

UNRESTRICTED FUNDING: WHY GRANTMAKERS NEED IT

How to manage funding
with no strings attached



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Unrestricted funding: Why grantmakers need it

A SmartyGrants white paper, August 2023

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Published by Our Community Pty Ltd, Melbourne, Victoria, Australia

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SmartyGrants: Driving best practice in grantmaking

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Unrestricted funding: Why grantmakers need it

Introduction

The pandemic put unrestricted funding back onto the agenda. Faced with a global health and economic crisis, grantmakers quickly realised that old ways of working were incompatible with the rapidly changing environment. They responded by many making rapid and sweeping changes to their grantmaking practice. One of the key changes many grantmakers made during this period was reducing restrictions on existing funding or offering additional unrestricted grants.

What is unrestricted funding?

In its purest form, unrestricted funding is funds given away with “no strings attached”, funds that can be used by grantees for anything they choose.

The choice grantmakers face isn't a binary one between restricted and unrestricted funding. You could think of it as a spectrum with “loose as a goose” at one end and “buttoned right up” at the other.

At the buttoned-up end of the spectrum, we have traditional restricted project-based funding. This is generally a fixed amount of funding for a fixed period which must be spent on certain approved items and/or activities only. Restricted funding usually comes with highly proscriptive reporting requirements.

Moving away from the “buttoned-up” end of the spectrum, grantmakers might offer project funding, but specify a proportion which can be spent on general operating expenses.

Other grantmakers may offer funding that is restricted to a certain program area or domain that aligns with their objectives, but is otherwise flexible. For example, a grantmaker with a specific interest in children's literacy might offer an unrestricted grant that can be spent on anything, so long as it is related to this domain.

Unrestricted funding is often confused with core funding, general operating support, organisational support or organisational capacity building support.

Unrestricted funding can be used by grantees to fund their organisational overhead or build their organisational capability. For example, it might be used to cover non-program staff

costs, rent, power, IT infrastructure, or professional development, but it could also be used for anything else. Fully unrestricted funding leaves the choice of how to spend funds entirely up to the grant recipient.

There is no right or wrong approach to unrestricted funding, or the degree to which funding is restricted. How a grantmaker chooses to design their grants program, and where they end up on the “buttoned up–loose goose” spectrum will depend on their individual circumstances.

In this white paper, we will walk you through some of the benefits and challenges of granting unrestricted funding, as well as some of the grant program settings that will help you to assess where you sit on the spectrum.

Benefits of unrestricted funding

While academic research into the impact of unrestricted funding is still relatively limited, [a recent qualitative study](#) interviewed recipients of large multi-year unrestricted grants from the Dutch Charity Lottery. When asked how unrestricted funding had affected their organisations, respondents reported the following benefits:

It keeps the lights on

Traditional project funding typically does not cover enough of grantees’ organisational overhead, and when a large proportion of an organisation’s funding is highly restricted, they can struggle to cover these core costs. This can affect their ability to maintain their operational capability and their overall viability. This has been referred to as the [non-profit starvation cycle](#).

When grant recipients were asked about the benefits of unrestricted funding, their number one response was that it improved the organisational and financial sustainability of their organisation.

The study found that the provision of unrestricted funds allowed grantees to:

- fund core costs – allowing them to break the non-profit starvation cycle
- attract other funding – the provision of unrestricted funding allowed organisations to invest in their fundraising capability, enhancing their sustainability and potential for future growth
- invest in organisational capability, for example IT infrastructure or training and professional development

- bridge financial gaps – many respondents said that unrestricted funding helped to cover the financial gaps that exist when traditional project-based grants either don't cover core costs, or don't cover enough core costs to cover the overheads involved in running programs
- create reserves – which enables organisations to withstand financial shocks.

It provides agility, flexibility, and the ability to respond to a crisis or changing circumstances

Respondents said unrestricted funding allowed them to respond quickly to an unfolding crisis or changing circumstances in ways which aren't possible with highly restricted grants.

For example, during the covid-19 pandemic, many grantees had to quickly change their service delivery models, shifting from face-to-face to online delivery, or changing their services entirely to respond to changing beneficiary needs. Flexible funding allows grantees to pivot quickly, without the need for contract variations or additional grants.

It enables increased innovation, independence, and ability to support unpopular or politically sensitive causes

The study found that provision of multi-year unrestricted funding allowed respondents to take risks and innovate in ways that wouldn't be possible with traditional project-based funding, where grantmakers tend to be more risk-averse. Project-based funding usually disallows specific activities, which can prevent grantees from trying new or innovative approaches.

The study found that the financial security provided by longer-term unrestricted philanthropic funding also reduced grantees' dependence on restricted government grants, allowing them to engage in advocacy more effectively, and fund causes that are politically unpopular.

For example, [the John Rowntree Charitable Trust \(JRCT\) provided long-term core funding to the Campaign for Freedom of Information \(CFoI\) in the UK¹](#).

This funding enabled the campaign to successfully lobby for the eventual implementation of the Freedom of Information Act, and against subsequently proposed amendments which would have watered down the Act. The long-term core funding provided by JRCT allowed

¹ HK Anheier and D Leat, *Performance Measurement in Philanthropic Foundations: the ambiguity of success and failure* (n.p., 2019), pp128–135

the CFol to mount a politically unpalatable campaign, which may not have been possible if the organisation had been dependent on government funding.

Other possible benefits of unrestricted funding

Anecdotal reports from both grantmakers and grantees suggest that reducing restrictions can be beneficial. Below are some other possible benefits of unrestricted funding:

It strengthens grantee–grantmaker relationships and addresses inherent power imbalances

Trusting grantees to spend their grants in the most effective and efficient way can help to address inherent power imbalances in the grantmaker–grantee relationship. This opens the way for more honest conversations, where grant recipients feel safe to share their failures, as well as their successes. Improved collaboration, openness and shared learning can lead to improved outcomes over time.

Empowering frontline communities and organisations to solve their own problems can also build their capacity and resilience and address systems and structures of inequity, ensuring that solutions are effective, equitable and just.

Multi-year unrestricted funding is one of the [six key practices](#) of the [Trust Based Philanthropy Project](#), “...a five-year, peer-to-peer funder initiative to address the inherent power imbalances between foundations and non-profits.” Other elements of the Trust Based Philanthropy Project relate to creating a mutually supportive working relationship between funders and grantees.

“The relationship between grantmaker and grantee is one of allies and partners, not master and servant.

“The power relationship should not be abused, or even assumed: it’s not your money, and it is their work. The people at the pointy end know what’s really happening.”

– [SmartyGrants Grantmaking Manifesto](#)

It builds organisational capacity

Unrestricted funding allows grantmakers to invest in their grantees’ capability in ways that are not always possible with traditional project-based grants.

For many grantmakers, a key outcome of general operating support is building the capacity of their grantees, which, the theory goes, will then improve their ability to make an impact.

In one example, the US-based [Robert Sterling Clark Foundation \(RSCF\)](#) collaborated with its grantees to evaluate the impact of flexible funding on grant recipient capacity. The evaluation found that “nearly half of RSCF grantees reported they increased their capacity in areas where they invested RSCF funds. And, on average, grantees experienced a thirty percentage point increase to highest capacity with their use of RSCF funds.”

Organisational capacity building isn't something that can (or should) be done to organisations. Rather than telling grantees what they need, grantmakers should listen and support them to build the capacity that they need.

“It's really important to think about organisational capacity building, but also in such a way that the grantee is in the driver's seat... It's always important to listen to the grantee.”

- Pamala Wiepking speaking to a SmartyGrants unrestricted funding roundtable, April 13, 2022

It may increase impact

Some grantmakers and grantees say that reducing funding restrictions can lead to increased impact. Here are a few reasons why this may be the case.

It is often said that those most affected by a problem are best placed to devise effective solutions. Rather than telling grantees how to solve their problems, grantmakers who provide unrestricted funding can help to support and develop the capability of grassroots community organisations to develop their own innovative and fit-for purpose solutions.

Short-term project funding doesn't lend itself to creating long-term, systemic change. The short-term nature of project funding, which is often combined with highly prescriptive reporting requirements, and a need for grantees to 'deliver results' to receive further funding, can result in a focus on short-term outcomes, rather than longer-term systemic solutions. In contrast, multi-year unrestricted grants allow grantmakers and grantees to work together towards longer term systemic change.

As mentioned above, one common theory is that unrestricted funding can help to develop organisational sustainability and capability, which in turn can improve grantees' ability to create impact. When given in combination with other, more restricted forms of funding,

unrestricted or core funding can help to mitigate impact risk, safeguarding outcomes of existing grants.

It reduces administrative burden

Reducing funding restrictions has the benefit of reducing administrative burden for both grantees and grantmakers. A [2006 study by the Center for Effective Philanthropy](#) interviewed almost 20,000 non-profits and found that “recipients of operating support spend less time fulfilling foundation administrative requirements (40 hours on average versus 63 hours respectively)”.

Multi-year grants not only provide funding certainty for grantees, they also reduce the frequency of funding rounds, which means less writing and assessing grant applications. Flexible funding by its nature reduces financial reporting burden and eliminates most contract variations. Strong, trust-based relationships also reduce compliance burden.

Of course, grantmakers must still manage risk, and due diligence is essential. However, many of the benefits of less restricted funding (e.g. sustainable, high capacity organisations, and strong, trust-based relationships) may help mitigate many common grantmaker risks, allowing more time and effort to be put into jointly creating impact.

Challenges of unrestricted funding

Unrestricted funding comes with its own risks and challenges. Below are some possible challenges of taking a less restricted approach to grantmaking.

Grantmakers can be constrained in how they spend their grant funds

Fully unrestricted funding may not be possible for many grantmakers, who are constrained in terms of how they spend their funds. For example, government grantmakers are allocated resources for the achievement of specific government outcomes and they are bound by legislation to ensure that public money is spent appropriately.

Likewise, some philanthropic trust deeds are also very prescriptive. [This resource](#) from the Trust Based Philanthropy Project outlines some of the legal considerations for US-based philanthropic organisations considering a trust-based approach.

Some restriction on grants funding will always be required for grantmakers in these situations. However, as mentioned above, funding flexibility is not a binary choice between “restricted” and “unrestricted”. Even with restrictions, some flexibility is still possible, and grantmakers can adjust flexibility settings to meet their individual needs.

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Grant recipients may become complacent

Another commonly cited risk of unrestricted funding is that receiving large, long-term unrestricted grants, without sufficient accountability in relation to the delivery of specific outcomes, will make grantees less critical of their own processes, and complacent about their mission.

It's important to note that unrestricted funding does not mean funding without accountability. Grantmakers can (and should) still manage risk and can adjust restrictions in a manner that is proportionate to the assessed level of risk. For more information about grantmaking and risk management, see the [SmartyGrants Risk Management Whitepaper](#).

Grant recipients may become overly dependent on one funder

Critics of unrestricted funding argue that the provision of large, long-term, unrestricted grants might make grantees overly dependent on only one funder. While this is a risk to be managed, there is also [research \(cited above\)](#) which indicates that unrestricted funding can improve fundraising capability and organisational sustainability for grant recipients.

Unconscious bias and perpetuating inequity

One criticism of unrestricted funding is that it can perpetuate inequity. Even the most well-intentioned grantmakers can make biased or discriminatory judgements or decisions, despite believing strongly in the principle of equity.

Unrestricted funding requires long-term trust-based relationships, and if grantmakers aren't conscious of their own implicit bias, they tend to build these trusting relationships with organisations that look like them. That is, white-led funding organisations tend to award more unrestricted funding to large, white-led grantee organisations.

A [2020 study by Echoing Green and the Bridgespan Group](#) found a significant disparity in the award of unrestricted grants, with black-led organisations receiving 76% less unrestricted funding than their white-led counterparts. This has led to calls for grantmakers to implement more equitable practices by giving multi-year unrestricted grants which are ["...responsive to community needs so that non-profits are able to respond to and navigate challenges like covid-19 or other long-lasting societal problems caused by structural, systemic racism."](#)

“Grantmakers operate from a position of privilege in our society and have often benefited from the very structures and systems that act as barriers to marginalised and disadvantaged communities. If grantmakers are not conscious of these systemic barriers when doing their work, they risk unconsciously perpetuating the very structures and systems of inequality they are trying to address.” – [SmartyGrants Equitable grantmaking helpsheet](#).

Measuring impact

A commonly cited challenge of unrestricted funding is measuring impact. Restricted project funding allows grantmakers to set specific outcomes and metrics for grantees to report against and to aggregate those outcomes across their entire grants program. While measuring impact for unrestricted grants or general operating support can be challenging, it's not impossible.

One approach is to select grantees with aligned missions and outcome goals and then invest in their capability through core funding, which, the theory goes, will drive impact.

Rather than directly attributing progress towards a particular program's outcome or set of outcomes to specific funding, the grantmaker instead measures the contribution that their grant made towards achieving organisational or shared outcomes.

The provision of unrestricted funding or general operating support doesn't preclude requiring grantees to report against program metrics. Grantmakers can provide unrestricted grants and still specify that their grantees nominate some key program metrics to report against, or they can request that the first report, say six months in, provides a list of intended outcomes and suggested measures that can be updated as the program evolves.

The SmartyGrants Outcomes Engine includes a grantseeker metrics standard section which allows grantees to easily specify and report progress against their own metrics.

Outcomes measurement isn't something that can (or should) be undertaken by grantmakers or grantees unilaterally. Grantmakers and grantees must work collaboratively to build outcomes capability and an outcomes culture within their respective organisations. It's a journey that grantmakers and grantees must go on together.

What's the Outcomes Engine?

The [Outcomes Engine](#) is a SmartyGrants reporting solution that helps you answer the perennial question “Did our grants make a difference?”

The Outcomes Engine allows grantmakers to define a system-wide outcomes framework, specify which goals and metrics apply to each program or round, and collect data from grant applicants and recipients in line with their frameworks.

It comes with a suite of outcomes standard questions and sections which can be placed on forms. Tested by grantmakers, grantees and evaluation experts, the Outcomes Engine standard sections have been designed to scale up or down in complexity to suit the needs of those with a sophisticated understanding of impact evaluation, as well as those just starting the journey. They can be easily customised as required to match the capacity and needs of grantmakers and grantees.

The system is flexible and can be configured for project, unrestricted or core funding, allowing grantmakers to assess alignment between grantmaker and grantee outcomes, and allowing grantees to define and report on their own metrics.

Measures of unrestricted funding

As mentioned previously, unrestrictedness of funding is a spectrum, and where you sit on that spectrum depends on the decisions you make throughout the grantmaking lifecycle.

A [recent Dutch study](#)² surveyed grantmakers who give both unrestricted and project-based funding about their agreements with, and expectations of, recipients of both types of funding. The resulting book provides some insights into some of the key measures of unrestricted funding.

Not surprisingly, the study found that project funding recipients were subject to more restrictions than their unrestricted counterparts.

René Bekkers, Barbara Gouwenberg, Stephanie Koolen-Maas and Theo Schuyt (eds), *Geven in Nederland 2022*, Giften, Legaten, Sponsoring en Vrijwilligerswerk [*Giving in the Netherlands 2022*], Amsterdam University Press, Amsterdam.

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However, of those ostensibly unrestricted grants, many still imposed some, albeit usually fewer, restrictions on their grantees. What follows are some measures of unrestricted funding.

Restrictions on spending periods, items, locations, partners, or beneficiaries

The degree to which grantmakers impose conditions on the spending of the grant is a key measure of the level of restriction.

Do your grants guidelines specify when the funding must be spent? Does your grant program specify what items grant funds can and cannot be spent on (e.g. purchase of capital items or administrative overhead)? Do you stipulate where the grant funds must be spent, or with whom the grantees must work (e.g. partners or beneficiaries)?

Interestingly, the Dutch study found that unrestricted funding agreements are just as likely to stipulate the term of the funding as project-based agreements.

Requirements for contact with funder (frequency, format, level of formality)

How and how often do you require your grantees to engage with you? For example, do you undertake site visits, formal meetings, or more informal ad-hoc meetings? Are the contacts a compliance measure, or a contractual requirement, or are they more organic, aimed more towards building trusting collaborative relationships and mutual learning?

Level of specificity

To what extent do you specify the outcomes that you require, and the types of projects and activities that grantees can undertake? Do you already have a well-defined theory of change that you'd like grantees to implement, or are you interested in allowing your grantees to try new or different approaches to achieving outcome goals?

Format for reporting and evaluation

What, if any, reports do you require from your grantees? More frequent or detailed reporting requirements are generally an indication of a more restricted grant.

Of the grantees surveyed in the Dutch study, almost all respondents required some form of reporting from their grantees. While unrestricted grants generally had fewer reporting requirements, the study found that almost as many unrestricted grants as project grants

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required reporting on financial results (82% vs 86%). It also found that unrestricted grants were even more likely to require the submission of a formal auditor’s report than project-based funding.

Figure 1 (below) is taken from the study and shows the reporting requirements for project-based funding versus unrestricted funding.

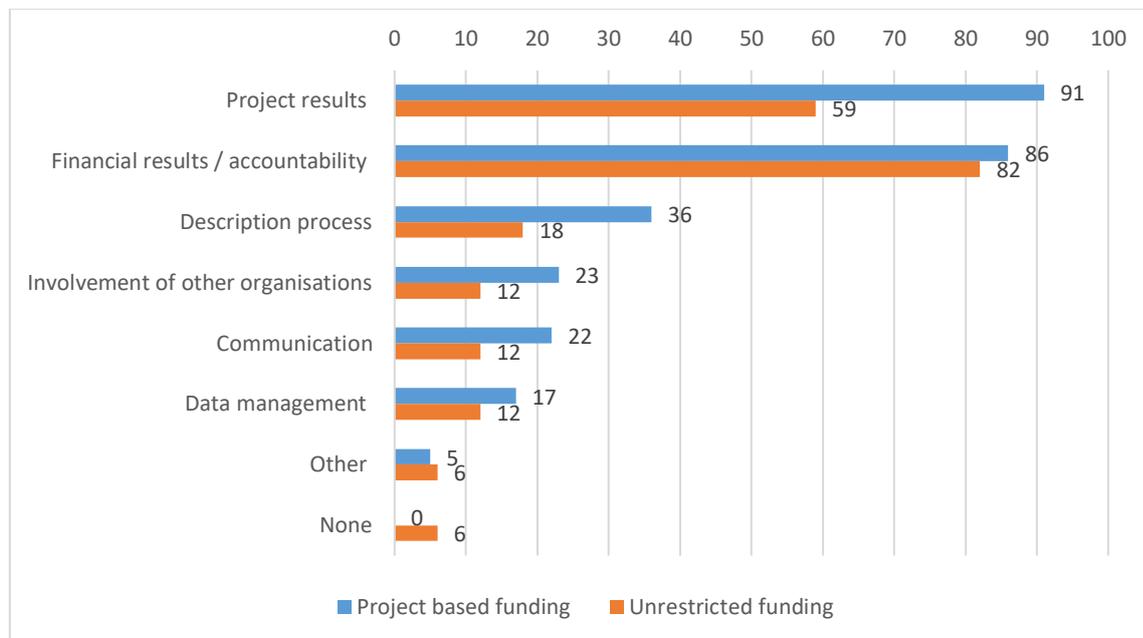


Figure 1: Reporting requirements for project-based funding and unrestricted funding (multiple answers possible) (n = 65) (in %)

Project results: Desired outcomes of projects

Oftentimes grantmakers specify the desired outcomes of the grant (through the selection process or through contractual stipulations). In the study, 91 percent of the grantees receiving restricted project funding were required to provide information about the project results, against 59 percent of the grantees receiving unrestricted funding.

Even in the case of unrestricted funding, a grantmaker might assess alignment of their desired outcomes with those of prospective applicants as part of their assessment process for an otherwise largely unrestricted grant. If a potential grantee operates in many different domains, the funder might restrict the funding to just one domain to ensure alignment with their own desired outcomes.

Many grantmakers who participated in the study emphasised the importance of clear alignment between their desired outcomes and those of their prospective grantees, with

some respondents indicating that they did not provide unrestricted funding for grantees unless a grantee's outcomes completely aligned with their own objectives.

Financial results and accountability

Oftentimes grantmakers require detailed reporting of financial results, whether providing restricted or unrestricted funding, as indicated in Figure 1.

Description process

Some grantmakers ask grantees to describe the process of spending the grant. This is more often required of recipients of restricted project funding (36 percent) than of unrestricted funding (18 percent).

Involvement of other organisations

To what extent does a funder require the involvement of other (third-party) organisations? Again, this requirement is more present for grantees receiving restricted project-based funding (23 percent) than for grantees receiving unrestricted funding (12 percent).

Communication

To what extent are grantees required to communicate about the funded projects? 22 percent of the grantees receiving restricted project funding have this requirement, against 12 percent of grantees receiving unrestricted funding.

Data management

This relates to conditions for the collection, storage, use and availability of web data relating to the funded work, as well as the requirement to publicise data and results.

This white paper is a collaboration between SmartyGrants and Pamala Wiepking, the Stead family chair in international philanthropy at Indiana University's Lilly Family School of Philanthropy, and professor of societal significance of charity lotteries at Vrije Universiteit Amsterdam.

More information

- [The SmartyGrants Grantmaking Toolkit](#)
- [Best practice guidance for grantmakers](#)
- More whitepapers: [communication](#), [risk management](#)
- [Help sheet: Unrestricted funding | covering core costs](#)

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