



## HOW TO INCORPORATE RISK MANAGEMENT INTO RFPs AND GRANT APPLICATION FORMS

Funders can help pave the way for more transparent exchanges with nonprofits about potential risks to impact by raising the topic of risk in RFPs and grant application forms, which should align with their risk profile. This document provides specific guidance on how funders can do that, and offers sample language for funders to adopt or adapt.

### 1. Include your risk profile statement in RFPs and grant application forms.

Help potential grantees understand whether they are a good match for you by explaining your risk appetite level upfront. Your risk profile should include:

- a. A description of your overall risk appetite level and a brief explanation of your reasoning
- b. How you define risk and what you see as the right balance between risk and reward
- c. Guidance on when/where you are willing to take risks and when/where you prefer to be more conservative
- d. Considerations on the benefits of taking certain risks and opportunities to learn from failure
- e. An overview of the makeup of your investment portfolio (e.g., percentage breakdown of high-, medium-, and low-risk grants, restricted vs. unrestricted funding, amount set aside for learning grants)

**2. Include at least one risk-related question in RFPs and grant application forms.** Asking such a question paves the way for an open conversation about risk, and the applicants' responses will help you assess whether a mutual fit exists.<sup>9</sup> Possible questions that lend themselves to written responses include:

- a. Specify the top three risks you may encounter during the course of this project, the steps you will take to mitigate these risks, and how we (as the funder) could help.
- b. What kinds of events could happen to derail the intended impact of your project?
- c. What risks have you encountered implementing similar projects in the past, and how did you react/respond?

**3. Discuss risk with grant applicants.** When it comes to risk, written responses are not sufficient, and the Commons encourages funders to engage in conversation with applicants about potential risks to impact. Make it clear that you view yourself as a partner—consistent with your risk profile—in helping them tackle risk mitigation and management. Sample questions that lend themselves to an in-person interaction include:

- a. When you consider this project, what keeps you up at night?
- b. What obstacles do you foresee with project implementation?
- c. What can I do—either now or down the road—to help you mitigate risks to impact?

**4. Request financial documentation.** As part of the RFP or grant application form, consider the following financial information to help you analyze the financial standing of the organization.<sup>10</sup> Specifically, you should:

- a. Review the organization's project budget and overall organizational budget to make sure they are realistic, as it is not uncommon for nonprofits to under-budget in order to competitively secure a grant.<sup>11</sup>

<sup>9</sup> Be aware that many nonprofits are hesitant to share potential risks for fear that it will jeopardize funding. Reassure your grantees that this is not a test for flaws, but rather an opportunity to begin a conversation that can help ensure impact.

<sup>10</sup> Financial stability (a.k.a. enterprise risk) at a nonprofit is a key risk that can have significant consequences on any project. For more on enterprise risk at the nonprofit level, see: [Risk Management for Nonprofits](#) and [The Nonprofit Starvation Cycle](#).

<sup>11</sup> See [Project Risk and Impact: A Case Study from International Development](#).

- b. Request the two most recent IRS Form 990s, so you can review the balance sheet for assets and liabilities, and consider the amount of unrestricted net assets held, as these assets are often the only source for nonprofits to “self-insure” their programs.
- c. Request cash flow projections for the next 12 months to assess fundraising and spending trends.<sup>12</sup> Understanding where the organization may face cash flow crunches will also allow you to better time your gift(s) to avoid being the source of a crunch and/or possibly alleviate anticipated cash flow shortfalls.
- d. Inquire about currency hedging practices, if the nonprofit works internationally.

Ideally, such requests would not require more work by the applicant, particularly if you remain flexible about the format/structure of the information provided. For example, request the budget in the nonprofit’s own format rather than in your template. Not only is this less work for the grantee, but it can also be helpful for you as the funder to identify potential risks or areas where you can help or serve as a resource (e.g., financial analysis, strategic planning, staff development). Last but not least, if you see something that concerns you, do not write off the applicant, but instead engage him/her in a conversation as he/she may be able explain the circumstances surrounding your concerns.

**5. Right-size your RFP and grant application form to better align with the risks at hand.** Higher-risk projects may require deeper vetting and therefore risk assessment and mitigation, whereas lower-risk projects and/or repeat grantees may benefit from a more streamlined proposal or application form. Likewise, you should consider the size of your investment relative to the cost of the project and/or the budget size of the organization. A relatively small investment, risky or not, requires less due diligence. Additionally, you should align your processes based on the sector and geography. For example, if you are investing in a large international project, consider asking a question about the risks posed by the subcontractors, in addition to assessing risks with the primary grantee.

**6. Be prepared to respond to risk-related questions from applicants.** As you broach the topic of risk with grant applicants, they are bound to pose questions that you will want to be ready to address. Common questions that may arise include:

- a. Tell me more about your risk appetite level.
- b. What types of risks are you more comfortable with as a funder?
- c. Have you ever had a grant that failed? How did you react, and what did you learn?
- d. Have you ever had a grantee that needed contingency funding to prevent a project’s impact from being jeopardized? How did you react, and what did you learn?
- e. What information would you need from me if I encountered a significant obstacle during project implementation? Who should I contact in such a scenario?

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<sup>12</sup> Many nonprofits may not have cash flow projections as a pre-existing report, and producing one could exceed the organization’s abilities and/or be an outsized burden. Funders should understand where their grantees sit and right size their requests accordingly.