



Criteria for Philanthropy at Its Best[®]

Benchmarks to Assess and Enhance Grantmaker Impact

E X E C U T I V E S U M M A R Y

Challenging Grantmakers to Strengthen Communities

“The challenge isn’t just to see how many of the criteria your foundation can achieve. The key is to engage board and staff in why the criteria matter for your institution and how you can make progress towards being your best. Every foundation will benefit from engaging in that process, because it speaks directly to your impact and your effectiveness in meeting your mission.”

—Sharon King, President, F.B. Heron Foundation¹

Civic sector organizations are crucial to improving lives and strengthening communities, often filling a void where government and free enterprise fail to adequately meet public needs. To ensure that our sector remains relevant to addressing pressing issues, it’s vitally important for grantmakers to engage in rigorous self-analysis.

Current philanthropic practice accomplishes many beneficial things, but it’s insufficient to play the substantive role needed to solve the urgent problems facing our nation and the world. Grantmakers simply aren’t delivering as much social benefit as they could. Our sector is not a substitute for the public or private sectors, but foundations must do all they can to ensure that philanthropy meets its potential.

What, specifically, should grantmakers do to maximize their impact and best serve nonprofits, vulnerable communities and the common good? That’s the central question this document seeks to answer. The National Committee for Responsive Philanthropy

(NCRP) developed these criteria to provide grantmakers with the tools to ask themselves some long-overdue, perhaps difficult, questions.

As the only independent watchdog of institutional philanthropy, NCRP seeks to bring the voices of nonprofits and marginalized communities into deliberations about philanthropic priorities and practices. We used an iterative process to develop the criteria—rigorous research, literature reviews, original data analysis and robust debates among some 50 people over 15 months. We intentionally didn’t use a broader process because we didn’t want to produce a “least-common-denominator” set of criteria. We wanted the end result to truly challenge grantmakers to strengthen communities.

Impact is the most important measure for the civic sector. Operating in ways consistent with these criteria doesn’t guarantee that a funder will have positive impact, but it makes it more likely. The criteria address values, effectiveness, ethics and commit-

“The latest crisis in the global economy reminds us that we are all in it together when it comes to the political, economic and environmental challenges ahead. Philanthropy certainly has the resources and potential to help tackle the deeper, structural causes of inequality and injustice. NCRP’s criteria are exactly what foundations need to transform our institutions and grantmaking in ways that serve low-income families and contribute to a just and equitable society.”

—Luz Vega-Marquis, President & CEO, Marguerite Casey Foundation¹

“At a time of massive demographic change, targeting funding to, and ensuring the representation of, people of color in philanthropy isn’t about political correctness, it’s about having the expertise to develop and implement solutions that work in real communities, in the real world. In these and many other respects, NCRP’s benchmarks represent standards that the best grantmakers already meet and that all should aspire to.”

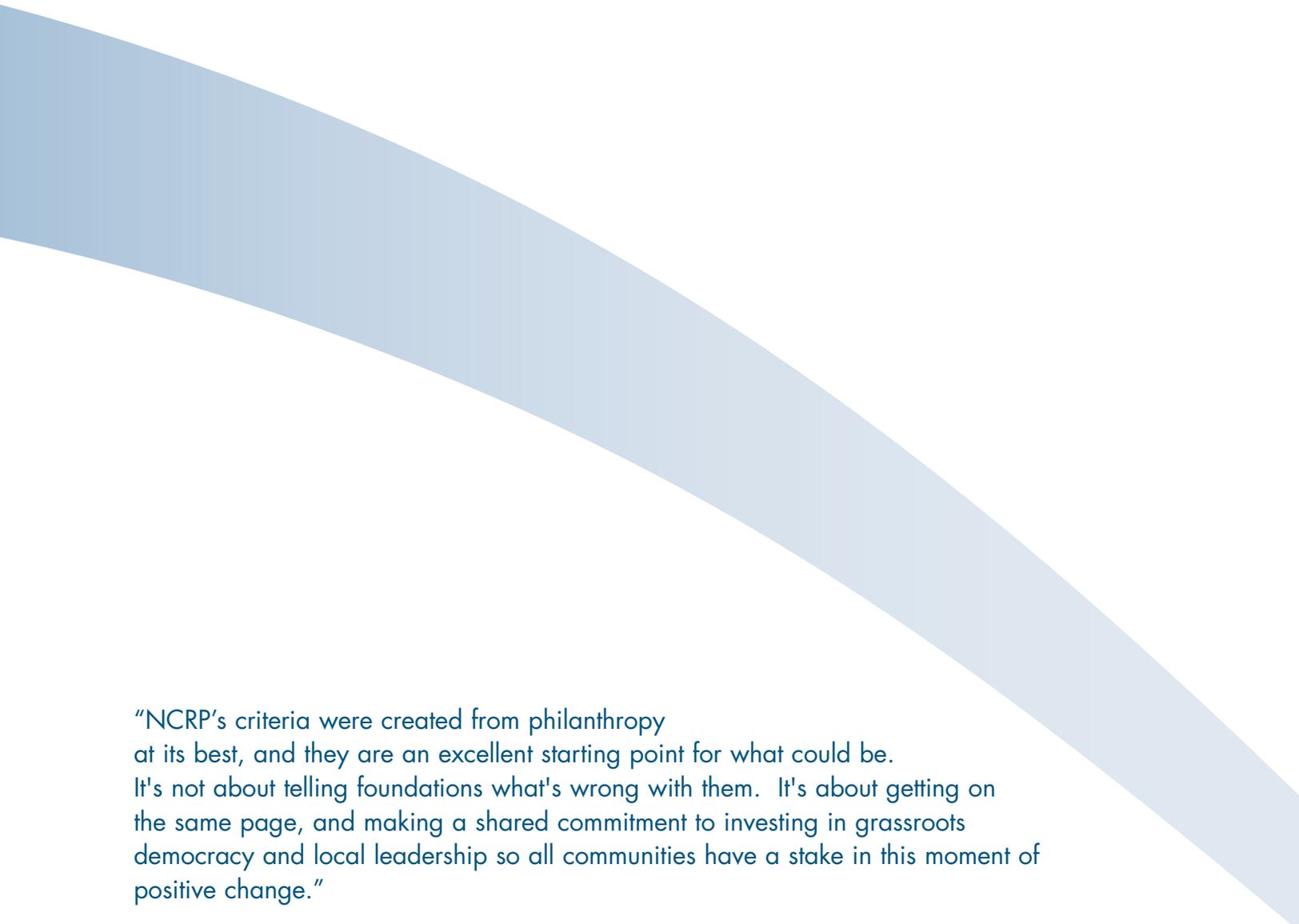
—Janet Murguia, President, National Council of La Raza¹

ment—four elements that are essential to better grantmaking. The full text highlights these important issues and explains how we established the 10 benchmarks that accompany the criteria. The appendix lists “field leaders”—grantmakers that NCRP knows meet or exceed the measures.

Some funders may view the criteria as overly prescriptive, but we disagree. The criteria were developed to highlight the most important issues in philanthropy and challenge grantmakers to critically assess practices. NCRP wants grantmakers to wrestle with these issues; it’s our role as the sector’s watchdog to push for real transformation in philanthropy, but we don’t intend to be dogmatic or inflexible in pursuing compliance with the criteria. There may be good rea-

sons for a grantmaking institution not to live up to certain benchmarks. We’re clear that a foundation meeting eight of the 10 measures isn’t *necessarily* better than a foundation that meets only five. Ultimately, it’s up to the leadership of each institution to decide how it will operate. Foundation trustees and executives, stewards of the public trust, are responsible for improving their institutions.

Proper regulation of grantmaking institutions is essential. NCRP historically has engaged in efforts to influence foundation regulation and will continue to do so. This particular document, however, isn’t a call for regulatory action—it is a tool for meaningful self-regulation. If grantmakers don’t improve their relevance to society by regulating



“NCRP’s criteria were created from philanthropy at its best, and they are an excellent starting point for what could be. It’s not about telling foundations what’s wrong with them. It’s about getting on the same page, and making a shared commitment to investing in grassroots democracy and local leadership so all communities have a stake in this moment of positive change.”

—Hugh Hogan, Executive Director, North Star Fund¹

themselves with integrity and rigor, government regulation likely will increase.

In the future, NCRP will highlight grantmakers that exceed the benchmarks and criticize, when appropriate, funders that fall short. Our criticism seeks to maximize philanthropy’s social benefit, the bottom line for ensuring that our sector remains relevant and sustainable. As more grantmakers live up to these criteria, they will increase their impact on important issues, enhance the public good and strengthen the public trust.

“America needs an open, self-critical and wide-ranging conversation about philanthropy and the public good. NCRP’s criteria are a great place to start.”

—Michael Edwards
Distinguished Senior Fellow, Demos¹

1. The quotes on pages 1, 2, and 3 were provided via email to NCRP when these individuals signed on as early endorsers of the *Criteria*.

Criterion I: Values

A grantmaker practicing Philanthropy at Its Best serves the public good by contributing to a strong, participatory democracy that engages all communities.

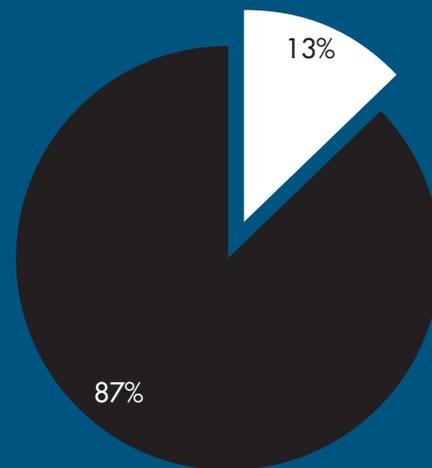
- a) Provides at least 50 percent of its grant dollars to benefit lower-income communities, communities of color and other marginalized groups, broadly defined
- b) Provides at least 25 percent of its grant dollars for advocacy, organizing and civic engagement to promote equity, opportunity and justice in our society

> Philanthropic support for people and communities that historically have been marginalized is extremely low. Although serving disadvantaged communities is not the only purpose of philanthropy, it should be a much higher priority than it is. In the aggregate, only 33 percent of grant dollars can be classified as benefitting marginalized communities, even very broadly defined.² This is cause for concern in spite of the fact that philanthropy and the charitable sector are not a substitute for public programs; the government has an obligation to assist the country's underserved populations.

> By intentionally elevating vulnerable populations in their grantmaking, foundations benefit society and strengthen our democracy. Prioritizing marginalized communities brings about positive benefits for the public good. "Targeted universalism" is one of the most effective strategies for doing this.

> Income and wealth inequality impact the entire U.S. economy negatively. Grantmakers that pursue social inclusion for the economically disadvantaged help not only the poor, but broader society as well. Race persists as a significant barrier to social inclusion and to achieving the

Percent of Foundations Meeting NCRP's Criteria for Support for Marginalized Communities



- Foundations Designating 50% or More of Grant Dollars for Marginalized Communities.
- Foundations Designating Less Than 50% of Grant Dollars for Marginalized Communities.

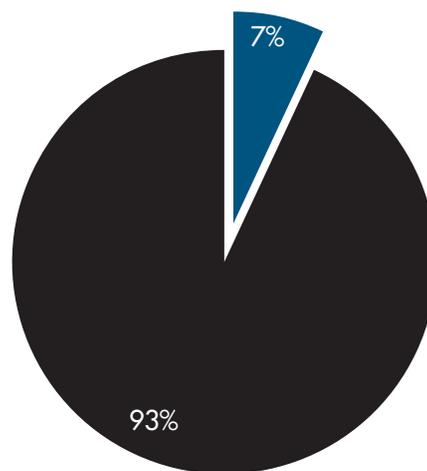
2. The eleven groups are: economically disadvantaged; racial or ethnic minorities; women and girls; people with AIDS; people with disabilities; aging, elderly, and senior citizens; immigrants and refugees; crime/abuse victims; offenders and ex-offenders; single parents; and LGBTQ citizens. International grants included.

“Social inclusion is based on the belief that we all fare better when no one is left to fall too far behind and the economy works for everyone. Social inclusion simultaneously incorporates multiple dimensions of well-being. It is achieved when all have the opportunity and resources necessary to participate fully in economic, social and cultural activities which are considered the societal norm.”³

American Dream. Grantmakers that prioritize racial and ethnic minorities see benefits accrue to people of all races.

- > Overcoming social problems for any marginalized group is complicated and multifaceted. Grantmakers that use systems thinking to guide their work recognize this and are leading the way, helping philanthropy be more relevant in addressing pressing social needs.
- > Advocacy, community organizing and civic engagement have played essential roles in the development of our society and our democracy. They are among the most effective strategies for implementing a systems approach and for achieving a significant, measurable impact on a variety of issues. These efforts advance democratic renewal and enhance civic engagement.
- > Leading the field, 108 foundations (13.35 percent of our sample) provided at least 50 percent of their grant dollars for the intended benefit of marginalized communities. Also noteworthy, 56 foundations (6.9 percent) provided at least 25 percent of their grant dollars for social justice. These are the benchmarks for Philanthropy at Its Best.

Percent of Foundations Meeting NCRP’s Criteria for Advocacy, Organizing, and Civic Engagement



- Foundations Designating 25% or More of Grant Dollars for Social Justice.
- Foundations Designating Less Than 25% of Grant Dollars for Social Justice.

3. Heather Boushey, Shawn Fremstad, Rachel Gragg and Margy Waller. *Social Inclusion for the United States*, (Washington, D.C.: Center for Economic and Policy Research & Inclusion, April, 2007) <http://www.inclusionist.org/files/socialinclusionusa.pdf>.

Criterion II: Effectiveness

A grantmaker practicing Philanthropy at Its Best serves the public good by investing in the health, growth and effectiveness of its nonprofit partners.

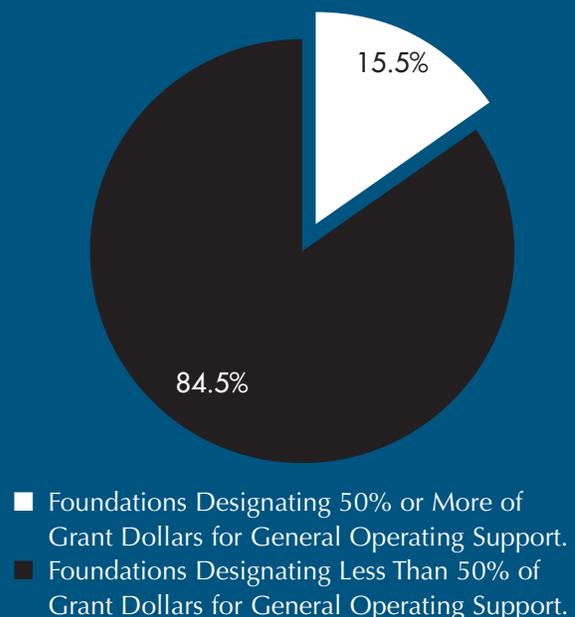
- a) Provides at least 50 percent of its grant dollars for general operating support
- b) Provides at least 50 percent of its grant dollars as multi-year grants
- c) Ensures that the time to apply for and report on the grant is commensurate with grant size

> The ability of nonprofits and grantmakers to be effective—to have impact on the issues, causes and communities they care about—is of paramount importance.

> General operating support is fundamental to enhancing grantee impact; it provides organizations with the flexible funding they need to achieve their missions effectively. In the aggregate, only 16 percent of grant dollars is provided for general operating support. But 125 exemplary foundations (15.5 percent of our sample) provided at least 50 percent of their grant dollars for general operating support, meeting the benchmark for Philanthropy at Its Best.

> Multi-year funding also is crucial for the health, growth and effectiveness of nonprofits. This funding allows grantees to respond to crises and opportunities, maintain staff continuity and organizational leadership, overcome unforeseeable challenges and improve planning. Disappointingly, more than 40 percent of foundations in our sample did not provide any multi-year grants. Leading the field, however, 132 foundations (16.3 percent) provided 50 percent or more of their grant dollars as multi-year

Percent of Foundations Meeting NCRP's Criteria for General Operating Support



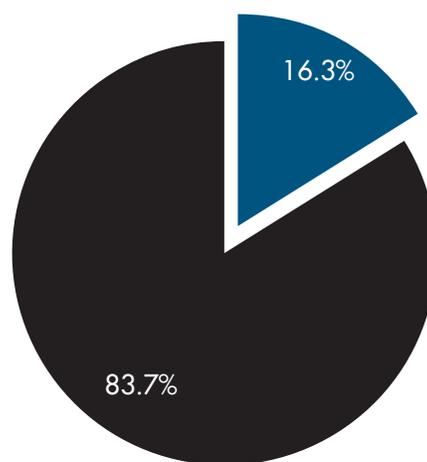
“Long-term and unrestricted funding supports the learning and innovation needed to have an impact. If foundations are serious about leadership development and supporting their non-profits, start with giving leaders what they say they most need – multiyear, unrestricted, general operating support.”

—John Esterle, Executive Director
The Whitman Institute⁴

grants. This is the benchmark for Philanthropy at Its Best.

- > Applying for and reporting on grants primarily facilitate accountability, but these activities also can help grantees clarify their thinking and improve their work. However, too often, applications are needlessly complicated and evaluations are not used appropriately, creating significant burdens for grantees. Exemplary grantmakers understand the important concept of the net grant and ensure their application and reporting requirements are proportional to the grant size and useful for all parties.
- > Because grantmakers rely primarily on grantees to carry out their charitable purposes, exceptional funders engage nonprofits in meaningful partnerships, which help both parties advance their missions and contribute to the public good. This creates an environment of trust and maximizes the social benefit of philanthropy. Grantmakers committed to true partnership provide sufficient overhead in project grants, fund capacity building and leadership development, and interact with grantees in respectful and responsive ways as part of enhancing effectiveness.

Percent of Foundations Meeting NCRP’s Criteria for Multi-Year Funding



- Foundations Designating 50% or More of Grant Dollars for Multi-Year Funding.
- Foundations Designating Less Than 50% of Grant Dollars for Multi-Year Funding.

4. Quoted in: Grantmakers for Effective Organizations. “Investing in Leadership: Young Leaders ‘On the Verge,’” *IMPACT newsletter*, (October 2006), 2, <http://www.onthemovebayarea.org/files/GEO%20Article%20on%20OTV.pdf>.

Criterion III: Ethics

A grantmaker practicing Philanthropy at Its Best serves the public good by demonstrating accountability and transparency to the public, its grantees and constituents.

- a) Maintains an engaged board of at least five people who include among them a diversity of perspectives—including of the communities it serves—and who serve without compensation
- b) Maintains policies and practices that support ethical behavior
- c) Discloses information freely

> An exemplary grantmaking institution operates as an ethical steward of the partly public dollars with which it is entrusted. Unfortunately, too many individuals continue to abuse philanthropy for personal gain. As the institution's ultimate decision-making authority, trustees have a legal and moral obligation to ensure that their organizations are functioning in ways that ensure ethical stewardship.

> Board composition is critically important to ethical operations. Research indicates that diverse groups make better decisions, and that a minimum of five people is needed to achieve a plurality of perspectives. Many family foundations and other grantmakers have seen tangible value from including the grantee perspective on their boards.

> As a rule, trustees should serve without compensation. Research does not support the contention that compensated boards serve their institutions better. Moreover, every dollar spent on trustee compensation is one that could have gone toward achieving the mission of the foundation. The only exceptions should be if the CEO also is a trustee or if the foundation compensates lower-income board members who otherwise could not afford to serve.

> One of the most important things a grantmaking institution can do to build public trust in its operations is to maintain appropriate policies and practices that make the possibility of abuse less likely and demonstrate substantive accountability. These policies include, but are not limited to: a) maintaining appropriate conflict of interest

“Foundation board positions are no longer ceremonial. Board members must be fully engaged in the oversight of their foundations’ operations and must actively seek to improve their skills. It is essential that foundations do everything they can to guard against both real and perceived abuses.”

—Emmett D. Carson, CEO and President
Silicon Valley Community Foundation⁵

and whistleblower protection policies; b) establishing reasonable, not excessive, executive compensation; and c) subscribing to any of a number of available codes for ethical conduct and good governance.

> Transparency also is integral to preventing abuses and enhancing meaningful accountability. A grantmaker practicing Philanthropy at Its Best should share freely extensive information regarding its grants, governance, management, investments and operations.

> Because data on the issues covered by the ethics criterion are neither centralized nor easily available, we cannot say what proportion of the nation’s grantmakers meet or exceed these benchmarks. But many exemplary grantmakers operate in ways that meet or exceed the measures for this criterion.

“I believe that poor governance leads to wasted assets, inefficient use of assets, and loss of public trust in the sector. For us to ignore these realities would be shirking our responsibility, our obligation, to assure that assets are used for exempt purposes, and that the billions of dollars of federal tax subsidies Congress has authorized are well spent.”

—Steven T. Miller, Commissioner
Tax Exempt and Government Entities
Division of the IRS⁶

5. He was president of the Minneapolis Foundation when this was written. Quoted in: Emmett D. Carson “A Worst Case Scenario or the Perfect Storm? Current Challenges to Foundation Board Governance,” *Responsive Philanthropy*, (Summer 2003).

6. Quoted in: Steven T. Miller, “Remarks before the Georgetown Law Center Seminar on Issues in Nonprofit Governance,” speech, Georgetown University Law Center, Washington, D.C., April 23, 2008.

Criterion IV: Commitment

A grantmaker practicing Philanthropy at Its Best serves the public good by engaging a substantial portion of its financial assets in pursuit of its mission.

- a) Pays out at least 6 percent of its assets annually in grants
- b) Invests at least 25 percent of its assets in ways that support its mission

- > The purpose of the tax exemption that grantmakers enjoy is to enable them to meet their charitable goals and serve the public interest. When a foundation warehouses assets instead, it eschews its charitable purpose at the expense of taxpayers.
- > The foundation payout rate has been a frequent subject of public policy debate. The 1969 Tax Reform Act established a 6 percent payout rate; the rate was reduced to 5 percent in 1976. Since then, many foundations have adopted the legal minimum as a de facto maximum. The variable excise tax foundations pay serves as a disincentive to higher payouts.
- > Perpetual philanthropic institutions play a valuable role in sustaining the nonprofit sector and enhancing the common good, as do

foundations that decide to spend down their endowments. Paying out at least 6 percent of investment assets in grants is not inconsistent with the goal of perpetuity; some grantmakers that don't have any intention to sunset already do this. These exemplary philanthropic institutions recognize that the civic sector desperately needs additional funding and that tax-exempt foundation dollars have tremendous impact when given to an effective nonprofit partner.

- > A foundation also can use its investment assets to further its mission in ways that go beyond grantmaking. Investment screens, shareholder advocacy and proactive mission investing are three means to diversify a grantmaker's portfolio in support of its mission.

"It makes no sense to use 5 percent of your assets to try to promote something, while the other 95 percent might be doing something totally contrary. We try to use 100 percent of our assets to promote our values."

—Victor De Luca, President
Jessie Smith Noyes Foundation⁷

- > Research demonstrates that mission investing, generally speaking, yields similar returns to traditional investing strategies. A growing number of funders are practicing mission investing, and the leaders in this field invest 25 percent or more of their assets in these ways.
- > Because data on payout and mission investing are neither centralized nor easily available, we cannot say what proportion of the nation's grantmakers meet or exceed these benchmarks. The principle undergirding this criterion is that tax-exempt assets should not be warehoused; rather, they should be deployed in support of the charitable purpose of the foundation. The key is an appropriate balance of payout and mission investing informed by the metrics established here.

"There is nothing magic about the 5 percent figure, except that it is the minimum required by the IRS. Our spending in 2008 was \$3.3 billion. In 2009, instead of reducing this amount, we are choosing to increase it to \$3.8 billion, which is about 7 percent of our assets."

—Bill Gates, Co-chair and Trustee
The Bill and Melinda Gates Foundation⁸

7. Quoted in: Jed Emerson. "Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming," *Stanford Social Innovation Review* (Summer 2003).

8. Quoted in: Bill Gates, 2009 Annual Letter from Bill Gates: The Economic Crisis, January, 2009, p. 9. <http://www.gatesfoundation.org/annual-letter/Pages/2009-economic-crisis.aspx>.

Take the Philanthropy at Its Best Interactive Self-Test!

Go online to www.ncrp.org/paib/self-test and take an interactive self-test to determine to what extent your foundation meets the criteria and benchmarks for Philanthropy at Its Best.

ALSO ONLINE:

- > Download the book and executive summary for free or order your copies
- > Endorse the criteria along with other foundation and nonprofit leaders
- > Tell your colleagues about the criteria
- > Become an NCRP member
- > Sign up to receive *Roundup*, our monthly e-newsletter

www.ncrp.org

Questions or comments? You can reach us at (202) 387-9177 or reader@ncrp.org.

NCRP promotes philanthropy that serves the public good, is responsive to people and communities with the least wealth and opportunity, and is held accountable to the highest standards of integrity and openness.

Download the full *Criteria for Philanthropy at Its Best* or order your copy today! Visit www.ncrp.org.

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