



*What is the real value of a grant? Is your grant still as generous as it seems when you take into account the time, effort and impost grants applicants face when applying?*

*New Zealand's Todd Foundation is among an emerging group of grantmakers thinking more deeply about these issues – and about concepts like “net grants” and “community funding efficiency”. GMQ spoke with the Foundation's executive director KATE FRYKBERG about the work.*

# Hidden costs and improving efficiencies

## Todd Foundation investigating the community benefit of grantmaking

**GMQ: Firstly – can you provide some more information about the Todd Foundation?**

**Kate Frykberg:** The Todd Foundation was established by the Todd Family in 1972. We have a vision of inclusive communities where all families, children and young people can thrive and contribute. We generally provide between \$NZ4.5m and \$NZ5.5m (\$A4.17m to \$A5.1m) in funding each year.

**GMQ: Can you explain the concepts of “net grants/net community funding” and “grant efficiency/community funding efficiency”?**

**And what “flicked the switch” and started you thinking along these lines?**

**Kate Frykberg:** There were two sparks to it.

The first was Clara Miller from the F.B Heron Foundation in New York who visited us a couple of years back.

She talked about “net grants”, which is basically the value of the money given minus the value of the time needed to apply for and report on the grant.

At that point we added to our application forms: “How long does it take you to apply for the grant”, as up until then we had no idea.

The second thing which sparked going into it with much more depth was a discussion with one of our grantees through our partnership fund – our five year funding stream – and he was saying that he had realised that not having to apply for a grant each year, and not having to chase that money each year, ►

### GLOSSARY OF TERMS

- **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
- **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

Source - Philanthropy NZ



### THE “GRANT EFFICIENCY EQUATIONS”

**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%.

*Source - Philanthropy NZ/Todd Foundation*

frees up about two weeks of his time each year.

So then he wondered how he could use that time most strategically.

That really brought it home to me. Because, number one, that really showed the concrete benefit of providing long term funding; that you are freeing up two weeks of the recipient's time so they can serve their community.

But that really sparked our thoughts. We undertook an informal survey of our Partnership Funding recipients to find out how long it takes them to find \$100k.

From there we started thinking: “Well, net grants are all very well, but how do you factor in the time of all the unsuccessful grants applicants?” Because in analysing the feedback we realised there was a lot of time devoted by grantseekers to applications that were unsuccessful.

So how do you factor that in? From that I came up with the concept of the “net community grant”.

**GMQ: Why haven't grantmakers looked at this line of thinking more often?**

**Kate Frykberg:** I think one reason

is that grantees and applicants don't necessarily feel comfortable giving us honest feedback.

They are worried if they say what they might be really thinking, they might not get funding.

Also, I wonder whether we have bought into the paradigm of “doing such a robust job in looking at where our funding is going and how it used”, that we overlook the fact that the very robustness of our processes reduces the impact of our grants, because our grantees spend their time servicing us instead of serving the community.

**GMQ: At first glance, when looking at the “net grant efficiency equation” (see the box above) the immediate reaction is that to increase efficiency we'd need to look at either cutting costs to increase efficiency, or increasing funding to mitigate loss.**

**But do you see throwing money at an issue like this as ever being a viable solution?**

**Kate Frykberg:** I think there's a few ways of doing that (increasing efficiency) actually. But the main thing is that it is about maximising the value – maximising the value of the grants.

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**From there we started thinking: “Well, net grants are all very well, but how do you factor in the time of all the unsuccessful grants applicants?”**

You could make the community funding efficiency very high by having an ATM machine where people can just put their card in and if they are a registered charity they can get their money out.

But would that be value for the community?

So there's sort of a sweet spot in the middle where you understand your community, understand its needs, understand who is out there and, at the same time, make the processes as efficient as possible so you are hitting the sweet spot between low compliance costs for people applying for funds, and robust processes and good relationships for making the best calls possible.

**GMQ: How does understanding your community improve grants efficiency?:**

**Kate Frykberg:** Because you can only be as good as a grantmaker as the organisations you fund.

And you can increase the quality of your choices by the degree to which you understand the issues they are trying to address and what might help (as well as) who is out there doing it and what ▶



the funding gaps are.

The first day I was here at the foundation my boss – Sir John Todd – he said to me: “Really your job is to get out in the community, find out what is needed and how we can help.”

That’s what it is really about – whether we are a funder or a community organisation – it is not about us, it is about the communities we serve.

**GMQ: You mention “efficiency” and “the need for robust processes”. How does a grantmaker walk the line of increasing efficiency (and community funding efficiency) whilst ensuring their due diligence remains of the highest standard?**

**In fact, some might argue that these two things are in conflict – or that you can’t do one without compromising the other.**

**Kate Frykberg:** There are a few things around that.

So what we do in our funding

processes ... firstly we have a two step process, and we only ask a small number of people go through the full application process – so they have a pretty good chance once they get to the second stage.

Even within that, the average amount of time taken on an application is eight hours. That is not insignificant, but my feeling is that it is not an unreasonable amount of time to spend on an application.

We would spend around twice that in our due diligence process. We will go and visit the person, do some checking, compare notes, compare against research and best practice ... we try to do a pretty robust assessment for our trustees.

Our assessors then also assess them (the applications) separately before they come together and decide on the funding.

So we try to move the workload from the applicant to the funder – or, more accurately, share it more fairly. We

wouldn’t ask anyone to do something that we wouldn’t do ourselves.

That’s one way of doing it. Other ways of doing this are to increase the number of multi-year grants, reduce unnecessary restrictions on how grants are used, and do some funding pro-actively – where applications are invited instead of passively received.

**GMQ: How does the Todd Foundation’s staged application process work, and is this another way to improve the grants efficiency?**

**Kate Frykberg:** For example in our last funding round we had 175 initial applications. Now an initial application takes, on average, two hours.

We actually thought it would take about half an hour – it really says: “Who are you?” “How much money do you want?” and “What do you want it for?” as well as their contact details.

But the applicants do want to spend ▶



more time on it crafting their responses.

So the process from that 175 is that our two advisors – both of whom come from a background where they are knowledgeable about the areas we fund in – examine them and assess them against our vision, goals and funding guidelines.

Some of those will get a “staff no” because they don’t fit our vision, goals and guidelines. This means some of them will be rejected at that first stage.

The ones that do meet the goals and guidelines go to a trustee subcommittee, with brief comments from us on each regarding the degree of fit etc. The subcommittee then decide which of those will be among the 30 who will put forward their proposal.

There are a significant number of applications rejected. But we don’t think it is fair on them, or on us, to have them put in that much work for not much hope of success.

So with a more manageable number of proposals we can do our due diligence and go and chat with applicants – which is really valuable.

If you don’t meet in person you are reliant on how well people write – and there may not necessarily be a correlation between how well people write and how they get their message across.

### **GMQ: What other work are you doing around this issue at the Todd Foundation?**

**Kate Frykberg:** Work around net grants and net community benefit is still relatively new.

We’ve always used a framework of relationships – if we really want to enable our community through our grantmaking, then we need to have strong and honest relationships with the people we’ve funded.

So we’ve looked at it as taking a relationship management approach. Obviously given the resources we have, we can’t always do that, but within the resources we have we try to keep relationships (with grantees) as close as we can.

We are always transparent; we will tell people why they are successful and why they are not. The net grant and net community benefit is taking this a step further, looking at our own practices to better enable our communities.

We have most of the information we need to do it, though we haven’t been tracking how long it takes people to report. But then we are changing the way we are doing it anyway.

### **GMQ: What work is there to come – have you any idea yet how you are going to put these new metrics in place?**

**Kate Frykberg:** We will have that in place by mid-year. We just re-did our funding strategy and what we are now doing is working through measuring net community funding efficiency as part of that.

We know what our net grants are – we have about a 98% efficiency rate with those, although this does exclude reporting time.

The efficiency is mostly just a case of looking at how long everybody took to do their actual applications.

We probably need to know what a reasonable amount of time is so that we can work through some research, and then we need to think: “OK, someone has been paid or funded for five years – how do you analyse the (grants) efficiencies there.

We have a few different funding streams, so it isn’t as straightforward as just looking at a single stream. But it will be enlightening and something we’d be keen to share.

And it will be even more useful if other funders can share their experiences too! ✖

**📌 READ MORE ABOUT THE TODD FOUNDATION’S WORK IN THE AREA (ORIGINAL LINK VIA PHILANTHROPY NEW ZEALAND).**