Partnering With Intermediaries

funded by the Bill & Melinda Gates Foundation

Tom David
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Executive Summary

A prime strategy for extending a foundation's reach and augmenting the knowledge and skills of its staff is to partner with a variety of intermediary organizations (IOs). For the purposes of this discussion, an IO is defined as a grantee or contractor that performs important functions in support of a foundation's mission that it otherwise might handle itself. In addition to providing specialized expertise, IOs can take on a variety of critical assignments, including program design and management, regranting, fiscal sponsorship, capacity building with subgrantees and convening and coordination of a field.

With the increase in size of U.S.-based foundations and the emergence of large new foundations with an international mission, understanding the potential contribution of IOs to effective philanthropy is a topic of growing importance. Partnering with IOs is a seemingly simple but deceptively challenging aspect of large-scale grantmaking. What's been learned about those partnerships by those directly engaged? To answer that question, I have conducted 60 telephone and in-person interviews with funders, IOs and other observers of the field, who were very generous with their time and their insights. That data forms the basis for this report.

The relationship between a foundation and an intermediary is more complicated than that with a typical grantee. Since an IO is being asked to take on a function *for* the foundation, others may tend to view it as an agent *of* the foundation. Lines of power and authority can become blurred when an outside entity is making grants and convening key parties with the foundation's dollars and under the foundation's imprimatur. The issue of foundation control of the IO's work can create tensions, both openly expressed and unexpressed. Successful management of these relationships requires time, sensitivity and ongoing careful maintenance. It requires additional effort from already busy program officers, but the ultimate success of these grants hinges on all parties going that "extra mile."

An important starting point for those conversations is to propose some "first principles" for working with intermediaries. Four emerged from the interviews: clarity; partnership; networks; and the long view. Perhaps most important is the necessary investment of time and energy for the foundation to be clear on what it wants to achieve in working with IOs, to unambiguously communicate those expectations to its prospective partners, and to engage in face-to-face dialogue to be certain that all parties are on the same page. Closely related is the delineation and demarcation of what partnership means to both parties. IOs expect to be treated as trusted and valued colleagues. Given the power differential between foundations and grantees, it can be challenging to directly address issues such as mutual accountability, control, flexibility, and tolerance for risk. But real partners must be committed to candid communication and to learning together.

One of the most important functions an IO can perform is to help connect and nurture networks of grantees and other organizations. Network management is a specific skill set (and mindset) that is critical for both IOs and their foundation partners if they aspire to field building as one of their ultimate goals. This also necessitates taking a long view. Foundations should look at their partnerships with IOs as part of a multi-year investment strategy to build essential infrastructure in their fields of interest. It will require sustained, systematic investment in their capacity and leadership to help them realize their full potential.

What should a foundation look for in an intermediary? In addition to the requisite deep content knowledge and technical expertise, the foundation also needs to know how the IO does its business…who it connects with in the world and how it is perceived by them. Our external interviewees identified a variety of criteria for choosing an intermediary: shared values; leadership; internal management; relationships; practical knowledge; convening; grantmaking; and learning.

What are the keys to successfully managing the relationship with an IO? First and foremost, a big foundation must be continually aware of the power differential between itself and even its largest grantees and how that can distort perceptions and communications. It must find the right balance between control and grantee autonomy, recognizing that the more engaged it becomes in the work of the IO, the less it will be able to hold it directly accountable for results. The foundation must also set the tone for open and candid communications and consultation, building in mechanisms for peer review, evaluation and mutual learning.

Providing adequate resources for infrastructure is also essential. To be effective, IOs must be able to recruit and retain talented staff, support key business operations and systems and maintain appropriate reserves of working capital. Foundations could invest in creative vehicles such as "operating endowment" funds to strengthen and support the work of its IO partners.

Support for capacity building of IOs came up so often in the interviews that it deserves special mention. In fields that have been chronically undercapitalized, foundations cannot afford to ignore capacity issues. Given their size, today's foundations have an opportunity to seriously capitalize key intermediary institutions and to think in generational terms in a way that few other foundation have done before. They can make big bets to grow partnerships for the long term that can literally transform their fields of interest.

Helping IOs scale up their work is a particular concern shared by many of the largest foundations, and our interviewees suggested several principles for how that might be done thoughtfully and responsibly. A long-term financial commitment is essential as well as a realistic view of the resources above and beyond project dollars that are required to grow and sustain an organization. At the same time, a foundation needs to be conscious of the potential for "colonization" of its grantees if it becomes their major funding source. It's also important to acknowledge the toll that rapid growth can take on an IO, and to plan for conscious change management. An intriguing strategy would be for a foundation to invest in simultaneously scaling up a cohort of IOs, perhaps dedicating a unit within the foundation's staff to the special challenges of managing that process.

Creating a new IO was something that most interviewees felt should only be done with caution or in very specific circumstances. As an alternative, it was suggested that foundations scale up an existing organization or have the patience to identify and nurture creative individuals who are already endeavoring to start up a similar vehicle. Talking with funders who had successfully started up intermediaries, there were a number of lessons that have emerged from their experience. It is very time intensive and expensive to do it well. Staff should expect to be very involved for the first year or two, and quick results should not be expected. Since a new IO has the potential to alter the landscape of a field, it's important to engage in a process of consultation with existing organizations, if only to fully understand their point of view before taking action. Sustainability also takes on special meaning in the case of a foundation-initiated start-up. If diversified funding is the goal, other funders should be engaged in the planning process and incorporated as full partners at inception rather than waiting to approach them after the new IO has been created.

A number of potential opportunities for foundation investment in IO partnerships emerged from the interviews, ranging from existing full-service intermediaries to other private foundations to working with bilateral donors or pooled funds or helping to support the growth of new foundations around the world. There are also numerous examples of intermediaries which have helped to create new markets in areas such as supportive housing and energy alternatives. Intriguing new hybrid intermediaries are also emerging that combine the best of for-profit and non-profit thinking and practice.

One thing is clear. Foundations have an opportunity to lead in this arena. There was widespread agreement that the timing is excellent for innovations in foundation partnerships with intermediaries. Large U.S.-based foundations are uniquely positioned to set a new standard for creativity, authenticity and generosity in their partnerships with intermediaries and funding peers in their spheres of interest. Those foundations not only has the resources but the potential to really do it right…for the long-term benefit of the entire sector.

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Over a ten-year period beginning in 1996, the William and Flora Hewlett Foundation invested over $20 million dollars in the Neighborhood Improvement Initiative (NII), an ambitious effort to engage local residents and organizations in a coordinated effort to reduce poverty and develop new leadership in three low-income neighborhoods of the San Francisco Bay Area. It was a complex undertaking that engaged three community foundations as “managing partners” of the local programs and also created new local intermediary organizations in each of the neighborhoods.

The Foundation and its partners invested a great deal of personal and financial resources in the Initiative, but “in the end, despite some important accomplishments, NII did not fulfill its participants’ hopes and expectations for broad, deep and sustainable community change” (Brown & Fiester, 2007). As the literature on foundation-sponsored community change initiatives shows, this experience was certainly not unique to NII (e.g. Brown & Garg, 1997; Tendler, 1987). What was unusual was that the Hewlett Foundation commissioned a thorough review of the Initiative to share what could be learned from its experience. Many of the most significant lessons related to difficulties in the Foundation’s working relationships with its intermediary partners.

In this case, despite a shared commitment to the larger aims of the Initiative, numerous factors combined to undermine the Foundation’s work with its intermediaries, including: a lack of pre-existing relationships and understanding of each others’ goals; capacities and cultures; power dynamics typical of the traditional grantor/grantee relationship; and lack of clarity about mutual responsibilities and accountabilities. Hewlett expressed disappointment that the community foundations seemed to lack strategic capacity and had trouble meeting NII’s financial management and reporting requirements. The community foundations, in turn, often felt that Hewlett did not treat them as respected partners and lacked a commitment to (and strategy for) building the community foundations’ capacity, which was one of NII’s stated goals.

In their excellent post-mortem of the Initiative, Prue Brown and Leila Fiester are careful to note that “it is important to underscore here that, as in most partnerships, these challenges were neither Hewlett’s nor the community foundations’ alone but characterized the way each party related to the other, often to their mutual disadvantage.” They go on to synthesize a list of observations (see box below) aimed at improving the quality of the partnership. While they may seem fundamental, it is precisely these basic relationship factors that help to determine the success or failure of foundation-intermediary partnerships, no matter how elegant the initial theory of change. These themes were also echoed in the interviews conducted for this project.

***Lessons from the Neighborhood Improvement Initiative**:*

Make sure the sponsoring foundation's and the community foundation's board and staff are clear and in agreement internally about the Initiative's goals, strategies, risks, and timeline for achieving results.

Treat the community foundation as a fellow change agent rather than as a technician.

Take time to understand each other's goals, capacities and cultures.

Bring the community foundation into the initiative early enough to develop a shared vision for change.

Address the dynamic that unequal power brings to the relationship

Establish a tone of mutual respect, transparency, and shared risk taking.

Build the relationship between institutions, not just individuals.

Clarify roles, mutual accountabilities, and rules of engagement.

(Brown & Fiester, 2007)

No foundation, no matter how large, can take on all the jobs required to effectively pursue its mission all by itself. Indeed, one of the most important ways in which a foundation can extend its reach is by identifying and working with a variety of partner organizations. They can serve as extended eyes and ears for the foundation, provide specialized skills and knowledge, and also manage transactions with subgrantees that it would not be efficient for the foundation itself to take on. But any time a foundation interposes an intermediary in between itself and the ultimate beneficiaries of its funding, there are bound to be challenges. Even when all parties are seemingly aligned in purpose and intent, the nuances of the working relationship can be critical to the success of the ultimate venture, as seen in the example above.

The purpose of this paper is to explore the dimensions of foundation-intermediary partnerships in order to inform future philanthropic strategy and practice. A good number of U.S.-based foundations have already had extensive experience with intermediaries. Although there is an increasing literature on this topic, many of the hard lessons that have been learned have not been written down. To tap their collective wisdom about such partnerships, I conducted 60 telephone and in-person interviews with funders, intermediaries and observers of the sector (see p. 29 for names). They were very generous with their time and their insights, and I have done my best to capture the essence of what they have learned. But, ultimately, I am responsible for the conclusions that are shared below.

What is an intermediary organization?

As Peter Szanton observed in his 2003 monograph on this topic, there are many definitions and models of intermediaries. For the purposes of this discussion, I have elected to employ a very simple definition: an intermediary organization (IO) is a grantee or contractor that performs important functions in support of the Foundation's mission that it otherwise might handle itself. An IO may serve as mid-level manager or broker of:

- **Financial Resources** (e.g. regranting; loans; financial advisor; fiscal sponsor for unincorporated projects);

- **Program Design and Management** (e.g. serving as a program office to manage an initiative for the Foundation; overseeing a grant portfolio; engaging in grant monitoring and due diligence; serving as a coordinating mechanism for a field);

- **Capacity Building** (conducting assessments of subgrantee capacity; providing technical assistance to subgrantees; managing related programs for subgrantees such as information technology, strategic communications, leadership development, etc.);

- **Reach** (connecting the foundation to populations, communities and regions where it might ordinarily not have contacts; crossing boundaries of race, class, language, culture and nationality);

- **Knowledge** (providing subject matter or regional expertise, including information the foundation would not otherwise be able to access within a limited timeframe; overseeing R & D efforts; synthesizing what is known about a topic area; advice on strategy; program evaluation and learning); and/or

- **Public Policy** (e.g. conducting policy analysis, educating decision makers, designing and managing public education campaigns).

Many intermediaries qualify on more than one of these functions. This inquiry has included organizations that meet any one of these conditions.

A key strategic decision for every foundation is what functions to take on yourself and what to delegate to intermediaries. There are costs and benefits to each option one could choose. In the absence of a specific context, there is only so much detailed advice that a paper like this can provide. What I have attempted to do here is to provide the reader with ways to think about those decisions.

There was general agreement among those I interviewed that the need is great and the timing is excellent for innovations in foundation partnerships with intermediaries. Particularly on the international stage, there are few examples of IOs that most would point to as exemplars of best practice. In particular, large international NGOs (INGOs) have a mixed track record at best. U.S.-based foundations are uniquely positioned to influence the evolution and growth of the field.

What's different about working with intermediaries?

In some ways, the principles for working with intermediaries are similar to those for working with any grantee, but there are some key differences. Since an IO is being asked to take on a function *for* a foundation, the relationship is more complicated than if an organization is being funded for independent work that it has proposed. Even though a foundation may not see the IO as its "agent," it is possible that it will be perceived as such by subgrantees and others. Lines of power and authority can become fuzzy when an outside entity is making grants and convening key parties with a foundation's dollars and under a foundation's imprimatur.

The issue of control is also central to the foundation-intermediary relationship. If the IO is seen as acting as a proxy for the foundation or as a mechanism to execute its strategy, what level of day-to-day involvement and control is appropriate? Legally, the foundation is obligated to maintain a certain distance from a grantee's internal operations. Also, the more involved the foundation becomes in directing an IO's work on a daily basis, the harder it will ultimately be to hold it accountable for its performance on the grant objectives. But, particularly if the foundation is the sole or major funder of an IO's work, it could feel that it's not unreasonable to expect a significant degree of influence over the way it carries out its assignment. These are the kinds of subtleties which set the tone (and present unique challenges) for the foundation-intermediary relationship.

An important starting point for that conversation is to propose some **"first principles"** for working with intermediaries. Four emerged from my interviews: clarity; partnership; networks; and the long view.

Clarity. Mentioned most frequently in the interviews was the importance of a foundation clearly articulating what it hopes to achieve in working with intermediaries and what the parameters of that working relationship will be. Does the foundation see intermediaries as extensions of itself or as strategic partners who bring special expertise and valuable community connections to the work? Does the foundation see intermediaries as an opportunity to "outsource" projects and lower administrative expenses instead of investing in internal capacity or as a way of building strategic alliances with organizations whose strengths and capabilities complement its own?

A foundation may have different intentions for intermediaries depending on the particular program and the stage of its development. But it's critically important that this conversation takes place, not only internally, but also with all prospective intermediary partners. Time invested at the front end of these arrangements discussing expectations about roles and responsibilities, (including goals, milestones, accountability, communication, subtleties of branding and how all of the above will be communicated to the outside world) is the most effective prevention for problems further down the line.

One of the ways in which foundations fail is by not taking this challenge seriously enough. Too often they enter into grant agreements assuming that everyone involved shares the same understandings about not only the "what" but also the "why" of the project. Grantees can be equally culpable. The lure of the grant dollars and the potential to build a relationship with a major funder can get in the way of asking important clarifying questions at the initial stages of a project. The more explicit a foundation can be about its motivations and expectations (including the degree of control it intends to exert over the work), the better. The degree to which clarity is achieved on boundaries between the foundation and intermediary and the ground rules for the engagement lays the foundation for everything that follows.

Partnership. When experienced intermediaries were asked about the most important aspects of relationship management with foundations, the second most frequently mentioned principle (after clarity) was trust and respect. Like any other business partnership, they want to be valued for their professional expertise and not simply viewed as a subcontractor whose every move must be monitored and micro-managed. Naturally, it takes time for trust to fully develop, but once a foundation has conducted thorough due diligence and selected its intermediary grantees, they expect to be treated as professional peers.

They also have a reason to expect mutual accountability and candid communication, just as a foundation needs honest reporting and feedback from its grantees. Real partners are committed to learning together for mutual benefit. That includes leaving space for creativity, spontaneity and flexibility in order to allow for midcourse adjustments in response to what is being learned.

Given the power differential between funders and grantees, foundations often underestimate the degree to which seemingly casual comments can be viewed as directives. In their need to ensure that the grant achieves its objectives, too often foundation staff can exert control over their grantees' actions in inappropriate ways. They fail to grasp the paradoxical fact that the more the funders exert control, the less able they are to hold grantees fully accountable for results.

A partnership with an intermediary is qualitatively different and deeper than a working relationship with a typical grantee. Particularly when the intermediary is engaged in regranting or convening in the name of the foundation, all parties need to be on the same wavelength. They don't need to think the same or see the world in quite the same way, but they do need to have open and clear channels of communication, characterized by mutual respect. Some intermediaries described to me ways in which their long-time foundation partners have made an effort to include them in internal staff meetings and trainings to ensure the most effective exchange of values and world views.

First Principles for Partnering with Intermediaries

Clarity (re: goals, milestones, accountability, communication, branding)

Partnership (re: trust, respect, power differential, role expectations)

Networks (re: convening and connecting for field building)

Long View (multi-year investment in building capacity and leadership)

Networks. It is increasingly evident that one of the most important functions that an intermediary can perform is to effectively facilitate the formation and subsequent management of networks of grantees and other organizations. If field building is one of the larger strategic goals of a foundation, it is important to provide venues that set the tone for true collaboration among agencies. They can be brought together periodically to share progress in a way that values and builds on the experience of each participant. At least one interviewee contrasted that desired state of affairs with the competitive culture that has been spawned among grantees of US AID, where the dynamics of public meetings revolve around "showing off for the donor" at the expense of real dialogue. That experience alone argues for a prominent role for intermediaries in network management, with the foundation a step removed.

As Paul Vandeventer and Myrna Mandell (2007) observe, "building and operating a well-functioning network requires a fundamentally different approach than building and operating a classic organization. Failure to recognize this basic truth has hindered – or stymied altogether – many an attempt to unite and achieve cooperative, coordinated and collaborative effectiveness around policy or systems change in the public interest."
It takes a different kind of skill set (including a working knowledge of new technologies) to support the optimal functioning of networks where no one is in charge, but each member is able to articulate the core purpose that binds them together.

A related opportunity for a foundation is to develop and support networks of the intermediaries that it funds. It can be challenging to bring organizations together that might otherwise view each other as competitors, but if funders are going to fully realize the opportunity to learn from their work, it's essential to synthesize and share knowledge across intermediaries and grantmaking programs. That shared intellectual capital can be one of its most important achievements. Few foundations have fully explored this opportunity. Both the Robert Wood Johnson and Annie E. Casey foundations have learned that periodic convenings of their funded intermediaries have had a significant impact on the quality of their work. They have only begun to scratch the surface of the potential value of those networks. But the crucial first step is to look at the work of intermediaries through a network lens.

Long View. While foundations are uniquely positioned to apply a long-term perspective to their work, most allow themselves to become trapped in short-term thinking. But as one interviewee observed, "there are no shortcuts to lasting community change." In alignment with that principle, a foundation should look at its partnerships with intermediaries as part of a multi-year investment in building critical infrastructure within its fields of interest. Strong intermediaries can fill significant gaps in the field with critical thinking, coordinated action, strategic communication and knowledge development. Few will initially present themselves to a foundation with all those capabilities in place. It will require sustained, systematic investment in their capacity to help them realize their full potential.

It also takes time to fully understand the ecology of the fields in which a foundation is intervening. While knowledge will always be imperfect, it is worth taking the time to engage with intermediaries to map out everyone's assumptions verbally and graphically to develop a shared picture or systems map of the ecosystem. This process is richer and more engaging than a foundation simply developing its own "theory of change." It opens the foundation up to multiple diverse perspectives and models collaborative problem solving. These maps can be updated periodically to assess the ways in which the context for the work is evolving. But what is most important is the investment in trying to understand the big picture as a guide for continuous learning and action.

Another aspect of the long view is to utilize intermediaries to invest in leadership development. The Ford Foundation's long-term investment in fellowships through the International Institute for Education and its partners around the world has paid multiple benefits in patiently building a critical mass of young leaders. Where local government is underfunded and lacking in capacity (as in much of the Global South), other foundations have also found it beneficial to invest in leadership training and skill development for public officials. While it is essential to be focused on outcomes, it is equally critical to be fully aware of the gaps in institutional and personal capacity that can thwart implementation of the most well-thought-out grantmaking program. Strategy and capacity are two sides of the same coin, and the latter is not typically susceptible to a quick fix.

What are the challenges of partnering with Intermediaries?

While there are multiple advantages to working with intermediaries, it's also worth taking the time up front to ponder some of the potential complications that can ensue. Any time a foundation places someone else between itself and the ultimate beneficiaries of its funding, the dynamics of that relationship change. Sometimes they change in subtle ways; at other times in ways that can be significant and even unexpected. No matter how carefully an intermediary is selected and despite the specific skill sets it may bring to the work, it is not the same as if the foundation were doing the work itself. Organizational cultures are bound to differ and intermediaries will inevitably handle some situations differently than the foundation itself would.

If a foundation has developed a coherent operational philosophy and specific ways of working with its grantees, this can be an ongoing challenge. Regardless of the foundation's best efforts at monitoring, much of what goes on will simply be outside of its control. So the first advice many of the interviewees would offer is to not try and outsource functions that should be part of the foundation's core. While a concern about administrative costs is appropriate and admirable, it is a mistake for a foundation to put an arbitrary lid on its expenses before calculating the actual cost of doing its business. Several cited the example of US AID, which due to budget cuts has lost a good deal of its former internal technical capacity and has outsourced those functions to external expert contractors. Many interviewees observed that it is ultimately no cheaper to use intermediaries. The justification may be reduced administrative expenses, but the ultimate benefit is the intermediaries' special expertise, not reduced costs.

Also, no matter how clear a foundation and its intermediary partners may be on their respective roles among themselves, many in the world will perceive intermediaries as "agents" or representatives of the foundation. This can be a heady experience for some intermediaries, who may not always clearly draw the line for others about where their authority ends and the foundation's begins. In some cases, this may add to the foundation's luster. In others, the foundation may be blamed for actions it has not intended or taken.

If an intermediary is a regrantor for a foundation, grantees may lament the inability to form a direct relationship with the foundation itself. As one interviewee put it, “people hunger for dignified interaction with the donor. They want a person-to-person connection, not just a monetary transaction.” Indeed, they may come to resent the intermediary and even perceive it as a competitor for resources. The behavior of some large INGOs has exacerbated that tension. Instead of “working themselves out of a job,” by building local capacity, many now see themselves as permanent transnational institutions, competing with local organizations for funding and the best talent. In its most egregious form, some have even attempted to dissuade giving to local organizations since it might diminish their authority and influence.

When a foundation outsources grantmaking, it also becomes buffered from what is happening on the ground. What is gained in transaction efficiency may be potentially lost in missed learning. Despite its best efforts at monitoring, the information it receives will ultimately be filtered. So, intermediaries should not be seen as an accountability mechanism for foundations. Indeed, the foundation’s management and oversight responsibilities could very well increase in working with intermediaries.

Some challenges of working with IOs

- ***Not ultimately less expensive***
- ***Potential for role confusion/blurring***
- ***Puts the Foundation at a distance from ultimate beneficiaries***
- ***Potential for loss of independence; financial dependency***
- ***Puts the Foundation at a distance from potential learning***

Finally, for large foundations there is the special challenge of coordinating across multiple intermediaries. What is best centralized and what is most appropriately decentralized? For years, the Robert Wood Johnson Foundation has located its program offices within the institutions where leading thinkers are based. It has learned, however, that subject matter expertise and program management skills do not necessarily come together. They are now experimenting with generic program support offices to improve their project management capabilities.

When a foundation repeatedly uses the same intermediaries for its work, there is also the danger of creating its own industry. As a foundation becomes responsible for a greater and greater share of an organization’s revenues, that organization can become essentially an extension of the foundation (or perceived as such by other potential donors). Such a perceived takeover of an organization by the foundation’s agenda serves neither party well. Something a foundation particularly needs from an intermediary is its independent viewpoint and ability to say “no” to ideas that it feels are not well founded. That kind of candor is more difficult as an organization becomes a subsidiary of the foundation.

All of these cautions are based on the past experience of funders with intermediaries. Some are unavoidable challenges, but the more they can be anticipated, the more successful a foundation's work with intermediaries is likely to be. Other key factors are proper due diligence in the selection process and a full understanding of the factors in managing relationships with intermediaries. I will now deal with each of those in turn.

What should a foundation look for in an intermediary?

The due diligence process for choosing an intermediary partner is by necessity more complex than vetting a typical grant applicant. For the reasons discussed above, a foundation needs to know not only whether the organization possesses the requisite deep content knowledge and technical expertise, but also how it does its business…who it connects with in the world and how it is perceived by them. While there is no simple checklist, our interviewees were quite articulate in specifying a variety of criteria a foundation should consider in choosing an intermediary:

Shared Values. Do its organizational mission, vision and underlying values align with those of the foundation? Does it have the big picture? Are its theory of action and strategies linked with those articulated by the foundation? Is it already committed to the foundation's agenda vs. "willing to take it on for the money?" As one interviewee put it, "most people in the field are motivated by problems. Intermediaries need to be solution builders."

Leadership. While this is an important element in the selection of any grantee, it takes on special significance in the case of an intermediary. Since the organization is likely to be viewed as a strategic partner of the foundation, its executive and board leadership should manifest the highest level of integrity. It should also be able to "speak truth to power" and provide candid feedback to the foundation, even at the risk of annoying the hand that feeds the organization.

Internal Management. Since the intermediary is likely to be entrusted with large sums of the foundation's dollars, it goes without saying that it should have impeccable financial and operating systems, characterized by a high level of accountability and redundancy. It should have skilled financial managers on board and have an institution-wide commitment to quality control. Are its "run rate" and other transaction fees appropriate and reasonable given the context in which the foundation is operating?

Relationships. How connected is the intermediary to people on the ground? Does it have an extensive network of local advisors to help it understand local context? Is it connected with local political leaders without being enmeshed or too embedded in the local power structure? Does it have reach in the philanthropic community? What is its track record with other donors?

IO Profile: The power of relationships

*The **Global Greengrants Fund** is a public charity supported by foundations and individuals. It bridges the gap between those who can offer financial support and grassroots groups in developing countries. Since 1993, it has made more than 2000 grants ranging from $500 to $5,000 to groups in 113 countries. To find grantees, GGF relies on nearly 100 volunteer advisors around the world, linked in a network of regional and global advisory boards. Those volunteers allow GGF to capitalize on the expertise of people who know first hand where the most urgent and promising work is happening. Its website serves as a bulletin board for news on indigenous environmental efforts around the world.*

Practical Knowledge. Does its staff have direct experience working with nonprofits and are they "street smart" about the realities of local power structures and project implementation? Is its staff diverse in composition and representative of the kinds of populations it will be dealing with? Does it possess the kind of on-the-ground experience and legitimacy that will equip it to offer valuable and realistic technical assistance to grantees?

Convening. Does it have experience as a legitimate convener? What is its track record in working with coalitions and brokering relationships among agencies and across sectors? Is it effective at crossing institutional boundaries and building bridges, including among unexpected allies? Does it have the ability to skillfully manage networks for peer learning and for systems change?

Grantmaking. If an intermediary is to be a regrantor, what experience does it have as a grantmaker? This is a specific skill set, and it shouldn't be assumed that just any organization can do it well. Can it vet potential grantees as effectively as the foundation's staff might? Does it have appropriate systems and structures to distribute and monitor significant numbers of grants? Does its staff possess the right balance of analytic skill and humility that is essential for good grantmaking, i.e. is its style consonant with how the foundation likes to treat its grantees?

Learning. Is it committed to learning from its work and the work of its partners and sharing those learnings with the foundation and others? Does it have a capacity for innovative and nimble thinking? Does it possess the flexibility to shift gears on short notice and adjust strategy in response to what is being learned on the ground? Does it possess the capacity to conduct appropriate monitoring and evaluation activities and to use data in decision making?

Reputation. Is it perceived as credible and knowledgeable and known for its excellent judgment? Is it also respected as an organization with character? Is it known for being balanced and fair in its dealings with others? Are others comfortable working with them and confident in their ability to deliver?

Talent. Does it have a "deep bench" of sophisticated, experienced staff that will ensure capable management at the project level as well as at the top of the organization? Does it have a history of low turnover among its skilled leaders? On the flip side, is this a group that demonstrates the potential for creativity and innovation, even if it does not have an established track record? In the words of one interviewee, “are they people who expect to change the world?”

Results Orientation. Is this an outcomes-driven organization that is used to measuring its performance against benchmarks and milestones? Does it have hard-headed, results oriented management? Does it also have the sensitivity and ability to assess the capacity and needs of subgrantees and to provide appropriate guidance and technical assistance to continuously improve their performance?

Capacity for Growth. Does the organization have a strategic plan and a business plan? Does it have the absorptive capacity to take substantial sums of money and does it have the ability and commitment to scale up its operations? Is it the kind of organization that can move quickly to exploit opportunities as they arise? How can the foundation help with planning, access to flexible capital and appropriate infrastructure to support growth?

Even though not every intermediary will be asked to take on all of these functions, it’s hard to overstate the importance of qualities like values, legitimacy and practical knowledge. Too often, “experts” lack the ability to connect with the people doing the work. As one interviewee observed, “We have all seen what happens when we put large amounts of money into the wrong hands and they don’t connect with the people on the ground. Real social change happens and is sustained at the village level. An intermediary needs to be able to partner with people on the ground and use their understanding of what needs to be done.” Much of the success of an intermediary hinges on the subtle cultural ability to bridge two worlds, e.g. the world of the donor and those on the ground or the political sphere and the grassroots.

What does it take to manage the relationship effectively?

Simply because of the immense power differential between a foundation and even its largest intermediary partners, communication about the most important aspects of the funding relationship can be difficult at best. That requires a strong degree of self awareness on the part of the foundation. The staff must be ever conscious of the unprecedented power they wield, and how that distorts even the seemingly simplest interactions, not to mention how it affects the entire landscape of other NGOs and funders. One interviewee likened it to “the wake of a battleship.” Another observed rather poetically that “a planet doesn’t realize how it bends light around it.”

Managing grantee relationships, particularly intermediary relationships, requires a set of skills that is different from that of the typical Program Officer. They are most often hired for their subject matter expertise rather than their management background. The most successful foundation-intermediary relationships are characterized by mutual trust and respect and a subtle balance between detachment and engagement on the part of the Program Officer. It requires an intimate knowledge of the field and a mature sense of self confidence to engage strategically rather than tactically, and to be an active listener. Intermediaries feel that a Program Officer is most likely to add value to their relationship if that input comes out of listening. As one seasoned interviewee put it, “nobody wants advice; everybody wants help.”

Foundations devalue the importance of relationship management at their peril. One of Steve Schroeder's major lessons learned after ten years as CEO of the Robert Wood Johnson Foundation was that "execution trumps strategy." The most brilliantly crafted grantmaking logic model will remain unfulfilled absent the proper interpersonal chemistry among principal players and skillful brokering of institutional relationships required to truly test its potential. An entire training course could be designed to assist foundation staff with the nuances of relationship management. Following are four themes that emerged from the interviews:

Control vs. Flexibility. Even some of the most enthusiastic advocates of "engaged" grantmaking have come to recognize the limits of funder control. The most appropriate place for high engagement is at the front end of a grant relationship. Once the foundation has clearly stated its expectations and has spent time with the grantee to develop appropriate timelines and benchmarks, it's time to let the grantee do the work. In my experience, the most valuable way to conduct that conversation is for the foundation to articulate its goals and ask the grantee to respond with a plan. Once both parties are clear on what success will look like, give the intermediary the space to do the work, while remaining available as a sounding board as needed.

In the concern for accountability, it's important that the foundation not engage in micromanagement such that the intermediary is forced to sacrifice the creativity and spontaneity that make it vital. Don't force institutional homogeneity at the expense of adaptability. One of the interviewees told the story of American foundations investing in Central Europe after the breakup of the Soviet Union. They identified a set of good intermediaries and then delegated a lot of the responsibility for making key decisions to their local partners. In contrast, the EU donors were not as successful at attracting local partners due to their bureaucratic, inflexible, top-down systems of distributing funding. The US donors had more impact with fewer dollars due to their trust in the grantees and their speed in making the most of the opportunities that presented themselves.

Open Communication and Consultation. When foundations talk about accountability, they are typically referring to holding grantees accountable for results. But accountability goes both ways, and in the case of intermediaries there is the added dimension of "downward accountability" to the ultimate beneficiaries of the foundation's funding. As one interviewee put it, "there should be no innovation without consultation." Does the field see the issue in the same way that the foundation does? All parties do not need to see eye-to-eye, but absent that process of consultation, the foundation (and its intermediaries) are vulnerable to perceptions of hubris and arrogance.

To establish and maintain open channels of communication, the Foundation must make it clear that it is not only open to but committed to learning from its grantees. That involves suspending preliminary judgments in order to foster genuine dialogue. If an intermediary is to do its job effectively, local accountability must be as important as accountability to the funder. Rather than an onerous burden, this presents an opportunity to think creatively about how to engage the brain power in an intermediary to work side-by-side with the foundation while benefiting from the grounded knowledge of the field. It is also a very effective way to model the basic principles of field building.

Adequate Support for Infrastructure. Many foundations balk at discussions of institutional overhead and support for general operations. But if an intermediary is to do its job properly, it must have a commitment of adequate core funding over a multi-year period. The more a foundation asks of an intermediary, the more willing it should be to commit to long-term, generous support. This is not the place to cut corners. To be effective, intermediaries must have adequate resources to hire and keep talented staff, to support key business operations and systems and to maintain appropriate reserves of working capital. Simplified budgeting to permit more flexibility in expenditures is another dimension of this challenge. These are “luxuries” that are available to very few organizations in the social sector, yet if they are not adequately funded they can significantly compromise an intermediary’s effectiveness.

If an intermediary is to fulfill important programmatic functions for the foundation, it is appropriate to invest in its staff just as the foundation would invest in its own staff. Continuity of staffing is absolutely essential in multi-year projects. Many major foundation initiatives have stumbled because of the turnover of key personnel, who take with them the institutional memory and network of relationships key to the project’s success. Perhaps the greatest frustration expressed by experienced intermediaries about their dealings with foundations is the foundations’ narrowness of perspective on this question. It’s difficult to overstate the importance of adequate support for infrastructure as a key lever for strengthening and boosting the effectiveness of intermediary partners. As one grantee observed, “you don’t want to pick an airline based on how little they spend on maintenance.”

Systems for Learning and Reflection. It’s possible for intermediaries to become isolated and arrogant just as it is for foundations. Therefore, it’s important to build in mechanisms for peer review, evaluation and learning. Intermediaries should be in the business of constantly justifying their existence by managing multiple feedback loops to assess their ongoing contributions to the field. A foundation can help by providing adequate funding for evaluation, but also by creating a space for intermediaries to talk with one another, compare notes and learn from one another. A good investment would be to support a learning community among their intermediaries as a mechanism to help gather knowledge and build the field. Foundation staff then needs to dedicate the time to engage directly in those learning activities with their intermediary partners.

Keys to managing the Foundation-IO relationship

- ***Foundation self awareness re: power differential***
- ***Flexibility/Tolerance for Risk***
- ***Open communication and consultation***
- ***Adequate support for infrastructure***
- ***Systems for learning and reflection***

What's an appropriate foundation role in building the capacity of intermediaries?

The subject of support for capacity building came up so frequently in the interviews that it warrants its own discussion as a principle of effective working relationships between foundations and intermediaries. In their haste to get to desired outcomes, foundations have often overlooked the issue of grantee capacity or seen it as merely a marginal cost compared to the core endeavor of implementing a project. But there's now ample evidence that attention to capacity building is an essential element of effective grantmaking.

In a sector that has been chronically undercapitalized, even the largest and most experienced intermediaries all have capacity issues. Consequently, it is important that foundations recognize this fact and approach funding conversations with an attitude that seeks to build the assets of these key organizations if they are serious about advancing the field at large. Capacity building should not be seen as an impediment or as an "add on" but as something that is essential to the accomplishment of the desired outcomes. It may take a bit of cognitive reframing on the part of foundations, which have traditionally not seen it as their role to support "infrastructure" or "operating expenses" to grasp the critical importance of this point. As one experienced intermediary CEO put it, "it's not an either/or situation…it needs to be both/and."

Too often, foundations have been naïve about the real costs of effecting sustainable social change. Private corporations are clear about what it takes to hire and retain top talent and to invest in research and development and appropriate infrastructure to be competitive in a global marketplace. Why should it be any different in the social sector? While there is an important discipline to running a "lean and mean" shop, most social sector organizations have never had the opportunity to have enough "protein" in their diet to recognize their potential. As long as foundations were only putting up marginal dollars, they could rationalize not investing in infrastructure. But today's large foundations can afford to take a more strategic view of capacity building.

Foundations have the opportunity to seriously capitalize key intermediary institutions and to think in generational terms in a way that few funders have been able to do before. They can make big bets to grow partnerships for the long term that will transform its fields of interest. That suggests a phased approach, where intermediaries could receive funding to comprehensively define their capacity needs, then follow-on funding to lay the appropriate foundations that will permit them to operate effectively at a larger scale. Foundations could pursue this strategy simultaneously with a cohort of intermediaries, thus increasing the potential for cross-fertilization and shared learning. No one intermediary can do everything, so the cohort might include groups that specialize in different aspects of capacity (e.g. management, finance, program implementation).

Most of the capacity needs of intermediaries are fairly conventional. They could use help with business planning for scale, strengthening of internal systems (including information technology), and asset acquisition (e.g. shared spaces with other similar organizations). If they are being asked to grow rapidly to manage multiple projects for a foundation, they also need greater financial strength to hire staff and manage cash flow on a scale that many had not envisioned. Those efforts demand a good deal of the attention of senior managers, yet often the resources are not sufficient to cover the actual costs of doing the work.

IO Profile: Capacity Building

*Over the past 26 years, **The Nonprofit Finance Fund** has created partnerships with traditional and emerging philanthropies, and attracted multi-million dollar investments from for-profit banks, investment houses and other corporations. It has turned those dollars around to capitalize social enterprises, non-profits, activists, community development corporations and farmers markets. It has managed direct investments of $225 million and leveraged more than $750 million in additional capital investments. NFF has also emerged as a thought leader in the field. It has published an influential series of articles and monographs on fundamental principles that all organizations in the non-profit sector need to understand so that organizations can be well capitalized, financially viable and properly positioned to carry out their missions and programs.*

Very few intermediaries have financial reserves, let alone an endowment which they can draw on to underwrite the multiple costs of rapid expansion. While foundations have typically not funded endowments, it has been done in some circumstances (e.g. the Ford Foundation) with significant success. A strong case could be made for a similar investment with key intermediaries that a foundation views as long-term partners. An alternative might be to create a mechanism for "operating endowments" to provide additional income for those organizations. Whatever the solution, the need is clear for significant unrestricted funding to accompany project dollars in order to permit an appropriate investment in capacity building and critical infrastructure. Many large scale grantmaking programs have failed to realize their potential for the lack of this kind of investment. It's simply smart business.

If an intermediary is providing grant dollars and technical assistance to subgrantee organizations, it will run up against similar capacity issues at that level. Once again, it is essential to provide the resources to appropriately address them. Since virtually every social sector organization has multiple funders, it will not fall to any one foundation to pay the entire bill for strengthening their capacity, but it can position itself as a leader in acknowledging and strategically addressing those needs, which are so critical to project success.

Foundations that work internationally have discovered that they also can't ignore the limited capacity of local government agencies if they want their work to succeed. To cite two examples, Packard and Ford have both invested in training for local civil servants, not to usurp government responsibility, but to encourage the repurposing of existing public resources and infrastructure in support of their larger goals. While governments in many developing countries are certainly imperfect, foundations have a unique opportunity to work with their counterparts in ministries of health and education (which tend to be less politically tainted) rather than to simply try and work around them. Capacity building is an effective bridge to that conversation.

How can foundations help scale up the work of intermediaries?

The first step to scaling up is the basic work on capacity building that we have just discussed. The World Bank hosted a conference in Shanghai a few years ago on the question of scale and it came to the conclusion that the major barrier is the "how" (building capacity and the need to work with government structures) not "what" (there are hundreds of good ideas that work at the micro scale). There was also general agreement that financial management is essential. This is an important arena where foundations can lead. Many interviewees felt that foundations, unhampered by political considerations, are uniquely positioned to use their weight constructively to pursue well-designed sector-wide strategies where large amounts of money can be distributed across an entire system.

While a big foundation's first consideration may be to look for intermediary partners with the ability to handle large sums of money, there is ample evidence that the size of an institution does not necessarily equate to the quality of its programs or its thinking. In virtually every field, including the social sector, the creative thinkers and risk takers are often found at the margins. Foundations are in a position to go after the best ideas, no matter where they are found, and to take the time to grow them responsibly. There is considerable risk associated with growth, particularly rapid growth. As one successful intermediary put it, "growing is dangerous." The interviewees had a number of ideas about how that could be thoughtfully done.

Long-Term Financial Commitment. While some projects may be time-limited from the outset, if an intermediary is going to be encouraged to grow in order to serve as a strategic partner to a foundation, it requires the security of significant long-term funding. The most responsible way to grow is in a phased approach to build confidence about the reality of that long-term commitment. That includes resources for the internal capacity building described above, not only to manage the grant itself but also to upgrade their talent and management, to provide staff development and generally strengthen the organization. As one interviewee put it, "it's simply irresponsible to scale up for a short-term project."

Conscious Change Management. It's essential to not underestimate the organizational complications that come with change and growth. There are limits on any group's absorptive capacity, whether for new dollars or new people. Organizational culture can be significantly disrupted by rapid change. Consequently, relationship building is critical. Sufficient time needs to be devoted to face-to-face encounters to build trust and work out governance structures, and to consciously explore the meaning of partnership. Growth places special demands on the leaders of the organization. One intermediary CEO estimated that he now spends half his time on organizational development issues related to rapid growth. Once again, flexible resources are needed to give the CEO the ability to anticipate and to meet organizational needs as they arise.

Realism Regarding Resources Required. Once a potential partner has been identified, the temptation is to want to grow them overnight. In order to avoid damaging the organization, interviewees suggested that it's important to begin with a conversation about the agency's core needs. Typically a foundation will provide project support only, leaving the grantee to somehow cover other ongoing expenses related to staffing and infrastructure. What if the foundation began the conversation by offering to cover those core costs for a multi-year period in order to free up the time of the CEO and other key staff to unleash their creativity and to concentrate on leading the project? While that approach may seem generous, it's ultimately a rational approach to maximizing the effectiveness of the foundation's investment with an undercapitalized organization.

Encourage Independence. Large foundations are frequently insensitive to the potential for "colonization" of their grantees. Particularly when an organization is asked to take on a new function or to otherwise "torque" its core competencies, there is increased danger of the intermediary morphing inappropriately to fit the foundation's priorities. Asking an organization that has no experience with grantmaking to take on that task, for example, can be a dangerous mistake. Dependency on a small number of major donors is also not a healthy thing in most cases. Accordingly, a foundation should exercise caution that it preserves the independence of an intermediary to say "no" to an idea or to negotiate as a real partner, not as a dependent. Despite the importance of providing sufficient resources, there is a benefit to being lean and mean. It helps focus the leadership on what's important and fuels their independent entrepreneurial energy. The Foundation needs to calibrate the level of resources necessary to attract and keep top talent at an intermediary "without making it such a cakewalk such that everyone relaxes," in the words of one of our interviewees.

IO Profile: Scaling Up

RedEAmérica *is a fast-growing network of corporate foundations and corporations dedicated to people-centered grassroots development as the keystone for a large-scale poverty reduction movement in the Americas. Created in 2002 with 25 charter members, it now has more than 60, including many of the largest corporations in Latin America. RedEAmérica grew out of more than a decade of work by the Inter-American Foundation co-funding grassroots development with individual corporations and corporate foundations in several countries. As a network, the members of RedEAmérica have developed consensus standards on how to measure impact as well as standardized budget forms to permit aggregation of financial information and global information systems to share data about funded projects. The RedEAmérica Network is poised to scale up its efforts beyond the Americas via a newly created Global Fund for Grassroots Development.*

Scale Up a Cohort. Rather than "betting on a single horse" there are numerous examples of the wisdom of working on scale issues with a cohort of organizations at the same time. The Edna McConnell Clark Foundation has radically changed its approach to grantmaking to concentrate all its resources on the long-term scaling up of a limited cohort of key youth development organizations. The foundation itself is essentially playing the role of an intermediary, brokering numerous resources in addition to providing funding. The MacArthur Foundation has used the Chicago area affiliate of the Local Initiatives Support Corporation as an intermediary to facilitate long-term community revitalization projects in seventeen different neighborhoods. It has staffed a customized planning process in each locale that has been flexible enough to avoid "cookie cutter" solutions. The Annie E. Casey Foundation also has years of experience with this approach, most recently with its Making Connections Initiative. Among the lessons it has learned about providing technical assistance through its intermediary (Center for the Study of Social Policy) and an extensive network of consultants: make it informative, not prescriptive; share best practices, but also build from the ground up in each location; don't impose preconceived formats; and, characterize the effort as learning rather than technical assistance.

Scaling Consciousness. Successful scaling is not simply a matter of taking a proven model and multiplying it across multiple sites. Careful attention also needs to be paid to developing an accompanying awareness and consciousness to animate the work. When reaching out to engage a variety of organizations, there is no single template for leadership. But by encouraging active participation and negotiation, a foundation also contributes to strengthening civil society. The emergence and sustained evolution of strong, articulate and independent community-based organizations will be a collateral benefit that will ultimately advance all of the larger goals of a foundation.

Some other emerging lessons. Among the other lessons that foundations have learned about scaling up IOs is that it takes more than just a good business plan. The leadership and board must be deeply committed to scaling. "There is a great deal of relationship and political work involved," observed one interviewee. It also takes a strong COO to manage the scaling up process, and a visionary leader is probably not the right one to handle that job.

"There is also a huge disconnect between the need to scale and the level of indirect costs typically allowed by foundations." Particularly when a large foundation is the sole or major funder of an effort, 15% overhead is not sufficient to support the growth of staff and infrastructure required for successful scaling. IOs need substantial flexible dollars to be able to maintain organizational stability during expansion.

Absorptive capacity is a real issue. "They won't say 'stop,' but they may struggle to get the money out the door." It is also a challenge to maintain consistency in program quality across subgrantees as they grow. That argues for regular mechanisms for "constant feedback about what's working and discarding what's not." "Certainty is the Achilles Heel of this process," concluded one interviewee. "You just can't be certain; you must be open to suggestion, changes and acknowledging mistakes."

Most frequently cited were "negative lessons about pushing grantees too fast to go to scale." Another interviewee observed that "we push them to scale and they agree, but they don't know how and we push too fast. The conventional wisdom in the field is that an organization is ready to scale by about its tenth year of operations. We're pushing them much earlier." As another interviewee noted, "It's essential to build in reasonable time frames and to not expect IOs to scale faster than the foundation itself can. If we're having difficulty finding the right people, it's bound to be even harder for an IO."

Undue speed can be costly to an intermediary's work with subgrantees and others. The first step is to listen to them when they say what they can do and how fast they can do it. The best IOs have a very good sense of what it takes to do the job right. A foundation has both an opportunity and an obligation to work with them to develop people, grow leaders and "build capacity in a smart way."

When should a new intermediary be created?

Most interviewees reacted with skepticism to the notion of a foundation creating a new intermediary organization. As one experienced intermediary leader opined, “undoubtedly there are some niches that are unfilled, but the bar should be very high to create a new organization.” Most suggested scaling up an existing organization or having the patience to identify and nurture creative individuals who are already struggling to start up a similar venture. Several saw a potential role for foundations as incubators for those nascent efforts. One interviewee referred to this as “midwifery” rather than creating a new organization.

On the other hand, some excellent examples also emerged of organizations started by foundations that have become significant players in their respective fields. To cite but a few examples, Ford started up the Local Initiatives Support Corporation and the Manpower Demonstration Research Corporation (now MDRC). Pew, MacArthur and Rockefeller provided the initial impetus and funding for the Energy Foundation, and Robert Wood Johnson started up the Center for Tobacco-Free Kids, which has become a political force within the anti-tobacco movement. Packard created the Resources Legacy Fund, which has become an important player in land conservation. Here are some lessons that have emerged from their experience:

People of vision are the most important ingredient. Ideally, they have already formulated the concept of a new intermediary organization and are looking for help to pull it off. Even if the core group is in place, however, it can be challenging to build the right team around them. If the foundation is perceived as “poaching” talent from other existing organizations it can stir resentment in the same way that large International NGOs have incurred the enmity of some in countries in which they operate by hiring away talent from local organizations.

It’s time intensive and expensive to do it well. Otherwise, it could turn out ordinary rather than extraordinary. Attention to capacity building, investing in systems and building networks as already mentioned is particularly critical for a startup. Several interviewees noted that it’s necessary “to go slow in order to go fast.” The Energy Foundation, for example, is now highly influential, but its leaders estimate that it took seven years of effort before it achieved its first policy breakthrough.

Sustainability is a special concern when an organization is being created from scratch. As one funder observed, “you are a parent for life, whether you intend it that way or not.” If diversity of funding sources is the goal, one funder should not be the sole source of support for the start-up. Otherwise, the enterprise tends to become “branded” as its creation, and it becomes very difficult to get other funders on board. The Energy Foundation has managed to transition to a new core group of funders, but that was the plan from the beginning. And it took five years of substantial core support from the original funders to effectively launch its work.

Ecological sensitivity is essential. Since any new organization has the potential to fundamentally alter the landscape within its field, funders need to engage in a process of consultation with existing players before making the leap. Ideally, it should be created with the help of those organizations because they believe it will fill a critical need. At the very least, it’s important to understand the point of view of those who might oppose the creation of the new group. When an organization does not arise from a natural existing constituency, it can not only incur resentment but also may ultimately become marginalized if it is perceived to lack authenticity among those it is supposed to serve. One interviewee referred to the phenomenon of funder-created “organizations with no legs” in Africa as an example of how not to launch a start-up intermediary.

There are other dangers in creating a new intermediary. Even if the funder may have in mind a limited lifespan for the organization, it will tend to take on a life of its own. Even if there is an agreement on clear benchmarks at the outset, it can be very difficult to back away from this kind of commitment once it has been made, and the public relations fallout in the broader community can be quite negative. As the creator of a new organization, the funder also confronts a special challenge in maintaining objectivity about its success. Even if it is deeply resented, that feedback may never reach the foundation in a direct fashion. It takes tremendous self awareness for a foundation to be able to distance itself from things it has created to even-handedly assess its impact.

IO Profile: Starting up a new intermediary

The Energy Foundation *was established in 1991 with an initial $100 million, ten-year commitment from the MacArthur and Rockefeller foundations and the Pew Charitable Trusts. It is a partnership of major donors focused on solving global warming by advancing clean energy technologies, especially energy efficiency and renewable energy. The Energy Foundation pursues that mission by advocacy for worthwhile energy initiatives and through research that can illuminate new and promising energy technologies or policy options. Its expert staff and board have established clear areas of strategic focus within which it commissions work, convenes key players and makes around 250 grants a year, more than half of which are under $100,000. Its budget for 2006 was $33.5 million, of which about $22 million was distributed as grants to “impose rationality” on the field by building field-wide capacity.*

What are some opportunities for IO partnerships?

My interviews surfaced numerous examples of successful intermediary partnerships that could inform the future work of foundations. Space does not permit a detailed examination of the pros and cons of each approach. Suffice to say that no single model is “best” for all circumstances. One could easily envision foundations using many if not all of these forms of partnership with intermediaries to advance their mission.

Full Service Intermediaries. There is a group of experienced organizations who have pioneered the intermediary role and have made it their core business. Groups like Tides Community Partners and Third Sector New England have a successful track record of taking on multiple intermediary functions, ranging from fiscal sponsorship to grantmaking to program design and management and convening. The Public Health Institute and the Urban Institute are additional examples of U.S.-based intermediaries that also have extensive experience operating international programs. All have the ability to absorb and manage significant sums of money and to hire program staff as needed to implement foundation-funded projects.

Operating Endowment Fund. The need for unrestricted, flexible dollars to manage cash flow and support infrastructure development related to project support was a major theme that emerged from the interviews. Short of making grants specifically for endowments, a foundation might consider capitalizing a fund specifically to provide “operating endowment” dollars for its intermediary partners. Such a fund could be created under the umbrella of an existing financial intermediary such as the Nonprofit Finance Fund or the National Cooperative Bank Development Corporation or it could create a new organization specifically for this purpose. The concept is simple. Key intermediaries could receive a “voucher” from the Foundation in addition to their project funding that would allow them to draw down a specific amount from their “endowment” account over the life of their project support. This provides maximal flexibility for the CEO of the intermediary in anticipating and meeting critical needs related to project implementation that might not otherwise be covered by the “main” grant.

Pooled Funds. There is a particular benefit of utilizing pooled funds in reaching grassroots organizations with smaller amounts of money. The Global Greengrants Fund, for example, has managed to establish an extensive worldwide network of advisors who help identify promising entrepreneurial ventures at the village level. Valuable lessons have been learned from experience with Conservation Trust Funds in various regions around the world that have implications not only for the conduct of pooled funds but also funder-intermediary relationships in general (Global Environment Facility, 1999). Other efforts such as the International Urban Poor Fund (a partnership of the International Institute for Environment and Development and the Shack/Slum Dwellers International) has provided an effective mechanism for distributing foundation dollars to local efforts to upgrade squatter settlements in the poorest urban communities around the world.

Bilateral Donors. Yet another creative option might be to join forces with a well-respected international bilateral donor such as the British Department for International Development (DFID) to do in-country “demonstration” programs that foundations are ill-equipped to handle on their own. This is DFID’s core business and its work could be enhanced by partnering with a private foundation to augment its funding in areas such as evaluation. Such a working relationship would also obviate the need for a U.S.-based foundation to build up an in-country presence. In exchange, a partner like DFID might be interested in having the foundation augment its spending on R&D, building on what is one of foundations’ potential strengths. Staff could also be loaned in both directions for periods of time to ensure that the institutions were speaking together on an ongoing basis, understanding how the monies are being used, etc.

Stimulating Local Philanthropy. Large international foundations can provide a powerful stimulus for the creation and growth of local community foundations that, in turn, can become important intermediary partners. One example cited in the interviews was the work of the Aga Kahn Foundation in starting up the Kenya Community Development Foundation by providing matching funding and support for initial infrastructure to attract local giving by corporations and individuals. American foundations such as Mott, Rockefeller Brothers Fund and the German Marshall Fund of the U.S. have had some notable successes capitalizing new foundations in Central and Eastern Europe in partnership with US AID. The Balkan Trust and the Trust for Democracy in Central and Eastern Europe are two thriving examples of the payoff from that initial investment. The Global Fund for Community Foundations is helping to start up community foundations in developing countries around the world. It is providing both financial and technical assistance through the World Bank and could easily scale up its efforts with additional support.

Program Offices located within intermediary organizations can be an effective mechanism to utilize existing expertise and capacity to develop and manage programs for the Foundation. MacArthur's use of LISC in Chicago as the intermediary for a ten year multi-neighborhood community development effort has already been mentioned. The Annie E. Casey Foundation has utilized a multi-tiered structure of intermediaries to manage its multi-city Making Connections Initiative. The Center for the Study of Social Policy serves as the key intermediary for the foundation and provides oversight and liaison with a network of "local management entities" that in turn coordinate multi-agency partnerships in each of the participating cities. The Robert Wood Johnson Foundation has utilized program offices for most of its grantmaking initiatives, and has recently published an analysis of the lessons it has learned from that experience (Hughes, 2005).

Networks. Another variation on the theme of program offices is to utilize an intermediary to develop and coordinate a network of participating partner organizations. An excellent example is the Ford Foundation's long-term partnership with the Institute for International Education, which operates its global fellowship program in conjunction with a decentralized network of 22 partner organizations around the world. Other networks have been developed to share knowledge and help coordinate funding in highly technical areas of grantmaking (e.g. the Consultative Group on Biodiversity or the Consultative Group on International Agriculture) or to provide similar coordinating services among intermediaries operating in the same field (e.g. the Intermediary Network which links major intermediaries in the Youth Development field).

Cultivating the Market. One of the prime spaces for innovation in intermediary partnerships is the creation and/or scaling of organizations that fill an important niche and literally help to "move the market" in their fields of interest. A prime example is the Corporation for Supportive Housing, which has managed to connect various sectors that are typically not connected to promote the model of supportive housing around the country, in the process growing to administer a $50 million loan pool. One of its other contributions was to build capacity within state and local governments to understand and help develop even more supportive housing. The Energy Foundation has also combined policy analysis with convening and regranting to promote progressive energy policies not only in the U.S. but increasingly around the world in major markets such as China. It has developed an explicit philanthropic strategy that has been vetted and peer-reviewed by an expert group of advisors and promotes peer learning across the sector in a way that has significantly helped to build the field.

Hybrid forms of intermediary organizations are also emerging that combine the best of the for-profit and not-for-profit worlds. The Acumen Fund, for example, invests in the start-up of a variety of social ventures around the world including for-profit enterprises. As profiled below, the David and Lucile Packard Foundation has also successfully utilized a hybrid intermediary structure to advance its work in conservation.

IO Profile: Hybrid structures

*The David and Lucile Packard Foundation has underwritten the development of a creative intermediary structure to manage its substantial partnerships in acquiring land for conservation. The **Resources Legacy Fund** is a public charity which receives grants from the Foundation for regranting. Much like a community foundation, it can serve as a donor-advised fund, allowing real estate transactions to be timed to gain the most leverage and the best price. It successfully managed the Conserving California Landscapes Initiative, which used $175 million from Packard as a magnet for $764 million in additional leveraged funding resulting in the protection of more than 400,000 acres. RLF is closely affiliated with a separate 501 (c) 3 supporting organization, the **Resources Legacy Fund Foundation**, which can handle large sums in the $70-80 million range without concern for tipping and the **Resources Law Group ,LLP** a for-profit law firm that can go to the government and negotiate deals for matching funds. Michael Mantell, a principal at the law firm, also served as campaign chair for Proposition 84, a $5.4 billion bond measure which has provided funding for critical investment in California's coastal water and land resources.*

Wholly Owned Subsidiaries. In a somewhat more radical move, the Pew Trusts converted to a public charity so that they could devote the bulk of their resources to supporting a number of intermediary organizations they had established. They take a number of forms, including the Pew Research Center (a separate 501 c3 whose board is appointed by the Pew board) and university-based programs such as the Pew Center for Global Climate Change and the Pew Center for the Health Professions.

Conclusion

Working with intermediaries presents a foundation with the ability to extend its core staff by partnering with organizations that possess unique technical abilities and extensive networks around the globe. The diversity of input and knowledge that such relationships can yield will significantly enrich a foundation's vision and perspective. It can also free foundation staff up for big picture thinking, so they can devote most of their time to strategy and learning rather than the day-to-day details of project management. But the way in which the foundation will work with its intermediary partners also offers a platform for leadership.

Most foundations have not excelled in this arena. Issues of relative power and branding and impatience and institutional ego have often gotten in the way of genuine partnership that is characterized by openness, mutual accountability and shared learning. The lessons they have shared in these interviews have been learned the hard way, and they are sincere in wanting other funders to learn from their experience. Large U.S.-based foundations have a unique opportunity to utilize their immense power and prestige to set a new standard for authenticity and generosity in their partnerships with intermediaries and funding peers in each of their spheres of interest. They can really do it right…for the long-term benefit of the entire social sector.

We began with a story about a foundation-sponsored initiative that failed to accomplish its goals, in part because of challenges it experienced in working with intermediaries. It seems appropriate to close with a story about a highly successful foundation-intermediary partnership (*Full disclosure: I have been a part-time employee of this Initiative for the past three years*). In 1999, The California Endowment turned to the Tides Center to design and manage what, at the time, was envisioned as a one-time-only grants program for community health centers to help them prevent an anticipated IT meltdown with the advent of Y2K. That initial effort morphed into the multi-year Community Clinics Initiative, which has since distributed nearly $100 million to build the IT and leadership capacity of 200 community health centers across California.

A Steering Committee was recruited from a cross-section of the field to advise Tides and the Endowment, and those involved credit the Initiative's success to careful attention to consultation and relationship building and a conscious priority on learning at every stage of the work. A series of eleven competitive RFPs have been released over time, with each document and application process building on lessons learned from the previous rounds of funding. Importantly, Tides was given substantial flexibility to adjust funding priorities and strategies over time to capitalize on what was being learned along the way. Principals from both The California Endowment and Tides feel that this effort has personified the benefits of long-term mutually-beneficial partnership. But most important of all, knowledgeable observers credit the Initiative with doing something few foundation-sponsored initiatives have…moving the entire field in the direction of greater efficiency, competitiveness and quality of care.

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Interviewees

Foundations

Charles Bailey (Ford Foundation)
Susan Bell (Hewlett Foundation)
Mike Dahl (Pew Charitable Trusts)
Peter Goodwin (Robert Wood Johnson Foundation)
Hal Harvey (Hewlett Foundation)
Rona Henry (Robert Wood Johnson Foundation)
Sarah Hobson (New Field Foundation)
Jan Jaffe (Ford Foundation)
Lisa Jordan (Ford Foundation)
Stephanie McAuliffe (Packard Foundation)
Gail McClure (Kellogg Foundation)
Drummond Pike (Tides Foundation)
Josh Reichert (Pew Charitable Trusts)
Juanita Roca (Inter-American Foundation)
Nancy Roob (Edna McConnell Clark Foundation)
Susan Sechler (German Marshall Fund of US)
Nadya Shmavonian (Rockefeller Foundation)
Larry Simon (google.org; Brandeis University)
Maureen Smyth (C.S. Mott Foundation)
Julia Stasch (MacArthur Foundation)
Michael Wright (MacArthur Foundation)

Intermediaries

Alan Abramson (Aspen Institute)
Judith Bell (PolicyLink)
Deepak Bhargava (Center for Community Change)
Annette Brown (International Activities Center, Urban Institute)
Francine Coeytaux (Public Health Institute)
Joan Dassin (Institute for International Education)
Dennis DeTray (Center for Global Development)
Chris Elias (PATH)
Ellen Friedman (Tides)
Christine Grumm (Womens Funding Network)
Joe Hafey (Public Health Institute)
Eric Heitz (Energy Foundation)
Carla Javits (REDF)

John Kreidler (Intersection for the Arts)
Ruth Levine (Center for Global Development)
Katherine Marshall (World Bank)
Juraj Mesik (World Bank)
Michael Mantell (Resources Legacy Fund)
Ray Offenheiser (Oxfam America)
Walter Price (Inter-American Foundation)
Kavita Ramdas (Global Fund for Women)
Joe Stuckey (CARE International)
Chet Tchozewski (Global Greengrants Fund)
Paul Vandeventer (Community Partners)
Yasmina Zaidman (Acumen Fund)

Others
Mary Anderson (Listening Project)
Chris Austin (DFID)
Elizabeth Boris (Urban Institute)
Tom Dewar (Johns Hopkins University)
Leila Fiester
Barbara Kibbe (Monitor Institute)
Jody Kretzmann (ABCD Institute/Northwestern University)
Terry Meersman (Talaris Institute)
Jethro Pettit (Institute for Development Studies, University of Sussex)
Laura Roper
Ellen Sprenger
Chris Sturgis
Mark Valentine
Lise Veneklasen (Just Associates)