

Reading Between the Red Lines

Strategizing Grantmaking in Tough
Economic Times

International Human Rights Funders Group

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Goal: Provide a Grants Decision-Making Framework

- Make difficult decisions more objectively
- Assess a grantee's financial and organizational capacity to deliver good programs
- Analyze your grantees' relative strengths
- Structure grants for maximum impact

The Context Externally

- This recession is different
 - Longer: 2+ years with a slow recovery
 - Affects all funding sources
 - Impacts grantees globally
- Past grantmaking practices may not serve you or your grantees well

The Context Internally

- Grantmaking philosophy affects the funding choices you make:
 - Breadth vs. depth -- in programs, in geographic reach
 - Organizational life cycle: grassroots vs. institutions
 - Mix of new vs. existing grantees
 - Maximum grant size as % of grantee budget

It's About the Organization, Not Just the Program

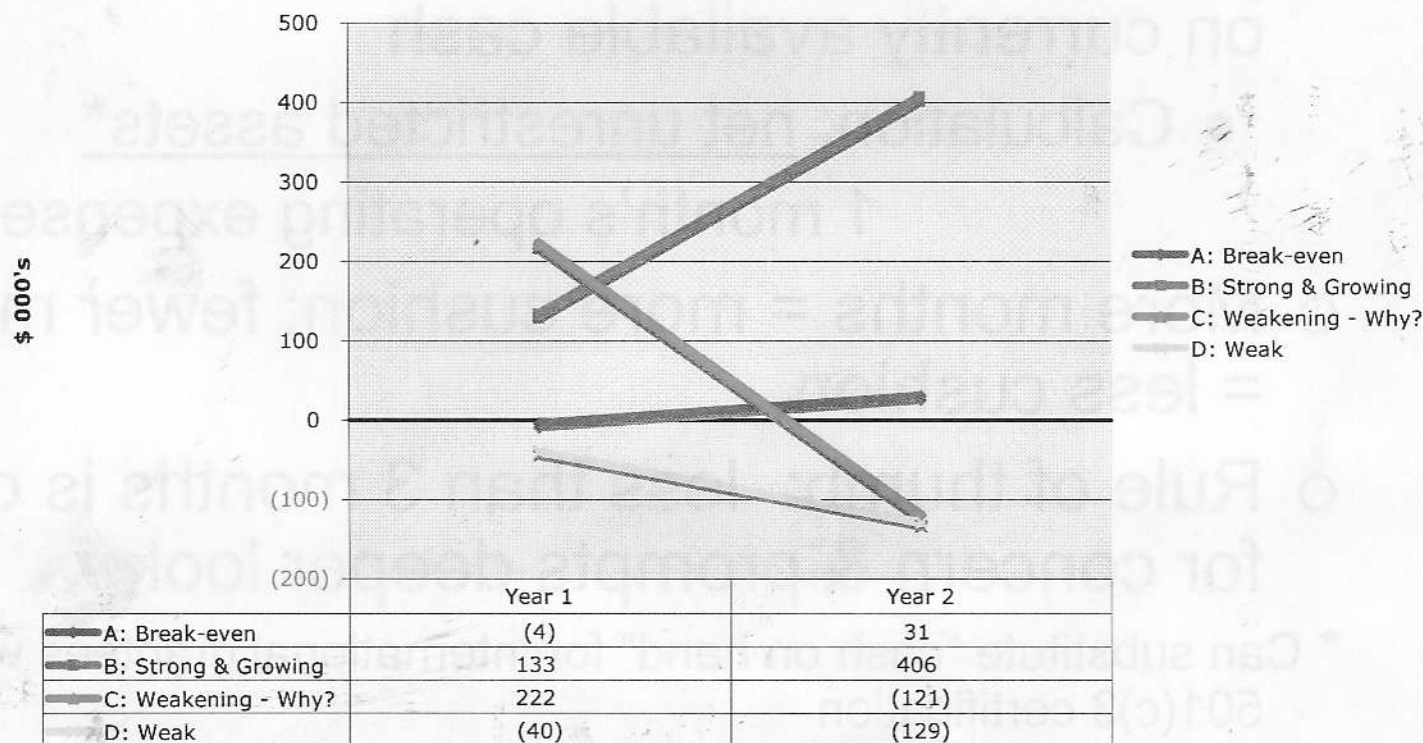
- Leadership and governance
 - Infrastructure resources:
 - Facilities
 - Computers and technology
 - Communications
 - Monitoring and reporting
 - Human resources support
 - Fund-raising
- Without these, the program cannot function

Financial Assessment Tools: Simple but Not Simplistic

- What to look at:
 - How well is the grantee doing? (surplus/deficit)
 - How long can it operate with cash available? (“burn rate”)
- Sources: US IRS 990, audit, other
- Timeframe: 2 years (easy), 3-5 years (trend)

Surplus/Deficit: What It Means

**Four Sample Organizations:
Surplus/Deficit: Year 1 to Year 2
(Total Revenues - Total Expenses
= Surplus/Deficit)**



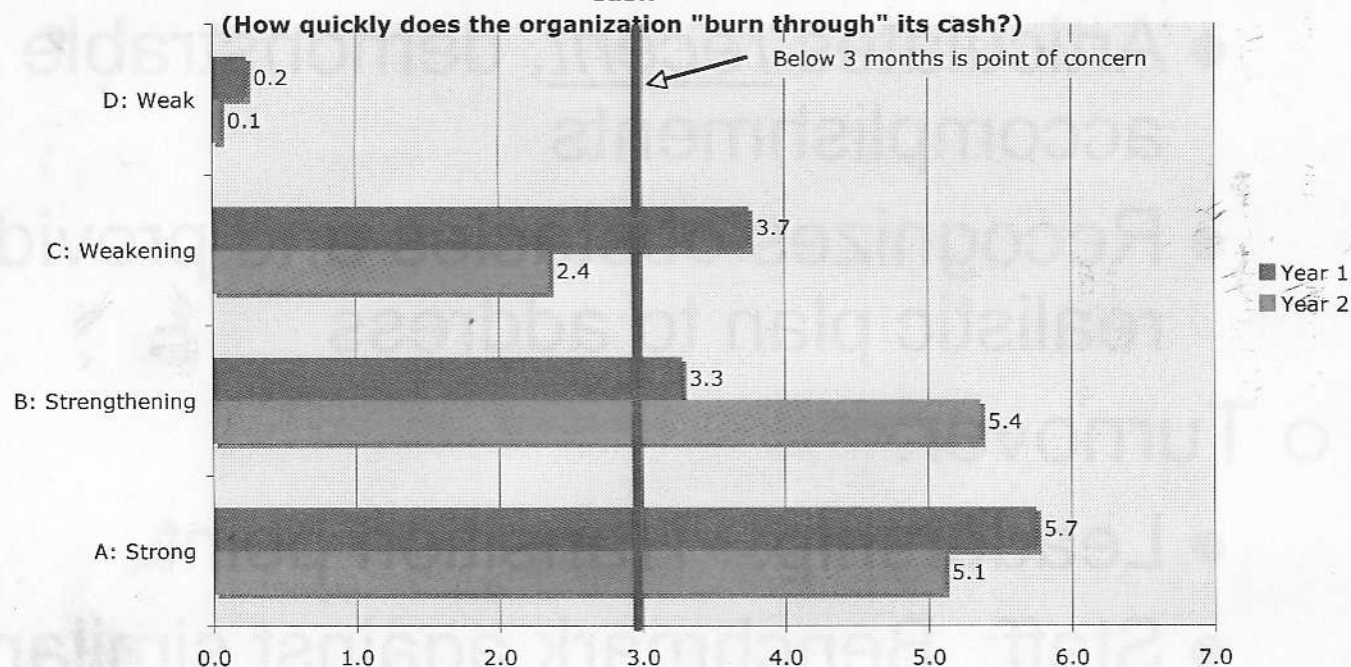
“Burn Rate”: What & Why

- Liquidity: grantee’s cash cushion
- Measures # months a grantee can operate on currently available cash
 - Calculation: net unrestricted assets*
1 month’s operating expenses
- More months = more cushion; fewer months = less cushion
- Rule of thumb: less than 3 months is cause for concern & prompts deeper look

* Can substitute “cash on hand” for international grantees without 501(c)3 certification

Burn Rate: How to Assess

Four Sample Organizations: Burn Rate
No. of Months of Operating Expenses Covered by Available Cash



No. of Months of Operating Expenses Covered by Available Cash
Burn Rate = Unrestricted Net Assets Divided by 1 Month's Operating Expenses

Leadership: What to Look For

- How well the leader:
 - Articulates recent, demonstrable accomplishments
 - Recognizes obstacles and provides a realistic plan to address
- Turnover:
 - Leadership: Transition point
 - Staff: Benchmark against similar organizations' turnover rates

Governance: What to Learn

- Board engagement: Attendance rates, work done at and between meetings
- Board and leadership planning: Strategic, budgeting, fund-raising -- and contingency in today's economy
- For both: How proactive are they in addressing future challenges and opportunities?

Leadership & Governance: Information Sources

- Structured interview with ED/CEO
- Most recent board packet
- Structured conversation with board chair if necessary

Leadership & Governance: How to Measure

Use a Scale to Measure Factors

Leadership & Governance Factors	Low 1	2	3	4	High 5
Demonstrates recent accomplishments				X	
Recognizes obstacles & has action plan		X			
Leadership turnover	X				
Staff turnover			X		
Board engagement			X		
Board & leadership planning		X			

Putting It Together: A Decision-Making Framework

- Compare grantees to use available grant resources optimally
- Consider individual grantees to target grant for maximum impact

Putting It Together: A Decision-Making Framework

		<i>Weaker</i>	<i>Stronger</i>
Financial and Organizational Capacity	Stronger	Options: <ul style="list-style-type: none"> • Target grant to strengthen program • Encourage merger with others who have stronger programs 	Continue or increase support
	Weaker	Options: <ul style="list-style-type: none"> • End support • If reason to continue: <ul style="list-style-type: none"> ○ Know why ○ Target support to key needs ○ Collaborate with others ○ Encourage merger 	Options: <ul style="list-style-type: none"> • Target grant to increase organizational capacity • Encourage merger with others who have strong organizational capacity
		Program Strength	

In Conclusion:

- Consider the organization, not just the program
- Use a few, simple, revealing indicators to assess financial and organizational strength
- Compare grantees
- Target grant investment to grantee needs