outcomes by the total number of meals prepared and its job placement rate.

You can also find this information on GuideStar, under "Our Results." D.C. Central Kitchen indicates its willingness to learn from its experience by answering the due diligence question on GuideStar's website, "How will they know if they are making progress?"

DC Central Kitchen is committed to rigorously evaluating its programs, thanks to our three full-time evaluation personnel and a unique level of community credibility with our target population that allows for honest feedback.



Measuring Outcomes and Evaluating Impact: What Has or Hasn't the Organization Accomplished To Date, and How Would You Know?

WHY IS IT IMPORTANT?

The organization and its donors want to know whether it is achieving its goals and having an impact.

DEFINITIONS



Outcomes: An organization's outcomes are the improvements in its beneficiaries' lives that it seeks to achieve. For example, for an organization with the mission of reducing recidivism, an outcome metric would be the number of young men released from prison who do not return within a specified period of time.



Impact An organization has impact to the extent that its activities actually contributed to its intended outcomes. For example, the anti-recidivism organization has impact to the extent that its activities—rather than, say, self-selection into the program—resulted in the reduction in recidivism.

Measuring outcomes requires quantifying the organization's results. This is occasionally easy—for example, the number of homeless people housed—but often difficult; consider, for example, the difficulty of tracking the number of people for whom a program helps prevent addiction.

As discussed in **Chapter 6 on Theories of Change**, assessing impact requires the much more difficult task of comparing the program's results to what would have happened in the absence of the program—the so-called “counterfactual.” Many smaller organizations do not have the resources to conduct evaluations of their own programs. But if they are implementing a program that has been evaluated on a large scale elsewhere that may be a reasonable proxy.



Don't be satisfied with anecdotes in place of outcome data. Many nonprofits share stories, testimonials, or anecdotal examples as evidence of success. These are often cherry-picked, so be cautious—these examples may not be representative of the organization's overall outcomes, let alone impact.



The term “evaluation” is often used loosely in the nonprofit sector. There are many types of “evaluations” that assess an organization's activities rather than impact. These implementation evaluations may be useful, but don't confuse them with impact evaluations.

WHERE TO FIND THIS INFORMATION:

Look for evidence of outcomes and impact on an organization's website or on a charity evaluation website. If you are considering making a significant gift, ask the organization's leadership about outcomes and evaluations.

D.C. Central Kitchen and Learning

D.C. Central Kitchen's annual report gives a limited set of indicators that it uses to report on its activities and goals. For example, it monitors the total number of meals prepared and outcomes by its job placement rate and reduction in recidivism.

See image on page 152 for examples of their recorded outcomes and outputs.

WHEN SHOULD I CONTACT AN ORGANIZATION FOR FURTHER INFORMATION?

We discuss this question in detail in the next chapter. Larger and well-established nonprofits generally are better able to respond to individual requests for information. But for a large enough gift, it is appropriate to request time from smaller organizations as well.

INTERVIEWS AND SITE VISITS

For major and potentially ongoing grants, in-person due diligence allows you and the organization to explore opportunities for communication and partnership. You can:

- Conduct a site visit to the nonprofit's headquarters or service sites. You can see the work first-hand, and you may get to speak directly with staff of various levels and with beneficiaries.
- Interview the Executive Director or other members of the leadership team. This is especially useful for getting a sense of leadership style and understanding the organization's strategies, budget, and impact.
- Interview board members to gain perspective on the leadership and to determine the nature of the board's engagement.
- Interview other funders for their perspectives.

When arranging a site visit, it is good to ask if it is possible to observe activities without being obtrusive.

WHAT TO ASK:

On a site visit, start with general questions to build rapport and make sure your basic understanding of the nonprofit is correct, then move to more specific questions that you may have. You may be interested in:

- A broad overview of the organization's programs and its internal structure.
- How the organization would answer the five Charting Impact⁵⁶ questions.
- Some of the questions the Due Diligence Checklist (see below).
- Staff members' views of the organization's culture and effectiveness.
- Beneficiaries' views of the organization's culture and effectiveness.

Bridgespan has helpful guides for conducting site visits and interviews with a nonprofit's leaders or board members.⁵⁷

Due Diligence Takeaways

- ➔ Due diligence is an essential aspect of philanthropic practice—it allows you to decide whether an organization is effective at achieving your shared goals and whether you and the organization are a good fit for each other.
- ➔ Vetting an organization entails looking at its:
 - legal compliance
 - goals
 - strategies and impact
 - human capital and financial capabilities
 - commitment to diversity, equity, and inclusion
 - monitoring, learning, and evaluation
- ➔ You should be able to find most of the information necessary for due diligence through the organization's website and other publicly available resources. Because an organization's staff members are busy delivering services, it's best to refrain from contacting them unless you are seriously interested in becoming a major donor.

ACTIVITY DUE DILIGENCE CHECKLIST



= (optional) Advanced criteria (for those who wish to conduct a deeper dive)

= Red flag. Review the follow-up questions to ask and considerations for your own reflection.



0. General Transparency

Is basic information—such as about the organization’s programs, budgets, staff, and board members—publicly available?

☐

YES

☐

NO



If not, ask

Notes:

- » Why not?
- » Does it provide adequate contact information and, when contacted, is the organization forthcoming about its work?
- » Do you have enough information to answer essential due diligence questions?

1. Legal Compliance

Does the organization have 501(c)(3) status under the Internal Revenue Code?

☐

YES

☐

NO



If not, ask

Notes:

- » Why not?
- » Is it registered outside of the US? If so, where?
- » Do you require that your gift be tax deductible?

Is the organization *absent from* the OFAC list of charities affiliated with terrorism?

☐

YES

☐

NO

Notes:

2. Goals

Does the organization clearly define its major goals?

☐

YES

☐

NO



If not, ask

» Why not?

Notes:



Is the organization's work aligned with the needs of its beneficiaries?

☐

YES

☐

NO

Notes:

3. Strategies

Does the organization have a feasible, evidence-informed strategy or theory of change?

☐

YES

☐

NO



If not, ask

» Why not?

» How much confidence do you have in its strategy?

Notes:

Has the organization engaged its beneficiaries and other stakeholders in designing the theory of change?

☐

YES

☐

NO



If not, ask

» What barriers does the organization face in engaging its target population?

» How does the organization take the target population's perspectives into account?

Notes:

Are the organization's programs and strategies aligned with its mission and goals?

<input type="checkbox"/>	<input type="checkbox"/>
YES	NO



If not, ask

» Why not?

Notes:

Does the organization have a track record of success?

<input type="checkbox"/>	<input type="checkbox"/>
YES	NO



If not, ask

» Why not?

Notes:

Does the organization's strategy take into account both internal and external risks to success?

<input type="checkbox"/>	<input type="checkbox"/>
YES	NO

Notes:

4a. Governance, Management, and Human Resources

Do the organization's senior staff members have the experience, knowledge, and skills necessary to do their work?

<input type="checkbox"/>	<input type="checkbox"/>
YES	NO

Notes:

Is the staff capably managing its programs?

<input type="checkbox"/>	<input type="checkbox"/>
YES	NO

Notes:

Has the organization had stable leadership throughout the years?

<input type="checkbox"/>	<input type="checkbox"/>
YES	NO



If not, ask

» Why not?

Notes:

Does the board have the experience, knowledge, and skill needed to give the organization strategic direction and oversight?

☐
YES☐
NO

Notes:

Do board members or major donors appear to be free of any conflicts of interest with the organization's work?

☐
YES☐
NO

If not, ask

Notes:

- » How does the organization confront the conflicts?
- » Do any conflicts of interest affect the organization's alignment with your philanthropic goals?

Does the board have sufficient expertise about and (where appropriate) representation from the organization's intended beneficiaries?

☐
YES☐
NO

If not, ask

Notes:

- » What barriers does the organization face in engaging these crucial players?
- » How does the board try to make up for the lack of their perspective?



Are staff members satisfied with working at the organization?

☐
YES☐
NO

Notes:



Does the organization have a reasonable retention rate for staff?

☐
YES☐
NO

Notes:

4b. Financials

Have the organization's finances been audited?

☐
YES☐
NO

If not, ask

Notes:

- » Is the organization's budget of a size (\$1 million or more) at which best practice is to have an audit conducted?
- » Is the organization generally transparent about its finances?

Are the organization's revenue sources (e.g., individuals, foundations, corporations, government agencies) sufficiently diverse?

☐
YES☐
NO

If not, ask

Notes:

- » Does the organization have a feasible strategy to diversify its revenue sources?
- » If the organization has few revenue sources, are you willing to be among them?

Are the organization's revenues greater than its expenses?

☐
YES☐
NO

If not, ask

Notes:

- » Why not?
- » What is the organization doing to reduce its deficit in the next two to three years (e.g., fundraising activity, revenue generation)?
- » Are you tolerant of financial volatility in the organizations you support?



Does the organization maintain appropriate cash reserves (ideally, three to six months)?

☐
YES☐
NO

Notes:



Does the nonprofit have the ability to absorb a gift of the size and duration that you have in mind?

☐
YES☐
NO

Notes:

5. Diversity, Equity, and Inclusion (DEI)

Are the organization’s leadership, staff, and board members diverse on the dimensions (e.g., race, national origin, disability, gender identity, or sexual orientation) relevant to its mission?

☐
YES☐
NO

If not, ask

Notes:

- » Why not?
- » How might/does this lack of diversity affect the organization's mission and programs?
- » Are you willing to support an organization that does not explicitly prioritize DEI?

Does it have processes in place that encourage diversity in its programs or for its staff, leadership, or board?

☐
YES☐
NO

If not, ask

Notes:

- » Do you feel comfortable funding an organization that does not have a feasible strategy for meeting DEI goals?



Does the organization have processes conducive to recruiting, supporting, and retaining a diverse staff?

☐
YES☐
NO

Notes:

6. Monitoring, Evaluation, and Learning

Does the organization clearly track its work and impact?

☐

YES

☐

NO

Notes:

Is the organization monitoring its progress, including what didn't work?

☐

YES

☐

NO



If not, ask

Notes:

- » Why not?
- » Are you comfortable supporting a program that is not monitoring its progress?

Does the organization have processes for learning from its failures and near failures?

☐

YES

☐

NO



If not, ask

Notes:

- » How does the organization seek to improve its programs and general functioning?
- » Are you comfortable supporting an organization that does not have explicit learning measures?



Does the organization obtain and respond to feedback from its beneficiaries?

☐

YES

☐

NO

Notes:



Does the organization evaluate its impact as appropriate for its nature and size?

☐

YES

☐

NO

Notes:



CHAPTER 9

Engaging Organizations and Developing Relationships With Their Leadership

IN MANY INSTANCES, you can conduct adequate due diligence on a nonprofit without ever communicating with the organization's staff—using information from its website and from third parties. Also, in many cases—especially but not only with large national or international groups—you will feel satisfied with monitoring work from a distance rather than personally engaging the organization.

There are, of course, many instances when you believe that direct engagement will provide you with valuable information and, indeed, when your engagement can make a contribution beyond your monetary gift.

This chapter will help you answer three questions:

- When and how should I engage with a nonprofit organization I am supporting or considering supporting?
- How should I manage relationships with the organizations that I fund?
- How can I add value beyond my dollars?

Three Fundamental Questions About Donor Engagement

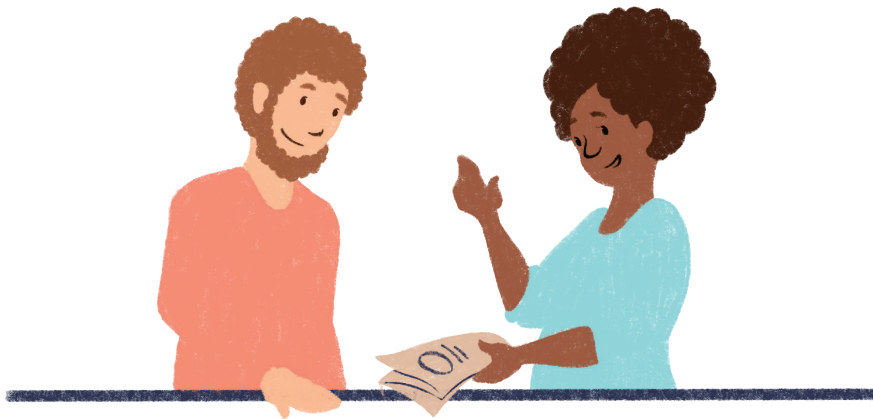
Here are three fundamental questions that can guide your engagement with a nonprofit organization:

1. ***Will my engagement help the organization succeed in its mission?*** If the answer is yes, then the dollar amount of your (potential) gift is irrelevant. Just be sure the organization really wants and has the capacity to leverage your help.
2. ***Will my engagement provide important information*** for my due diligence before making a gift, or for monitoring to learn about the organization's ongoing performance and decide on future gifts? If the answer is yes, the nature of the engagement and its burden on the organization's staff should be calibrated to the size of your gift—some combination of the absolute amount and its proportion of the organization's annual budget.

3. **Will my engagement be personally rewarding**—for learning, interest, fun, etc.? One should have a presumption against this as a rationale for engagement independent of the first two. But for a very large gift, perhaps this suffices—as long as it doesn't impose too great a burden on the organization.

It should go without saying, but it is worth emphasizing, that personal engagement with an organization's staff should begin with an appreciation of their other responsibilities and should involve respectful listening on your part. After all, chances are that they have more knowledge about their strategies and needs for accomplishing their mission than you do. Successful interactions with the organization build trust and mutual respect, with both parties coming away having benefited from the engagement.

When Should I Contact an Organization for Further Information?



For many gifts, thorough online due diligence should give you sufficient confidence in the organization's leadership, strategy, and implementation. In this case, there is no need to ask for meetings with an organization's leaders before making a gift.

Nonetheless, your online due diligence may leave you with outstanding questions. Should you contact an organization, solicit additional documents, conduct site visits, or interview relevant staff members or friends? Factors to consider:

- **The importance of unanswered questions:** Consider whether unanswered questions are material to your decision to give.
- **The size of your potential gift—both in absolute terms and relative to the nonprofit’s budget:** We recommend that you contact a nonprofit only if you are seriously considering a large gift or a gift that will support a significant portion of the organization’s budget. Although the actual number will vary, a six- or seven-figure gift, even if it supports a small fraction of a large multinational organization’s budget, would likely justify your personal contact—with due recognition of other demands on the staff’s time (See **Chapter 8: Due Diligence** for more information on contacting organizations during the due diligence process).
- **Your potential willingness to donate:** If you contact an organization, it may interpret your contact as a signal of a forthcoming gift. We suggest that you not contact the organization unless you are prepared to make the gift if the organization passes your due diligence process.

If you are already funding an organization and are interested in being involved in its work, you can explore opportunities to contribute your time or talents through volunteer opportunities (see section below).

Q. Should I take a different approach to small, community-based organizations, especially those involved in grassroots movements?

A. The basic approach is the same, but it’s all the more important to be respectful of the organizations’ autonomy and limited time. Beyond this, some funders—especially those supporting social justice movements—may be committed to a “hands-off” approach that intentionally delegates considerable decision-making responsibility to community groups.

Q. As a funder, should I seek to influence an organization's work?

A. Any nonprofit organization worthy of your support will have a formal governance structure. In general, unless you are on its board or have been asked for advice, it is not appropriate to try to influence an organization's work.

If the organization's leadership seeks your advice, you should feel free to offer it—with awareness that they may wish to please funders to maintain their support. Developing an honest and mutually beneficial relationship requires listening well, with respect for the organization's expertise, ideas, strategies, and needs.

Adding Value Beyond the Gift: Volunteering, Including Board Service

Q. How can I contribute my time and talents, in addition to money, to an organization?

A. Donors sometimes can add value beyond their gifts by lending their time and expertise to an organization. At the same time, they may find satisfaction in personal involvement that connects with their philanthropic passions and deepens their understanding of their focus areas. As long as your main objective is to help the organization fulfill its own mission and priorities, the experience can be mutually beneficial.

Some kind of help is the kind of help that helping's all about,
And some kind of help is the kind of help
We all can do without.

—Marlo Thomas, *Helping*

Free to Be You and Me (Marlo Thomas, et al.) Words by Shel Silverstein.

Volunteering



Q. How can I learn about volunteer opportunities with a nonprofit organization?

A. Some organizations have needs for volunteers—from serving food in a soup kitchen to serving on the Board of Directors.

Nonprofits may post information about open volunteer positions on their website. You can also reach out to an organization’s staff. An organization that makes use of many volunteers may have a volunteer coordinator, or you can inquire through its general information contacts.

You may be able to volunteer in ways that take advantage of your particular expertise and connections. For example, you could leverage your networks to fundraise on behalf of an organization you strongly believe in, host fundraising events, or speak at events to advocate for the organization.

When considering volunteer opportunities, reflect on the best ways you can contribute to an organization. Be considerate of its staff’s time when seeking volunteer opportunities.

Board Service



Q. What are the roles and responsibilities of a nonprofit organization's Board of Directors?

A. A nonprofit organization's board plays a role in its governance and in meeting its fiduciary responsibilities as a public charity. The board aims to ensure that the nonprofit achieves its social mission while maintaining good organizational health and high ethical standards and complying with the laws concerning its operations. A board typically oversees an organization's budget and finances, legal compliance, and strategic planning. The allocation of governance responsibilities between the board and CEO varies among organizations and may depend on the laws of its state of incorporation as well as its charter.

Board members owe duties of care, loyalty, and obedience⁵⁸ to their organizations. Board service often entails significant preparation for meetings and work on subcommittees, in which members review legal, financial, investment, and strategic matters. Nonprofit board members are usually not compensated and, indeed, are often expected to make personal contributions and help raise funds from others.

In addition to the individual talents that board members bring to an organization, they must be good collaborators with one another and with senior staff members, and they should be consensus-oriented.

Q. Why might I join a board?

A. The primary reason for serving on a board is the organization's and your shared belief that you can add value through the roles mentioned above—roles that call for good judgment and collaborative problem-solving skills as much as expertise and fundraising networks.

Board service is not an appropriate means for shepherding your particular financial contributions to an organization.

Q. What should I consider before joining a board?

A. Learn what the organization expects of its board members—for example, how many meetings of what length does it hold, what are the norms regarding preparation and attendance, and what does it expect of board members between meetings, whether on committees or otherwise? Are you expected to donate money to the organization and, if so, at what level? Some organizations have written description of board members' duties.

Also, try to understand what the organization wants from you in particular. Is it your professional expertise—for example as a lawyer, accountant, or investor? Or perhaps is it because of your capacity to give at a high level and your access to other donors? Think about whether you're comfortable playing those roles.

Also consider what you want to get out of the experience. Do you hope to increase the organization's impact or your knowledge about its area of work? Do you hope to have access to certain other board members or to benefit from the prestige of your affiliation with the organization?

As you consider board service, make sure that your and the organization's expectations are aligned. Also consider your own exit strategy if things don't work out.

Q. How can I join a board?

A. Deciding whether to join a board requires the same degree of due diligence you would engage in before making a significant gift to the organization. If you're interested in an organization but haven't been invited to join its board, you may wish to seek out current board members directly or through a mutual acquaintance.

DONOR STORY

Finding the Right Level of Engagement with Nonprofits—*Paul and Iris Brest*

We have contributed to many different organizations over the years, with our engagement pretty much aligned with the three questions mentioned at the beginning of this section.

We give regularly to some national organizations, such as Planned Parenthood, without any personal engagement whatsoever. Those organizations are aligned with our values and objectives and we are confident about the quality of their leadership and impact based on third-party information. While they sometimes contact us—with the not-so-hidden agenda of asking us to increase our commitments—we have no need to engage with them either to do due diligence or because we can provide assistance that they can't get elsewhere.

On the other hand, we have been highly engaged with some organizations when we needed first-hand information for due diligence or thought we could provide assistance. For example, we were early supporters of the Classics for Kids Foundation, which provides stringed instruments to children in disadvantaged communities. The organization did not yet have a track record, and we engaged with its founder to learn about its strategies, budget, and operations in detail—and to provide advice on some of these matters. And Paul was a founding board member of the Climate Policy Initiative, where he has contributed to the governance of a multifaceted organization with a large and complex budget.

We have joined boards of organizations—large and small, local and national—when we thought this would contribute to their impact by helping with governance, fundraising and, in several, instances fraught leadership transitions. But Paul resigned from the board of a prestigious university after one term; though it gave him fascinating insights into the faculty’s cutting-edge research, the university did not need whatever expertise he could bring to the table.

With few exceptions, our engagement with nonprofits has been deeply personally rewarding—indeed fun—because we believed we were making real contributions to the organizations’ impact. But we also have gotten tremendous satisfaction from the work of organizations in which our only engagement was writing a check, knowing that every dollar contributes incrementally to their impact on issues we care deeply about.

ACTIVITY REFLECT ON YOUR TIME AND TALENT

Volunteering

If you think you might like to volunteer your time for a particular organization, ask:

1. Is that organization accepting volunteers? What responsibilities do volunteers have?
2. Do I have the skills, expertise, or connections to be helpful to the organization?
3. What is the time commitment for volunteers at the organization, and am I able to commit the necessary time?

Board Service

Board members offer a variety of skills and expertise, often based on their experiences and professional work, to assist with the overall functions of the board. How you can make a difference in the organization depends on its needs.

If you're interested in board service, ask:

1. Do I have enough time for board service?
2. Am I willing and able to meet fundraising expectations?
3. What skills and expertise can I offer the organization's board?

For resources on board service, see BoardSource and the Balance.⁵⁹

Developing Relationships with Organizations Takeaways

- ➔ If you've conducted thorough due diligence of an organization and feel confident that it will use your gift wisely, there may be no need to further contact the organization before making the gift.
- ➔ If you think you can add value beyond your gift or want to be more involved in your focus area, consider volunteering with the organization, including serving on its board.

DONOR STORY

The Role of the Donor—**Kathy Kwan**

The donor journey can be many things all at once for the individual donor: rewarding, humbling, lonely, exhilarating, and exasperating. Having funded more than 60 organizations over the last 14 years, I have found each experience to be unique. Almost always, I am excited about how my grantees positively impact their beneficiaries and am awed by their personal dedication and commitment to make the world a better place. That said, I have found that my personal satisfaction rests in my ability to establish an effective donor-grantee relationship. Some rules of thumb that have worked for me:

- **I have a unique set of personal responsibilities.** It's my role—as a donor—to have a clear focus about what I want to achieve with my philanthropy. In this capacity, it's my job to find and partner with organizations that align with my objectives. To be successful, I need to ensure that my partners are led by strong leaders, are financially responsible, and are committed to meeting our shared goals.

- **I aspire to be transparent and honest about my motivations.** I'm human—if I get involved in something, I'm personally invested, and let's be honest, I want something out of the relationship—whether it's wanting to “help,” being part of something bigger than me, bragging rights, a plaque, a sense of personal satisfaction, or whatever. It's my money and I want to see something come of it.
- **Successes and failures are ultimately in the hands of the grantee.** The organizations I support are the primary designers and executors of their strategies. As the funder, I need to respect them and cede day-to-day management and decision-making to the leaders of these organizations—even and especially as it pertains to my grants.
- **I am part of an ensemble. I am not a soloist.** Usually, I am one of many stakeholders at the table. Each of us brings a nuanced and personal perspective, and the grantee needs to balance our strengths, priorities, and competing agendas.
- **Money does not automatically buy influence.** Beyond being a funder, a donor can play myriad influential and valued roles: catalyst, thought-partner, trusted advisor, connector, valued board member. These roles are earned, not granted. It takes time for both the nonprofit and the funder to build rapport, trust, and credibility.

No one is perfect, and every so often, things go haywire: I become too emotionally involved, a suggestion goes unheeded, I might feel slighted, or my contribution isn't acknowledged in a meaningful manner. In these moments, I have had to learn to lick my wounds, take a chill pill, and objectively assess the situation. I ask, “How much of this is about me and my expectations?” “Could we have avoided this situation?” “What is the context and what are the competing externalities and priorities?”

I am both inspired and humbled by my philanthropic “journey.” I am addicted to the sense of satisfaction I get six months, a year, or even two years down the line as I watch the programs I've funded come to fruition and my grantees grow and evolve. And that's what brings me back to philanthropy year after year.



CHAPTER 10

Making Gifts

ONCE YOU HAVE DEVELOPED CONFIDENCE in an organization in your focus area, you will want to consider how best to support it. This chapter gives an overview of the basics of making gifts and answers these common questions:

- What are the different types of gifts I can make?
- When should I make unrestricted gifts to an organization? When should I make gifts restricted to particular projects or programs?
- Why is it important to pay actual indirect (overhead) costs?
- What size gifts should I make under what circumstances?
- How can I administer and track my giving?
- How long should my gift last?

Although there is no technical distinction between a “gift” and a “grant,” the former term is often used to describe unrestricted donations by individuals that typically have no reporting requirements and the latter to describe donations by foundations that often do include reporting requirements. We use the term “gift” for both.



Types of Funding

Gifts fall into two main categories: unrestricted general operating support (GOS) for the organization overall and restricted funds that are specified for specific programs or projects.

Q. What's the difference between general operating support (GOS) and project support?

A. **GOS**, also known as **unrestricted** or core funding, lets the organization use the funds for any of its programs and operations, at the discretion of its management.

Restricted funds are earmarked for a specific purpose within an organization—for example, the purchase of a particular piece of medical equipment for a health clinic or the development of a volunteer training program.

A gift restricted to an organization's *self-defined program* has the essential characteristics of GOS. For example, a true GOS gift to a university could be used for any of the institution's schools or programs; an unrestricted gift to the university's School of Engineering can be used only for any of the school's purposes. In both cases, it is the administration, rather than the donor, who decides on funding priorities. By contrast, a gift to the university to support research on Alzheimer's disease would be restricted to that particular project.

Impact-Driven Philanthropy

practice: Nonprofits need funders who are willing to make flexible, multi-year investments that enable nonprofit leaders to most readily flex their management muscles and capacity for continuous improvement.

We stick with organizations, programs, or grants for a long enough time period to realistically determine whether they can achieve the set goal. We must be patient. Real change takes significant time.

Q. What do leaders in the philanthropic community say about these forms of support?

A. Most philanthropic organizations and sector experts strongly favor multi-year GOS because it gives grantee organizations autonomy and flexibility in allocating funds to best fulfill their missions. Long-term/multi-year GOS gives them the financial stability to support their programmatic work.

EXPERT OPINIONS

- **Independent Sector**—a coalition of nonprofits, foundations, and corporate giving programs—“calls on funders to provide general operating support over project support whenever it is appropriate, feasible, and the goals of the foundation and nonprofit are closely aligned.”⁶⁰
- **Grantmakers for Effective Organizations**, a global network of over 7,000 grantmakers, endorses GOS as a means to support stronger organizational health, allowing nonprofits “to direct their spending where it is needed and focus on running effective programs.”⁶¹
- **Center for Effective Philanthropy**, a research organization focused on producing data to support outcome-oriented funders, found that “grantee organizations who receive large, long-term general operating support grants perceived their foundation funders as having greater impact on their organization than grantee organizations who received other types of grants.”⁶²
- **The Impact-Driven Philanthropy (IDP) initiative**, led by the Raikes Foundation, encourages donors to “provide flexible, multi-year funding” as a good practice.
- In their book **Money Well Spent**, Paul Brest, Former President of the William and Flora Hewlett Foundation, and Hal Harvey, CEO of Energy Innovation, call unrestricted support “the lifeblood of a nonprofit organization” and note that an organization’s “ability to innovate and its very integrity depend on having control over a substantial portion of its budget.”⁶³

- Phil Buchanan, in his book ***Giving Done Right***, says, “For those organizations with goals and strategies that significantly overlap with yours, provide the unrestricted, long-term, significant funding that’s most helpful to grantees.” GOS helps organizations “get what they need to be effective.”⁶⁴

FOUNDATION PRACTICES

- Throughout its fifty-year history, a majority of the **William and Flora Hewlett Foundation’s** grants have been unrestricted. The foundation explains in its Guiding Principles that it is committed to “providing long-term general operating support to anchor institutions in the fields in which we work.”⁶⁵
- The **Ford Foundation** and the **Edna McConnell Clark Foundation** (EMCF) have taken up the mantle of unrestricted, multi-year grants.⁶⁶ In assessing its BUILD program, the Ford Foundation found that five-year GOS enables organizations to be more responsive to their beneficiaries, to strengthen their capacities in a timeline that makes sense for their own rate of growth, and to take risks to catalyze change.⁶⁷ EMCF also saw that nonprofits struggled with obtaining basic operational support and therefore adopted multi-year grants as one of its core principles.⁶⁸
- The **Whitman Institute** observes that multi-year general operating support trusts the organization to determine the most effective and best use of resources.⁶⁹

Médecins Sans Frontières (Doctors Without Borders), an international humanitarian medical nonprofit, accepts *only* unrestricted gifts, explaining that this practice allows them to “allocate our resources most efficiently and where the needs are greatest.”⁷⁰ Many other nonprofits would love to follow their lead but fear losing their donors’ support.

Q. When should I give GOS and when should I give restricted support?

A. GOS gifts are ideal when your philanthropic goals align with the

organization's overall mission and it has a proven track record of effectiveness. If you have serious doubts about whether the organization will use your unrestricted donations effectively, you probably should not make a donation at all.

On the other hand, if you and the organization are mutually interested in a particular project, a gift designated for that project may be appropriate. For example, work on this *Guide* was supported by Kathy Kwan, a donor who, together with the Stanford PACS leadership team, believed that the book could provide valuable support for donors interested in effective philanthropy.

Q. Does one or another form of support create greater impact?

A. Not generally. While a small GOS gift might seem like just a drop in the bucket, consider that each drop is likely to contribute proportionally to the organization's outcomes. Very few effective nonprofit organizations run out of capacity to efficiently deliver their services. So if a dollar allows an anti-malaria organization to provide African families with bed nets, then every additional dollar provides a bed net for another family. You wouldn't think of tracking the particular use of your financial investment in a for-profit firm, and it's no different for a nonprofit organization.

That said, there may be instances where an organization asks you to fund a particular need, and you can have impact through a project-oriented gift.

Q. Does one or another form of support allow me to develop confidence in the organization?

A. No. The best way to determine whether an organization deserves your support is to look unobtrusively over the shoulders of its board and CEO and understand how it achieves its mission. You can do this through publicly available materials, such as annual reports, or—if your gift is significant enough—through direct conversations with senior management.

Q. What if I think an organization should develop new areas of work—should I offer to fund projects in those areas?

A. If the idea and request for funding originate with the nonprofit’s senior management, you can be pretty sure that your offer of financial support is useful to the organization and its beneficiaries. If the idea originates with you, however, make sure that you aren’t inducing “mission creep” that could detract from the organization’s overall effectiveness.

A good test question is whether, given additional unrestricted funds, the organization would begin exploring your idea or use the funds for something else.

In any event, if you and the organization agree that it will undertake a new project, the size and duration of your commitment should be commensurate with that undertaking.

Q. Can I make a gift to a nonprofit organization that is earmarked for lobbying?

A. Lobbying is a subset of advocacy and one that is highly regulated by the Internal Revenue Code as well as state laws. While private foundations are entirely forbidden from earmarking grants for lobbying, this prohibition does not apply to gifts from your checking account or DAF. Nonetheless, it’s best to leave it to the organization to decide what tools to use and what it may do consistent with the law.

Q. Where does capacity-building support fit into these categories?

A. Capacity-building support is a form of project support that enables an organization to do its work more effectively. It can include

Impact-Driven Philanthropy

practice: We fund efforts to collect, analyze, and build the capacity within nonprofits to use relevant data, so they have a basis for understanding what’s working and what’s not.

support for such things as strategic planning, board recruitment, staff development, and fundraising. Sometimes a capacity-building gift can give the organization's CEO "cover" to meet essential needs that other donors might regard with skepticism. But organizations often would rather have unrestricted support and the autonomy to decide how to devote funds between capacity building and other needs. You might ask a nonprofit whether they would prefer GOS or a restricted grant for capacity-building—or for any other type of project, for that matter.

Q. What about gifts for endowments?

A. Organizations that receive gifts for endowments keep the principal amount (your gift) intact and use the investment income for charitable activities. Endowed gifts reflect the donors' beliefs that the institution will remain strong for many decades, if not centuries, to come—and also help ensure their strength.

To hedge against volatile markets, many institutions spend 5 percent or less of an endowment annually. Although an endowment gift supports an organization for the long term, it provides only a small fraction of an expendable gift each year.

If an endowment fund already exists within an organization—for example, for scholarships—consider adding to it rather than setting up a new fund, which entails additional administrative costs.

Q. Should I be concerned if I am the main funder for a nonprofit organization?

A. Yes. As we suggest in **Chapter 8: Due Diligence**, it's healthy for an organization to have diversified sources of revenue. Moreover, if your gift comprises too much of a nonprofit's funding, the organization could fail the IRS requirement of public support and be reclassified as a private operating foundation, with potential adverse consequences for the organization and its donors.⁷¹

Overhead Costs

Q. What are direct costs, indirect costs, and overhead?

A.

- The *direct costs* of a particular project are expenses, such as the compensation of staff members or travel, that are attributable to the project.
- *Indirect costs* are not directly tied to a specific project but rather shared across multiple projects. They include salaries for staff who do not work directly on the project but are necessary for running the organization for example the organization's CEO, CFO, and development officer and costs like rent, electricity and heat, insurance, back-office functions, training, and technology infrastructure that ultimately affect the organization's ability to execute its programming. Indirect costs are allocated over all the organization's activities and projects.
- *Overhead* is sometimes used as a synonym for indirect costs or for a subset of administrative costs.⁷²

Every project depends on the payment of indirect costs. No organization, whether a nonprofit, business, or other entity, could survive without the contribution of funds for indirect costs. They are every bit as real as direct costs. Funders who do not cover indirect costs contribute to what has been aptly termed the “nonprofit starvation cycle”⁷³ by forcing the organization to incur expenses not covered by their gifts or grants. Yet many donors succumb to the psychological error of “overhead aversion” because it's much easier to identify with the beneficiaries of a program than with the organization's essential needs.⁷⁴

Q. How do various kinds of gifts pay for indirect costs?

A. GOS automatically includes overhead costs—an organization's management can allocate GOS between direct and indirect costs as

needed. Gifts restricted to particular projects may or may not specify what percentage of the funds can be used for indirect costs. If you're giving restricted funds, you should include a reasonable amount of overhead to ensure that an organization has the resources it needs to run both the project and the organization's activities necessary to support it.

Q. What are best practices for including indirect costs in funding projects?

A. Here are some suggestions from major organizations and philanthropic experts in the field:

- Independent Sector “recommends that grantmakers pay the fair proportion of administrative and fundraising costs when they do give project support.”⁷⁵
- Center for Effective Philanthropy notes that the “overhead myth,” which forces nonprofits to keep their operating costs very low, is “the most destructive” misconception in the nonprofit sector. It calls for the philanthropy and nonprofit sector to work together to overcome this myth.⁷⁶
- The IDP principles and practices recommend that if donors give project or program support, they “include full indirect costs (overhead) as long as they are in line with organizations of that type.”⁷⁷
- In *Giving Done Right*, Phil Buchanan urges donors not to “buy into the overhead myth” but “seek real performance metrics.” A nonprofit's performance should be judged by its results, not its budget allocation.⁷⁸

The Plumber

You hire a plumber to unclog your drains. He submits a bill for \$100, but you write him a check for only \$75. When he asks about the other \$25, you explain that you're paying only for his direct costs—his time on the job and any materials used—and not for indirect costs such as maintaining his shop, advertising, insurance, and the like. Outrageous behavior? Absolutely. Yet many philanthropists and foundations treat their grantee organizations this way every day.... While you can be pretty sure that the plumber won't work for you again, most grantees suck it up, skimping on vital systems.⁷⁹

Fabulous Airline

You are about to buy low-price tickets on Fabulous Airline and notice that its website proudly announces, "We have the lowest overhead costs of any airline," with a footnote explaining, "To save you money, we perform the minimum required maintenance on our aircraft; provide minimum emergency training for our flight attendants; and are indefinitely postponing upgrading our computer systems." Would you buy the tickets? Although nonprofit organizations you value may not literally fall out of the sky, consider how a donor who withholds adequate indirect costs impairs their effectiveness.

Q. What are reasonable overhead costs?

A. Reasonable overhead costs depend on the kind of work the organization does. A recent study sorted nonprofits into four broad categories: US direct-service organizations, US policy-advocacy organizations, international networks, and research organizations. It showed indirect costs ranging from 21 percent to 89 percent of direct costs.⁸⁰ We recommend starting with a presumption of at least 20 percent.

Donors should be as concerned if an organization's overhead is *too low* as if it is too high. If overhead is too low, the organization may be skimping on investments in necessary infrastructure, such as computer systems

or staff development. Or the organization might not be paying its staff enough, which, quite apart from morale problems, may just be unfair.

Raising Up Overhead: How We Can Do Better

In *Raising Up Overhead: How We Can Do Better* (October 7, 2019), Lisa Eisen, President of the U.S. Jewish Portfolio of the Charles and Lynn Schusterman Family Foundation, and Barry Finestone, President and CEO of the Jim Joseph Foundation, urge Jewish funders to adopt best practice to ensure that grantees “have the unrestricted capital they need to achieve their missions, sustain healthy organizations, and grow their impact.” They note that this is best done by providing GOS and next best by providing adequate indirect costs or overhead for gifts restricted to specific projects. “At a time when the Jewish community is hungry for change, let’s ensure that organizations can attract and retain talented professionals. Let’s ensure they can be healthy, resilient, and able to integrate the best tools and technology into their work. Let’s ensure they can cover the real cost of their mission-driven work. Let’s ensure they feel empowered to try, fail, learn, and succeed in their quest to shape a vibrant Jewish future.” ejewishphilanthropy.com/raising-up-overhead-how-we-can-do-better

Administration and Reporting

Q. Do I need a contract to make a gift or grant?

A. No. You don’t need a contract for giving GOS. Even for restricted funds, a short letter agreement—or even an email exchange—will usually suffice. If you’re making a large restricted gift and feel it’s important to specify the details of its use and how you would like it reported, you might consider drafting a simple letter outlining the terms of your gift. If a gift for a project includes a budget, we suggest that it allow the recipient organization to use at least 20 percent of the gift for indirect costs. (Note that if you are giving through a DAF, private foundation, or LLC, the institution will typically provide a grant award letter with every grant.)

Q. What kinds of reporting should I ask for?

A. When thinking about monitoring your gifts, be sure you strike a balance between feeling well informed as a donor and overburdening an organization. You have already vetted the organization, so the most important question is whether the organization continues to do valuable work. You can often answer this question via information published by the organization itself, such as newsletters, press releases, and annual reports. If you've made a very large gift, it's reasonable to ask for occasional meetings with the organization's senior staff. (If you are giving through a private foundation or LLC, you may wish to establish a policy about reporting.)

Q. How can I track my own giving?

A. In addition to keeping a record for tax purposes, you may find it useful to keep records of your giving and to note what seems to be working and what not. The tracking software can range from an Excel spreadsheet to off-the-shelf grants management programs. If you give through a DAF, a staffed private foundation, or an LLC, staff members will likely track this for you.

Gift Size, Duration, and Exit

Q. When I meet with the head of an organization or development director, they may propose a larger gift amount than I have in mind. How should I prepare myself and respond?

A. It's good to prepare for any negotiation—and this is a negotiation—by having a clear idea of your terms beforehand. Although you shouldn't be closed to changing your mind based on new information, often the best response is along the lines of: "That's actually more than I had contemplated, but let me [discuss it with my family and] give it some thought and get back to you."

Q. Should I be open to making a larger gift during an organization's campaign or when my gift will be matched?

A. First of all, recognize that most campaigns are essentially marketing devices—opportunities to focus donors on the organization's mission and increase donations and multi-year commitments for existing programs as well as new initiatives. Matching gifts have the added allure of multiplying your individual donation. There's nothing at all wrong with these fundraising strategies. Just keep in mind your own strategic budgeting decisions when responding to them.

Saying "No" to Requests

Many people begin their philanthropy by responding to unsolicited requests—for instance, from their children's schools, their religious institutions, or their alma maters. You have likely developed your own way to decline requests that fall outside of your focus areas and discretionary budgets. In general, it helps to be direct: "Thank you for the opportunity to support education in Chicago, but this is not among my philanthropic priorities." Where appropriate, offer to pass the request to others: "I know someone whose interests may be aligned with your work. Please give me the information and I can try to make connections."

Your family foundation may have a broad mission statement, such as "improving the lives of our city's most disadvantaged people," but your grantmaking may be focused on a particular group of disadvantaged people, such as run-away homeless teens. Organizations seeking your grants may latch onto the mission statement. Be prepared to explain your particular focus at this time.

Q. Suppose I have budgeted \$100,000 per year for a particular focus area (as suggested in Chapter 1). How large a gift should I make out of that budget to a particular organization and what should its duration be?

A. Suppose that you are new to a focus area. You have done research into it, and you have identified a number of promising organizations. One of them has a long and strong record of effectively achieving your goals; several other organizations have passed your initial due diligence process, but you are less certain about them.

In these circumstances you might make a substantial multi-year general operating support grant—perhaps \$70,000 over three years—to the known strong organization and dedicate the remaining funds to one-year GOS gifts to several of the others. This will allow you to monitor their progress to help decide on gifts in future years and, at the same time, learn more about the area. This approach can be useful for experienced philanthropist exploring a new area as well as new donors who want to put their toes in the water before jumping in.

You may sometimes be pressed to make an especially large commitment—for example, during an organization’s campaign. But the occasion of a campaign—even with matching pledges—shouldn’t short circuit your due diligence processes.

Q. In general, what should be the duration of my gift?

A. Relatively small GOS gifts typically have no specific duration, but they are often assumed to be expended within about a year. The recipient organization usually hopes that the gift will be renewed annually. As mentioned earlier, the duration of a project gift should be commensurate with the nature of the project.

If you intend to make a substantial GOS gift or a project gift to be spent over a period of several years, you can either give the full amount now or give the first installment now and state your intention, or pledge, to give

*What's the right sized-gift for me?***Determining the Right Gift Level Early In a Philanthropy Journey—Jane Lerner**

I'm relatively new to philanthropy (for about the last three years), so the biggest check I've ever written is that \$15,000 check to Solidaire. I've given some \$10,000 gifts and those came because that was the number that was given to me. I don't know if that's a number that I would necessarily come up with myself, honestly. I'm still very much struggling with that hoarding mentality even while I'm working so hard to be as generous as possible. I'm doing donor organizing to fund electoral work and I'm constantly trying to get people to give more than they're willing to give. Then I turn it back on myself and I'm like, aww man, I should be writing that check too! You know it's funny, I've hit on a sweet spot of \$2,000 to 3,000 as a grant I'm quite comfortable with. It's what feels right to me right now. I wonder as I get older and see my bank account change either up or down how I might shift that. It raises more questions for me than answers.

the remainder later. Organizations value multi-year commitments because they permit longer-range planning.

Q. How should I account for an intended multi-year gift in terms of my philanthropic budget? Suppose that I've earmarked \$100,000 for a particular focus area this year and decide to make three annual grants of \$25,000 to an organization in that area.

A. If, for example, you track your gifts through Excel, it's easy to keep note of your intentions or commitments to make multi-year gifts. You just need to ensure that the earmarked funds will be available in the future years. If you give through a DAF, private foundation, or LLC, they will likely have processes for documenting multi-year commitments and sequestering the future-year funds.

Organizations will appreciate knowing your intentions about multi-year gifts. If you accede to an organization's request to sign a pledge for future

amounts, however, be explicit that the pledge is not legally binding. This will save you a great deal of hassle if your relationship with the organization goes south. It's worth a reminder that the gifts are only tax-deductible when made. If using a DAF, you will already have received the tax deduction when you gave to the DAF. (Although a DAF may make grants that fulfill a pledge, the grant award may not refer to the pledge.)

Q. How can I cease funding an organization without harming its work?

A. Your giving interests and activities may change over time, and this may lead to parting ways with an organization you have supported in the past.

This is not an issue for smaller donations, where an appropriate exit may be as simple as deciding not to give again. But if an organization is reasonably relying on your regular large gifts, we advise giving it as much advance notice as possible. Explain your decision and offer a parting gift. If your exit is based on a change of interests rather than concerns about the organization, consider making a transitional gift to help the organization bridge the gap.

Seven Habits of Excellent Work with Grantees: A Snapshot⁸¹

In early 2020, the Hewlett Foundation launched a Guide for Program Staff at Foundations with recommendations on what staff members should consider as they work with grantees. Many of these tips can apply to individual donors as well.

1. **Respond in a timely and courteous manner** to all grantees and potential grantees.
2. **Show curiosity** about a grantee's whole organization, not only the parts that relate to your strategy and goals.
3. **Set time and process expectations.** Make your expectations and commitments explicit when inviting a proposal and throughout the life cycle of each grant.
4. **Results matter.** Have a conversation with each grantee about how they plan to measure results from the grant.
5. **Flexible and true cost funding.** Provide flexible, multiyear support where possible. When making project grants, understand and support the true cost of the work.
6. **Be clear and consistent about strategy and criteria for decision making** in verbal and written communications with grantees.
7. **Listen as much as you talk** in conversations with grantees.

Making Gifts Takeaways

- ➔ Funders' primary goal should be to advance the effectiveness of the organizations to which they give.
- ➔ If your goals align with the organization's, give long-term, general operating support (GOS).
- ➔ To support effective organizations, pay adequate overhead when you make restricted gifts.
- ➔ Making a gift requires little or no paperwork. Usually a simple donation letter or email will suffice.
- ➔ If you have been making significant gifts to an organization and wish to stop your funding, give as much notice as possible to avoid harming its work.

Giving Gifts Through Long-term General Operating Support⁸²

I was 21 when my parents created a family foundation so their five children could learn about philanthropy. (They called it the French American Charitable Trust, or FACT, because my mother was French and we did some funding in France.) Over the next few years they endowed it with \$40 million.... Over time, FACT's board and staff adopted [these] guiding principles:

- **Focus:** We focused exclusively on supporting community organizing to address poverty and inequality. We accepted no unsolicited proposals so staff time could be devoted to building relationships rather than to wading through mountains of paper.
- **Offer long-term unrestricted support:** Nearly half the 60 organizations we funded received general operating support for ten years or longer.
- **Build grantee's capacity:** Because our groups needed help with organizational issues such as management, administration, finance, and board development, we created an innovative capacity-building program that gave grantees this non-monetary help. We also acted as their advocates, connecting them to other funders and educating the philanthropists about the value of community organizing.

For FACT, following these ... principles produced profound rewards. Here's one example: In 1996, we gave \$30,000 to the Los Angeles Alliance for a New Economy (LAANE). The group was three years old with a budget of \$250,000, and we were one of their first funders. By 1999, our annual grant to LAANE was up to \$100,000, and today the group has a budget of \$4 million and a staff of 44. Through an unusual combination of community organizing, research, economic analysis, and policy advocacy, they have been able to successfully tackle many job issues affecting poor communities. We've cheered as they won city-wide victories that benefitted hundreds of thousands of people, including legally binding living wage ordinances and community benefits agreements with developers.

How To Think About Making Gifts—*Jaan Tallinn*

I have learned a lot about philanthropy in the last 11 years. I started out giving maybe \$5,000 each year and have increased my annual giving to around \$3M by now. One really big problem that plagues philanthropy compared to investments—which I’m also doing—is that it’s very hard to measure outcomes. More precisely, it’s very hard to know what would have happened if you didn’t make that donation. So, I tried three approaches to this. One is just donating to support the creation of something. For example, I’m very enthusiastic about supporting software development. If there’s somebody who’s developing software for public consumption that wouldn’t otherwise get funded, that is very concrete: you can see the result. And it’s easy to know what would happen if you didn’t make the donation: the software wouldn’t get built. Second, I look at the track record of organizations and donate to them to continue what they’re doing. The hope is that based on their track record, the organization can demonstrate that they’re making a difference. The third one is that I take an angel investor-approach to philanthropy, where I gave multiple small donations to causes, even if I am unsure of their value, and then have quarterly updates with them. Every quarter I can check to see if the donations are making a difference: are they expanding, do they need more resources, etc. In the beginning, these small quarterly donations were divided across about a \$10,000 annual minimum. And if the organization continued to deliver, my maximum was \$100,000 per year, and that might last for six or seven years.

CHAPTER 11

Funding with Others: Collaboration and Pooled Funding



The growing practices of collaborative and pooled funding allow you to increase the impact and scale of your giving. This chapter provides answers to the following questions:

- How can I collaborate with others in making gifts?
- What is pooled funding and how does it work?

DEFINITIONS



Collaboration: A broad set of practices, ranging from sharing information and knowledge to co-funding and co-creating new projects with other donors.



Pooled funds: Aggregated funds aimed at creating large-scale impact in particular areas.

The simplest way to engage in collective funding is to provide general operating support to an organization, which then aggregates your gifts with those from others. Beyond this, you may also participate in intentional collaboration and pooled funding initiatives. You might donate to funds that are curated by an intermediary, where you have little or no control over particular grants; or you might contribute to a grantmaking collective where all donors, or at least major donors, participate in decision-making. This chapter discusses the various approaches to collaboration and collective funding.

There are five main ways to collaborate with other donors:

- learn with others
- fund a foundation
- coordinate funding with other donors
- pool funds
- participatory grantmaking



LEARN WITH OTHERS

The exchange of knowledge among donors (discussed in **Chapter 3**) is the most common form of collaboration. Examples include joining an affinity group and sharing “lessons learned” with other donors.



FUND A TRUSTED STAFFED FOUNDATION

You can entrust your funds to another well-established funder, usually a private or community foundation, that has full control over its grantmaking. Perhaps the best known example to date is Warren Buffett’s unrestricted gift of \$30 billion to the Bill and Melinda Gates Foundation in 2006.⁸³ Since then, while indicating its preference that people give directly to their grantees, the Gates Foundation has accepted contributions from others, which it disburses according to the foundation’s programmatic objectives.⁸⁴

Though you may wonder whether the Gates Foundation needs your money, there are other foundations that operate as intermediaries and thus depend heavily on contributions—for example Tipping Point Community and GreenLight Fund, which respectively address poverty and inequality.



COORDINATE FUNDING WITH OTHER DONORS

Donors may choose to coordinate funding strategies within their focus areas. They can identify opportunities to support one another’s work, reduce areas of

unnecessary overlap, and strategize together about how to address a specific problem. Having agreed on a strategy, each funder can implement his or her own grantmaking and have full control over those grants.

ClimateWorks Foundation, a nonprofit organization formed in 2008 to mitigate climate change, is an example of such a coordination mechanism. ClimateWorks brings together its core partners—the William and Flora Hewlett Foundation, the KR Foundation, the John D. and Catherine T. MacArthur Foundation, the Oak Foundation, and the David and Lucile Packard Foundation—to strategize and fund collective actions. In its view, when these foundations work together, they are better able to respond to climate change.⁸⁵



POOL FUNDS WITH OTHER DONORS

Donors can aggregate, or **pool**, funds with one another to create larger-scale impact in a shared focus area. Entities that have a thematic focus are known as **issue funds**.

Hundreds of issue funds exist, covering a wide range of topics such as animal welfare, movement building, alleviating poverty, upholding human rights, providing clean water, hunger relief, youth homelessness, and many more.

DEFINITION



Issue funds: Entities that aggregate contributions with a specific thematic focus and grant them to the corresponding nonprofit organizations.

Governance of Pooled Funds

Pooled funds accord donors varying levels of influence and control. In some, each donor has a voice in decision-making. For example, the Oceans 5 collaborative is comprised of donors concerned with marine conservation. It makes grants and provides strategic guidance for recipient organizations. Oceans 5 has two levels of engagement: partners

and members. “Partners” donate \$1 million or more per year and have a seat on the Board of Directors. They are responsible for guiding projects through the design and approval process. “Members” are generally donors who give more than \$200,000 per year and participate in board meetings and discussions but have no governance role.⁸⁶

Co-Impact provides another example of a two-tier structure. Formed in 2017, Co-Impact is a philanthropic fund that aims to catalyze systems change in areas such as education, health, and economic opportunity. The collaborative has six core partners who define strategy and select grant opportunities.⁸⁷ Other donors contribute to those projects but do not have the same decision-making power as the core partners.

Blue Meridian Partners is the largest issue fund in the world. With aggregated funds of \$1.7 billion, it aims to transform the “lives of young people and families in poverty, to change the current funding paradigm ... and embrace a new model of philanthropy.”⁸⁸ It has two tiers of partners: general and impact. General partners contribute at least \$50 million over five years; each general partner has one vote in decisions related to investments and ongoing payments. Impact partners contribute at least \$15 million, divided between Blue Meridian’s pooled fund for all investments and particular organizations within Blue Meridian’s portfolio specified by the partners.



PARTICIPATORY GRANTMAKING

Participatory grantmaking aims to democratize philanthropy by shifting decision-making power from donors to the communities being served. It empowers community members by recognizing the unique importance of their lived experiences in making good decisions about how the community should be served.⁸⁹

The grantmaking process itself is a key element of participatory grantmaking. The process is often led by community members, with

varying degrees of participation by donors or professional staff.⁹⁰ Participatory grantmaking promotes diversity, equity, and inclusion, and provides participants with an opportunity to network and increase community engagement.⁹¹ Proponents of participatory grantmaking believe this process leads to better decisions.

For all of these potential benefits, participatory grantmaking is not inevitably the best approach to solving social problems. Some problems require regional, national, or even global coordination that can only be accomplished by large organizations or by funders implementing their own theories of change (as described in **Chapter 6**.) Community decision-making is often time-consuming, and ensuring representativeness can be a challenge. Moreover, even within a particular locale, there are many communities, defined by race, ethnicity, sexual orientation, religion, culture, and other characteristics. A donor cannot avoid deciding which ones to support. What may seem at first glance to be a single “community” often turns out to be a number of sub-communities with contending factions. Donors can’t avoid the responsibility of making choices.

The Complexities of Collaborative Funding

Collaborative funding requires donors’ agreement on goals, funding criteria, and decision-making processes. It almost inevitably requires donors with different working styles and cultures to make some compromises. For a collaborative venture to be successful, its funders must build trust with one another and be comfortable sharing or delegating responsibilities.

At its best, collective funding can create tremendous impact on social problems. But the concentration of funds and decision-making authority may have negative consequences as well by enshrining parochial strategies and cozy relationships with particular grantees. It is important that pooled funders seek input from their intended beneficiaries, potential grantees, and a diverse group of experts. When done thoughtfully and responsively, collective funding can significantly increase positive impact in your focus areas.

An Example of Impact Through Collaborative Funding: Civil Marriage Collaborative (CMC) and Marriage Equality⁹²

In *Obergefell v. Hodges*, decided in 2015, the US Supreme Court established marriage equality for same-sex couples as a constitutional right. The pooled resources of the funders of the Civil Marriage Collaborative (CMC) contributed greatly to this outcome. During the preceding 11 years, CMC spent \$153 million to support organizations advancing the marriage equality agenda at the state and national levels. In 2004, CMC funders met with LGBT leaders to develop a “10/10/10/20” strategy, which aimed to reach a “tipping point” for marriage equality by achieving equality in 10 states, getting 10 more to adopt civil unions and another 10 to adopt some form of legal recognition for same-sex couples, and shifting public opinion to support marriage equality in the remaining 20 states. This strategy focused on state-level legal policies and strategic litigation. As it turned out, the strategy succeeded sooner and more widely than had been anticipated.

Funding With Others Takeaways

- ➔ Participating in collaboration and pooled funding initiatives can increase the impact and scale of your giving.
- ➔ Collaboration and pooled funding are growing and evolving practices, with various models for donor engagement.
- ➔ Although collaborative efforts can be time-consuming and often require compromises, they have the potential for great impact.



CHAPTER 12

Socially Motivated Investing⁹³

TO THE EXTENT that it does not sacrifice risk-adjusted financial returns, many readers of this *Guide* probably would prefer to place their investment assets in companies whose products and processes are aligned with their values. These are often called *socially responsible investments*. Indeed—though the jury is out—you may believe that investments in companies and funds that meet certain Environmental, Social, and Governance (ESG) criteria are likely to maximize financial returns in the long run.

There's nothing at all wrong with this. But if your only goals are value alignment plus good financial returns, you can skip this chapter. Your investment advisors know far more than we do about how to achieve those goals. However, if your goals include having *impact* by enabling an investee company to *do more* of whatever socially or environmentally (hereafter, simply “socially”) beneficial thing it is doing, then read on.

To make the same point a little differently: All *businesses* have social impact, whether positive, negative, or both. They can, for example, deliver financial returns for investors, create jobs, and expand the provision of goods and services and also pollute the environment. The question for this chapter is when your *investments* can affect the behavior of those businesses for better or worse.

To anticipate the conclusion of this chapter, here's a spoiler:

- It is possible, though by *no means easy*, to achieve social impact through concessionary investments—investments that expect to have below-market returns. Some foundations do this through program related investments (PRIs).
- It is *impossible* to achieve social impact through investments in large cap, publicly traded companies.
- It is possible, but *very difficult*, to achieve social impact through non-concessionary (market-rate), private equity investments.

Even compared to **Chapter 6** on theories of change, this is the most complex and theoretical chapter in the *Guide*—because the ways in which investors can (and can’t) achieve social impact comprise a complex subject that can only be understood in a theoretical framework.

This chapter is also a downer. How can it be that when there’s so much excitement about *impact investing*, so little of it actually has impact? The answer is that much, if not most, of what falls under the name impact investing turns out to be value-aligned investing without impact. We’re not interested in quibbling about definitions—about who is and who is not an impact investor. What we do care about, and hope you do too, is *when your investment can actually have impact*—when it results in the investee doing more things better.

We are not opponents of impact investing. Far from it: we have great aspirations for the field. But we have the same sort of concerns about false and misleading claims that those trying to advance medicine in the nineteenth century had with the patent medicine industry. And, as in the preceding chapters, we wish to help readers put their resources where they can actually improve society.

Value-Aligned Investing

To recapitulate, investors who seek value alignment would prefer to own stocks only in companies that act in accordance with their moral or social values. The term “value-aligned investing” encompasses both “mission-related investing” (MRI)—investments that are made by foundations in pursuit of their charitable mission—and “socially responsible investing” (SRI).

Independent of having any effect on the company’s behavior, value-aligned investors may wish to own stock in what they deem to be a good company or to avoid “dirty hands” or complicity by refusing to own stock in what they deem to be a bad company.

Value-aligned investors may be concerned with a firm's outputs—its products and services. They might want to own stock in a solar power company or avoid owning shares in a cigarette company. Or they may be concerned with a firm's practices—the way it produces those products and services. They might want to own stock in companies that meet high ESG standards and eschew companies with poor ESG ratings. Good ESG ratings sometimes predict good financial returns—perhaps because they signal that management is good at managing risks in general—but the evidence is mixed about whether ESG-oriented funds outperform or under-perform the market, net of management fees.

DONOR STORY

Aligning Values with Investing—*Janine Firpo*

Research from Morgan Stanley suggests that 86% of women and 95% of millennials want to invest all their money with their values. All of it—regardless of whether it has impact. Whenever we talk about women and their money, we should be talking about investing their money in a way that matters to them and that is aligned with their values. I was talking to a friend of mine the other day. She said, you know Janine, it's like fashion. In her view, we get up every day, we get dressed. In that moment, we can choose to just put on completely functional clothes—we don't! As women, most of us love clothes; we love to shop for them; we love to think about them; we think about what colors go together, what styles, we think about the jewelry we wear. For us, clothes are fun. They give many of us joy and they are really an expression of who we are.

What I call values-aligned investing is like that. Traditional investing equates to just putting on a utilitarian outfit and walking out the door. But if you really want to feel good about your money, you invest it in a way that shows who you are. Getting dressed is fun. Why can't our money be fun? Philanthropy shouldn't be the only place we have fun and feel good about our money—particularly if so many of us want more.

Investing for Impact

Investors who seek impact begin by identifying enterprises that are aligned with their values and whose goods, services, or production processes create social impact. But impact investors then go on to ask whether their investments are likely to increase those enterprises' impact.

The fundamental distinction between value-aligned investing and impact investing lies in the term *impact*. While value-aligned investors need only learn whether a company's behavior is consistent with their personal values, impact investors must also predict whether their investment in a company will actually improve the company's performance.

Impact investors' goals can be as varied as those of philanthropists. They may include:

- Achieving the UN Sustainable Development Goals (SDGs), including reducing poverty and adapting to climate change. For example, the Gates Foundation made an impact investment in the company bKash to reduce poverty by providing financial services to the unbanked poor in Bangladesh.
- Improving outcomes for disadvantaged communities in developed countries. For example, the MacArthur Foundation's Benefit Chicago Program makes impact investments in job creation and job readiness programs; Bridges Fund Management makes impact investments to improve the lives of working people in the United Kingdom.

Impact investors typically achieve their goals through investments in for-profit companies rather than nonprofit organizations. Impact investments are transitory by nature. Their overarching goals are to create markets and opportunities that will eventually attract ordinary commercial investors as well as change companies' management practices in enduring ways.

Impact investments can achieve social impact by:

- increasing or improving a firm's *delivery of products or services*—for example, an investment in a firm that provides health services to underserved communities.
- improving the *processes or practices* by which the firm produces those products or services—for example, an investment, perhaps coupled with technical assistance, to reduce a firm's environmental pollution or ensure the fair treatment of workers in its supply chain.

The Two Requisites of Impact

There are two requisites for an investment to have “impact:”

- **enterprise impact**—the impact of the investee firm itself
- **investment impact** (sometimes called **additionality** or **social value added**)—the impact the investment has on the firm's activities and outputs

ENTERPRISE IMPACT

Enterprise impact is the impact of the investee firm in achieving its beneficial outcomes. It is precisely the same for a for-profit investee as it is for a nonprofit grantee. Consider our earlier example of a program designed to reduce recidivism among young men released from prison. Suppose that before the program started, the recidivism rate in a particular city was 45%. And suppose that two years later, ex-offenders who participate in the program return to prison at a rate of 35%.

This sounds like a good outcome. But what if it turns out that, say, the program was cherry-picking participants who (perhaps because they had highly marketable skills) were unlikely to commit crimes again in any event? All things considered, the program does not have any impact because its outcome would have happened anyway.

If you are a philanthropist, you would think twice before making a grant to a nonprofit anti-recidivism program that didn't improve its

participants' outcomes. For the same reason, if you were an impact investor, you would be hesitant to invest money in a for-profit program whose apparent impact was based on its skewed selection criteria.

INVESTMENT IMPACT

Investment impact is the positive impact your investment has in enabling the investee company to increase its socially valuable products or processes. In this respect, impact investments in for-profit companies present a question about impact that doesn't occur when making philanthropic donations to nonprofit organizations.

Consider that philanthropic resources are almost always scarce. Very few, if any, effective nonprofit organizations get as much philanthropic support as they could productively use to increase or improve their outcomes. Thus every philanthropic dollar usually contributes incrementally to the nonprofit's outcome.

By contrast, for every impact investor in a for-profit company there are hundreds or thousands of ordinary commercial investors who care only about good financial returns. Having investment impact requires that your investment provides *additional* resources, beyond those supplied by commercial investors, that increase or improve a firm's socially valuable products or processes.

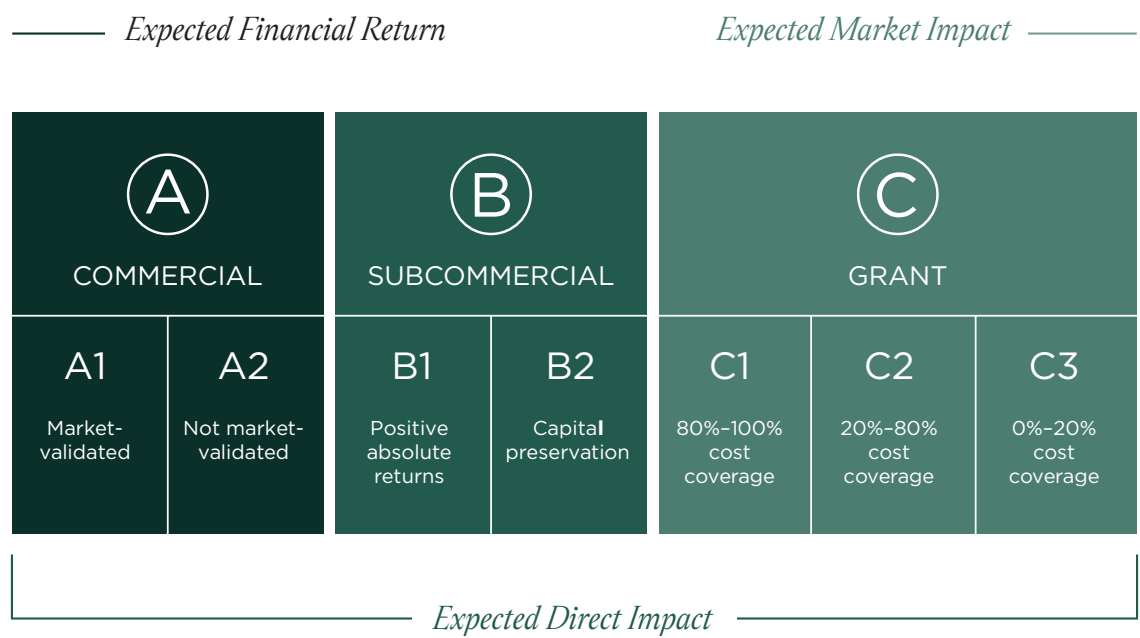
We will spend the remainder of the chapter discussing how an investor can create investment impact. There are essentially two ways: (1) through purely financial mechanisms just the money; and (2) through non-financial mechanisms, such as providing expertise and influence.

Purely Financial Mechanisms

The expected returns of impact investments range from at or above market (**non-concessionary**) to below market (**concessionary**)—with investors making a financial sacrifice to achieve their social goals. Impact

investments can fall into virtually every asset class, including equity stakes in conventional and benefit corporations; corporate, municipal, green, and social bonds and other forms of debt; mutual funds; hedge funds; and real estate.

To help guide our exploration of the purely financial mechanisms that might create investment impact, we refer to the Omidyar Network’s “continuum of returns,” ranging from grants to commercial investments.*



GRANTS

Grants are not investments since they expect zero financial returns and a total loss of capital. Grants may nonetheless play an important role in the impact investing ecosystem. For example, the Global Investment Impact

* Omidyar Network was established by Pierre Omidyar, the founder of eBay, and his wife Pam to conduct both impact investing and philanthropy.

Network (GIIN) and the Impact Management Project (IMP), two major infrastructure organizations, are supported by grants.

CONCESSIONARY (SUBCOMMERCIAL) INVESTMENTS

A concessionary, or subcommercial, investment is one in which the investor expects to receive below risk-adjusted market returns. (Of course, many investments intended to receive market-rate returns don't succeed; but it's the expectation that matters.)

Why would an impact investor make a concessionary investment? Typically, to enable businesses to test products or services in unknown markets, where the likelihood of commercial success is too low to attract ordinary investors until and unless the business succeeds. This was the Gates Foundation's rationale for its concessionary investment in bKash, the mobile money company aimed at the poorest residents of Bangladesh, which several years later attracted non-concessionary private equity capital.

The Gates Foundation's investment in bKash was what the Internal Revenue Code characterizes as a program related investment, or PRI. The Code defines a PRI as an investment whose primary purpose is to further the foundation's charitable purposes rather than generate financial returns. For this reason, PRIs are almost always concessionary—though non-concessionary investments that are not market-validated also can qualify. Conceptually, you can consider the expected concession as the functional equivalent of a grant. Indeed, the US Internal Revenue Code treats PRIs like grants in some (but not all) respects, including counting toward a private foundation's required 5 percent annual payout.*

Making a PRI is far more complex than making a grant because of the need for financial due diligence and investment documents. The foundations with good reputations for PRIs tend to have dedicated PRI staff as well as legal expertise.

* Capital returned to the foundation must, however, be regranted or reinvested as a PRI.

It's worth noting that although only foundations can treat investments as PRIs, an increasing number of individuals and families are making concessionary investments mainly through family offices. Some donor advised funds are getting into the game as well.

NON-CONCESSIONARY INVESTMENTS IN PUBLIC MARKETS

Investors cannot have any social impact merely by trading securities in large cap secondary public markets.

For better or worse, the vast majority of investors in public markets care only about financial returns and are indifferent to a firm's social value. If impact investors buy stock in a publicly traded company because it provides socially valuable products, these myriad socially neutral shareholders will happily sell their shares and the stock price won't change. For example, a publicly traded telecommunications company in a developing country may be of great value to smallholder farmers and poor urban residents, but no matter much of its stock you purchase, you will not lower the cost of service to your intended beneficiaries.

By the same token, investors may care about a company's environmental and employment practices and therefore invest in a publicly traded company with good ESG ratings, believing that they may also increase the company's long-term shareholder value. Because socially neutral investors have the same information, however, impact investors have no advantage in moving the needle here.

In short, it's virtually impossible to have both investment impact and financial returns for investments in public markets.

NON-CONCESSIONARY INVESTMENTS IN PRIVATE MARKETS

Unlike in public markets, it's at least possible to have impact in *non-market-validated* investments—investments that have attracted few if any ordinary commercial investors, either because they regard the investment as too risky or because they haven't yet discovered the market.

The reason that it's possible for impact investors to have impact through non-market-validated investments is that private markets thrive on private information; impact investors' advantage lies in their expertise in assessing the financial potential of companies whose outputs fit their social values.

Just as a successful venture capitalist may possess expertise in, say, biotech, an impact investor may develop expertise in markets with the potential for socially valuable outcomes. For example, Omidyar Network (ON) argues that they are better able to assess the risks of some of these markets than are ordinary commercial investors because ON “may have greater familiarity with a given geography (such as Africa) or sector (such as financial inclusion) or more confidence in a particular entrepreneur.”⁹⁴

It's far more difficult to create social value through market-validated investments—investments that are already attracting commercial capital. When you're making market-validated investments, the critical question is whether you are providing capital on more favorable terms than the company can obtain from ordinary commercial investors. For example, you may hope that your investments in emerging markets in developing countries will have “additionality”—but they can't if their investee companies are already attracting ample commercial capital.

Investment Impact Through Non-Financial Mechanisms

The main non-financial mechanisms that can create investment impact are (1) providing the investee with knowledge and assistance that promote its social goals, and (2) influencing management decisions that affect the company's social goals through shareholder engagement and action.

PROVIDING INVESTEES WITH KNOWLEDGE AND ASSISTANCE

Venture capital and private equity firms provide their investees with various forms of knowledge and assistance—for networking

and fundraising as well as addressing internal management and organizational needs. Impact investors in private markets can provide similar assistance to their investees, increasing their social impact as well as their financial sustainability.

When financial returns and social impact are highly aligned, the investor need not make a financial sacrifice in providing assistance to achieve social goals. When the investee's financial returns are not necessarily correlated with its social impact, the fund manager must devote extra resources to assist with the latter.

Readers may wonder how they can know whether a self-identified impact fund manager offering commercial returns is providing its investees with knowledge and assistance that will promote their social goals. This requires that the fund manager be transparent and forthcoming about how it is adding such value. Ideally, although we haven't seen any examples to date, the fund manager would be compensated based on social impact as well as financial returns.

INFLUENCING MANAGEMENT DECISIONS

There is a long history of shareholder efforts to improve corporations' practices, particularly relating to ESG criteria. The Impact Management Project describes how impact investors can “engage actively,” using their “expertise, networks, and influence to improve the environmental/societal performance of businesses. Engagement can include a wide spectrum of approaches—from dialogue with companies to creation of industry standards to investors' taking board seats and using their own team or consultants to provide hands-on management support (as often seen in private equity). This strategy should involve, at a minimum, significant proactive efforts to improve impact.”⁹⁵

There are some recent examples of major fund managers, including BlackRock, Inc., exercising shareholder power to influence its investees' environmental and social behavior. It remains to be seen whether this practice becomes more pervasive.

BENEFIT CORPORATIONS AND B CORPORATIONS

Almost all impact investments are made in traditional corporations. But philanthropist-investors who wish to promote a company's social mission can also invest in benefit corporations or certified B Corporations.

The charters of benefit corporations obligate management to consider interests beyond those of shareholders, including other stakeholders who may be materially affected by the business: workers, customers, suppliers, the communities in which the firm operates, and the environment.

Along similar lines, the nonprofit organization B Lab certifies companies, whether or not chartered as benefit corporations, as “B Corporations” if they meet certain “standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.”⁹⁶

Socially Motivated Investing Takeaways

- ➔ Value-aligned investing refers to owning shares only in companies—whether publicly or privately traded—whose products and activities comport with the investors’ moral or social values or their foundations’ missions.
- ➔ Having impact goes beyond value alignment by enabling an investee company *to do more* of whatever socially beneficial thing it is doing.
- ➔ It is possible to achieve impact through concessionary investments—investments that sacrifice risk-adjusted returns for social or environmental goals. It is also possible, but difficult, to achieve impact through non-concessionary investments in private markets. But it is not possible to achieve impact through investments in public markets.
- ➔ An “impact fund” that is serious about impact is transparent about how and to what extent it is achieving both enterprise and investment impact.

Conclusion



Keeping Track of Your Journey

IN THE INTRODUCTION, we referred to philanthropy as a journey—a journey with both anticipated and unexpected experiences and great opportunities for learning. You will almost surely explore new focus areas and find new opportunities within existing ones. More fundamentally, you will develop new skills, more confidence, and greater courage as a philanthropic traveler. Expeditions that once were unthinkably remote and daunting will seem within reach.

In **Chapter 10 on Making Gifts**, we mentioned some easy ways to keep track of your gifts. Here we suggest that you put your gifts in a broader perspective by keeping a journal of your philanthropic journey, noting things such as:

- What is the current composition of my collection or portfolio of grants with respect to:
 - » focus areas
 - » unforeseen emergencies, opportunities, and requests
 - » size of grant
 - » duration of grants (i.e., multiyear)
 - » geographies covered
 - » innovative initiatives
- Does my giving have some patterns or themes? What strategies can be discerned from my grants? For example, how much of my portfolio can be described in terms of providing support or moving the needle for effective organizations involved in:
 - » direct services
 - » research
 - » policy advocacy
 - » seeking to create social change through shifts in mindset, behavior, and systems

- For the past year, what were the results of my giving? Looking both at individual grants and my portfolios of grants, how do I feel about:
 - » impact (Did I make the world a better place?)
 - » progress toward my intended goals
 - » any unintended positive or negative effects

- What did I learn this year about grantmaking and philanthropy more generally?
 - » What particular moments of joy or satisfaction did I have and why?
 - » What problems have I encountered and why?
 - » What skills or knowledge did I acquire or improve?

- Were there any external changes that might lead me to change direction, expand my reach, or retreat from my giving? Consider:
 - » larger political, economic, health, or environmental trends
 - » new relationships, obligations, or introduction to networks
 - » emerging opportunities to create greater change or experiment in new areas
 - » changes in my personal view of the world

- Going forward, what would I do differently?
 - » Adjust current goals?
 - » Seize new opportunities?
 - » Adjust the mix of my grants to reflect changes in the external environment?
 - » Re-invest in existing organizations, programs, and activities?
 - » Try new approaches or fund new organizations?
 - » Change my grant strategy/structure?

You might consider writing in this journal annually. This will give you an opportunity to reflect on your past giving and consider what, if anything, you would like to do differently in the coming years. Depending on how you would like to involve your family now and in the future, the journal can provide both a record of your work and an opportunity for a family conversation.

Arguments About the Ends and Means of Philanthropy

You are undertaking this journey at a time when philanthropy is the object of scrutiny and criticism and when commentators are moralizing both about which goals you should pursue and how you may pursue them.

Earlier, we mentioned William MacAskill's *Doing Good Better: How Effective Altruism Can Help You Make a Difference* (2015), which like Peter Singer's *The Most Good You Can Do: How Effective Altruism Is Changing Ideas About Living Ethically* (2016) exhorts philanthropists to devote their resources to helping the world's poorest people—most of whom reside in developing countries—and averting global catastrophes such as climate change, nuclear war, and pandemics.

Counterbalancing this are arguments, for example by Alexa Culwell and Heather McLeod Grant in *The Giving Code: Silicon Valley Nonprofits and Philanthropy*, that you should support local community organizations. And, of course, we all have heard persuasive cases for funding universities and other institutions that promote research, the arts, and humanities. It is beyond the scope of this *Guide* to mediate among these positions, all of which have merit.

We do, however, have views about the restrictions that commentators would impose on *how* you pursue your goals. William Schambra,⁹⁷ Bill Somerville,⁹⁸ and, more recently, some social justice advocates⁹⁹ assert that philanthropists should get out of the way and leave funding

decisions to the communities themselves. To the extent that this reflects the importance of listening to the voices of beneficiaries and other stakeholders, we entirely agree. But if it means abdicating choice, it is irresponsible and self-deluding.

We also have views about two broad-ranging critiques of philanthropy: Rob Reich's *Just Giving: Why Philanthropy Is Failing Democracy and How It Can Do Better* and Anand Giridharadas' *Winners Take All: The Elite Charade of Changing the World*, both published in 2018. Reich, a political philosopher and our colleague at Stanford PACS, makes reasoned arguments against the current charitable contributions deduction and the plutocratic power that wealthy donors exercise. He argues for tax policy reform that would replace the deduction with a flat capped tax credit, and he would increase the scrutiny of donors' projects and restrict their scope. Giridharadas, a writer and polemicist, asserts that these same plutocrats support incremental solutions but are unwilling to advocate for significant reforms of the core structures that sustain their wealth and power.

Ironically, Reich and Giridharadas come to the same conclusion about philanthropic support for ongoing social programs, say, to reduce drug addiction, homelessness, or recidivism. Giridharadas dismisses these as Band Aids. Although Reich encourages philanthropists to pilot novel approaches to social problem-solving, he would not allow them to scale successful experiments—say, along the lines of Blue Meridian Partners¹⁰⁰—if governments are unable or unwilling to do so. He argues that deciding which programs to support at which scale is a decision that should be made democratically, not plutocratically.

Also ironically, Reich and Giridharadas end up in the same place about advocacy. Giridharadas' quotation of Audre Lord's insight that "the master's tools will never dismantle the master's house" reflects his understandable skepticism that plutocrats will press for fundamental system change. For his part, Reich prohibits philanthropists from advocating for policy change because their exercise of plutocratic power undermines the value of political equality at the heart of democracy.

The authors of this *Guide* would not remove support for successful programs or advocacy from the philanthropist's toolkit. There are many reasons—ranging from budgetary constraints to indifference to the wellbeing of some groups—that governments may not scale even highly successful programs.

With respect to advocacy, consider the crucial roles that philanthropy has played in the adoption of the Affordable Care Act; obtaining equal treatment of people of color, women, and LGBT people; and the beginnings of criminal justice reform. We appreciate Reich's concerns about plutocratic power. But one cannot view the exercise of this power abstracted from its actual history or independently of other actors in society. Imagine, for example, if philanthropists were prohibited from advocating policies to mitigate climate change, while oil companies were free to continue to use corporate earnings to advocate against such policies.

Philanthropy in the Current Crisis

We are putting the finishing touches on this *Guide* at a time when the world is in the early stages of a global crisis of unprecedented magnitude. No one has been spared from the dire consequences of the COVID-19 pandemic—least of all the world's most vulnerable populations who already are afflicted by poverty, abuse, discrimination, forced migration, and disease.

Many of us feel the imperative to act—but how and where? Among other things, we want to know how best to support our current grantees and beneficiaries, whether to postpone long term philanthropic goals to address immediate problems, and whether to increase our charitable giving even if this requires “borrowing” against future years' philanthropic budgets. We found helpful guidance on some of these and other issues in the Council on Foundations' *Pledge*, which at the time of publication, almost 600 foundations had signed in support.

cof.org/news/call-action-philanthropys-commitment-during-COVID-19

Over the days, weeks, and months ahead, each of our foundations pledges to:

- Loosen or eliminate the restrictions on current grants. This can include: converting project-based grants to unrestricted support; accelerating payment schedules; and not holding grantees responsible if conferences, events, and other project deliverables must be postponed or canceled.
- Make new grants as unrestricted as possible, so nonprofit partners have maximum flexibility to respond to this crisis. We will also support organizations created and led by the communities most affected that we may not fund currently.
- Reduce what we ask of our nonprofit partners, postponing reporting requirements, site visits, and other demands on their time during this challenging period.
- Contribute to community-based emergency response funds and other efforts to address the health and economic impact on those most affected by this pandemic.
- Communicate proactively and regularly about our decision-making and response to provide helpful information while not asking more of grantee partners.
- Commit to listening to our partners and especially to those communities least heard, lifting up their voices and experiences to inform public discourse and our own decision-making so we can act on their feedback. We recognize that the best solutions to the manifold crises caused by COVID-19 are not found within foundations.
- Support, as appropriate, grantee partners advocating for important public policy changes to fight the pandemic and deliver an equitable and just emergency response for all. This may include its economic impact on workers, such as expanded paid sick leave; increasing civic participation; access to affordable health care; and expanded income and rental

assistance. It should also include lending our voices to calls to action led by grantee partners, at their direction and request.

- Learn from these emergency practices and share what they teach us about effective partnership and philanthropic support, so we may consider adjusting our practices more fundamentally in the future, in more stable times, based on all we learn.

Parting Advice

Governments are making valiant efforts to respond to the COVID-19 crisis. But, to quote a recent study, “despite the clear efficiency of investing in preparation rather than response, prevention spending has decreased over the decades—while response spending has increased.”¹⁰¹ While prevention is clearly a government responsibility, the authors note that voters do not reward politicians for prevention measures. But what about philanthropists and their foundations, who do not stand for reelection or reauthorization every few years?¹⁰²

David Callahan, a savvy observer of our sector, notes that “a value-add of philanthropy is that it can pay attention to issues that aren’t on the minds of voters and politicians, and also won’t be addressed by the market. Foundations are supposed to be good at playing the long game to make the world a better place, peering around corners and over the horizon. But that hasn’t happened here, despite decades of warnings that a pandemic would inevitably arrive on America’s doorsteps, with deadly effects.”

There are several important exceptions: both the Open Philanthropy Project and the Gates Foundation have supported work in biosecurity.¹⁰³ But Callahan’s observation is essentially correct. It may be explained in part by philanthropists’ being subject to the same myopia as the general public—after all, being wealthy doesn’t make one less human! Also, prevention calls for philanthropic risk-taking with rewards that are at best

ambiguous. “Success” means that something doesn’t happen or happen so disastrously. Whatever one’s own philanthropic goals, Cari Tuna and Dustin Moskovitz of the Open Philanthropy Project and Bill and Melinda Gates should be celebrated for their foresight.

For readers who lack the strategic resources or risk tolerance to undertake measures like these, there are near-infinite needs in the immediate days and months. Our friend and colleague, Kathy Kwan, describes her family foundation’s values and priorities:

- Be clear about priorities: For us, the immediate focus is on the COVID-19 crisis and associated economic consequences.
- Have a propensity for action: Any help is better than no help.
- Be flexible and reasonable: Don’t expect overwhelming amounts of information, justification, and attention. Many nonprofit leaders are slammed with increased demand for services and/or the need to reconfigure services and core operating processes.
- Work with existing partners and honor prior commitments: Where appropriate offer mid- to long-term options that may help with sustainability.
- Take incremental steps: This situation is beginning to look like a 2- to 3-year marathon. Think about, plan, and execute strategies beginning now and over this period.
- Without being presumptuous, model funding activities in the hopes of encouraging others.

When, in the introduction to this *Guide*, we quoted from a poem about Odysseus’ twenty-year journey, we had no idea that our collective journey would be at least as perilous as his. Even when this immediate crisis is over, its aftermath may well endure that long and the beneficiaries of your philanthropy will need your support more than ever.

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