



HOW TO BUILD EFFECTIVE FUNDER-GRANTEE RELATIONSHIPS

All members of the Commons agreed that one of the most fundamental aspects of risk management lies within the funder-grantee relationship itself. Research shows that one of the primary barriers to successful risk management is a lack of transparency and trust between funders and nonprofits. Indeed, without transparency, the preceding

suggestions regarding policy and procedure is just paper. While managing risk is a shared responsibility, funders are in a unique position to implement practices that foster an environment that allows nonprofits to be more transparent about possible risks to impact and more trusting of funders as partners for impact.

1. Lead by example. Funders can lead by example by developing a risk profile statement and then sharing this information both internally and externally. This statement 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. 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)

Circulate your risk philosophy internally in order to:

- a. Foster alignment on risk appetite throughout all levels of your organization
- b. Train new staff members on how to think about risk when evaluating grant-making opportunities
- c. Encourage a culture of more open conversations about risk both internally and externally

Also consider posting your risk philosophy externally, including on your website and in RFPs and grant application forms, as this information is helpful for several external audiences, including:

- a. Potential grantees, who want to gain a better sense of whether you are a good match
- b. Existing grantees, who may value indirect guidance on when to communicate about challenges and what new investment opportunities may be appealing to you
- c. Other funders, who may be interested in partnering with you

2. Start the conversation. Given the power dynamics inherent in philanthropy, it is generally incumbent upon funders to start the conversation about risk, and to put the often-taboo topic on the agenda. Ask open-ended questions about potential project challenges to grant applicants. In your RFP or grant application form, include at least one question for applicants that will help illuminate potential risks to project impact. Such questions may include:

- a. What obstacles do you foresee with project implementation?
- b. What could happen to derail the intended impact of your project?
- c. When you consider this project, what keeps you up at night?
- d. What can we as a potential funder do—either now or down the road—to help you mitigate risks to impact?

3. Be accessible. Include emergency contact information in grant agreements. Make sure your grantees have a name, phone number, and email address for someone to contact if/when they encounter a project challenge. While this typically may be their program officer, in larger organizations or in cases where trusting relationships may be a concern to a grantee, having a third-party ombudsman may be an option to consider. As able, also clarify the timeline in which grantees can anticipate a response and guidance on how long it typically takes to process contingency requests, if approved.

4. Encourage empathy. Proactively take steps to ensure your staff understand the daily realities and challenges of nonprofit work. Consider hiring staff members who have been on the other side of the funding equation. Encourage your staff to volunteer, serve on the board, or be involved directly in a nonprofit organization outside of their role as a funder. Experiencing the other side builds empathy for the challenges facing nonprofits. They may also be in a better position to have open conversations about risk with grantees and to serve as an effective partner on risk mitigation during project implementation.

5. Adopt additional grant-making practices that build resiliency within nonprofits. The more resilient a nonprofit organization is, the higher the likelihood of it being able to manage risks and therefore achieve maximum impact. Pending your risk profile, you should consider a variety of specific grant-making practices and approaches to build nonprofit resiliency at the project and organizational level. These include:

- a. Providing unrestricted funding to enable your grantees to adapt quickly and efficiently to evolving on-the-ground needs. With unrestricted funding, grantees are more likely to be able to handle contingencies themselves.
- b. Executing multi-year grants—preferably spanning at least three years—to generate a longer-term relationship with your grantees and provide them with space to plan, implement, and adapt; as well as time to develop trust so that they can speak openly about potential, new, and emerging risks to their impact
- c. Communicating about shifts in your risk profile or trustees' interests. If you are limiting or eliminating funding, provide funding for a transition year, during which you continue to provide grant funding while helping your grantee to identify additional funders.
- d. Accepting grant applications on a rolling basis, which will allow grantees to seek funding when they need it most and not have to plan around your specific grant-making cycles
- e. Streamlining the application process for repeat/long-term grantees and right-sizing the forms and requests you make of applicants depending on the risk level at hand (e.g., for low-risk grants or repeat grantees, consider shortened application and reporting forms)
- f. Setting aside funding explicitly for learning grants¹³ and communicating more openly about your various grant-making methods and range of grant sizes

¹³ Learning grants, which may be more applicable to large funders, are grants that support innovative projects and therefore may have a higher risk of failure. Learning grants allow funders to experiment with and learn from new and different approaches to solving problems.