Counting the community benefit of grantmaking

Apparently generous grants are often not so generous once you factor in the time grantees spend applying for, administering and reporting on them. Kate Frykberg looks at the hidden costs of grantmaking – and at ways of making the process more efficient.

As grantmakers we want to provide accessible funding, select grantees wisely and understand our impact. The way we usually go about this is through contestable funding and robust processes for selection, accountability and sometimes evaluation.

That's all well and good – except for the compliance costs these processes generate for the community organisations applying for the funds, whether or not their applications are successful.

We know that every hour spent seeking and keeping grants is an hour not spent working with the community served, but we rarely give compliance costs the attention they deserve, despite the fact that, as Albert Ruesga and others point out, fundraising is a leading cause of burnout for CEs of community organisations.

Once you do factor in these costs it becomes clear that we are often less generous than we think.

A useful approach to working out the true cost of the funding process is by putting a value on the time spent applying for – and in the case of successful applicants, administering and reporting on – grants.

For successful applicants, this allows us to measure:
- *net grant* – the money received by a grantee minus the value of the time spent applying for and reporting on the grant
- *grant efficiency* – net grant as a percentage of grant given.

You can also use this same formula to calculate how efficient the process is for the community as a whole by including the costs for unsuccessful applicants. This allows us to measure:
- *net community funding* –the money a funder gives to the community, minus both the value of the time to apply for funding by both successful and unsuccessful applicants, and the value of the time spent by successful applicants administering and reporting on the grant.
- *community funding efficiency* – net community funding as a percentage of funding provided.

As you can see from the hypothetical example in the box on page 15, the grantmaking process can be extremely inefficient. A situation where the total cost of applying for, administering and reporting on the grant is more than half the value of the grant is unfair, unreasonable and unnecessary. And sadly it is completely possible for particularly complex and competitive funding schemes to have negative grant efficiency.

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Of course this is not the situation in every case. Nor is it confined to philanthropy – tendering and contract processes in government and the commercial world are similar and often worse. But however we look at it, the net impact of our funding, once compliance costs are taken into account, can be considerably less than the total amount given.

Put a different way, some of our grant-making practices reduce the very impact we seek to make.

And yet those original goals – accessibility, selecting wisely, understanding impact – remain both valid and important. Is there a win-win solution that provides the best of both worlds? If not, how do you balance these seemingly conflicting goals of robust, accessible grant processes and low compliance costs?

While we don't have any silver bullets, we have been thinking about this issue at Todd Foundation; here are some practical ideas to help streamline compliance costs and increase community benefit.

Adding it up

The scenario: You have $100,000 to give away in 10 grants of $10,000 each.

Assumptions: Let's choose round numbers – assume that 100 organisations apply, they spend an average of 10 hours each applying then another 10 hours reporting on the grant, and use an average hourly rate of $50 per hour.

Net grant and grant efficiency for successful applicants:

Grant	$10,000
The cost of applying (10 hours @$50/hour)	– $500
The cost of reporting on grant (10 hours @$50/hour)	– $500
Net grant	**$9000**
Grant efficiency	**90%**

Net community funding and community funding efficiency for all applicants:

Funding available (10 grants of 10k each)	$100,000
The cost of applying (10 hours @$50/hour, 100 applicants)	– $50,000
The cost of reporting on grant (10 hours @$50/hour, 10 grantees)	– $5,000
Net community funding	**$45,000**
Community funding efficiency	**45%**

Be clear about what won't get funded

It is a waste of everyone's time to receive applications that have little chance of success. It isn't hard to have clear criteria and to be available for open and honest discussion about things on the margins. Doing this well will reduce the number of applications we receive, which may also require letting go of feeling secretly pleased to receive lots of them! But funding is not a popularity contest…

Combine responsive and proactive funding

Funding which anyone can apply for (responsive funding) is open and inclusive but has high compliance costs. Funding which is invitation only (proactive funding) has lower compliance costs because of the much higher chance of success – but is limited by our understanding of who is out there doing great work. A combination of both seems a good middle ground.

Maximise multi-year funding

You can't change the world in a year. You can't even employ someone to change the world in a year. Multi-year grants have significantly lower compliance costs and much better results.

Allow flexibility in how the grant is used

When we buy shares in a business we don't tell companies how to use the funds; why then are we often so prescriptive in how grants are used?

Use two-step and scalable application processes

A two-step application process allows us to shortlist potential grantees on the basis of an initial, less time-consuming application. And having different kinds of applications depending on the scale of the grant makes sense too – it's much better for everyone if processes are proportional to the amount on offer and the chance of success.

Track how long the application and reporting processes take

It's easy to add a field to forms asking how many hours it took to apply, and from this we can calculate our funding efficiency using the formulas I've suggested.

Make grant reporting meaningful

For grantees, accountability reporting is usually just another irritating compliance chore, and the end result is often unacknowledged, sometimes unread and rarely used as a learning tool. Many of us need to rethink our approach here.

We've been exploring these issues at Todd Foundation, and goodness knows we have a long way to go – but we're making a start.

The changes we've introduced include:

- reworking eligibility and selection criteria
- providing 37% of our funding proactively, 48% for more than one year and 26% without any restrictions on how it is used
- using both two-step and scalable application processes (which take an average of 2 hours for an initial application, 5 hours for new proposals from previously funded grantees and 8 hours for proposals from new applicants)
- introducing roundtable reporting, where grantees report face-to-face in groups, rather than through a written report.

Our next step will be to formally put in place new metrics like grant efficiency and community benefit efficiency.

It is a long journey and we're still just starting out. But one thing seems clear – if we want our funding to have more impact, we should first look in the mirror and review our own practices.