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# Changing Donor-NGO relations thorough Viable Alternatives to Conventional Grantmaking

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**The Graduate Programs in Sustainable Development**  
**SIT Graduate Institute**

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*Changing Donor-NGO relations thorough Viable Alternatives to Conventional  
Grantmaking*

Submitted by

*Kio Okawa*

*A capstone paper submitted in partial fulfillment of the requirements for the*

Master of Arts Degree

in

Sustainable Development

Academic Adviser: Rachel Slocum

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Student Signature

August 12, 2018

Date

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### Abstract

The purpose of this research is to explore ways in which non-governmental organizations (NGOs) can become more sustainable in light of a crucial challenge facing them today: that of financial instability. In the charitable sector in the U.S, NGOs, especially small-scale NGOs, have struggled with securing daily operating revenue rather than revenue for long-term program operations, in spite of the continuing needs of their beneficiaries (Janus, 2018; Le, 2017; Meehan & Jonker, 2017). Fundraising has come to involve relationships between NGOs and institutional donors such as foundations, government agencies and corporations. Competition among NGOs and rampant power asymmetry between donors and grantees has come to define grantmaking in the neoliberal era (Gilmore, 2016; Janus, 2018; Le, 2017; Meehan & Jonker, 2017; Parks, 2008). Although revenue streams have been diversified through sound alternatives to conventional grantmaking, grant funding nonetheless remains a regular source of funds (Janus, 2018; Le, 2017; Meehan & Jonker, 2017). The objective of this research is to examine the challenges that both NGOs and institutional donors are confronting, and to think about how to establish best practices for both NGOs and donors to enable viable alternatives to conventional grantmaking as well as sustainable donor-NGO relations. Secondary data and literature from leading academics, as well as interviews with NGOs, foundations, social ventures, and academics have led me to conclude that the ideal relationship between institutional donors and NGOs should be co-creation, and ideally mutually beneficial collaborations, rather than typical competitive models (RSF Social Finance, “Shared Gifting,” n.d.). I argue that transformative change in the donor-NGO relationship is possible through three approaches: 1) a paradigm shift from competition to systemic thinking to handle limited resources, 2) grantees’ need-based grantmaking practices, and 3) the right regulations and policies to close loopholes in grantmaking. In the end, all sectors

should recognize their responsibility to play their roles for the public good of their communities (Eisenberg, 2004). This means that it is important that both NGOs' and their institutional donors' priorities do not experience mission creep nor focus on sustainability, but, rather, fulfill their missions in a prompt manner (Gilmore, 2016; Walker, 2017). When NGOs are able to determine the best way to pursue their missions on their own terms (Burton & Barnes, 2017; Le, 2017), and institutional donors, in turn, provide the best support for them with tax exempt money, donor-NGO relations could become unprecedentedly powerful for the charitable sector and social cohesion.

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### **Acronyms and Abbreviations**

DAFs	Donor-Advised Funds
GEO	Grantmakers for Effective Organizations
IRS	the Internal Revenue Service
NCRP	the National Committee for Responsive Philanthropy
NGO	Non-governmental organization

## I. Introduction

NGOs are significant change makers. They try to meet the needs of beneficiaries, yet they are unaccountable players in development (Collins, 2016; Poppendieck, 1998). In the U.S, because of the limited state capacity of social welfare provisions, NGOs have to be able to provide social welfare services and basic needs for their beneficiaries in the country (Collins, 2016; Gilmore, 2016; Poppendieck, 1998). The weak state leads to a huge number of US NGOs: over 371,000, compared to 93,000 private foundations<sup>1</sup>. The expansion of NGOs leads to competition for limited funding sources. Meanwhile, government funding is decreasing (GrantStation, 2018), and foundations increasingly do not send their money to NGOs, instead sheltering their assets (Collins, 2016).

NGOs are increasingly vulnerable to the uncertainty and competition inherent in securing funding that has come to define the neoliberal era of social change financing (Gilmore, 2016; Janus, 2018; Le, 2017; Meehan & Jonker, 2017; Parks, 2008). According to the data from the Stanford Survey on Leadership and Management in the Nonprofit Sector, more than half of over 3,000 respondents struggle with fundraising and 29 percent of nonprofit directors had experienced serious financial difficulty (Meehan & Jonker, 2017, p. 3). Meanwhile, the Spring 2018 State of Grantseeking™ Report by GrantStation revealed that the 4,970 respondents<sup>2</sup> had generally reduced their general operation costs by eliminating staff (54 %) and reliance on volunteer labor (31%), followed by some reduction techniques such as scaled-down projects, and staff salaries. Indeed, NGOs, unless they are well-resourced large transnational NGOs, are in peril in terms of financial sustainability (Janus, 2018; Parks, 2008).

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<sup>1</sup> *Currently Active Charities, Foundations, "Nonprofits": NCCS, 2014-16.* (McCully, 2016)

<sup>2</sup> The median annual budget of respondent organizations was \$575,000 (GrantStation, 2018).



Given the contribution of non-government grant funding to NGOs<sup>3</sup> that promises flexibility and freedom from the rule-laden government funding stream (Gilmore, 2016, p. 4), if the relationship between private foundations and NGOs is transformed to be more applicable to grantmaking practice, it could be an asset in the U.S philanthropic sector. This paper addresses, guided by secondary data and insights from twelve interviews with diverse stakeholders, what transformative change in the donor-NGO relationship looks like. In the first part of the literature review, I will overview current critiques of U.S philanthropy and its role, and the challenges of NGO' grantseeking. Competition inherent in the philanthropic system creates power dynamics between donors and grantees. What is more, the power asymmetry leads to a donor-driven grantmaking system that does not meet NGOs' practical needs (Eisenberg, 2015; Gilmore, 2016; Le, 2017). Further, under the less regulated policy, more and more foundations' assets are being sheltered instead of sent to NGOs (Cantor, 2017; Collins, 2016). I will discuss, in the rest of the literature review, the ways that donor-driven grantmaking practices and less regulated tax policy allow foundations to abuse their power and resources (Cantor, 2017; Collins, 2016; Eisenberg, 2015).

My main findings are as follows: first, I find that the ideal relationship between NGOs and private foundations should be co-creation, with a complementary relationship. That means that both foundations and NGOs should demonstrate the best way to use their resources in the long-term communities that they serve based on a trust-based approach. Second, transformative change in the donor-NGO relationship could be realized if 1) both private foundations and NGOs

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<sup>3</sup> 81% of respondents applied for private foundation funding in the last half of 2017 (GrantStation, 2018). The government funding (state and federal) is excluded from my discussion due to its heterogeneous nature.

shifted their mentality of competition to one of collaboration to handle or deploy limited resources into right places, 2) grantmakers would follow grantees' need-based grantmaking practices, and then 3) the right regulations and policies on tax code and grantmaking requirements were enacted to eliminate loopholes in current grantmaking practices.

Foundations do not always have to be concerned with their own longevity to fulfill their missions (Gilmore, 2016; Walker, 2017). Rather, foundations must redefine their roles and reorganize their grantmaking portfolios in a way that is aligned with NGOs' practices (Collins, 2016; Eisenberg, 2004; Le, 2017) and invest in NGOs (Collins, 2016). NGOs should, in turn, diversify their fundraising strategies by using their earned income, individual donations, corporation findings and so on to create financially sustainable and accountable organizations to work around donor's constraints (Janus, 2018; Mitchell, 2014). While moving the power dynamics away from highly monetized relations towards co-creation, both foundations and NGOs must collaborate across the sector to solve the social causes as soon as possible. Ideally, the sector should call for tax incentives from the government so that it can mobilize more effective philanthropy (Collins, 2016; Eisenberg, 2015). I will show how the research is relevant to the on-going debate about how we might achieve progress with respect to the transformative change that needs to occur in the donor-NGO relationship.

## **II. Methods**

### **A. Approach and Rationale**

As stated, the objective of the research is to identify the path to create financially accountable NGOs and thereby, to create transformative change in the foundation -NGO relationship. The analysis and the generalization of the current state of NGOs' grantseeking, donors' grantmaking and the foundation - NGO relationship in the U.S context is central to this

research. Secondary quantitative data on NGOs' fundraising that has already been gathered by major thinktanks and academic institutions helped me to develop the process to conceptualize the grantmaking and grantseeking practices and challenge. Additionally, my observation at the conference (i.e. 2018 Social Enterprise Conference at Harvard University) and my professional experience as the institutional development intern at my practicum guided the development of my research question and supported further analysis of NGOs' fundraising strategies and current challenges. Above all, because of well-established and resourced quantitative surveys by intermediaries, I used qualitative methods. These consist of key informant and in-depth, semi-structured interviews with diverse stakeholders to delve into further analysis of the challenge in the philanthropic sector and to explore recommendations for transformative changes in the donor-NGO relationship. Although the research mainly focuses on foundations and NGOs, I have incorporated into the discussion diverse perspectives from NGOs, private foundations, social ventures, and academia. This derives from my belief that transformative change in the donor-NGO relationship requires the entire sector's contribution at multiple levels. My desire is to contribute to the on-going debate about how philanthropy can shift from a charity framework to one of co-creation and how the power asymmetry between donors and NGOs can be rectified.

## **B. Setting and Participants**

I conducted twelve in-depth, semi-structured interviews in person and remotely with those from two NGOs in the international development area based in Massachusetts (NGO A and WEEMA International), two private foundations based in California and New York (The Whitman Institute and The Robert Sterling Clark Foundation) and a grant-making organization (Tipping Point Community) based in California, three social ventures (Grantmakers for Effective Organizations (GEO), RSF Social Finance, and FreeWill) and four academics including a writer

who advocates for philanthropic reform, an NGO' fundraising consultant, an expert of Donor-Advised Funds (DAFs), and an expert from the National Committee for Responsive Philanthropy (NCRP). I have used the organizations' names in my discussion only when the participants gave me explicit permission to do so through the consent forms. I do not consider any geographical and gender differences for the identification of the entities and the interviewees. My reasons for choosing these participants are as follows:

First, to assess the strategies for creating financially sustainable and accountable NGOs and the transformative change needed in the donor-NGO relationship, I interviewed two relatively small-scale NGOs, two justice-oriented foundations and one community-based grantmaking organization proactively looking for a more progressive approach. Given my primary objective, large, well-resourced NGOs are excluded from my research.

- **The executive director and the fundraising officer from two small-scale NGOs:** I interviewed them to assess current issues related to fundraising which are facing them today and their strategies for managing their donor relationships.
- **The representatives from two justice-oriented foundations and a community-based grantmaking organization:** I interviewed them to analyze the philanthropist's standpoint on the ideal relations between donors and NGOs and their transformative programs and contributions.

Second, to investigate the alternative approach to conventional grantmaking, I chose three organizations, GEO, RSF Social Finance, and FreeWill, that provide some useful strategies for creating transformative changes in the donor-NGO relationship as well as NGO fundraising.

- **The officer from GEO:** Given the lack of impartial practice in the philanthropic sector, GEO navigates transformative grantmaking in partnership with grantmakers and creates a platform for both grantmakers and grantseekers to discuss how they enable transformational and sustainable relationships. I incorporated both grantmakers' and grantseekers' perspectives into my research through the interview with GEO.
- **The officer from RSF Social Finance:** RSF Social Finance has developed a participatory grantmaking method called "shared gifting circles". The purpose of this interview was to evaluate the usefulness of their strategy as a potential alternative to conventional grantmaking. The model shifts control of grants and power distribution from donors to grantees in a way that allows participants to decide the best use of the funds with collaborative wisdom (RSF Social Finance, "Shared Gifting," n.d.). Unlike traditional competitive philanthropic models, shared gifting circles generate reciprocity among participants through collaborative decision making (RSF Social Finance, "Shared Gifting," n.d.) as can currently be seen in the community effort of Participatory Budgeting (BP).
- **The officer from FreeWill:** Individual donations should be considered as an alternative to grant funding over the next decades. To this end, I chose as a participant FreeWill which is a social venture that encourages individuals to write legal wills for planned giving to ask about

how to introduce a strategy of individual donations into the NGO sector and, in turn, connect donors with NGOs and revitalize the philanthropic sector.

Finally, I incorporated experts' perspectives into my research to gain a comprehensive overview of the philanthropic sector and to make recommendations for philanthropic reform based on both NGOs' and foundations' practices. I chose four experts who considered reform in the philanthropic sector to be imperative. They consist the writer, NCRP, an individual fundraising consultant, and the DAF expert. My process is as follows: first, I chose the writer who proactively calls for philanthropic reform to strengthen the nonprofit sector through extensive articles, publications, and social media posts; second, similar to GEO, I interviewed the officer from NCRP who encourages foundations to employ grantmaking practices that can meet NGOs' practical needs and that have contributed to lifting up the entire sector in the long run; third, I interviewed the individual fundraising consultant who helps NGOs to develop strong and resilient fundraising strategies and salient knowledge on the current philanthropic landscape; and lastly, to investigate the effect of U.S. tax policy on the philanthropic sector and its grantmaking as well as the current performance of foundations' assets sheltering, I interviewed the leading expert on tax policy change and DAFs.

The most important questions were carefully chosen depending on participants' expertise (See Appendix 1: Interview questions).

### **C. Limitations**

The limitation of the analysis is the small sample size of participants within NGOs and foundations. Due to the difficulty in getting interview participants, I was only able to utilize a small sample size, and I was reliant on some specific cases where small-scale organizations have experienced challenges in securing funding. I made up for the limited scope of generalization by utilizing secondary quantitative surveys. Additionally, I asked the same interview questions to some experts and organizations who have a deep understanding of current nonprofits fundraising (e.g. GEO, NCRP, and the individual fundraising consultant) in order to supplement the sample size.

Other challenges to semi-structured interviews were reliance on online tools such as Skype, Zoom and Google Hangouts, which caused some technology issues. This, along with time constraints and language issues, reduced the interview time available. These issues may degrade the quality of the interviews and the validity of the conclusions.

### **III. A critique of U.S philanthropy**

The wealth that the U.S philanthropy sector has is derived from the relationship between economic and political power (Collins, 2016; Eisenberg, 2005). U.S. philanthropists, who are in the top 1 to 5 percent of global wealth holders, are part of a system of wealth creation that has been politically enabled in this country (Collins, 2016, p. 3; Eisenberg, 2005). They have a lot of capacity to affect what gets supported and what does not in terms of public investment, in the country and beyond (Collins, 2016; Eisenberg, 2005). Thus, an analysis of power dynamics happening in the philanthropic sector is the starting point for seeking transformative philanthropy (the National Committee for Responsive Philanthropy [NCRP], 2018). The review of the literature introduces the discourse of charitable power as the conceptual framework. Then, it

discusses how power dynamics such as power asymmetry between grantmakers and grantseekers and the logic of the vicious circle in grantmaking are widespread problems in the nonprofit sector. In the first section, the theoretical underpinnings for analysis, the critique discusses the disposition of charitable capitalism inherent to the philanthropic system. For instance, the review refers to how philanthropists hold power, affect decision-making politically and economically for public good, and abuse their power by sheltering assets, avoiding taxes, and prioritizing own interests (Collins, 2016; Gilmore, 2016). In the second section, I argue that competition in charitable capitalism creates power asymmetry between grantmakers and grantseekers, thereby causing NGOs to have to confront serious challenges in terms of NGO sustainability (Mitchell, 2014; Parks, 2008). In the third section, I explain donor-driven grantmaking practices that are not aligned with practical needs in NGO grantseeking (Eisenberg, 2004; Le, 2017). In the fourth section, the review discusses the issue of the U.S. tax policy around foundations' grantmaking, that was made by wealth for wealth (Collins, 2016). It also notes that policy and regulations do not match reality in grantmaking practices (Collins, 2016). Before moving to the discussion of the findings, the summary explains how important it is for both foundations and NGOs to redefine their roles, and how they should mobilize the movement for transformative change in the donor-NGO relationship (Eisenberg, 2004). The transformation must include power shifting, grantmaking practices, and policy making.

#### **A. Reimagining Power Relations and the Role of Philanthropy in the Nonprofit Sector**

The nonprofit sector is a key driver for development and peace building, yet, unlike state governments, they are unaccountable agents (Collins, 2016; Poppendieck, 1998). Governments are responsible for investing public infrastructure and social welfare services through expenditure of tax income (Collins, 2016). The governments of industrialized countries in Asia



and Europe have promoted the healthy and resilient economies by meeting the needs for public investment in health and education to promote social mobility, not just for the privileged but for the rest of the population (Collins, 2016, p.98). In the U.S., however, the nonprofit sector has to be a social service provider to complement public investment, due to the weak social welfare state. This is because U.S politicians have imposed certain ideologies that judge social welfare provisions to be impediments to state stability (Collins, 2016; Eisenberg, 2005; Gilmore, 2016; Poppendieck, 1998). Thus, philanthropists have a large impact in terms of public funding (Collins, 2016; Eisenberg, 2004). Additionally, US philanthropy does not merely influence domestic matters (Foundation Center, 2014). Although most foundations in the U.S focus on local community grantmaking, the number of foundations that engage in international grantmaking continues to grow and, indeed, the largest foundations invested in international developments by spending almost 27 percent of their grant dollars on it in 2012 (Foundation Center, 2014, p. 6).

From a policy angle, foundations are criticized as “warehouse[s] of two-tier wealth,” due to A) tax deductions and (B) the use of their charitable investments to shelter assets (Collins, 2016, pp. 106-107; Gilmore, 2016, p. 4). This is also called the “Charitable Industrial Complex” (Collins, 2016, pp. 106-107). First, philanthropy can be criticized for siphoning money from the public sector (Collins, 2016; Gilmore, 2016). Foundations and big endowments immensely benefit from tax deductions (Brownstein, 2016; Collins, 2016; Gilmore, 2016). Even though they are significant players in development, none of them invest in public infrastructure such as highways, rail systems, public schools, etc. Their priorities are, instead, civic infrastructure funding for projects like hospitals, libraries, museums, university facilities, etc. (Collins, 2016; Gilmore, 2016). In fact, the top three recipients of charitable dollars by individuals and

foundations are religious organizations, large well-established academic institutions, and human services such as hospitals and arts organizations (Collins, 2016, p. 107; Eisenberg, 2015; Gilmore, 2016; University of San Francisco, n.d.). Organizations that meet the needs of underserved populations were only awarded approximately 3 to 5 percent of total charitable dollars (Collins, 2016, p. 107; Eisenberg, 2015). It can be argued that this income should have been spent on public investments that mobilize public infrastructure as well as social development such as public education and health care (Collins, 2016; Eisenberg, 2005, p. 3). Though charitable donation rose to 2.5 percent of GDP in 2016 from 1.5 percent in 1995, infrastructure funding on the part of the U.S government has decreased from 3 percent of GDP in 1962 to 1.6 percent in 2016 (Collins, 2016, p. 120). As a matter of fact, the American Society of Civil Engineers reported that the U.S. needs to invest the \$3.6 trillion to infrastructure maintenance by 2020 (Collins, 2016, p. 120). The data clearly implies that the current philanthropy has no capacity or will to accommodate such a deep and long-term investment. “Philanthropy is not going to be a replacement for effective government at the local, state, regional, national, and global level (Collins, 2016, p 120)”.

The second criticism of foundations is assets sheltering (Cantor, 2017; Collins, 2016; Gilmore, 2016). Almost \$ 600 billion is sitting in foundations rather than being distributed for charitable purposes, even more in DAFs such as Fidelity Charitable that is the country’s largest fund-raising charity (Cantor, 2017; Collins, 2016, p. 107; Hurtubise, 2017). Foundations are required to give away 5 % of their net assets under the U.S tax law (Collins, 2016; Eisenberg, 2015). Yet traditional philanthropy stays in the safest zone where most of the large foundations spend only the minimum 5% and never have been forced to surpass it (Collins, 2016, p. 109; Eisenberg, 2015). Since the payout requirement under the current regulation by the Internal

Revenue Service (IRS) includes overhead expenses such as all staff expenses, trustee fees, public related investments, offices and other administrative expenses, the foundations' annual payout in grants to NGOs has lagged behind sheltering assets and increasing administrative costs (Collins, 2016, pp. 123-125; Eisenberg, 2015). The last section in the literature review addresses in detail the issue of less regulated policies and laws, especially around DAFs' performance.

It is challenging to work towards common wealth for the public good, ultimately enabling private wealth (Collins, 2016). Especially in the U.S., because of the political dysfunction and ineffective government, the wealthy withdraw from public investment even though common wealth builds a basis for their wealth and ensures the stabilization of their successes (Collins, 2016). These different priorities and investments call into question the role of foundations engaged in public fundraising for tax-deductible donations. These roles should be redefined, perhaps, emphasizing players who use their tax-exempt money in the best way that accommodates NGOs' and their beneficiaries' requests in a meaningful and reflective manner. Grant funding donations tied to foundations' wealth or even tax avoidance strategies are not aligned with their mission (Collins, 2016). As the charity industry happens outside the incentive framework of a government-created tax system, foundations should not perpetuate themselves, but rather should pay out with higher rates, or even spend out, or at least contribute to tax payments (Collins, 2016; Eisenberg, 2015; Gilmore, 2016). Piketty argues that concentration of wealth creates economic division that causes the crisis of democracy associated with unequal access to political voice and the influence of private money as we can see it in U.S. politics right now (Piketty, 2014). Because a few massively wealthy people and public officials are making important decisions to what social cause are worth investing in, essentially what's best for society, they should be responsible for a fair revenue system and proper spending (Collins, 2016,

p. 150). “Privilege with wealth, power, and prestige entails responsibility (Feuerherd, 2017; Oxford Dictionaries, n.d.)”. In the name of “Noblesse Oblige,” foundations that have incredible privilege in terms of decision-making and generosity must be balanced in their duty towards those who lack such privilege - the rest of population – and those who cannot perform such duties – the government. As a starting point, foundations have to demonstrate their responsibility and ensure equity in a way that promises the accessibility of grant funding to all NGOs that seek grants in return for their tax benefits (Brownstein, 2016; Eisenberg, 2015). Although foundations can provide support for the public good and prosperity through grant funding or for NGOs, at least, they should fund NGOs for their advocacy works in making the government strong (Eisenberg, 2004). As states have weakened power, providing services to the social sector is not enough to address social issues like poverty, racism, environmental degradation, etc. (Eisenberg, 2004). The social sector needs to work for a strong public policy and advocacy (Eisenberg, 2004). To do this, philanthropic reform is necessary, as is pushing foundations to promote the support for the NGOs’ advocacy works (Eisenberg, 2004).

## **B. The Challenges in NGO Grantseeking**

The current NGO grantseeking discourse is entangled in “the Non-Profit Industrial Complex” (Gilmore, 2016). The challenges of NGOs’ grantseeking is becoming worse within certain portfolios of “the Non-Profit Industrial Complex,” due to 1) the resource scarcity that comes from economic dependencies, and 2) the mindset created by conventional philanthropic forms (Gilmore, 2016).

First, fundraising itself is the hardest work for NGOs, whether they are well-established transnational NGOs or not (Janus, 2018). Inadequate resource acquisition hinders them in accomplishing their missions and as a practical matter, managing day-to day finance operation

becomes their primary worry (Janus, 2018; Mitchell, 2014). What makes their fundraising daunting is that “competition is expanding, yet, funding sources are shrinking” (GrantStation, 2018). Due to urgent and cumulative needs for social services, an increasing number of NGOs are seeking finite resources that relatively few foundations can afford. There are now more than 1.5 million active nonprofits (501(c)(3) organizations) in the U.S in aggregate, and of these, there are over 371,000 NGOs compared to 93,000 private foundations (McCully, 2016). In the NGOs’ resource dependence landscape, the research shows that almost half of organizations below \$ 500,000 in annual revenue (52 %) rely on grant funding for the greater portion of their budget; on the other hand, individual donors account for about 20 % (Janus, 2018, p. 121). Although largest source of total grants is private foundations (75%) (GrantStation, 2018), the asset sheltering that foundations do, as explained above, exaggerates the resource scarcity and the competition among NGOs (Cantors, 2017; Collins, 2016).

The second problem concerns the other dimensions of resource scarcity, which are seen from the structural inequality within foundations’ grantmaking practices. In fact, nearly half of grant funding is only sent to the top 1 percent of grantees (Foundation Center, 2014, p. 4). These larger, well-resourced NGOs attract philanthropic capital as they have already solidified their relationship with those allocating resources (Janus, 2018, p.121). Gaining access and securing large donations is a vital challenge; more specifically, building personal relationships with donors is one of the hardest aspects of fundraising (Janus, 2018, p.121). Small-scale NGOs headed by young social entrepreneurs, women, and people of color who generally do not have such invisible capital have particularly difficult time (Janus, 2018, p. 132).

The third aspect of the shortage of resources facing NGOs is the lack of organizational capacity, and especially the lack of the talent (Eisenberg, 2004). In practice, the lack of time and

staff is always the greatest challenge for grantseeking. Foundations' reluctance to fund general operations creates a sense of disconnection between NGOs and their funders and even the community in general (GrantStation, 2018, p. 43). Because of low compensation and few opportunities, NGOs are rarely able to gain and retain the services of talented workers who have sophisticated expertise in finance and administration, in spite of the fact that a lot of educated graduates and professionals have high hopes and aspirations to work in the development sector. In the long run, the absence of talent and leadership is the most serious threat to the future of the nonprofit sector (Eisenberg, 2004).

Another significant aspect of "the Non-Profit Industrial Complex" is that conventional philanthropic forms indeed have changed NGOs' and their donors' norms inside the nonprofit sector (Gilmore, 2016). Both the military and the prison industrial complex have guided people's understanding of those sectors in a certain direction, the same logic has inside the philanthropic world (Gilmore, 2016). NGOs cannot move from a subordinate position" because resources are a basis of power" ("Resource dependence theory (RDT)", n.d.) and "power is relational, situational and potentially mutual" ("RDT", n.d.). Competition for scarce resources and NGOs' dependence on their donors results in power asymmetry between NGOs and donors (Mitchell, 2014; Parks, 2008). In the nonprofit sector, RDT is well proven: NGOs' external resources affect their behavior. Power asymmetry has placed constraints on NGOs in exchange for financial security. For instance, donor preferences have been inevitably prioritized over NGOs' missions (Mitchell, 2014; Parks, 2008). Hence, to overcome dependencies on their donors, and institutionalize an organizational autonomy and legitimacy, marketization strategies such as the earned income in fundraising are have become popular in recent years (Janus, 2018; Meehan & Jonker, 2017; Mitchell, 2014) even though this causes degradation in service quality ("RDT", n.d.).

NGOs' professionalization is another example of fixed norms along with conventional philanthropic forms (Gilmore, 2016; Nagar & Saraswati, 2003). NGOs initially emerged as a "shadow state" to be an alternative to the state in providing direct social services in the New Deal era (Poppendieck, 1998). Since then, they have entered the contemporary political economy and consequently have been professionalized in their relationship with governments and donors (Gilmore, 2016; Nagar & Saraswati, 2003). The competency needed in the sector is great in certain development works. People are needed with years of expertise and preexisting funding connections, as staff training is cost-ineffective in the sector. Now that many foundations and other funders are urging NGOs to employ resilient grant management strategies such as earned income to become financially self-sufficient and sustainable (Janus, 2018, p. 94), further professionalization in the sector has been fortified. This has also led to the rise of the commercialization of NGO sustainability and their management by business schools and experts (Gilmore, 2016).

More importantly, there is another effect that comes from power asymmetry and the competition: NGOs' negative perceptions of funder relationship building (Gilmore, 2016; Eisenberg, 2004). For instance, at the 2018 Social Enterprise Conference, I observed some experts and participants express their negative attitude to current philanthropic landscape: they said that "philanthropy is broken," and spoke of the need "go to the individual donors". This "poverty" mentality, and "mission impossible" attitude about donor-driven grantmaking practice show that there is a widespread feeling that it is necessary to give up the idea of transforming the donor-NGOs relationship (Gilmore, 2016, p. 4). Power asymmetry has not just been normalized, but already naturalized (Gilmore, 2016, p. 2). As such, the lack of courage and NGOs' negative

perceptions cause the donor-NGO relationship to remain “subordinate instruments rather than partners” (Mitchell, 2014, p. 71).

NGOs are desperate to survive in the Non-Profit Industrial Complex, fighting against resource scarcity and conventional norms. This makes their fundraising difficult. The more they give up on relationship-building with their donors, the more the power asymmetry is reinforced. This is the logic of the cycle facing NGOs. Overall, a comprehensive assessment and redefinition of the donor-NGO relationship is necessary to effect change (Eisenberg, 2004). The next section explains how power asymmetry affects the foundations’ grantmaking from both angles: its practice and its law/policy.

### **C. Further Problems: Lack of Realism in Grantmaking and Misaligned Grantmaking Practices**

Power symmetry between donors and their grantees has driven foundations’ unbalanced grantmaking procedures. The parameters that foundations have set for their grants does not align with NGOs’ practical realities (Eisenberg, 2015; Le, 2017). Small-scale NGOs which rely on institutional donors for their income have been faced with the same difficulties: wherein a fundraising team with an insufficient staff devotes copious amounts of time to securing multiple funding sources and preparing grant applications. These grants are unlikely to be secured (Brownstein, 2016). If NGOs are fortunate enough to be invited to submit a grant, it is a long process to get funds - or in many cases to only get some portion of the grants they requested (Brownstein, 2016). Although fundraising staff works collaboratively with foundations’ grant officers in support of their grant submissions, this relationship has not been a long-term or comprehensive approach that embraces NGOs’ particular missions and perspectives. Now that numerous small NGOs which pursue the same development strategies as their peers have



emerged, they must struggle with adapting to new volatility in the social-sector market, in which they need to be innovative and pursue new ideas, projects, and approaches to attract the attention of benefactors (Parks, 2008). NGOs need to respond strategically to external realities regarding income and market needs (Hailey, 2014), and at the same time they must also fulfill donors' priorities and interests over their own core missions (Mitchell, 2014). This is the story that I have witnessed during my research, and this state of affairs is not acceptable to those who dedicate their energy to the most important social causes. NGOs should spend more energy for positive impact instead of being drained just to sustain themselves (Janus, 2018, Introduction p. xiv).

Donor-driven grantmaking stems from foundations' preference to award grants based on a top-down approach. Specifically, their grantmaking approach is rooted in their unwillingness to establish long-term partnerships with their grantees. Therefore, their grantmaking is limited to one-time and temporary measures, this prevents them from making long-term commitments leading to real impact on their communities and social causes (Le, 2017). Donor-driven grantmaking is categorized into some patterns, which are 1) the inequality in access to grants, 2) the avoidance of risk-taking, 3) the obsession with immediate impact, and lastly 4) non-streamlined processes.

First, unequal access to donors is the biggest impediment in the sector. It is worth emphasizing the importance of equal accessibility to grant funding because "equity" is an important lever that could disrupt foundations' current grantmaking practices (Eisenberg, 2005; NCRP, 2018). For instance, many funding opportunities, such as solicited funds, are invitation-only, excluding many otherwise qualified organizations (Brownstein, 2016; Eisenberg, 2015; Le, 2017). According to the data from Foundation Center, seventy-two percent of 96,000 foundations in the U.S had not received unsolicited proposals from NGOs (Eisenberg, 2015). This clearly

indicates that small-scale NGOs are isolated from substantive engagement with larger foundations. Even though some sophisticated philanthropists strive to fund grassroots organizations headed by women, and people of color, and from structurally oppressed communities (Janus, 2018), the reality is that white-led organizations are the biggest recipients, claiming an estimated 95 percent of the \$60 billion per year awarded by foundations (Daniel, 2017). This structural inequality closes the door to smaller nonprofits and allows institutional donors to perpetuate inequality. To combat this, legislation or regulations for foundations with larger assets requiring acceptance of unsolicited proposals could be codified (Brownstein, 2016; Eisenberg, 2015) or tax deductions for foundations who fail to consider unsolicited proposals could be reduced (Eisenberg, 2015). Big foundations should be able to manage large amounts of unsolicited proposals given their abundant resources and internal systems that distribute the timing of unsolicited proposals (such as rules that limit proposals to once every three years) (Brownstein, 2016).

The second issue concerning foundations' grantmaking practices is the tendency to avoid risk-taking (Eisenberg, 2004; Le, 2017). In general, due to conflict of interest, most foundations are not willing to support grants for NGOs' more radical works, and especially not for their advocacy and testing (Eisenberg, 2015; Janus, 2018). This reluctance to support advocacy work ultimately deprives NGOs of the ability to address sensitive issues and challenge social structures with their own critical lenses (Nagar and Raju, 2003). It also damages their links to local communities and prevents them from addressing the needs of the world's marginalized people (Ilon, 2008). As aid from government agencies is usually tied to state affairs, foundations or corporations, in contrast, should back up NGOs' advocacy work as an alternative to the public sector. In addition, the lack of trust in the donor-NGO relationship results in one-time restricted

grantmaking, that sacrifices NGOs' ability to enhance predictability in a way that would lead to long-term success (Janus, 2018, p. 3). Foundations' project-driven portfolios only provide small portion of grants for NGOs' short-term initiatives (Gilmore, 2016; Parks, 2008). Despite the fact that nearly \$ 390 billion contributions were generated by individuals and foundations in the U.S. in 2016 (Giving USA, 2017), most of this money flowed to a small portion of nonprofit startups and individual programs. Foundation grants accounted for only \$ 35,000 per program on average (Roob, 2017). This avoidance of risk-taking steers NGOs away from novel ideas, emphasizes support work over advocacy, and disincentives long-term approaches (Gilmore, 2016; Le, 2017).

Third, foundations have a strong preference for systemic change, policy change, and quantifiable short-term impact on their concerns (Mitchell, 2014; Le, 2017). Their obsession with the impact factor sets forth the narrowly translated parameters in foundations' project-driven portfolio and in fact, "effectiveness" and "sustainability" are some of the parameters that white-led foundations have favored (Gilmore, 2016; Le, 2017). Thus, their funds tend to go to the few well-resourced NGOs or unique startups and most grants from institutional donors are restricted to supporting projects rather than core operations (Gilmore, 2016; Janus, 2018). The latest report by GrantStation reveals that the largest type of support by foundations was project or program support (40%) compared to general operation support (18%) (GrantStation, 2018). Although foundations have an awareness of the idea of unrestricted funding, they have not made reforms based on that awareness. Unrestricted funding makes it possible for NGOs to expand their capacity to invest in resources such as staff development, provide just salaries, and make inroads in challenging new fields. At the very least, it allows them to secure sufficient numbers of grant writers to manage funding requirements, proposals, and reports. The bottom line is that foundations' short-term-focused philosophy discourages NGOs from taking risks, pursuing new

challenges, or enhancing organizational capacity (Le, 2017), and in turn, undermines the credibility and influence of NGOs as well, especially advocacy NGOs (Parks, 2008).

Finally, the funding stream for institutional donors is not a streamlined process. It requires recipients to complete an inordinate amount of paper-work, burdening organizations' capacity (Brownstein, 2016; Gilmore, 2016; Le, 2017). A lengthy grant application asks NGOs to fill out repetitive information such as organizational and budget information year after year (GrantStation, 2018). Of this information, the budget checking is the most insulting because it excludes under-resourced NGOs in a visible manner. Though foundations' grant-cycle length from proposal submission to award decision is more streamlined than that of governments, ascertaining the areas with the most potential, so as to award them funds, remains a long process. Moreover, their grantmaking decision is not transparent either formally or informally. Their short-term-focused grantmaking practice and the lack of trust in their grantees result in the burden or the redundancy for NGOs' grantseeking.

“Philanthropy must be shifted from charity to justice” (Burton & Barnes, 2017, p. 1). For philanthropists to move forward from charity to a justice framework, foundations must treat their grantees and beneficiaries as equal partners. Most importantly, they must respect the voices of the people most affected by injustice (Burton & Barnes, 2017; Le, 2017). The lack of democratic practices in the philanthropic sector has kept NGOs from devoting their energies to core activities and objectives and is unlikely change unless foundations transform their philanthropic strategies and shift power to NGOs (Eisenberg, 2004). From the beginning, foundations must trust NGOs as equal partners so that they can inevitably change self-oriented and unbalanced grantmaking procedures in a meaningful and reflective manner through their actions. These includes: 1) ensuring equal access to grants by accepting unsolicited proposals and excluding

racial biases, 2) risk-taking including support for NGOs' advocacy works and testing of new projects and multiyear grants, 3) excluding foundations' stifling philosophies and preferences to promote NGOs' autonomy and instead, providing general operation support, ideally with nonfinancial support such as proactive consultancy, and then 4) creating streamlined processes in grantmaking cycles that is simpler and shorter and transparent in terms of grant decision-making.

Meanwhile, NGOs must consider donor education and transformative pressure on foundations (Collins, 2016; Eisenberg, 2004; Le, 2017; Mitchells, 2014). One impetus for the transformative change in the donor-NGO relationship is the accommodating attitude and the lack of courage on the part of NGOs as discussed above as one of the challenges of NGO grantseeking. In addition to effects on the philanthropic side, NGOs should stand up to call for the reform of the philanthropic sector (Eisenberg, 2004). If NGOs are willing to change their approach, grantees can be partners.

#### **D. The Impact of U.S. Tax Law Policy**

Power asymmetry between grantmakers and grantees and the logic of the vicious circle do not only affect donor-driven grantmaking practice but also current tax policy as well as the IRS's oversight mechanism (Eisenberg, 2015). "Current U.S. tax law is fundamentally made by wealth for wealth (Collins, 2016)" and does not match reality in grantmaking practices that foundations should employ. Five main problems with foundations' grantmaking under the current U.S. tax law mechanism are happening through the charitable industrial complex.

First, most foundations considered the 5 % minimum payout rate to be the ceiling of their distribution for charitable purposes (Collins, 2016; Eisenberg, 2004) and instead, their preliminary concern is how the other 95 % is deployed. They want to realize financial returns that enable their charitable giving over the course of the year or impact investment (Jurgens,

2017). Second, foundations' overhead costs are counted in the annual payout requirement; thus, the actual amount given to NGOs is much less than 5 % of their assets (Collins, 2016). Third, because of the lack of regulations, foundations can choose any charitable giving purpose, whether it be NGOs serving underprivileged communities or large, well-resourced educational institutions, hospitals, or theaters that might enable foundations' financial returns (Collins, 2016; Gilmore, 2016). Fourth, asset sheltering of foundations, specifically DAFs, is quite conspicuous (Collins, 2016). DAFs rise in popularity in the U.S. provides donors with the most effective way to give: the donors can get an immediate tax deduction and donate anonymously by opening the DAFs' account and paying the fees (Cantor, 2017). In fact, Massachusetts-based Fidelity Charitable, launched by Fidelity Investments in 1992 as a DAF sponsor, is the top fund-raising charity in the country today and other DAF sponsors such as Schwab Fund and Vanguard Charitable have followed their lead to attract charitable giving to DAFs (Cantor, 2017; Collins, 2016, p. 107). The biggest criticism of DAFs is the fact that there is no transparency in terms of where their grant dollars go and no payout requirement under the U.S tax law (Cantor, 2017). Compared with private foundations, whose data is open to the public as a 990 form, and who are mandated to give 5 % of their assets a year, DAFs are, by contrast, less regulated (Cantor, 2017). Furthermore, as in the case of private foundations, educational and religious nonprofits tend to receive grants from DAFs (Giving USA, 2018). The distribution rate from DAFs is relatively low given their growing assets (Holland, 2014, p. 3), which amounted to \$85 billion and increased by 9.7 % in 2016 compared with those of the previous year, and it has been decreasing every year (Holland, 2014, p. 3). Because most DAFs were launched by Wall Street firms, the profit model that DAFs employ in the form of account and administrative fees has further accelerated wealth accumulation (Cantor, 2017; Holland, 2014). Unless the federal government

enacts new laws or sets guidelines or legal parameters to regulate DAFs' performance, asset sheltering by private foundations as well as DAFs will only increase and negatively impact the philanthropic landscape (Cantor, 2017; Collins, 2016). The last issue can be seen in successful tax avoidance schemes. Foundations have sent their grants to DAFs to meet the 5 % payout requirement while not specifying where the grants are sent officially (Cantor, 2017). Because "DAFs are categorized into sponsoring organizations that are maintained and operated by a section 501(c)(3) organization (IRS, n.d.)," grants are eligible as charitable write-offs, thereby giving a good excuse for tax avoidance to foundations (Cantor, 2017).

So what needs to be done? Overall, in addition to the reform of foundations' grantmaking practices discussed in the previous section, law enforcement such as tax policy reform is necessary to rectify the power imbalance and lift the entire sector. This would be more realistic because forcing foundations to change their charity framework through NGOs' effort is not feasible due to the power imbalance between grantmakers and grantees (Interview with NCRP; the individual fundraising consultant; the writer). I will give suggestions on this point in the discussion of findings.

## **E. Summary**

Grantmakers must rethink and redefine their roles, taking into account how to use their power and resources in the most effective and beneficial ways to bring lasting positive impact to the communities that they serve. This mindset could transform power relations between foundations and NGOs, and lead to appropriate grantmaking practices and just policies. The donor-driven system and dysfunction in the philanthropic sector will never be fixed unless unbalanced power relations between grantmakers and grantseekers is transformed. To this end, power analysis examining who holds power, how the power works, and where the power can be

forged in the nonprofit sector is the starting point because foundations have not recognized their own power, their privilege in relation to their grantees, and their responsibility and potential to rebuild their system for common wealth (Collins, 2016; NCRP, 2018). Only when they recognize their power can they truly address and advance equality (NCRP, 2018, p. 3).

In the meantime, if “power is the ability to change the rules” (NCRP, 2018, p. 3), grantmakers must be leading players in mobilizing a powerful movement for the transformative change in the donor-NGO relationship. The movement should tell a “we did it together story” (Collins, 2015, p. 48) in a way that includes both foundations and NGOs. Beyond the sector, we must analyze how power works and demonstrate how to mobilize this power with practical examples from the macro-scale, policy and law, and the micro-scale, creating community wealth. The biggest challenge is that transformative movements never happens without making a claim on those who hold power (Collins, 2016; Eisenberg, 2004, Le, 2017). As Douglass states, “power concedes nothing without a demand. It never did, and it never will” (Douglass as cited in Collins, 2016, p. 18). Thus, leadership and transformative pressure by foundations, NGOs, and others is necessary to start a debate on a national scale (Collins, 2016; Eisenberg, 2004).

That said, transformative philanthropy is not hopelessly crippled, because the generosity, compassion, and humility that make charity possible still exists in peoples’ hearts. Our society rejoices in our generosity and over the power of gifts (Collins, 2015, p. 106, Eisenberg, 2004). Fortunately, there are is an enduring generous industry and strong civil society in the U.S. where most of large international NGOs’ head offices are based. Moreover, given the fact that massive wealth transfer is coming in the next decade, the movement for transformative philanthropy could be the intersection of personal and systemic change, and perhaps, must happen at both the individual and system’s level. This generous industry should, however, exist for social good, not



through the “charitable industrial complex” or loophole in the U.S. tax law (Collins, 2015). All of this could pave a positive way forward for the movement. Once the trajectory of transformative change in the donor-NGO relationship is demonstrated, more and more stakeholders will consider working to build a more powerful movement. We must answer the question of how they will make and tell such a story.

## **V. Discussion**

To ensure financially sustainable NGOs, the paper seeks to understand what transformative change in the donor-NGO relationship could look like. I argued, in the literature review, that U.S philanthropy is situated in relations of power, and I showed how charitable capitalism, donor-driven grantmaking, and less-regulated tax policy affect NGOs’ sustainability issues. Even though foundations have a tremendous influence on public decision making and therefore, have a responsibility for social goods, they have not acted sufficiently in their role of supporting NGOs’ most important work. In the findings, I make a recommendation for what both foundations and NGOs need to do to solve these issues and transform power dynamics in this competitive field.

Based on my analysis of participants’ interviews and secondary data, first, I find that both NGOs and private foundations believe that the ideal relationship between them should be one of co-creation. They believe in the importance of complementary relationships, moving beyond power asymmetry, competition, and the lack of trust and inequity embedded in the philanthropic sector. Figure 1 indicates the ideal relationship for both NGOs and private foundations, following these in-depth interviews.

**Figure 1: The Ideal Relationship between NGOs and Private Foundations/ Grant-Making Organizations**

NGOs	Private foundations/ Grant-making organizations
<ol style="list-style-type: none"> <li>1. Trust (e.g. a trust of judgment)</li> <li>2. Respect (e.g. a gratefulness of NGOs' works)</li> <li>3. Equal partners/peers</li> <li>4. Co-create/design (e.g. sharing mistakes/successes)</li> <li>5. Complimentary relationship</li> <li>6. Long-term relationship</li> <li>7. Mission alignment</li> <li>8. DON'T make assumption</li> </ol>	<ol style="list-style-type: none"> <li>1. Trust building</li> <li>2. More than check writers (the place for the support)</li> <li>3. Mutual learning (e.g. sharing successes, challenges, values, empathy, curiosity, mutual respect, &amp; impact)</li> <li>4. Complementary relationship</li> <li>5. Interdependence</li> <li>6. Mission alignment</li> <li>7. A deep understanding of issues/landscapes</li> </ol>

Both foundations and NGOs want the power dynamics to consist of complementary partnerships through mutual learning (e.g. sharing successes, mistakes, challenges, values, empathy, curiosity, mutual respect, impact, etc.) and trust-building based on mission alignment. “We [NGOs] have the cards and know the destination but if we don't have gasoline [which foundations have], we never get there” (interview with NGO A). “We [foundations] see grantees as partners. In terms of decision making, we try to do participatory grantmaking” (interview with The Whitman Institute).

In order to realize the ideal relationship between NGOs and foundations, foundations must redefine their roles, take responsibility, and shift power dynamics to those of equal relationships. Again, importantly, the starting point for private foundations is to consider “how to translate the best way to use their tax-exempt money into the communities that they serve in the long run” (interview with GEO; the individual fundraising consultant). “Foundations should not make an assumption as to what NGOs need” (interview with GEO). To this end, both private foundations and NGOs must analyze power in a way that looks at the concept of power, their power dynamic, and their resources from different angles (interview with NCRP; The Whitman Institute). “They [NGOs] have more power because, without their great works, we [foundations]

could not achieve our goals. This is looking at power in a different way. With this, it's not who to make a decision to fund, but mutual learning and recognition of the value of moving forward" (interview with The Whitman Institute).

Seeing power dynamics from a different angle could ultimately change philanthropic systems ranging from foundations' grant making practices to tax policy and beyond. The sector could be lifted up to become more innovative and thus able to deal with larger issues. The biggest challenge to dismantling power imbalance is to grapple with foundations' power and privilege, and more specifically with their trustees (interview with NCRP). "As the trustees have a huge power and influence as foundations do, GEO and NCRP can have no intervention". Both Internally and externally, it is crucial for foundations to be conscious about how they reinforce the dominant culture and to make explicit that they have the power and understand how to use it (interview with NCRP).

Further, while redefining the concept of power, transformative change in the donor-NGO relationship, I argue, necessitates these three approaches as viable alternatives to conventional grantmaking; 1) systemic thinking to handle limited resources, 2) a trust-based approach which is seen in grantees' need-based grantmaking practices, 3) law enforcement such as the right regulations and policies to guard against loopholes in current grantmaking practices.

#### **A. A Paradigm Shift in Systemic Thinking: Beyond Competition**

Systemic thinking means making paradigm shifts and strategic realignments to handle limited resources, and more specifically to utilize strategies for efficient allocation of resources (interview with the individual fundraising consultant). A systemic approach is a good idea because the competition is severe, and resources are limited. This is especially the case for small-scale NGOs: getting money is hard because foundations favor systematic change and policy

change (interview with the individual fundraising consultant). “The problem is not how to deliver grants nor to bolster resources and scale-up. The problem is the grants itself. How do you get new grants from where the number of potential philanthropists is so small?” (interview with the individual fundraising consultant). Thus, to overcome competition and encourage power shifting, both foundations and NGOs should employ a number of systemic approaches to handle limited resources: 1) transformative partnership building, 2) collaboration (Collaborative Grantseeking/Collective Funding), 3) community organizing on the part of foundations, and 4) alternative strategies for fundraising on the part of NGOs.

### **1) Transformative partnership building**

First, both foundations and NGOs can build networks to help them start to work together as teams (interview with the individual fundraising consultant). The best thing they can do is to provide mutual introductions: foundations introduce NGOs to other funders and NGOs introduce foundations to other grantees (interview with the individual fundraising consultant; see Appendix 2: Principals of Trust-Based Philanthropy). The findings reveal that the main challenges facing NGOs in fundraising relationships with private foundations are a lack of organizational capacity and access to funders, difficulties with funder relationship building, and a lack of organizational mobility. Of these, the lack of access to funders is the primary impediment to NGOs’ fundraising (interview with NGO A; WEEMA International; Janus, 2018). Similarly, foundations need the recommendation of potential grantees’ work (interview with The Whitman Institute) because they need to meet the IRS tax mandate (interview with the individual fundraising consultant). Furthermore, the support foundations can provide consists not only of introducing potential donors but also introducing other NGOs, academic groups and potential boards to NGOs (interview with the individual fundraising consultant).

The strategies to provide networking opportunities to both NGOs and donors are already being used in some places (e.g. Opportunity Collaboration, SOCAP conference, etc.) (interview with the individual fundraising consultant). Small-scale NGOs should go to these places to gain transformative connections and partnerships (interview with the individual fundraising consultant). NGOs must see foundations as peers to work with and should not see them simply as groups who have money and that therefore it is necessary to have relationships with (interview with the individual fundraising consultant). “What is the most care about is that both foundations and NGOs are aligned with the goals” (interview with the individual fundraising consultant).

NGOs can also build up networks of peer support among NGOs who work in the same issue areas and have monthly meeting together (Janus, 2018). At these meeting, NGOs can find partner NGOs to secure grants from certain foundations and agencies that they are not eligible for or not connected to, invite foundations to ask for funding support, or simply engage in mutual learning (Janus, 2018; Mitchell, 2014). One strategy to connect to potential donors is to find other NGOs to whom these donors have given money and demonstrate the ability to work with them as partners (interview with the individual fundraising consultant). Transformative partnership building promotes cooperation and collaboration among NGOs and moves them away from a model of competition in which funding is seen as a zero-sum game.

## **2) Collaboration (Collaborative Grantseeking/Collective Funding)**

Second, collaboration across sectors, collaborative grantseeking, and collective funding is also important in terms of handling limited resources (GrantStation, 2018, p. 36; Janus, 2018). Collaborative Grantseeking and Collective Funding have been popular as a part of the framework of Collective Impact. The idea behind Collective Impact is that only collaboration across different sectors can achieve significant and lasting social change (Collaboration for

Impact, n.d.; Janus, 2018). Grantmakers are looking for partners to optimize their grants to NGOs and to impact the social causes. In so doing, they are supporting NGOs' collaborative work (Janus, 2018, p. 126). NGOs who dedicate themselves to collective action and grantseeking and donors who support these efforts achieve significant success (Janus, 2018, p. 126).

There are three rationales for seeking collaboration: first, collaborations can be one of the strongest fundraising strategies for NGOs (Janus, 2018, p. 130). "It is more constructive to build relationships beyond competition toward a positive goal. If we [NGOs] demonstrate great works with our peers, we can attract donors and resources" (interview with WEEMA International); second, it is cost-effective and lifts up the sector to be more effective in terms of philanthropy. "It's more effective for 20 small NGOs to work together for disaster relief than one largest organization like the Red Cross, which now is becoming a tumor in the sector because they have to pay for massive overhead" (interview with the individual fundraising consultant). Additionally, small scale NGOs have better relationships with communities than large organizations do (interview with NGO A; WEEMA International). "It's not necessary to have the same structures as large NGOs, because authentic connection with community is more important than resources" (interview with WEEMA International); third, collaboration can break down barriers between different sectors by employing an intersectional approach. Every sector has its own roles and should take responsibility to complement others (Eisenberg, 2004). "No matter how regionally or broadly focused foundations' approach is, we [foundations] should see the issues with systematic thinking and awareness, not just a singular focus, because issues are interconnected. We have to pay attention to people around the value and whole ecosystem" (interview with The Whitman Institute).

Even though the nature of NGOs is very collaborative from movement-building to advocacy (interview with GEO), collaborative grantseeking by NGOs is still challenging due to lack of incentives and organizational capacity (interview with NGO A; WEEMA International; GrantStation, 2018). Collaborative grantseeking requires additional staff and time to manage extra requirements and reports for collaborative grantseeking (interview with NGO A; WEEMA International; GrantStation, 2018). Unless organizations with huge budgets participate in collaborative grant seeking, it can be quite negative for organizations with smaller staff sizes in terms of the cost versus the benefit (GrantStation, 2018). “For instance, Collective Impact looks at the system to try to fix it on a large scale. Bring the key actors together and let’s start. It makes it easier for donors to give incentives and grants to stakeholders and to get these buildings in their respective fields” (interview with NGO A). Obviously, the platforms should be organized by foundations because “foundations are in a really unique position where they connect many NGOs working in the same area” (interview with GEO). However, “they have to really make sure not to step in too much so that NGOs can take a lead to collaborate” (interview with GEO).

Moreover, the initiatives that foundations take must be aligned with equality and be to everyone’s benefit (interview with NCRP). “Co-Impact initiative,” which is a global philanthropic collaborative for pursuing enduring impact and effectiveness in international development focusing on health, education, and economic opportunity for underserved populations in developing countries (Co-Impact, n.d.), is designed to transform traditional philanthropic models through work with diverse stakeholders, comprehensive support, long-term funding, and simple requirements. However, this effort remains restricted because, as with many other grantmakers, it does not accept unsolicited proposals.

Even though collaboration needs to balance all the different interests, languages, expectations and needs among stakeholders (interview with The Robert Sterling Clark Foundation), it is worthwhile to tell “we did it together” stories through collaborative approach (Collins, 2016, p.48). Understanding and bringing together organizational interests is the basis for collaboration or cooperation (interview with The Robert Sterling Clark Foundation). “The single most important things that we need today is the courage to look this problem in the face and say this is real and this is all of us. I believe that we are the movement” (Janus, 2018, p. 190). Because “foundations really like to listen to other foundations and what other foundations say could be a positive influence” (interview with NCRP), collective voices and storytelling can be most powerful way to the philanthropic reform.

### **3) Community organizing/engagement on the part of foundations**

If foundations are envisioning more systemic grant-making to manage limited resources, they should focus on approaches rather than topics or programs. In other words, foundations should consider how to develop NGOs and their communities as opposed to conventional grantmaking styles such as programs that focus on only one aspect to achieve limited success (interview with The Robert Sterling Clark Foundation; The Whitman Institute; Tipping Point Community). These days, more and more foundations are looking at place-based change: that is, improving conditions for their community in a specific geography (Behrens, 2016). For instance, I interviewed Tipping Point Community, which is engaged in poverty alleviation in California and has strong networks partnering with NGOs, corporations, and individual donors. I also interviewed the Robert Sterling Clark Foundation, which specifically focuses on leadership development in New York and contributes to community organizing. “For us [The Robert Sterling Clark Foundation] we are not focusing on topics. We are more interested in approaches



things like leadership development. We are always looking for organizations or leaders to be able to bring the change to cities. It is important for us to think about, after investment, how they utilize their resources after people who already have important professional connections” (interview with The Robert Sterling Clark Foundation).

The reason community organizing is transformative is that it can shift power dynamics to co-creating in a way that assesses and builds power by funding community, advocacy and community organizing and shares and co-creates power through trusting grantees (interview with NCRP). Foundations should add community focus and use a people-centered approach (interview with The Whitman Institute). “Community engagement always involves personal-level relationships that make more successful and powerful link” (interview with Tipping Point Community).

A great example of how foundations can encourage community engagement is by funding Shared Gifting Circles. According to RSF Social Finance, some foundations have already demonstrated the successes that Shared Gifting Circles can bring. The intention of the Shared Gifting Circle process is to transform the existing power dynamics by moving control of grant funds from the donor to the organizations, trust, accountability, reciprocity and community are created in a way that is not possible in traditional philanthropic models. It shifts the decision-making from authority to community leaders, transforming the power dynamics from power over to power with (interview with RSF Social Finance). Here is how Shared Gifting Circles work: a RSF internal team or in partnership with foundation/funder determines focus area, location, and total fund amount for circle then request for nominations are distributed to the community. RSF/funder selects circle participants then holds one on one discussions with participants to explain Shared Gifting and answer questions. During the full day in-person meeting, participants

share personal biographies; introduce and explaining of organizational mission and work; review and discussion of proposals, highlighting organizational needs; allocate and distribute grant money to other participants; become givers to fellow participants through a process of gifting, and continuing the circle of reciprocity by optionally redistributing their grants. Sometimes groups decide to put funds aside for projects that have emerged over the course of the day, collective group training, or other purposes. At the close of the day, the group agrees on how they want to report back to each other about use of the funds. The objective of the circle is to for the participants to make a decision on the best use of the funds collaboratively. Figure 2 shows the effects of Shared Gifting Circles.

**Figure 2: The effects of Shared Gifting Circles**

1. Shifting the perspective of the giving
2. Collective decision making (democratic/ transparent)
3. Foster collaboration
4. Much less competitive
5. Experiencing power shifting
6. Be imaginative and creative as opposed to conventional
7. Pay attention to others' interests

“The participants who are involved in the circles have different perceptions of what it means to “give” and what it means to be “a grant maker”. Shared Gifting Circles are an exceptional exercise in re-thinking philanthropy” (interview with RSF Social Finance). In general philanthropy, sharing your time, resources and experiences is more feasible and logical than sharing needs (interview with GEO; RSF Social Finance; The Robert Sterling Clark Foundation). “If everyone knows the participants’ need for funding, transparent funding allows logical collaborations to happen as well. Therefore, if nonprofits who work in same regions are brought together at the same table and share their resources and funding needs, mutual benefits are generated to both organization” (interview with RSF Social Finance).

Grantmakers' role should be to create the incentives, provide the resources, and share power distribution over resources with their communities (interview with RSF Social Finance; Collins, 2016). "Money is not an objective and a goal but a tool that makes the opportunity possible" (Interview with RSF Social Finance). Importantly, grantmakers should not force collaboration (interview with GEO; RSF Social Finance). In the end, "we [RSF Social Finance] hope to exemplify the success we have had with participatory grantmaking, share the story of Shared Gifting, and encourage the foundations and encourage the foundations and other grantmakers to share power with their community. That's the most powerful way to try to replicate the model" (interview with RSF Social Finance).

#### **4) alternative strategies for fundraising on the part of NGOs**

For NGOs' part, they must build alternative and resilient grant management strategies to create financial sustainability and maintain community accountability (Janus, 2018; Meehan & Jonker, 2017; Mitchell, 2014). Donors prioritizing of their own desires over NGOs' own autonomy deprives NGOs of their effectiveness in implementing activities and objectives (Parks, 2008). NGOs can secure financial stability and sovereignty from benefactors with alternative approaches to conventional grantmaking, which could include 1) coordinating joint projects or collaboration with other NGOs and corporations, 2) focusing on individual giving as a critically important source of potential donations, 3) implementing earned income strategies, and 4) fully leveraging board members in fundraising activities (Janus, 2018; Meehan & Jonker, 2017; Mitchell, 2014).

The interviewees pointed to some highlights among the effective fundraising strategies mentioned above. First, corporations should be able to partner with NGOs as part of their business or as part of their corporate social responsibility (CSR) for driving social impact

(Cramer-Montes, 2017). I interviewed WEEMA International, which has participated in the Falmouth Road Race. This is New Balance's CSR activity in Boston every year and WEEMA international raised \$ 20,000 to 30,000 (interview with WEEMA International). New Balance provides Massachusetts-based, 501(c)(3) nonprofit groups with its Numbers for Nonprofits Program which gives them the opportunity to purchase race entries to use for fundraising purposes. Tipping Point Community has partnered with corporations in California to raise funding for NGOs that are engaged in eliminating poverty in the community. Corporations should not create their own private foundations for the purpose of tax avoidance (Collins, 2017), and mega-corporate benefactors should not give direct donations to for-profit firms, as the Gates Foundation, Ford Foundation, and Mastercard have done in the past (McGoey, 2015). "We [Tipping Point Community] connect to people from the corporation, not connect to the corporation itself. It's a personal level because if we say 'corporations,' communities we work with say no. The building communities need personal level-relationship. That makes more successful" (interview with Tipping Point Community).

Second, individual giving is vital, yet NGOs have still not benefitted from individual giving even though 71 percent of the \$ 373 billion of philanthropic giving in 2015 came from living individuals compared to only 5 percent from corporate giving and 15 percent from foundation giving (Janus, 2018, p. 121; Meehan & Jonker, 2017, p. 149). The sector has carefully tried to leverage individual giving because different people have different interests and ideas about how to use money (interview with NCRP). On the other hand, some social ventures have already worked individual giving into the strategies for NGOs. For instance, FreeWill and Giving Docs which are social ventures that encourage individuals to write legal wills for planned giving have helped NGOs capitalize on the trend of great wealth transfer over the next two or three

decades (interview with FreeWill). “We help them [NGOs] to get a long-term source of sustainable revenue. The idea is that you have the donors and the money is coming in the future. It is a way to immediately make your fundraising model more sustainable and less hands-up” (interview with FreeWill). FreeWill have already raised almost \$ 85 million for NGOs and are getting great feedback from donors who had never gotten around to making a will because of cost and time (interview with FreeWill). Additionally, one NGO got a \$ 300,000 commitment by planned giving with FreeWill (interview with FreeWill). Individual giving is important for NGOs’ fundraising because it can cover general operation costs and save time to implement programs and prepare proposals and reports for institutional grants (interview with WEEMA International), yet the sector has not still utilized the benefits of individual giving. The challenge is to expand this connection to get more people interested (interview with FreeWill; WEEMA International). “Keeping the donors excited to see our works after 10 or 20 years is tough. People’s interests are always changing so keeping our donors’ list fresh is really important” (interview with WEEMA International).

Third, earned income is worth using to aid in developing strong fundraising strategies that are authentic to NGOs missions and efficient at securing money (Janus, 2018, p.93). Many philanthropic foundations and other funders have promoted earned income to NGOs so that they can become financially independent and sustainable (Janus, 2018, p. 94). I did not find any exceptional strategies on earned income from my research, however, I found, instead, that many NGOs have struggled with actualizing an earned income model. “We looked at earned income, but we fell through” (interview with NGO A); “earned income (business model) strategies do not work at all, given the higher failure rate in recent years” (interview with the writer). One factor is that the usefulness of earned income depends on the type of the organization: for instance,

education and public health NGOs have more successfully utilized earned income and diversified fundraising strategies than human rights, criminal justice, environmental NGOs because their beneficiaries are not able to pay for the fees or because asking any sort of profits from their programs seems unethical to them (Janus, 2018, p. 95; Mitchell, 2014). That means that earned income is a critical resource, yet institutional funding would be more substantial and pivotal for NGOs' fundraising (Janus, 2018).

Lastly, financial giving to NGOs by board members is the most crucial source of funding for any NGO, yet most NGOs do not leverage their boards in their fundraising activities (Janus, 2018; Meehan & Jonker, 2017, p. 3). Even though each NGOs' board member has a responsibility to give money and be involved in fundraising activities, many board members fail to take these responsibilities (Meehan & Jonker, 2017, p. 2). The Stanford Survey on Leadership and Management in the Nonprofit Sector revealed that only 42 percent of NGOs responded that their boards play a very strong role in fundraising (Meehan & Jonker, 2017, p. 2). "We don't want to ask them too much. Our boards don't want to take the fundraising role and don't feel comfortable asking people for money. They feel more comfortable taking other roles like communications, program management, and finance. In terms of fundraising, it's really hard" (interview with NGO A). "Our boards tend to focus on consulting regarding our organization's direction. But I would like to see the board participate in fundraising activities because it's very useful and important. This could remove a lot of pressure from the executive director" (interview with WEEMA International). As a case in point, Tipping Point Community has successfully ensured funding from its board members and covers full general operating costs. "The first time we talked about our model to the core group of people, they were really excited to know about it and spread the news to other people. And then, our CEO was really successful in building

personal connections. Both the organizations that build community development and their communities just get involved in fun engagements at social events focusing on fundraising and community development, and that is ‘here we go’” (interview with Tipping Point Community).

While testing out and developing robust fundraising strategies, the next challenge facing NGOs is to balance between scaling up for organizational growth and staying in the lane. I found that the main challenge facing NGOs trying to scale up and grow is the lack of organizational capacity to maintain talents who have sophisticated financial management and organizational mobility (interview with NGO A; the individual fundraising consultant; WEEMA International). In principal, foundations do not fund overhead cost first, but rather program seed, which means a tough transition for nonprofits. “They are in the short-term immediate-survival mindset, and that’s why they can’t invest in growth. They have to use their resources efficiently to attract the market” (interview with the individual fundraising consultant). In order for NGOs to get multiyear general operation funding for scaling up from foundations, NGOs need to demonstrate a strong trajectory. “NGOs’ job is to be a social researching development lab, which means demonstrating the evidence and benefits of attracting political and profit motives while collaborating with academia or other sectors” (interview with the individual fundraising consultant). To this purpose, NGOs should establish organizational mobility which involves three cycles — fundraising, communication (narratives), and implementation (Monitoring & Evaluation, Research & Design, etc.) — and is one of the challenges facing NGOs (interview with NGO A). “Family foundations require us to submit narratives, but Ford and other big foundations need actual data and impact. All of them (the three cycles) have to be worked on effectively at the same time. If any of them drops, it doesn't work. So, we also need people to pursue this work...” (interview with NGO A).

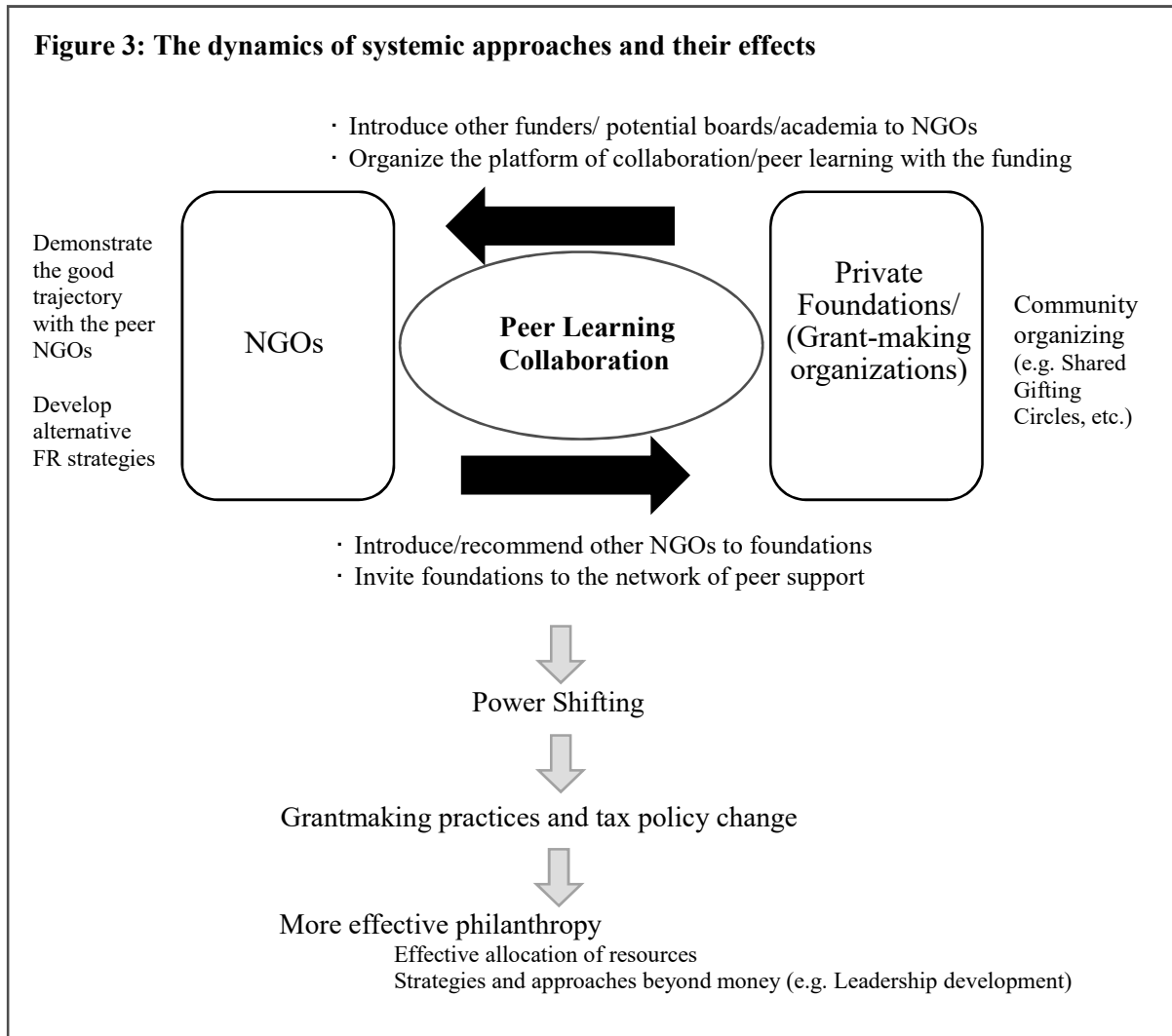
That said, scaling up and growing is crucial; however, the goal of NGOs is to solve problems, not to experience mission creep nor to perpetuate themselves (interview with the individual fundraising consultant; Gilmore, 2016; Walker, 2017). “We are a classical nonprofit who focuses on the specific cause and area, so I wonder after we solve the issue, what the next step is. Scaling up is a gamble because it costs a lot” (interview with WEEMA International). One interviewee suggests how to shift organizational growth from mission creep to mission alignment. “Our donor (foundation) said you don’t need to scale up. Instead, the portfolio of the organization was to try to help and empower the communities you serve to keep and maintain them on a certain level on their own without us at the same cost. It makes sense to train people in the long term. We could learn from our donors that how we make our impact and make the situation scalable without us [NGOs]. It’s not necessary to be larger, but rather to be more a catalyst for the leaders to stand there and do more” (interview with NGO A).

In tandem with fortifying alternative strategies for fundraising, what NGOs should do is to call for philanthropic reform and donor education (Collins, 2016; Eisenberg, 2015; Janus, 2018; Le, 2017; Mitchells, 2014). “NGOs should speak up more publicly and be confident” (interview with the writer; NCRP). “One of the major impediments to the sector’s progress has been its lack of intellectual vigor, introspection, and critical analysis” (Eisenberg, 2004, p. 175). Foundations, in turn, need to be comfortable with sharing the results of their feedback from their grantees (interview with NCRP). Both foundations and NGOs must reflect, debate, share and document their experiences, perspectives, and policy ideas (Eisenberg, 2004, p. 175; interview with GEO; NCRP; NGO A; RSF Social Finance; the individual fundraising consultant). Furthermore, donor education must be addressed at the organizational and individual level. “It’s much easier to educate one philanthropist who tries to solve one cause for 30 or 40 years under



the board of trustees and his family about what works or does not, so they can effectively deploy money. We just naturally need to convince those people who have the most money to donate it to certain causes” (interview with the individual fundraising consultant). “If wealth and power convene, the very wealthy could radically transform our political and economic system for the better” (Collins, 2016, p. 25; interview with the individual fundraising consultant)

In section A, I argue that, as a viable alternative to conventional grantmaking, systemic thinking is necessary, due to the competition inherent to the sector, to handle limited resources. Then, systemic thinking specifically focuses on four approaches ranging from transformative partnership building to, collaboration (Collaborative Grantseeking/Collective Funding), community organizing by foundations, NGOs’ alternative strategies for fundraising. Based on the discussion in section A, Figure 3 summarizes the dynamics of systemic approaches and the consequence of power shifting: if both foundations and NGOs employ four approaches to complement each other and if both NGOs and foundations see and work as partners/peers, this could ultimately change the philanthropic system making the sector more effective. The next section (B) discusses how foundations should change their grantmaking practices to ones that reflect NGOs’ practical reality based on the Trust-Based approach.



## B. Exploring Trust-Based Philanthropy

The second approach to transformative change in the donor-NGO relationship is to establish grantees’ need based grantmaking practices. Foundations must revise current grantmaking practices that do not meet NGOs’ needs. Figure 5 shows the ideal grantmaking practice based on participants’ interviews and secondary data. In the literature review, I discussed what donor-driven grantmaking looks like. The donor-driven approach is fundamentally focused on short-term gain and is characterized by these specific patterns: 1) the inequality in access to grants, 2) the avoidance of risk-taking, 3) an obsession with immediate impact, and lastly 4) non-

streamlined processes. The main finding is basically that all the respondents are against the approach, and instead, both NGOs and foundations want to build long-term partnership and co-creation based on mission alignment because “power imbalances make it hard to discuss potential investment” (interview with WEEMA International).

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**Figure 4: The ideal grantmaking model**

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**Both NGOs and private foundations’ responses**

Partnering relationship (e.g. NGOs want private foundations to be “open/Frank”; private foundations want NGOs to “trust”)

Mission alignment

**Accept unsolicited proposals**

Risk taking

Multiyear funding (to gain predictability)

Unrestricted funds (trust of judgment) > capacity building funds

Streamlined process (conversations > paper works)

Dialogue/ Conversation before grant application

Share the result of the feedbacks from NGOs (to explore what the benefits are)

**Private foundations’ responses**

Beyond the check (i.e. mutual learning to share challenges, etc.)

Compensation/introduction for non-awardees

Working due diligence together

Diversity, equity and inclusion

**NGOs’ responses**

Remove self-oriented criteria

No too much intervention

**Visit communities (community focus/people-centered/ intentionality)**

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From analyzing the responses from participants and tabulating the results of secondary surveys, I found that both NGOs and foundations think that the most important starting points to cover the lack of organizational capacity are general operation funding, risk-taking, and streamlined process for the grant application. Of these, I found that providing general operation funding (unrestricted funding) is the most significant. As lack of organizational capacity is one of the biggest challenges facing NGOs, most of them most want unrestricted funds to invest in organizational capacity. Unrestricted funding enables NGOs to choose any objective to invest in from M&E and impact assessment to R&D and could be flexible when needs change (interview

with GEO). However, the reality is that 80 percent of foundations' total giving is restricted funding and only 20 percent is unrestricted (interview with GEO). Foundations tend to shy away from general operation funding due to having multiple objectives (interview with The Whitman Institute). "We [NGOs] need conversations or dialogues and personal connections with funders before submitting proposals to bring our voices so as not to waste time. However, it's not just access pieces but needs capacity. We need one staff member who can be completely dedicated to fundraising and we need time for new donor cultivation" (interview with WEEMA International; GrantStation, 2018; Meehan & Jonker, 2017).

Because foundations have privilege and resources and are flexible and fast compared to governments, risk-taking and experimenting with long-term commitment and impact investment has a huge impact on NGO sustainability. Multiyear funding helps NGOs to plan in a more predictable way, allowing them to, allowing them to make healthier and more strategic decisions (interview with The Whitman Institute). In addition, a portion of a foundation's assets should go to impact investment, which is a program-related investment, like seed, angel stage, or venture capital from socially beneficial organization (interview with the individual fundraising consultant). "These ideas are radical in foundations, so we [foundations] need more experiential supporting" (interview with The Robert Sterling Clark Foundation).

Furthermore, streamlined processes for grant applications must be incorporated into grantmaking practices. Time commitment to fundraising is a huge constraint for NGOs; thus, working on due diligence with foundations enables NGOs to save time and hold foundations accountable to transparency and proactivity during the grantmaking cycle (interview with WEEMA International). If foundations cannot support NGOs, they should at least compensate them for the time cost which grantees pay for applications by paying compensation, providing

peer learning opportunities or making introductions to other funders (interview with The Whitman Institute).

Despite the fact that it is easier for foundations to follow the dominant model and requirements (interview with Tipping Point Community), two foundations that I interviewed, which are the Whitman Institute and the Robert Sterling Clark Foundation, have already employed transformative grantmaking practices and initiated a movement for the approach which is called “Trust-Based Philanthropy.” Trust-Based Philanthropy consists of grantees’ need based grantmaking practices. The idea is that philanthropy can be more effective when funder-grantee relationships are built on a foundation of trust through dialogue and partnership building (The Whitman Institute, n.d.). Trust-Based Philanthropy covers almost all of the ideal grantmaking practices that Figure 4 indicates (see Appendix 2: Principles Of Trust -Based Philanthropy by The Whitman Institute). The foundations that follow Trust-Based Philanthropy have earned trust from their grantees and have demonstrated their responsibility with their financial resources in a way that provides multi-year unrestricted funds, nonfinancial support, and proactive consultancy; excludes complicated and excessive paper-work, needless requirements, and racial bias; and takes risks by backing up advocacy work and testing to promote governmental policy change.

Further, I highlighted two exceptions that Trust-Based Philanthropy does not include in its practices, yet that I found during the interviews were important factors in transformative grantmaking: 1) accepting unsolicited proposals, and 2) visiting communities/beneficiaries.

First, accepting unsolicited proposals is still challenging and the sector has not ensured equal access to grants. Among the interviewees, the Robert Sterling Clark Foundation and Tipping Point Community accept unsolicited proposals. The Whitman Institute that uses the

Trust -Based Philanthropy does not accept unsolicited proposals, given their internal capacity (only two full-time staff) and their plan to spend out. “Foundations have the responsibility to take unsolicited requests. Being open with application process takes a time, even the focus of foundation is narrow, but for applicants, it [the funding opportunity] is even more narrow” (interview with the Robert Sterling Clark Foundation). The interviewees from foundations presented some strategies and resources to manage large numbers of unsolicited proposals. Very clear instructions on the website that indicates what foundations are looking for helps NGOs in terms of understanding what foundations are interested in supporting (interview with the Robert Sterling Clark Foundation). Additionally, a streamlined process that excludes paper-work could make the whole grantmaking process simple and fast (interview with the Robert Sterling Clark Foundation; The Whitman Institute; Tipping Point Community). For instance, Trust-Based Philanthropy accepts proposals and reports that NGOs write for other funders. The idea is that if all of the grants are general operation funding, NGOs can utilize one single proposal and report for all applications and thus reduce their workload. Furthermore, after letters of intent and introductions are sent out to foundations and due diligence is done, foundations should not take the time to send out grants to their grantees so that grantees can jump through hoops making proposals (interview with The Whitman Institute). The Trust-Based approach is also based on rigorous due diligence including in-person interviews or meetings instead of paper-work (this is referred to as “Doing the homework”). (interview with The Whitman Institute; Appendix 2: Principles Of Trust -Based Philanthropy).

Second, both NGOs and foundations should consider visiting communities and involving beneficiaries in the process. To generate ideas, it is vital to stay close to the problems and beneficiaries (Janus, 2018, p. 18-19; interview with GEO; NGO A; the Robert Sterling Clark

Foundation; The Whitman Institute; WEEMA International). “Foundations do not visit communities because of conflict of interest” (interview with WEEMA International), yet “it’s good for foundations to visit communities to hear their actual voices because especially big foundations engage in top-down thinking in terms of strategies and project implementation” (interview with The Whitman Institute). “We have to go there and listen to their voices to understand what the outcome is in the communities, rather than protecting our own way of thinking. Even though it’s very hard, we need to spend and talk more with our beneficiaries because it’s very important” (interview with the Robert Sterling Clark Foundation).

Another aspect of the challenge facing foundation is to incorporate diversity, equity and inclusion into their grantmaking practices (interview with GEO; NCRP). Foundations are willing to address these things, but this is only the beginning. The sector fails to adequately disrupt the system and mitigate the impact of class and racial advantage (Collins, 2016, p. 126). “Equity is the entry point for foundations to try to challenge and disrupt perpetuating systems. It may provide an opportunity because if we try to make grantmaking practices aligned with the equity, ultimately the changes you make is to everyone's benefits, especially people who are marginalized the most historically.” (interview with NCRP). According to the survey that GEO conducted among funders on diversity, equity, and inclusion, although every foundation understands the importance of these things, they are struggling to figure out how to enact their commitment to these values (interview with GEO). GEO helps foundations to follow these practices by suggesting: 1) hiring people who represent community and bringing their voices forward in different ways, 2) consulting the grant committee that helps with these steps and has power over decision making, 3) getting feedback from NGOs and their beneficiaries and visiting the field. This last is important because foundations’ approach is usually surface-level

engagement with a lack of accountability (interview with GEO). Small foundations have only a few staff; thus, they have to be realistic about what they can do (interview with GEO).

As many foundations as possible should practice Trust-Based Philanthropy and try to create a movement in support of the approach with a network of allies. The Trust-Based foundations I interviewed whose strategies try to replicate the Trust-Based model are strongly focused on building relations. For instance, they have official communications with two foundations for field building and strong in-person engagement with the executives from other foundations. They also have platforms to discuss Trust-Based philanthropy such as social media and international conferences (interview with The Whitman Institute). “We are happy to talk, especially with the people who do not use this approach. We can tell this story to people at conferences and people can tell it to one another” (interview with the Robert Sterling Clark Foundation). “There is a lot of distrust right now in the current political landscape, so people respond. It’s important for people to see each other, not remain isolated. They shouldn’t focus just on their own approaches, but more the interests which others have to build a bigger field together” (interview with The Whitman Institute).

Section B discusses the ideal grantmaking model based on interviews. Foundations should use Trust-Based Philanthropy as a viable alternative to conventional grantmaking. The next section (C) addresses the issue of less-regulated U.S. tax law and its policy and argues, based on the expert’s interview, that this could be changed.

### **C. Tax Incentives and Tax Reform**

If the entire sector takes philanthropic reform seriously but lacks the right regulations and policies guarding against loopholes in current grantmaking practices, it is fundamentally too weak to rebalance the power between NGOs and foundations and lift itself up. All the



participants admit that forcing foundations to change their charity framework is not realistic due to the power imbalance between grantmakers and grantees, and thus, what we can do is to “look more closely at the policy to allow the donors to use the tax code to shelter the private assets and generate political influence and personal favor, particularly DAF” (interview with the individual fundraising consultant). To this end, the role of each sector, from governments and, foundations to NGOs and citizens, must be redefined and rebalanced. The government role is to give tax-exempt status to nonprofits and surveil foundations through investigations, oversight hearings, censures, and firings in a timely manner (Collins, 2016; interview with NCRP; the writer). As the IRS audits only about one hundred foundations a year (Collins, 2015, p. 113), this should be reevaluated depending on the IRS internal capacity. Because charitable deductions are important in the sector, if foundations continue to benefit from the tax code, ultimately, strong government is necessary, and foundations can fill their roles by spending out or exercising higher payout rates (Collins, 2016; interview with NCRP; the individual fundraising consultant). NGOs should call out to reveal foundations’ behaviors that undermine their work, publicly tell their story and name foundations (interview with NCRP).

As there is a loophole in current U.S tax policy and no regulation on DAFs, tax policy should be reformed in a way that increases distribution payout percentage, exempting foundations’ overhead cost from the foundation payout requirement, and distinguishing, for tax purposes, between foundations that fund NGOs addressing urgent social causes such as poverty, racial inequity, and environment degradation; and those who fund other types of NGOs (Collins, 2016, p. 123-125; Eisenberg, 2015). In terms of DAFs’ regulations, the money that sits in DAFs should be required to pass from DAFs (the grant makers) to charities within a certain period of time (Cantor, 2017). Furthermore, DAFs should not be allowed to receive the 5 percent payout

distribution to NGOs that private foundations are required to make (Cantor, 2017). “This is a bad time for NGOs because the money that comes into DAFs would go to them, otherwise” (interview with the DAFs’ expert).

According to the DAFs’ expert, there are three challenges to reforming current tax policy, specifically focusing on DAFs. First, as we can see, the rise of DAFs is part of the prioritization of donor’s wishes over NGOs’ own desires. The power imbalance between donors and NGOs stops them from making claims about DAFs’ transparency and accountability (interview with the DAFs’ expert). Second, there is very strong pushback including conflict of interest in the industry. For instance, “Fidelity Charitable is the biggest supporter of the National Council of Nonprofits; thus, they wouldn’t say no” (interview with the DAFs’ expert). In addition, in the sector, because trustees hold huge power at foundations and in the charity industry, lobbies have a general attitude of “leave us alone, we know the best” (Collins, 2016, p. 113). They prefer to have minimal scrutiny and leave guidelines vague, and it is challenging for others to intervene in foundations’ grantmaking practice and tax policy reform (interview with NCRP). Third, there are no government incentives or political will to address tax reform in the U.S:

Republicans have no such interest, and frankly neither do Democrats. Massachusetts senators won’t speak up because Fidelity Investments is based in Boston. It could be an action by the treasury of IRS if they don’t take a serious interest, and then there are state regulators who have own different NGOs’ regulation. They could do something, but they don’t have enough capacity (office and staffs) or any political advantages. Nobody is speaking up anymore. I don’t think there is any political will to change right now or even in the future” (interview with the DAFs’ expert).

Unless we are going to get rid of the growing group of people who are controlled by business and big money in the next couple of elections, the right regulations and policies on tax incentives will not happen.

## **VI. Conclusions**

This paper has studied strategies for creating financially sustainable and accountable NGOs and thus created the transformative change necessary for productive donor-NGO relationships. First, I did a secondary data analysis. That, along with my observation at my practicum and at a conference inspired me to start an inquiry regarding grantmaking and grantseeking practices and challenge in the nonprofit sector. Then, through qualitative research design, I conducted in-depth, semi-structured interviews with diverse stakeholders from NGOs, foundations, social ventures, and academia to explore best practices for both NGOs and foundations so as to enable viable alternatives to conventional grantmaking and sustainable donor-NGO relations.

The key literature provided me with a conceptual framework of power dynamics in the philanthropic sector. Because U.S. philanthropy has tremendous power and influence on public decision making, power analysis in this sector is pivotal for seeking for thinking about transformative philanthropy. The review broadly focused on four themes. First, the charity industry has exercised their privilege and power outside the government's tax-incentive framework through its effect on redistribution, asset sheltering, and tax-avoidance strategies. Second, because charitable capitalism causes resource scarcity and dependency, NGOs confronts serious challenges such as competition among NGOs, structural inequality of access to grants, lack of talent, power imbalances between grantmakers and grantseekers, professionalism, and negative attitudes toward constructive relationship-building with donors. Third, the review

discusses how donor-driven grantmaking practices impede practical needs in NGOs' grantseeking. As foundations' practices are generally have a short-term focus, they cause access inequality to grants, an avoidance of risk-taking, obsession with the impact factor, and non-streamlined processes. Fourth, U.S. tax policy around foundations' grantmaking falls short of effective oversight and does not match the reality of the situation in grantmaking practices.

My findings revealed that the ideal relationship between foundations and NGOs should be co-creation and complimentary partnerships through mutual learning and trust-building based on mission alignment. Yet, the literature clearly indicates that the competition inherent in the nonprofit sector, specifically power asymmetry between grantmakers and grantseekers, hinders efforts toward mutually beneficial collaborations. As a first step, both foundations and NGOs should redefine their roles and analyze their power dynamics. Foundations should be responsible for using a decent share of their wealth for the social good (Collins, 2016), and in so doing demonstrate the best use of tax-exempt money in partnership with NGOs. NGOs, in turn, must see foundations as potential partners and publicly call for philanthropic reform. This is the basis for the transformation from a charity framework to one of co-creation.

Further, looking at the dysfunction of U.S. philanthropy, three approaches from a grantmaking-practice-to-policy angle should be considered for transformative change in the donor-NGO relationship: systemic thinking to handle limited resources, Trust-Based grantmaking practices, and regulated tax policies to meet the practical realities of grantmaking. Every strategy indicated in the finding (i.e. transformative partnership building, collaboration, community organizing by foundations, and NGOs' alternative strategies for fundraising), could fortify NGO sustainability to overcome competition and lead to a shift in power. In terms of foundations' grantmaking practices, because Trust-Based Philanthropy has already demonstrated

its value in partnership with NGOs, it should be used by as many private foundations as possible. Even though tax policy change can be used to force foundations to shift their grantmaking and political and economic efficacy for growth, equality and efficiency, it has still been challenging due to the strong push-back of the charitable industry and its lobbyists.

In spite of the challenges facing the philanthropic sector, I found that all of the participants from NGOs, foundations, social ventures, and academia acknowledged that transformative change in the donor-NGOs relationship is urgent, as is initiating a collaborative approach to reform the sector. NGOs' support organizations such as GEO, NCRP, RSF Social Finance, and FreeWill are working proactively on philanthropic reform to fill the gap between NGOs' practical needs and foundations' grantmaking reality. Therefore, the key to transformative change in the donor-NGO relationship lies in the responsiveness to change of foundations and NGOs. As Andrew Youn, Executive Director and Co-Founder, One Acre Fund stated:

Social change leaders are often conditioned to “think small.” Every year, we try to fill our organization's annual budget. But on rare occasion, visionary philanthropy challenges us to think bigger – to envision changing the whole system. Humanity's greatest challenges are actually solvable, when organizations with practical and scalable solutions are linked with the transformative funding required to truly dream. (as cited in Co-Impact HP, n.d.).

However, the platform of the movement for transformative change in the donor-NGO relationship is still weak. Ideally, those who have power and resources—that is, foundations—should initiate the creation of a common platform. In fact, funders' initiatives like Co-Impact do exist; however, they should be more inclusive with unsolicited policy. Philanthropic reform

should be addressed through every sector's efforts from practice to policy making. In the end, all sectors should recognize their responsibilities to play their roles for the public good and their communities. Both foundations and NGOs must complement each other as partners with significant resources and faith in the promise of a more hopeful future.

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## Appendix 1: Interview questions

I anticipate asking most of these questions. However, should the participant speak in great detail thereby cutting short the time for other questions, I will be judicious in my choice of questions to ask among those that remain.

Research Question: How could NGOs become more sustainable in light of a crucial challenge facing them today: financial instability?

### Setting and participants

#### **Interviews with NGOs about current issues on fundraising, alternatives to conventional grantmaking and the transformative relationship building with donors:**

- I will interview an executive director or an officer from two NGOs that are proactively seeking to realize alternatives to conventional grantmaking to understand and evaluate their fundraising strategies, problems and next steps while managing their donor-relation.

### Interview Questions

#### **For an executive director or an officer of NGOs on the subject of strong fundraising strategies and donor relations:**

##### Fundraising strategies

- Based on your annual report, your funding resource mostly comes from \_\_\_\_\_. Do you think your funding strategies have been effective so far? Why?
- What are the strengths and weakness of fundraising within your organization?
- Do you have any alternative strategies to institutional grants to strength fundraising or development efforts?
- What challenges do you have with growth or scaling up?
- Are grants from institutional donors enough to grow or scale up your organization?
- Are your organization's current efforts to obtain donations from individuals effective? How?
- Nowadays, there are too many similar organizations in the landscape. Do you see them as enemies or potential partners? Why?
- Has your organization fully leveraged board members in fundraising activities? How?

##### Donor relations

- How is the relationship with donors, especially institutional donors happening right now?
- To approximately how many different foundations do you apply for your funding each year?
- What is the average size of your annual grants from foundations?
- How many grants from certain sectors have you failed to get?
- Do you have difficulties in getting funds for certain foundations or certain type of projects?
- What supports do you need to connect to big foundations who usually don't accept unsolicited proposals?
- Are there special things you have to do to get foundations' grant?

- Overall, what is the most difficulty facing your organization in managing foundations' grant? How could this be changed?
- Do your donors fund general operations including salary, impact evaluations, staff development etc.?
- Is your donors' support far-reaching to proactive consultancy including strategic planning, program management, technology, policy and advocacy, government relations, monitoring and evaluation, and leveraging extra funding?
- What supports do you need from institutional donors aside from financial support?
- Has your organization worked collaboratively with the foundation's grant officer for their grant submission to the foundations' board?
- How do you maintain your ability to be the voice of local communities while maintaining your donor relations?
- What is the ideal relationship with foundations for your organization?

### Setting and participants

#### **Interviews with foundations about the ideal donor-NGO relationship:**

- Key informants from justice-oriented foundations will be asked questions about how to transform the philanthropic sector from charity frameworks to justice.

### Interview Questions

#### **For key informants from justice-oriented foundations**

#### Grantmaking Procedures

##### Unsolicited fund

- Does your foundation accept unsolicited proposals? In other word, do you strive to be accessible to every grantee, or especially to grassroots? How?
- What strategies or resources do you need to manage amount of unsolicited proposals if you accept unsolicited proposals?

##### Restricted fund

- The data from Stanford University shows that grantees expect donors to pay for general operations, especially for impact evaluation. Does your foundation provide general operation funds? Do you intend to support NGOs' scaling up and their long-term approach?
- Which approaches are worth pursuing as funding strategies? Whether you distribute relatively small portion of funds to many small-scale organizations equally or selected organizations will be provided with large amount of grants to enable long-term operations?

##### Comprehensive support

- Does your foundation support far-reaching assistance such as nonfinancial support and proactive consultancy including strategic planning, program management, technology, policy and advocacy, government relations, monitoring and evaluation, and leveraging extra funding?

##### Top-down structure

- Have your grant officers worked collaboratively with NGOs' staff for their grant submission to your foundations' board?

- Do you have any specific criteria do you apply to evaluate grantees? For instance, effectiveness, short-term outcome, and so on.
- Among so many organizations in the landscape, which criteria do your board apply to determine who to fund?
- Do you see grantees as equal partners in your philanthropic strategy? What should foundations do to be close to the voice of people most affected by injustice?
- Do you prioritize the support for advocacy works? How could foundations support NGO's radical work as an alternative to government?

#### Others

- Collins and Gilmore argue that philanthropy allows the wealth to direct their money toward certain projects rather than sending that money via taxes to the states for redistribution by elected leaders? What are your thoughts about this point?  
Next step
- Could you tell me any success stories of your grantees thanks to your grantmaking strategies?
- Overall, the current landscape within the philanthropic sectors has issues to address in terms of relationship with NGOs, for instance, restricted funds, solicited grants, unequal accessibility, racial bias, too much paper works, self-oriented parameter (i.e. effectiveness, short-term outcome), top-down structure ignoring beneficiaries, shying away advocacy works etc. How could this be changed? In other word, how could the philanthropic sector shift charity framework to co-create?
- Data from Stanford university shows that foundations prefer to focus on programs related to a core competency more than diversify into different activities. Considering each foundation's competencies and roles, do you agree with that? What landscape do you expect within the philanthropic sector? For instance, very specialized foundations fund very specifically focused NGOs or their programs?
- What is the ideal relationship with grantees for your foundation?

#### Setting and participants

#### **Interviews with social venture, which provides NGOs with alternative fundraising strategies**

- The representative from a connective tissue organization such as Grantmakers for Effective Organizations (GEO) which navigates the grantmaking practice and bridges the relationship between grassroots NGOs and donors will be asked about how to apply transformative approach into the grantmaking practice and bridge the relationship between grassroots NGOs and donors.

#### **For the representative from a connective tissue organization (GEO):**

- Overall, the current landscape within the philanthropic sectors has issues to address in terms of relationship with NGOs, for instance, restricted funds, solicited grants, unequal accessibility, racial bias, too much paper works, self-oriented parameter (i.e. effectiveness, short-term outcome), top-down structure ignoring beneficiaries, shying away advocacy works etc. You have already addressed all the issues through empowering grantmakers.

What would improve this relationship? How could you disseminate transformative relationship between donors and NGOs into as many grantmakers as possible?

- You regularly convene groups of grant makers and nonprofits to hear their perspectives and voices. Which grantmakers' behaviors are most beneficial and harmful to NGOs?
- Have you ever seen any improvement of the relationships between your members (foundations) and their grantees (NGOs) so far?
- What are the hardest challenges facing you now in order to institutionalize transformative grantmaking into foundations' internal culture? How will you overcome this challenge?
- How do you connect under- resourced NGOs, or the organizations headed by people of color to appropriate donors?
- When it comes to fundraising, in addition to grantmakers' membership fee, you have been granted from many foundations including unrestricted funds. How do you attract so many funders? Do you have any special strategies for grantmaking?

#### Setting and participants

- I will interview a representative from FreeWill which encourages seniors to write a legal will for planned giving, to ask about their work and their contribution made for NGOs' fundraising.

#### Interview Questions

#### **For a representative of FreeWill which encourages seniors to write a legal will for planned giving:**

- Why did you start FreeWill? In other words, what was your motivations to start up?
- Your organization provide both NGOs and their individual donors with free tool. Where do your fund come from?
- According to your research (website information), there will be \$35 trillion inherited in the US in the next 2 decades. This is the largest opportunity for philanthropy. However, according to the data from Stanford University, only 20% of NGOs think their efforts for individual donations are effective. The same average of them (20%) also think that it is not effective. How could your tool contribute to NGOs' grantmaking in next decade?
- FreeWill helps NGOs easily start or expand their planned giving program in just a few hours. Additionally, a typical bequest from a grassroots donor is more than \$40,000. As far as I'm concerned, the tool is useful to NGOs' fundraising. How will you introduce your tool to as many NGOs and their individual donors as possible?
- What outcome have you seen so far in terms of both donors' and NGOs' satisfactions?
- What are the biggest achievements to introduce your tool to users so far?
- How about challenges facing your organization right now?
- What are its long-term influential goals for NGOs' fundraising and philanthropy?
- Do you have any plans to make further contributions to NGO's grantmaking and to philanthropy near future?

#### Setting and participants



- Additionally, I will interview RSF Social Finance who hosts a method called “shared gifting circles” which enable nonprofit leaders to dole out their fund to other under-resourced nonprofit organizations. Unlike competitive and traditional philanthropic models, the model shifts control of grants and power distribution from donors to grantees in a way that participants decide the best use of the funds with collaborative wisdom (RSF Social Finance HP). I will examine how this works in generating reciprocity among recipients through collaborative decision-making.

### Interview Questions

#### **For a representative of RSF Social Finance (the host of “shared gifting circles”):**

- Why did you start shared gifting circles?
- How do participants know about shared gifting circle? Do you have any requirements for joining a circle?
- Could you tell me any success story of grantees thanks to shared gifting circles?
- Are there any challenges to hosting shared gifting circles?
- Right now, the landscape in the NGO sector is highly competitive. As participatory budgeting has become popular recently, collaborative decision-making, and mutually beneficial collaborations have been becoming more important unlike typical competitive models. How could you invite as many NGOs as possible to create mutually beneficial collaborations not likely in typical competitive models? How could you replicate the model in other areas?
- Overall, the current landscape within the philanthropic sectors has issues to address in terms of relationship with NGOs, for instance, restricted funds, solicited grants, unequal accessibility, racial bias, too much paper works, self-oriented parameter (i.e. effectiveness, short-term outcome), top-down structure ignoring beneficiaries, shying away advocacy works etc. In turn, the idea of shared gifting circle is very transformative in terms of power shifting from authority to the recipients of the gift. How could your model contribute to this challenge? In other word, how could you exemplify your collaboration model and power shifting in the philanthropic sector?

### Setting and participants

#### **Interviews with experts from academia about their insights and analysis on current disparity between the philanthropic sector and nonprofits:**

- I will conduct key informant interviews with the experts who consider that reform in the philanthropic sector is imperative.

### Interview Questions

#### **For experts from academia or professionals who consider that the reform in the philanthropic sector is imperative:**

- Overall, the current landscape within the philanthropic sector has issues to address in terms of relationship with NGOs, for instance, restricted funds, solicited grants, unequal accessibility, racial bias, too much paper-work, self-oriented grantmaking parameters (i.e. effectiveness, short-term outcomes), top-down structure ignoring beneficiaries, shying

away advocacy works etc. Would you agree with that? What do you think is the best way to move forward?

- At the grassroots level, some NGOs or social ventures like Grantmakers for Effective Organizations (GEO) strive to dismantle systematic inequality and power asymmetry between NGOs and their donors. How could we force foundations to transform their internal culture and open more wider conversations about the issue to as many stakeholders as possible?
- Collins and Gilmore argue that philanthropy allows the wealthy to direct their money toward certain projects rather than sending that money via taxes to the states for redistribution by elected leaders? What are your thoughts about this point?
- Considering all the points we talked about in the interview, what is the foundations' role to contribute to NGOs' work? In other words, how should the philanthropic sector complement with other sectors?

## Appendix 2: Principles Of Trust-Based Philanthropy (The Whitman Institute, n.d.)



# Principles Of Trust-Based Philanthropy

	Unrestricted, Multi-Year Funding	Do the Homework	Partner in a Spirit of Service	Transparent & Responsive Communication
RATIONALE	Unrestricted funding over time is essential for creating healthy, adaptive, effective organizations.	The onus and responsibility of due diligence should be on the grantmaker, not the grantseeker.	Entering into grantee relationships from a place of humility and listening enhances mutual learning and enables funders to respond more directly to grantee needs.	Open, honest, and transparent communication minimizes power imbalances and helps move the work forward.
PRACTICES & CONSIDERATIONS	<ul style="list-style-type: none"> <li>Trust that nonprofits know best how to spend grant money</li> <li>Make commitments for more than one-year</li> </ul>	<ul style="list-style-type: none"> <li>Approach your work with the understanding that it's your job to get to know prospective grantees</li> <li>Establish clear internal criteria for the types of organizations you want to support</li> <li>Use available public records to understand a prospective grantee's purpose, strategies, programs, leadership, and financial standing</li> <li>Ask around your networks for shared connections</li> </ul>	<ul style="list-style-type: none"> <li>Listen with respect, curiosity, and empathy</li> <li>Ask "How can we be of service to you?" rather than "How are you worthy of our support?"</li> <li>Ask probing questions and indicate an openness to a range of answers</li> <li>Remember that you are not doing grantees a favor by meeting with them or taking their call</li> </ul>	<ul style="list-style-type: none"> <li>Be clear up front about what you do and don't fund</li> <li>Invite grantees to share their challenges</li> <li>Be open and honest about your own organizational struggles, questions, and thought processes</li> <li>Let potential applicants know if meeting is not a good use of their time</li> <li>Respond to emails and calls in a timely manner</li> <li>Make contact info public</li> </ul>
BENEFITS	<ul style="list-style-type: none"> <li>Supports the stability of grantee organizations and reduces stress on EDs</li> <li>Encourages risk taking, creativity, and emergent action instead of sticking to proposal outcomes that may quickly become outdated</li> <li>Supports grantees' long-term planning</li> </ul>	<ul style="list-style-type: none"> <li>Funders are more likely to identify grantees that are aligned with their mission and values</li> <li>Saves unnecessary paperwork and back-and-forth in early vetting stages</li> <li>Paves the way for a more trusting and rewarding relationship with grantees</li> <li>Leaves prospective grantees more time to focus on their work</li> </ul>	<ul style="list-style-type: none"> <li>Establishes more authentic, honest relationships with grantees</li> <li>Creates a culture of collaboration and democracy</li> <li>Allows foundation staff to learn instead of feeling that they "should" know all the answers</li> </ul>	<ul style="list-style-type: none"> <li>Creates conditions for a more honest funder-grantee relationship</li> <li>Acknowledges power dynamics with the intention of creating a more balanced relationship</li> <li>Fosters a better understanding of grantees, their work, and their challenges</li> <li>Offers insight that can help funders be more effective in supporting grantees</li> </ul>
SKEPTIC'S CORNER	<b>If all your funding is tied up in multi-year commitments, how do you remain open to supporting promising new organizations and initiatives?</b> You can take a both/and approach rather than either/or. Experiment with a portfolio that combines both multi-year commitments and targeted, annual grants. Spending more than the minimum 5% payout rate greatly increases your ability to do so.	<b>How do you ensure that you aren't just funding those who you have "chemistry" with?</b> Establishing clear, defined criteria at the outset can help guide mission-aligned decision-making. It is also important to make sure your vetting processes include diverse perspectives—among your referral sources as well as the staff who are doing the research—to allow for greater exposure to groups you may not come across otherwise.	<b>What's wrong with a funder articulating a clear strategy and putting out RFPs to find the best organizations to implement it?</b> Too often, foundations apply a top-down approach to strategy that exacerbates rather than mitigates power imbalances. This isn't to say foundations shouldn't develop strategies, but that they should begin their strategic thinking from a place of humility and deep listening to those who are working closest to the problems they are trying to address.	<b>What if you learn something about a grantee that makes you want to rethink your support for them?</b> If it is a serious concern, you will be in a better position to talk with them about it, explore solutions, and ultimately decide whether you can continue to work together or not. It is more productive to approach the conversation proactively, rather than reactively.

Special thanks to Robert Sterling Clark Foundation for contributing to this piece. For more information about trust-based philanthropy, visit [www.thewhitmaninstitute.org](http://www.thewhitmaninstitute.org).



## Principles Of Trust-Based Philanthropy (cont.)

	Solicit & Act on Feedback	Simplify & Streamline Paperwork	Support Beyond the Check
RATIONALE	Grantees provide valuable perspective that can help inform a funder's support and services.	Minimizing proposal and report requirements frees up nonprofits to concentrate on their mission.	Responsive, adaptive non-monetary support can help foster healthier organizations by bolstering leadership and capacity.
PRACTICES & CONSIDERATIONS	<ul style="list-style-type: none"> <li>• Anonymously survey grantees—or find ways to ask them conversationally—about your practices as a funder</li> <li>• Before making major changes or updates, glean grantee feedback to inform those changes</li> <li>• Always inform grantees on how their input was used to inform your decision(s)</li> </ul>	<ul style="list-style-type: none"> <li>• Accept proposals and reports written for other funders</li> <li>• Use a screening process (such as a short LOI) that can help determine whether funding is likely before inviting a full proposal</li> <li>• Compensate grantees for their time preparing a proposal</li> <li>• Take a primarily conversational approach to learning about grantees' work</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce grantees to other funders and like-minded organizations</li> <li>• Highlight grantees' work</li> <li>• Provide spaces for reflection, learning, and connection</li> <li>• Build and nurture peer learning networks</li> <li>• Serve as a sounding board or provide counsel to grantee partners, as requested</li> <li>• Host restorative retreats geared toward inspiration and renewal</li> </ul>
BENEFITS	<ul style="list-style-type: none"> <li>• Offers insight that can help funders better serve grantees</li> <li>• Encourages mutual trust and authenticity</li> <li>• Improves funder practices and policies, with the potential to provide learning for the field of philanthropy</li> </ul>	<ul style="list-style-type: none"> <li>• Less time spent on paperwork, and more time for genuine learning and conversation with grantees</li> <li>• Allows for deeper, more interactive relationships with grantees</li> </ul>	<ul style="list-style-type: none"> <li>• Helps build the capacity and strength of leaders and organizations over time</li> <li>• Fosters a deeper sense of connection to grantees and their work</li> <li>• Creates opportunities to learn more about grantees' work and organizational context</li> </ul>
SKEPTICS CORNER	<p><b>How can we respond to feedback when most grantees don't fully understand the context of what we're dealing with as funders and foundations leaders?</b> Soliciting and acting on feedback does not mean you have to satisfy every suggestion you get. The goal is to listen to your grantees, trust that they know their experience better than you do, and listen for general themes that can improve your interactions with grantees overall.</p>	<p><b>How do you ensure accountability – and measure impact – with limited paperwork?</b> By understanding a grantee's self-defined measures of success, and engaging in dialogue about how these measures are evolving over time, this principle inherently creates opportunities for learning and improvement for both organizations. When discussions around impact are housed within a relationship based on learning, this inherently builds greater accountability on both sides. Regarding financial accountability, trust-based funders make time to review publicly available 990s and annual reports as part of "Doing the Homework".</p>	<p><b>How do you find the time to provide this kind of support?</b> In trust-based philanthropy, the role of the program officer or director is conceptualized as a learning role, so providing this type of support part and parcel of a trust-based framework. If your institution is able to embrace other principles of trust-based philanthropy—especially unrestricted funding and simplified paperwork—it will free up more time to offer support beyond the check.</p>