HOW TRUSTS AND FOUNDATIONS CAN BE MORE THAN GRANTMAKERS

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Grant-Making Trusts – "it's what we do"

In the UK trusts and foundations share an acronym: GMTs (grant-making trusts). The Association of Charitable Foundations in the UK has a 'strap line' of 'Good Grant-making Practice'; the national conference it organised earlier this year was promoted as the 'UK Conference for Grant-Makers'. The Institute of Fundraising – the UK professional body for charity fundraisers – has recently published a code of practice on work with trusts and foundations – it's called a 'code on grant-making trusts'. If everybody describes you as having a single function, grant-making – if you describe your function in the same terms – it's what we are called; it's what we do; it hardly surprising that you conclude that it is all you can do.

But it ain't necessarily so. Trusts and foundations can use their resources in several ways 'beyond grant-making' – this evening I'll explore some of those possibilities a bit and give you some examples of efforts that are being made in the UK (and in the USA) which may be useful to the situation here.

First, to sort out some definitional things – and to make a general apology in advance that, despite a crash course this week from Swinburne for which I am hugely grateful, my knowledge of the foundations and charity scene here in Australia is very thin; I'm bound to have made some assumptions that are wrong or irrelevant. So – sorry in advance if that happens.

Trusts and Foundations in the UK

On definitions: trusts and foundations in England and Wales are charities formally registered with a regulatory body, the Charity Commission; charities that try to meet their charitable purposes (the relief of poverty or of sickness, the advancement of education etc) through the provision of funds to other charities, community organisations or individuals.

Different regulatory regimes apply in Scotland and Northern Ireland – they lack a Charity Commission but in most other ways the rules are pretty similar.

There are about 10,000 trusts and foundations in the UK. Most are endowed – originally either by an individual, family or company – but some are fund-raising charities that then give away the funds raised, usually demonstrating that they can add some specialist value to the financial transaction: community foundations, for

example, or the broadcast appeals like the annual BBC Children in Need or Comic Relief.

There are also a growing number of corporate foundations – usually with an equity stake in the company whose name they share and varying degrees of independence from those companies; among the more notable (and among the most thoughtful and professional foundations in the UK) are Northern Rock Foundation – created when the Northern Rock Building Society demutualised – and the Lloyds TSB Foundation, receiving all of its income in effect in annual dividends from the major retail bank).

A few of the endowed foundations have what we call permanent endowments – i.e. the trustees cannot touch the capital asset, only the income derived from it can be distributed. Most have expendable endowments i.e the trustees can distribute from both capital and income. Until recently, few did so, however – they, too, distributed only the income received. As a result, given the caution of their approach to asset management, few UK endowed foundations have ever distributed annually even the 5% of the value of their assets that their US peers are required to spend.

I've been taught – the cost being some bruises – always to preface any discussion about trusts and foundations in the UK with the warning that one must not generalise about them because of their diversity – in size, organisation, interests and priorities, processes and ways of working. Make any generalisations about trusts and foundations and immediately there's a chorus of 'it doesn't apply to us'!

The diversity of scale is formidable – from one of the biggest in the world (the Wellcome Trust, with a paid Board of trustees and hundreds of employees, distributing about £500M a year, mainly for medical research) to thousands of tiny trusts set up by families or individuals as vehicles for their charitable giving – no staff, the decision-making being done over the kitchen table on a Saturday morning. The scale is like that of an iceberg – of the 10,000 or so trusts and foundations in the UK only 300 give away annually more than £200,000; so the number with grants officers and any sort of infrastructure is very small.

(The iceberg image also applies to the charity sector generally with 190,000 registered charities in England and Wales of which 6% account for 90% of the income – indeed just 440, that's less than half a percent, receive 44% of the sector's total £30 billion annual income. Two thirds of all registered charities have an annual income of less than £10,000 i.e. two thirds of the number account for less than 1% of the total income of the sector!).

More than grant-making?

I've mentioned already the Association of Charitable Foundations and the Institute of Fund-Raisers – they, and various other fund-provider and fund-seeker network organisations, issue acres of good practice guides, organise lots of seminars about the grant-making process – the steps through which both 'sides' of

the transaction go prior to the grant decision – the 'front-end' of the transaction, as it were: the application, the assessment process, the decision. There's a bit, too, on terms and conditions and on compliance monitoring. But the attention given to grant management as opposed to grant-making is, I believe, disproportionately small. A curious situation given that it is in the use of the grant, the implementation of the decision, the translation into reality of what the original application was all about, that the charitable aspirations of the trust or foundation – and of the organisation they decide to support – will be achieved.

Moreover, until recently, there has been hardly any attention paid to alternative or additional ways that trusts and foundations could utilise their resources to translate their charitable purposes into reality, to go beyond just 'ordinary' grant-making:

- The ways they manage their assets – intellectual as well as financial
- The ways they provide funds – going beyond just project and short-term grants
- The ways their staff and trustees engage with the work that they decide to support – and to which they might add value beyond just providing the money.

Those are the three issues on which I'd like to focus this evening.

Investing Assets for Charitable Purposes

First assets. I'm a big fan of Jed Emerson – one of the most stimulating and original commentators on the foundation scene in the USA; despite the big differences (such as the mandatory 5% asset distribution rule in the states), much of his writing is of direct relevance to trusts and foundations in the UK – to here as well, perhaps. Among the trusts and foundations in the UK, Jed is known as 'the manure man' because the first of his articles that was widely circulated was *Horse Manure and Grant-making*[1]. Jed is an advisor – formally the Executive Director – of the Roberts Enterprise Development Fund. He's now with the Stanford Graduate School of Business and the William and Flora Hewlett and David and Lucile Packard Foundations.

In his article Jed likened grant-making to horse manure:

> "Fresh horse manure is rich and sweet smelling stuff! It is important as fertilizer for growing a healthy crop. Knowing how to use manure appropriately is one of the keys to agricultural success—too much burns the roots and too little doesn't get the job done.
>
> "And the same holds true for good grantmaking. Our philanthropic horse manure is critical to growing a global garden of civil society flowers able to beautify and enrich our world. And it is only right that we spend adequate time discussing how to best engage in sound philanthropic practice.

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[1] Jed Emerson *Horse Manure and Grant-making* Council of Foundations Foundation News & Commentary May/June 2002

> "However, while perpetuity, payout policies and related questions of strategy are important ones deserving of our attention, if all we do is focus upon what comes out of foundations—if all we do is focus upon the manure—I would suggest we are working with the wrong end of the horse!

As the cartoon that headed the article illustrated, the scale of the total assets (i.e. the horse) is massively greater than the income generated in any one year (the manure). Referring to the 5% mandatory distribution requirement, Jed pointed out that:

> *"5 percent* of our resources are driving *100 percent* of our social mission, and *95 percent* of our resources are judged solely on terms of *financial* performance alone, regardless of whether those investments may actually be destroying the very social or other value we seek to create"

Jumping back to his manure analogy, Jed observed that:

> "most of us focus all of our efforts on manure production and mucking activities rather than on whether or not our horses are headed in the right direction!"

and posed a key question for the "philanthropic farmer":

> "How do we best manage the *total* assets of the foundation to maximise its value as a resource?"

In a more recent article in the Stanford Social Innovation Review[2], Jed developed these arguments further, drawing specifically on the experience of the NYC based Cummings Foundation which had discovered that, in the same year in which it had spent $650,000 on four grants aimed at holding big agribusiness environmentally accountable – with a particular focus on the hog industry – their investment managers had bought a large hunk of stock in Smithfield Foods, the largest hog producer and pork processor in the world – and one with a checkered environmental record. As the Foundation's CEO and President acknowledged:

> "The practice in foundations has typically been for the program areas to focus on mission and the investment committee to focus on financial returns, with little – if any – awareness between these silos….And yet, social and economic justice requires an integrated society. Corporations and business cannot be separated from concerns about health, the environment, the arts, about how we live our lives."

The Foundation then used its shareholding to take activist action and, as Jed Emerson comments, is as a consequence:

> "making a start at bridging an "investment gap" – the chasm or firewall between the financial capital that foundations invest in economic worth, and the social capital through which foundations pursue investments in social value. The goal for all foundations should be to bridge this gap, creating the largest set of overall returns possible – financial, social, and environmental – to maximize total value and total returns on investments."

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[2] Jed Emerson *Maximum Value: Foundation Investments Can Support Mission* Stanford Social Innovation Review Summer 2003

In the UK, charities have traditionally been very nervous about bridging that firewall – indeed their investment advisers would routinely tell the trustees that they couldn't – maximizing financial returns was everything and trustees must not let their environmental or social 'prejudices and personal whims' distract them from that objective. The Regulator, the Charity Commission, expressed this view as:

> "…trustees are not free to use their investment powers to make moral statements at the expense of their charity."

However, in the latest Commission statement[3] on charity trustee investment powers and responsibilities, the Commission went further than I think it ever has previously in recognising that charities could bridge the investment gap or chasm to which Jed Emerson referred:

> "Where a charity is concerned to pursue an ethical or socially responsible investment policy, its trustees may well expect the manager to engage with companies in which the charity's funds are invested so as to ensure that the charity's policy is not being compromised by the activities of the company.
>
> "Disinvestment is, of course, one option for the charity which decides that the business of a particular company does not fit in with its particular policy. But disinvestment will not always be in the charity's best interests: the use of shareholder rights in particular ways can influence the way in which the company does business, and this may be enough to end the conflict with the charity's policy."

What a trust or foundation does, therefore, with its capital asset is not necessarily divorced from its charitable purpose – it can use those resources to further that purpose; it can go beyond just relying on grant-making to translate its charitable objectives into reality.

Intellectual Assets – an under-exploited resource

Trusts and foundations have another often underused asset – the intellectual asset that their work and experience has generated. In the UK, trusts and foundations are not much good at investing in documenting the lessons learnt from what they have funded about what seems to work – and what does not.

In many cases, the staff of UK trusts and foundations will have been in their (or similar) jobs for longer than the staff of the organisations that are applying to them for funds. They will also have knowledge of other organisations working to address similar issues and needs. They will draw on this extensive experience and accumulated knowledge to inform their current work – in their assessments of applications and, probably, in subsequent informal discussions with grantee

[3] Charity Commission *CC14: Investment of Charitable Funds* February 2003

organisations. But it's rare that all this accumulated know how is made available externally. Jed Emerson, inevitably, has something relevant to say on this too:

> "Intellectual assets are the product of an institution's grant making activities and may be built over time as foundation staff engage in more and more grant-making. For the most part…[this knowledge]…is held within the brains of foundation staff…[and]… is applied in the context of the grant-making relationship and helps steer the design of programs and strategies the foundation supports through its grants. Some foundations pursue strategies that push this asset into significant use on behalf of grantees and others maintain the asset as an internal resource, but all foundations have some level or degree of intellectual assets that under-gird their analysis of issues and creation of strategies. And many foundations could do much more to further cultivate this valuable asset."[4]

The opportunity for a funder to make more productive use of the knowledge it has gained from the work that it has supported is made far easier now by developments in web-based technology – as are opportunities for grantees themselves to provide peer support to each other by sharing information about what works and what does not and for discussing issues and problems – direct or through the funder's web site.

The intellectual assets of trusts and foundations can also be of considerable influence in public policy. The Treasury in England has just announced details of its new £125 million ***future* builders** fund that is intended to enable the charity and social enterprise sector to increase the scope and scale of its work as a provider of publicly funded services: at least half a dozen CEOs and advisers to trusts and foundations played prominent parts in the development of that programme – which introduces some wholly new funding practice into the sector, including a variety of forms of 'patient capital' and loans. The experience that those employees of trusts and foundations have gained as managers of funding programmes has been used directly to influence the shape and direction of new government programmes.

In general, however, trusts and foundations in the UK do not use their collective strength to influence policy; there are individual exceptions such as the Joseph Rowntree Foundation, but they are exceptions. The lobbying role of trusts and foundations has been pretty invisible in the UK – indeed they have suffered some significant reductions in their tax advantages partly because their lobbying muscle was so weak and they do not draw on their intellectual assets sufficiently to play a central role in lobbying efforts within the wider charity sector.

The way we fund – can grants be harmful?

The second way in which trusts and foundations could be more than just grant-makers that I wanted to comment on concerns the way they fund the

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[4] Jed Emerson *Total Foundation Asset Management: Exploring Elements of Engagement Within Philanthropic Practice* 2003

organisations they support: the sorts of grants they make and how the transaction between funder and fund-seeker is administered. They could do it differently – in particular, they could go beyond project or restricted grants. Two assertions: first, the practice of some grant-makers can actually undermine the organisations that the grants are intended to support; second, some funds could be provided as social or programme related investments, not as grants, and the trust or foundation could then recycle the funds to support more work in the future.

Surely grants must be a good thing? Another 'it ain't necessarily so' response. The way some grants are made, their purpose, the conditions attached, can have a "Born to Fail" effect – doomed from the start not to achieve what both the grant-maker and the grant seeker were aiming for. Let's just examine some of the routine practice among UK trusts and foundations.

- First, short term project funding: Voluntary and community organisations despair of the tendency of so many charitable trusts and foundations to tie their grants to very restricted purposes: 'project-itis', a disease that creates what has been described as a 'dance of deceit'[5] between funder and funded as the fund seeker tries ever more desperately and/or ingeniously to describe ongoing work in ways which enable it to be presented as a new (and no doubt 'innovative') project. Many funders concentrate on short-term support, tied to tightly defined outputs and quantitative monitoring – success tends to be measured by compliance not by achievement.

- Many trusts and foundations have been unwilling to pay for the full price of the work they agree to support, preferring to contribute to a larger number of projects rather than to concentrate resources on a few; and the costs they have been most reluctant to support have been those which are essential to an organisation's long term and healthy survival, the general operational costs, forward planning, the central overheads. As a consequence, a project grant can be awarded that is inadequate for the effective development and management of the project it is intended to support – leaving the grant recipient either to meet those costs from its own (probably limited) resources or to run the project knowing that it does not have sufficient funds to do so.

- Most voluntary and community organisations are also chronically undercapitalised for the work they do – or would like to undertake. They often have insufficient reserves to meet the obligations (and levels of risk) they take on; and they have little or no working capital or funds to resource initial work on new developments. It would be an exceptional UK trust or foundation that provided an explicit incentive to a grant recipient to try and use its resources more efficiently by enabling the organisation to retain unspent funds and add them to their general reserves and working capital.

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[5] Jed Emerson: *Grantee-Grantor Relations: Mutual Accountability and the Wisdom of Frank Capra* Foundation News and Commentary March/April 2001

- Prior to making a grant, funders may have asked how an organisation will evaluate its work and what indicators of success it will use – but they seldom provide sufficient funds to pay for the necessary information gathering or for the resources and time needed to analyse and make use of the lessons learnt within that organisation or the wider community. And, too often, grantee organisations spend hours, days even, completing complicated monitoring reports for funders and then, adding insult to injury, no use seems to be made of the reports – they get no feedback or comment – it's as if the key achievement is the completion of the monitoring form, not the content or outcome of the work itself.

- Too often, as well, they have to complete several completely different forms for different funders – the lack of collaboration between funders is a fantastically wasteful of everyone's time. In the UK a charity's annual report will usually list all the trusts and foundations that have provided grants – it makes me exhausted to think of the time that must have been spent by the charity making applications to all those funders – and to those that turned them down – and then filling in all those monitoring reports; and the hours the separate funders must have spent going through pretty well identical due diligence assessment processes.

Let's pursue the first of these – short-term grants. Trusts and foundations are often criticised for making single donations that carry no promise of renewal after a year if the work that is to be supported is successful; or for adopting arbitrary funding cut-offs that take no account of the length of time that may be needed for a project or activity to achieve its objectives or become self-sustainable.

It seems to me that one of the special privileges of endowed charitable trusts and foundations is that they can make a long term investment in supporting the birth, development and replication of a favoured type of service, activity or opportunity. They are not subject to the sort of impatient external and internal imperatives that make the provision of such long-term support difficult in the UK for statutory funders, corporate donors or lottery fund distributors.

Yet only a handful of UK trusts and foundations set out explicitly to support organisations for a period any longer than three years – though examination of the grant-making practice of many trusts and foundations indicates that successive renewal of funding of the same organisation (or the funding of a succession of 'new' projects) is not unusual i.e. that many trusts and foundations do provide long-term funding but clothe it in the cloak of repeated short-term grants.

The benefits of a reliable source of long term funding to an organisation are clear – as my predecessor as the Waislitz Fellow, Christine Letts has described in a recent paper:

> "Most nonprofits operate in a hugely uncertain funding environment. Changes in the economy, the interests of foundations and the priorities of government can quickly reduce or redirect money…The stress and effort inflicted by this

> uncertain funding environment…breeds a scarcity mentality that can shrink an organisation's ambitions. 'Reliable Grant Money' can 'free us up to do our work' said one executive director of a nonprofit that was able to add staff, expand programs, and initiate planning with the knowledge that the support would not be withdrawn abruptly."[6]

The benefits of long term funding are mutual: the long term funder can adopt the positive role of 'critical friend' more easily (and probably productively) than can a funder who is not prepared 'to be there for the duration;' and the opportunities that such a long period of involvement can provide to learn lessons about what works and why can be seized on for application elsewhere in the funder's work.

Some trusts and foundations explain their reluctance to make funding commitments of longer than three years by expressing concern that the organisations that they are supporting may become over dependent on their grants and that their grant-making resources will 'silt up' – implying that a funder's freedom to switch support from organisation to organisation is a greater priority than funding a single organisation for sufficient time for it to achieve the aims that the funder has agreed to support. It seems to me likely that the often ambitious charitable objectives of the trustees of a trust or foundation to use their resources to tackle complex and deep rooted social problems will be better served if the pattern and duration of their grant-making relates more realistically to the time it will take an organisation that it is supporting to achieve its objectives.

It remains a curious feature of the grant-making practice of many UK trusts and foundations that, having decided that a particular organisation is best placed to deliver some aspect of their aspirations, the grant should be provided in a way that does not match the reality of what is planned and can restrict rather than enable the organisation's ability to grow stronger and to develop additional capacity – grants, in effect, that can undermine and weaken an organisation.

Programme Related Investment (PRI) – recycling the funds

The second theme in this section – Programme Related Investment or Social Investment. PRI is a "double bottom line transaction" – a financial transaction that is intended both to achieve social objectives and to deliver a financial return to the investor. For a charity, a trust and foundation, the use of funds from either assets or income to make loans to, or other kinds of 'patient capital' investment in, another charity or community organisation which will be used in some way to further the trust or foundation's charitable purpose and will generate a financial return which can come back to the trust or foundation so that the money can be used again…and again.

So how can trusts and foundations add PRI to the menu of ways they support the charity sector? Here are some possibilities:

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[6] Christine W Letts and William P Ryan *High Engagement Philanthropy* Stanford Social Innovation Review Spring 2003

- Loans – short or medium term, interest free or low interest – to fund activity or developments that should, if all goes well, generate the means to repay. In the UK this could involve not only asset development by a community organisation – the development of a building within which income generating activities can be established – but also start up finance for a new social care or other service for which a governmental agency or department pays, the repayments becoming one of the costs recoverable through the contract with the purchaser

- Patient recoverable capital – loans that have very patient terms in that no repayments are due for a long time – perhaps not even fixed when the loan is made but a date being agreed when the possible repayment terms will be discussed – a date by which the growth and success of the enterprise can be assessed

- Underwriting – not even paying the money over but accepting a potential obligation to do so if some aspect of a planned self-funding initiative does not succeed fully; such a commitment may also prove useful in 'levering' funds from other sources

- A PRI property portfolio – if a charity's objects are to relieve poverty (or indeed are just for general charitable purposes as is the case for most trusts and foundations), a property investment in one of the poorest communities could generate a return and some capital growth – but also contribute to the regeneration of that area: a social return in line with the charity's objects and a financial return, albeit a smaller one than you would probably get from investing in property in a wealthier area

- An equity stake in a community business or social enterprise – if an appropriately defined stake for a charitable investor can be worked out, PRI could support the development or growth of an enterprise that aimed to meet some aspect of the investor charity's objects.

PRI has always been an option for most trusts and foundations in the UK but few practice it. When we persuaded the Charity Commission to issue new guidance on it in 2001[7] (which they did in what seem to me to be rather splendidly titled 'useful guidelines' which at least opens up the possibility of them issuing some 'not useful guidelines' at some point!), they acknowledged that they hadn't given it much thought before because no one had asked them to do so.

PRI is a challenge to the orthodoxy and resistance to it among trusts and foundations is more systemic – the investment orthodoxy is a powerful one. As the Charity Commission also acknowledged:

[7] Charity Commission *Useful Guidelines - Charities and Social Investment* October 2002 (the 2002 Guidelines replaced *Useful Guidelines - Charities and Programme Related Investment* published in May 2001)

> "Many charities, their trustees in particular, have had it drummed into them that, when you are investing charity money, you have to get the best possible return."

The Commission pointed out that this is another of those 'it ain't necessarily so' assertions. Obviously the trustees must try and protect and build the assets they hold 'in trust' – but their primary obligation is to use the charity's assets as effectively as possible to achieve their charitable purpose – to assist their beneficiaries. If the best way of doing that is to invest in something with a low likely return then that may be OK. It won't be classified as an 'ordinary investment' because the motive for making the investment is not informed solely by the prospects for a financial return – there's a 'double bottom line'.

The Commission also pointed out that:

> "Any charity that can give grants can undertake PRI – unless it is specifically prohibited in the charity's governing document"

And observed that:

> "In some cases a loan on non-commercial terms may be a better way of achieving the charity's objects than a grant. If handled well, PRI can significantly increase the help a charity can offer in the short term, while not affecting the charity's long term future"

PRI through specialist intermediaries

Trusts and foundations that have ventured into PRI in the UK have not necessarily done so by making individual investments directly – they can and do use an appropriate intermediary agency.

They may choose to do so for administrative convenience – the administration of loans is likely to be more complicated than grants.

Trustees may also decide to use a specialist intermediary to avoid being a direct lender – because they would then have to accept the possibility of calling in the debt if something went wrong; reputationally they might wish to avoid that situation.

A specialist intermediary may also be better placed to take on the direct investor role and at the same time provide technical advice and support beyond that likely to be within the competence of most trusts or foundations:

- the Housing Associations Charitable Trust, for example, of which I was Director in the late 1980's; at the time our balance sheet consisted almost entirely of loans to small, locally managed, social housing organisations – loans made from funds entrusted to us by larger generalist trusts and foundations who did not feel adequately equipped to make such transactions
- the new Charity Bank into which one of the largest UK foundations, the Esmee Fairbairn Foundation, has recently placed £3million from which loans can be made to small charities

- Triodos Bank which has recently established a PRI link with the Lankelly Foundation to support social housing projects
- the growing number of Community Development Finance Institutions (CDFI) that are springing up in the UK to support new business enterprises in our poorest neighbourhoods, such as the Aston Reinvestment Trust (ART)
- the Venturesome fund at Charities Aid Foundation that invests capital in what are likely to be projects outside the risk tolerance of other lenders.

And PRI through an intermediary is not just a potential opportunity for the larger trusts and foundations: a small family trust in the Midlands, for example, has made PRI investments both in the Charity Bank and Aston Reinvestment Trust.

PRI – a challenge to the mainstream

So why is PRI not already mainstream charity finance? Why haven't trusts and foundations got into it in a big way already? And what might stop them – and why? After all, an opportunity to add to their repertoire and to make their funds work harder – to use some of their funds two or more times might be expected to sound pretty tempting to many trustees.

There seem to me to be five main reasons for the reluctance of trusts and foundations to add PRI to the ways they fulfil their charitable purposes:

1. Grants are simple – for trusts and foundations to make and to administer; why complicate things? (My response? It could be worth the hassle if the money goes further, could have greater leverage potential and a more lasting impact)
2. Grants are simple – for the charities seeking funds; why complicate things and get all involved thinking up new options for financing your work and taking on new obligations to report and repay? (My response? It could be worth it if you can access new or additional funds – and also demonstrate that you are an organisation that is capable of incorporating this sort of 'mature' finance in your planning and operations)
3. The Investment Orthodoxy: the overwhelming majority of charities rely for advice about their investment strategy on their investment managers; it is perhaps not surprising that the orthodox view that the primary duty of trustees is to maximise the financial return on the their assets that they 'hold in trust' has a strong grip
4. The assumption that PRI must be risky. This is an intriguing – but very firmly held – view. A grant seems to me to be a higher risk – after all, once it's paid over it's gone! PRI offers the possibility of getting the money back for using again. I recall that when I was trying to persuade a seriously well qualified investment committee to consider setting aside 5% of their (then cash) endowment to support property based PRI health related work in poorly provided for areas, the option was firmly resisted as far too risky; instead the money went into equities including such wonderfully prudent stock selection as Marconi – a major UK company that went belly up!
5. And the 'that's what we do' image; we are grant-making trusts, we make grants. Full stop.

PRI, then, is a challenge – a challenge to trusts and foundations (and to the organisations that look to them for funds). It seems to me to be a straightforward challenge – to concentrate grants where they are the only or clearly the most appropriate option and to use other types of funding wherever possible to further their charitable objectives.

That way the funds available to the trustees of trusts and foundations go further – go beyond grants and also make charitable funds work harder.

Getting Engaged

My third issue – the ways the staff and trustees of trusts and foundations get engaged with the work that they decide to support – and to which they might add value beyond just providing the money. Labels like Venture Philanthropy, High Engagement Grant-making, the 'Investor Approach.' All these are variations on the relationship between funder and funded being about more than just a financial transaction – grant-making 'plus.' Advocates argue that involvement in helping strengthen the capacity, the sustainability of the organisation may increase the prospects of success of the project that is the primary target of the grant. Engagement with a funded organisation may also generate learning from which future grant decisions will benefit.

There's no single model – there's a spectrum of funder activity which could include any or all of the following (and more) levels of involvement:

- a targeted approach to specific priority groups
- active out-reach to potential applicants and involvement in shaping applications
- involvement in decisions made by a grantee about policies or operational changes
- promoting a project's long term funding prospects directly with other funders
- nominating trustees or committee members – or taking on that role directly.

In the UK, these developments are largely funder driven initiatives and have been received with some mixed responses by the organisations at the receiving end – not least because of doubts about what expertise or added value the staff of a foundation could bring to the table – and worries that greater funder involvement leads to greater control by the funder, threatening independence. Understandable – and, in a few cases, fully justified – concerns; but there is also potential for some real and mutually valuable benefits.

Outcomes Funding

In the UK, a lot of the current debate has been prompted by the decision of the largest single funder of the voluntary and community sector, the lottery funds distributor, the Community Fund, to adopt its version of 'the Investor Approach' – this approach is built on establishing jointly a clarity of outcomes: agreement by applicant and funder as to what changes, what difference a grant is going to make, how movement towards achieving those changes will be measured, and how the lessons learnt will be applied to improve or extend the work.

There are two layers of questions for the individual grant:

- how a trust or foundation and a grant applicant can set and validate the outcomes of the work that a grant is intended to make possible?

And second:

- how far should a trust or foundation go in helping to shape and steer the work of the organisations that it decides to support?

And, for most trusts and foundations, two dimensions: not only the individual grant but also the grant programme from within which the grant is made:

- what outcomes is the trust or foundation hoping to achieve through this grant programme?

and:

- how engaged is the trust or foundation going to be in the direction, conduct, evaluation and promotion of the results of and lessons learnt from the grant programme?

Much of the debate in the UK about outcomes derives from frustration among grantmakers. Let me jump back to early 1995 when the Baring Foundation, of which I was then CEO, hit the headlines when the source of 85% of its income went up in smoke. The Foundation was probably ahead of the game in our ability to report in considerable detail on the activities we funded – what, where, for whom; we were good on amounts and quantity; in the jargon, we were very informative about inputs and outputs. This proved invaluable when the press suddenly got interested in us after the Baring Bank crisis; our data base and information management systems meant we could send within a few minutes pie charts and tables to any journalist who asked for factual information about what we funded.

But if one of those journalists – or one of my trustees – had asked:

- What had been the impact of the grant programme? What had been achieved?
- What had been the difference made to the lives of the 100's of people that were being assisted by the organisations who were in receipt of the grants we had provided?
- What had worked and why?

I'd have had to resort to anecdote and example. We were good at 'counting the beans' but we had no real overall evidence of the results – the outcomes or the impact; we could provide little or no solid evidence of the quality of what had been achieved and what lessons had been learnt.

It's strange that most funders have not got to grips with these basic questions. Surely it's just good practice – and not just for funder organisations; also for the funded organisations as well? Last year I wrote a report for the Community Fund[8] in which I asserted:

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[8] David Carrington *The Investor Approach – a Way Forward for the Community Fund?* The Community Fund June 2002

> "Any organisation should endeavour – as general good management practice – to:
>
> - set out clear outcomes and performance targets which a particular function or new project is intended to deliver
> - be clear in advance about the steps that it will take to achieve those targets
> - have a procedure for stocktaking as they complete each step
> - be ready to adjust or amend the targets/timetable/methods if their experience and learning demonstrate that to do so would be appropriate
> - establish a system of keeping those organisations that are helping them (with funds or other resources) informed positively about progress and learning."

In the Community Fund report, I also suggested that:

> "For a funder to expect applicants and grant recipients to adopt such good management practice would itself, therefore, seem to be good practice. So, too, would be a willingness on the part of the funder to invest time and resources in helping those organisations which it wants to support but which do not as yet have the capacity or skills to set, measure and manage outcomes."

The grant, therefore, is just one ingredient of the relationship between funder and funded – the total transaction can go well beyond just the grant.

Replication – the challenge of applying the lessons learnt

The debates about outcomes and high engagement grant-making are also preoccupied with replication. Most trusts and foundations assert that they are keen to support pilot projects or innovative work – but many of them struggle subsequently to ensure that the lessons learnt are applied elsewhere and, if the project is a success, to work out how they can help replicate it so that other communities and areas benefit from that success (or if the grant fails to deliver the goods – what can be learnt from failure?).

These problems seem to stem in many cases from the 'mind sets' of both the funders and of the people who create innovative projects. The funder may not perceive itself as having the sort of proactive 'investor' role that would lead to it going out into other areas and encouraging or commissioning other organisations to build on the example of the innovator. It may be prepared to do no more than pay for some report or 'tool-kit' as part of a dissemination process – valuable, certainly, but a limited incentive to others to initiate similar projects. Or the funder may define its role as funding the pilot, demonstrating what can be done and then waiting for others to pay to 'roll out' replicas.

I have found a recent article[9] about the challenge of replication by Jeffrey L Bradach of Bridgespan Group Advisers useful. In the article, he argues that a successful investment in replication will depend on:

> "the ability to articulate the organisation's theory of change, which reflects both its view of why its program works and its understanding of the activities required to produce successful outcomes"

and he observes that:

> "…for many people, the concept [of replicating social programmes] conjures up images of bureaucracy and centralized control. Such images are uninviting in any sphere, but they are especially problematic in the nonprofit sector, where local "ownership" … plays such an important part in organisational success. Add in the fact that, for many social entrepreneurs, autonomy is an important form of psychic income, and it becomes easy to understand why implementing someone else's dream tends not to be nearly as satisfying as building one's own."

For trusts and foundations that are keen to support the replication of a new service or activity that they have helped an organisation test out, the key challenges may be to go beyond the original grant and help that organisation build up both a strong body of evidence demonstrating the achievements over time of its work as well as what Jeffrey Bradach describes as its "theory of change;" and then, depending on the outcome of that work, be prepared also to provide the funds the organisation will need to build up its own capacity to disseminate and replicate the work it has initiated – whether it chooses to do so directly, or by some sort of franchise arrangement, or by the development of a consultancy service (or a combination). Failure to do both is likely to leave the organisation ill equipped to work effectively on replication – and the funder frustrated that the 'good idea' it helped test out never gets properly established more widely.

Who is Dependent on Whom?

A final thought – on the issue of dependency. Who is dependent on whom? The debate about funding dependence is usually (and perhaps rather patronisingly) about funded organisations becoming dependent on funders – this is generally assumed to be a 'bad' thing. Surely there's a mutual (albeit different) dependence between trusts and foundations and the organisations that they support? The charitable aims of trusts and foundations are only achievable if the organisations they support deliver the goods. If they don't have the right combination of resources and skills, they won't be able to do so. It is in the interests of trusts and foundations to ensure that the resources are there – so my final observation is to ask trusts and foundations to look beyond grants to ensure that they invest all the charitable funds they hold in trust to greatest long-term effect.

[9] Jeffrey L Bradach *The Challenge of Replicating Social Programs* Stanford Social Innovation Review Spring 2003