In *Supporting Grantee Capacity: Strengthening Effectiveness Together*, we look at how funders approach building capacity with grantees. Through examples from foundations ranging in size, mission, and geography, we explore various strategies for capacity building and the types of awareness that funders can choose to incorporate in decision making to facilitate informed, thoughtful judgments about strengthening organizations.
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This guide shares many perspectives about how to approach capacity building with grantees and also underscores that there are no right answers, only informed judgments. In these two composite case studies, we put you in the analysis and decision-making seat and encourage you to see how your ideas align with those of your colleagues.
Broadening the Grantee Capacity-Building Conversation

Capacity building carries many meanings in the foundation world, let alone the larger social sector. When we asked 30-plus foundation and nonprofit staff, “What image comes to mind when you think about capacity building?” each drew a picture and few were alike. Compound these 30 different sensibilities with the thousands of foundations around the world that each have their own missions, theories of change, and staff with different images of capacity building, and you can see why there are so many ways in which foundations approach capacity-building work.

Opinions abound about what capacity building is and isn’t and the right and wrong ways for funders to take it on. This guide, like other GrantCraft resources, isn’t about endorsing one approach. It is instead intended to share a breadth of real funder and grantee experiences so foundations can determine what works best for their specific missions and cultures of practice.

To create the content here, we reviewed existing literature resources and solicited input from foundation professionals who have experience with grantee capacity building. We asked nonprofits for advice on ways funders and grantees can work better together to position capacity-building efforts for success. We then aggregated the issues, challenges, questions, and advice we heard about how to make smart decisions when supporting grantee capacity building.

A unique aspect of this guide is its focus on relationship awareness: how to intentionally build healthy funder-grantee relationships, which we view as key to successful grantee capacity building. You’ll see recurring mention of issues like defining roles and expectations, establishing trust and open communications, and being good analysts of the variables at play in grantee capacity-building situations. We weave these topics into sections designed to help funders make realistic decisions about how to get started or deepen their support of grantee capacity building.

What you can expect to find in the sections that follow:

- An overview of different types of foundation capacity-building approaches, including examples of investments funders have made

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GrantCraft’s lens

GrantCraft historically has authored all materials by drawing from funder wisdom and writing for a funder audience. This guide, too, was written specifically to inform and engage funders; however, we invite broader audiences to read, learn, and contribute your perspective online. This includes responding to discussion questions informed by and geared toward nonprofit professionals.
Lenses through which to look at grantee capacity building that can help focus your investments better

Advice from peers on how to step back and consider your foundation’s capacity for capacity-building grantmaking

Tips on how to negotiate power dynamics that often emerge with capacity-building funding

Guidance on how to think about and approach assessment

If you’re reading this guide, you’re probably somewhere between curious and fully invested in grantee capacity building. You may be among those with very strong opinions about how capacity building should be done, or maybe you are just getting started. Wherever you are in your capacity-building journey, we invite you to read, view related material, and contribute your experiences and expertise so that more funders can make informed judgments about how their foundations can best collaborate with nonprofits on their capacity-building needs.

WHAT IS CAPACITY BUILDING AND WHY IS IT IMPORTANT?

Capacity building is fundamentally about improving effectiveness, often at the organizational level. The term is sometimes used interchangeably with other terms like organizational development, institution building, and funding plus. It is both a verb (the action of building effectiveness, often by improving specific organizational capacities such as infrastructure, operations, financial health, and programs) and a noun (the results of increased attention to effectiveness).

Here we focus on both the action and what results when funders and grantees work together to build the capacity of grantee organizations.

“Some grantmakers hesitate to fund capacity building because they see it as paying for basic institutional infrastructure needs, and that’s not what they want to invest in. It’s like how people understand the need for traffic lights and roads, but they don’t want to pay for that. They want to pay for their luxury car.”

— Jenny Hodgson, Global Fund for Community Foundations
How this resource was developed

The Open Society Foundations sparked the creation of this guide and allied resources. They wanted to think more explicitly about the various approaches to capacity building and stimulate dialogue about capacity building within philanthropy.

More than 300 philanthropy and nonprofit professionals shared their diverse perspectives via:

- Interviews with 23 foundation staff and consultants funding a wide range of issue areas, target populations, and geographic communities in the U.S. and internationally.
- Four focus groups in New York with 30 grantmakers and 15 nonprofit technical assistance providers and nonprofit staff.
- A survey taken by 260 foundation and nonprofit leaders from around the world.

We also conducted a literature scan that yielded a wealth of existing knowledge. We worked with IssueLab to make this collection available to you. (See below.)

“It blows my mind that capacity building is relatively inexpensive and can create tremendous impact, yet we don’t invest in it more as a field.”
— Doug Bauer, Clark Foundation

GRANTCRAFT SURVEY ON CAPACITY BUILDING — WHAT FOUNDATIONS SHARED

Foundations that fund capacity building often support a broad range of nonprofit needs. When we surveyed grantmakers and nonprofits for this study, among those working with foundations:

- 55 percent said that capacity building is very important and 41 percent said it is somewhat important to their foundation’s mission that they engage in grantee capacity building through grantmaking or other means.
- While foundations often invest in a broad range of capacities grantees say they need help building, the top five areas of capacity building that funders are most likely to support include: leadership/staffing, strategic planning, financial management, governance, and fundraising.
- Our survey showed foundations also support other capacity-building strategies, such as communications, executive transitions, monitoring, evaluation and learning, networking/convening, professional development, technology, and volunteer development.

The complete survey results are available online.

IssueLab Special Collection: Funding Capacity

IssueLab, a service of Foundation Center, curated a collection of case studies, white papers, and evaluations that provides free and direct access to the experience and expertise of funders. Explore it to find out what other foundations and nonprofits have learned from their own capacity-building efforts. Search, browse, and even share your own findings at fundingcapacity.issuelab.org.

The complete survey results are available online.
Exploring Investment Approaches to Capacity Building

There are a number of ways funders can support grantee capacity-building efforts. In this section, we break down different support opportunities, including examples of considerations funders have made when implementing them.

What's provided here is designed to help you decide what works best for you and your foundation. Some ways are right for certain foundations and grantees in certain circumstances, and you'll likely apply different investment strategies — sometimes simultaneously, sometimes with particular grantees — at specific times.

Your choice will also reflect your own capacity, which we'll explore later in the guide.

This section covers:

- Nonprofit capacity-building grants and awards
- General operating support
- Grants and contracts with technical assistance providers and intermediaries
- Peer learning networks and communities of practice
- Collaborations among funders — and beyond
- Other capacity-building instruments, including non-monetary

Capacity-building grants and awards

Some foundations give grants that are either partly or entirely focused on building an individual nonprofit's organizational capacity.

- Often, these one-time or multi-year grants are made in the context of one or more issue-based portfolios at a foundation.
- Often, these grants are given to existing grantees and responsive to their specific capacity-building requests.
- Some foundations have dedicated organizational effectiveness portfolios through which they fund only capacity building.
- Some grantmakers integrate capacity building across all grantmaking, often to help facilitate the meeting of programmatic goals.
Other funders are rewarding innovation in organizational effectiveness through specialized capacity-building funding, such as awards programs.

**Examples From Funders:**

The **David and Lucile Packard Foundation**, which paid out approximately $3 million last year via its organizational effectiveness program, focuses on grantee capacity building. “Active grantees of the Packard Foundation are eligible to apply to the organizational effectiveness program,” says Kathy Reich, organizational effectiveness and philanthropy director. “In the early 1980s, David Packard observed that nonprofits do not, for lots of complicated reasons, invest in strategic planning, talent management, leadership development, and other institutional capacities in the same way that the for-profit sector does, and he felt strongly that they should feel empowered and have the resources to do so,” says Reich. For these grants, the Packard Foundation places few restrictions on what capacity-building needs can be requested, so long as the proposal suggests a way that the organization will tackle it.

Here are some more examples:

- “Technical assistance support is sprinkled throughout each of our program areas,” says Pat Swann, senior program officer at the **New York Community Trust**. **LEARN MORE**

- “We’re shifting to a greater focus on organizational health in our grantmaking,” says Sandra Dunsmore, director of the Grant Making Support Group at the **Open Society Foundations**, “because we believe that healthy organizations will be more enduring, and therefore help strengthen fields that are then better able to make and defend gains.” **LEARN MORE**

- The **Greater New Orleans Foundation** Organizational Effectiveness Initiative sponsors **Pitch It! The Innovation Challenge** with funding from the Kresge Foundation and Chevron. **LEARN MORE**

**GENERAL OPERATING SUPPORT (OR UNRESTRICTED) GRANTS**

While some funders remain unsure as to whether grantees actually prioritize their own capacity building when given general support, others view unrestricted funding as a fundamental investment in organizational capacity and sustainability.

- Some funders view general operating grants as a way of giving nonprofit leaders, especially of “high-performing” organizations, the license and flexibility to invest in their organizations in ways that program-specific grants don’t do.

- For some foundations, such as smaller family foundations that tend to make multiple grants to a limited cohort of grantees over many years, we heard offering dedicated capacity-building grants and general operating support together “just makes sense.” One grantmaking method focuses the grantees on specific strategies while the other gives the grantees the latitude to invest as they wish to meet their needs.

- For some funders who offer unrestricted support, embedding discussions on organizational capacity within grantmaking due diligence is an important part of ensuring that those funds contribute to capacity improvements.

**Examples From Funders:**

The **Weingart Foundation** undertook a strategic rethink that has led it to become one of the more ardent advocates of general support as a capacity-building tool for high-performing nonprofits. In 2008, when the economy started to suffer, Weingart took some time to reflect on its grantmaking practice, which had included capacity building in response to grantee requests. Now, unrestricted funding represents about 60 percent of the foundation’s annual grantmaking. “We feel that this kind of funding is one of the best tools...”

**Please note:** All of the foundations mentioned in this section employ multiple grantmaking approaches in a variety of combinations. Some of what we’ve included could fit into more than one category. The purpose of the examples here isn’t to chronicle each foundation’s work, but to highlight the types and potential uses of specific investment tools.
for supporting the capacity and sustainability of organizations, especially those that are well managed, well led, and offering effective programs,” says Belen Vargas, vice president of programs. Despite grants being truly unrestricted, “We’re excited to see that grantees are actually using our dollars to invest in themselves beyond programs and services.” Weingart’s due diligence process, which includes extensive dialogue with grantees on what’s happening inside their organizations, may contribute to this outcome. “We tell them we want to learn more about their organizations, their infrastructure, and where they are in their organizational lifecycle, and then ask, ‘What organizational capacities are you wanting to address over the next few years but can’t because you don’t have money?’” says Vargas. “Most grantees won’t automatically go there. We initiate this conversation with our grantees, letting them know that they can use unrestricted funding to really invest in themselves. And then they do.”

Here are some more examples:

- After over a decade of making planning and implementation grants in response to grantees’ self-diagnosed capacity needs, the Hawaii Community Foundation closed its Organizational Effectiveness program and now offers unrestricted operating support. LEARN MORE

- “It’s just me on staff and 12 trustees,” says Robin Platts, executive director at the Dresher Foundation. “That means I have a relationship with many of our grantees. People know that we do capacity funding and a lot of operating support. We’re one of the few foundations in the Baltimore area that people can come to for flexible funding.” LEARN MORE

- The Bill and Melinda Gates Foundation incubated the Roadmap Region, a broad community-based consortium and collaboration across seven school districts with the highest concentration of low-income, school-aged youth in the state, and gave grantees general operating support with some defined parameters. LEARN MORE

“**We have to create more of these safe spaces — some of which don’t involve funders — where peer-to-peer skills development and knowledge transfer can happen.**”

— Tina Thiart, HGG NPO Sustainability Solutions

**GRANTS AND CONTRACTS WITH CAPACITY-BUILDING PROVIDERS AND INTERMEDIARIES**

While foundations typically give grantees funding to hire capacity builders, sometimes funders invest directly in these capacity-building providers. Grants and contracts to capacity builders often support technical assistance and consulting to a cohort of grantees. Or funders give general operating support or program grants so that capacity builders can assist a broader array of nonprofits, such as by offering a leadership development series for nonprofit staff.

- For some foundations, funding capacity-building providers is a way of extending their capacity-building reach and leveraging their investment.
- Foundations can work with these capacity builders to create safe space for grantees to get timely advice, interactions in which the funders don’t participate.
- Some foundations build partnerships with consultants to manage multiple aspects of grantee capacity building for them.
- Some foundations re-grant via intermediary organizations that provide capacity-building support.
- Foundations aren’t just investing in the “usual suspects” of capacity builders. When trying to strengthen a field, sometimes they support nonprofits in a position of strength that can help boost others. For example, some more established nonprofits can provide back-office support for emerging nonprofits.
- Going beyond the usual suspects of consultants can also mean building pro bono capacity in support of nonprofits.

**Examples From Funders:**

“We give grants to organizations that provide capacity-building support to other organizations,” says Beth Fernandez, programme officer,
LGBTI Rights/Xenophobia and Intolerance at the Sigrid Rausing Trust. “For example, we fund a number of sub-grantors on different human rights themes who give grants to smaller organizations. They accompany those grants with technical advice or trainings. There are a number of ways in which they monitor and try to assist their grantees with their capacity. Basically, it’s targeted advice or resources that enable their grantees to improve some area of their work. Topics range broadly, from financial management, to mobilization of a constituency, to addressing security issues. This is how we most often do capacity building.”

Here are some more examples:

● “We have 15 organizations in our management training portfolio that can respond to a broad spectrum of organizational capacity issues nonprofits face,” says Doug Bauer, executive director at the Clark Foundation. LEARN MORE

● Through its Southern Tier Capacity Building program the Stewart W. and Willma C. Hoyt Foundation has a nonprofit capacity-building partner that hosts seminars focused on strengthening nonprofit governance and management operations. LEARN MORE

● “Our client foundations have supported leading arts organizations that don’t regularly participate in capacity building but that are well positioned to help strengthen others,” says Jonathan Horowitz, vice president at J.P. Morgan Private Bank, Private Foundation Services. LEARN MORE

● “There are certain types of capacity building that can be prohibitively expensive and so there’s value in engaging volunteers to do the work,” says Rick Moyers, vice president of programs and communications at the Meyer Foundation. LEARN MORE

**GRANTEE PEER LEARNING, CO-LEARNING, AND COMMUNITIES OF PRACTICE**

Foundations are increasingly turning to peer-based learning opportunities and grantee communities of practice as strategies for investing in grantee capacity building.

● Foundation staff recognize that grantees often learn better in peer groups where they have some or complete control of the agenda — especially when the capacities to be built relate to more difficult or sensitive topics for grantees, like leadership or governance, or pushing to a next stage of organizational growth, or building fields or movements.

● Sometimes capacity-building-focused peer learning evolves when a foundation observes a trend in its portfolio and decides to help a cohort of grantees strengthen a particular capacity.

● Peer learning takes and morphs into many forms, including: a funder-designed convening, a grantee-requested community of practice, an approach co-designed with grantees, or a group that consultants help shape.

● Sometimes grantees can opt in to peer learning, and in other cases peer learning participation is mandatory. Either way, nonprofits appreciate when funders couple learning with support to apply what they have learned to organizational practice.
We heard, “Providing training/skill building without capacity to implement changes isn’t that helpful.”

- Peer learning doesn’t have to start in a formal or complicated way. Simply connecting one grantee to another can have a tremendous impact.

**Examples From Funders:**

In 2009, during the recession, the **New York Community Trust** picked three communities in New York City that had high concentrations of poverty and many small, fragile nonprofits that were adversely affected by the economic downturn and cutbacks. It brought in Community Resource Exchange to work with groups in three neighborhoods, including the Far Rockaways.

“Fast forward to 2012,” says Pat Swann, senior program officer at the Trust. “Nonprofits in the Far Rockaways had at that point been meeting for several years when Hurricane Sandy hit. Post-disaster, these groups came together, hung together, and coordinated, based on relationships they had established. And from that, they’ve formed a coalition that is very conscientiously not trying to create yet another organization. Rather, the coalition has taken on the role of making connections between organizations serving similar constituencies, as well as connecting residents with programs and services out there.”

Here are some more examples:

- “We’re piloting a leadership transition strategy because a number of grantees were facing executive transitions,” says Liz Sak, executive director of the **Cricket Island Foundation**. LEARN MORE

- “Creating a CEO peer consultation group for executive-level nonprofit staff running big international organizations was a way to help them discuss difficult leadership issues by providing a ‘safe space’ and a high-level facilitator,” says Adriana Craciun, senior advisor on capacity building and organizational development at the **Oak Foundation**. LEARN MORE

- At the **California Endowment**, “We learned early in our 10-year Building Healthy Communities initiative that some of the most impressive results were due to the effective leadership and advocacy of youth,” says Gregory Hall, director of program quality and effectiveness. Youth started attending the foundation’s local Building Healthy Communities planning meetings to express their priorities for school and neighborhood changes. Now most of the Endowment’s 14 initiative sites have youth leadership tables. LEARN MORE

- “I connected two of our grantees, one in Palestine and one in Vietnam. They were both figuring out how to connect with local corporations in emerging market contexts where development aid is scarce, but where there are young business professionals who could engage as volunteers and possibly as donors,” says Jenny Hodgson, executive director at the **Global Fund for Community Foundations**. LEARN MORE

**CAPACITY BUILDING THROUGH COLLABORATIONS — AMONG FUNDERS AND BEYOND**

Some foundations are teaming up to address capacity-building challenges, sharing issues, problems, and opportunities that come along in an area of common interest.

- Funders can approach collaboration in a number of ways, from joining forces to explore what collective funding might yield, to pooling resources in a fund.

- Some collaborative funder efforts are focused on strengthening nonprofit organizational effectiveness, such as helping nonprofits gain access to capacity-building resources.

**ACTION STEP**

Host a program officer brown bag at your foundation on the topic: Is general operating support a form of capacity-building support?
Others focus on building nonprofit capacity to impact issues funders collectively care about, such as child poverty, public education reform, grassroots community leadership development, local philanthropy field building, and social innovation.

Some funder collaborations are managed and led by intermediaries. Some represent partnerships through which funders re-grant through other funders.

Some of these collaborations are bringing in other sectors, including industry and government, to address problems as well as innovate solutions that can position nonprofits for even greater success.

Examples From Funders:

Several years ago, the J.W. McConnell Family Foundation launched Innoweave, a multi-sector social innovation resource, which includes nine areas of innovation ranging from cloud computing to social finance and developmental evaluation. It takes community organizations through various levels, helping them learn, assess, and implement innovations, with funding available at the end that organizations can use to get training in a particular innovation area. “Although McConnell’s fingerprints are all over Innoweave and we are a major funder of it, we are less and less the major funder,” says John Cawley, vice president of the foundation. “The Canadian government, several of the major United Way networks, community foundations, and other funders have said, ‘This is great that you piloted this and perfected the modules and trainings. We’re impressed by your robust network of consultants. We would like to put, for example, all of the United Ways in this region through Innoweave training and we’re going to fund it.’ So we basically set up this innovation platform where people can come in and draw upon the resources that are there and contribute their own financial ones.” Collaborative engagement is exactly what the foundation had sought from the initiative’s start. It recognized that scaling innovation across the entire nonprofit sector in Canada required vested partners.

Here are some more examples:

“Much of our capacity-building work takes place within our collaborative funds,” says Melinda Fine, vice president at NEO Philanthropy. “Each collaborative fund supports individual, discrete organizations within the broader context of strengthening a coordinated field of work on a given fund’s focus area. We see capacity building as essential to this larger, field-building endeavor.”

Stand Up For Our Children is a partnership initiative with W.K. Kellogg Foundation that mobilizes parents’ voices to advocate on behalf of their children age zero to five. “We decided early on to re-cast the initiative, so that there was a capacity-building component,” says Joann Ricci, vice president of organizational effectiveness at the Greater New Orleans Foundation.

With support from grantmakers like the Weingart Foundation, a collaboration of nine major Los Angeles–region capacity-building funders came together to explore the feasibility of creating a robust technology-based medium (aka “Information Exchange”) through which nonprofits could connect to appropriate capacity-building services.

Not every foundation can have a separate organizational effectiveness portfolio, or even make dedicated capacity-building or general operating grants. Funding resources might be limited or there may not be the right staff to execute these strategies. But that doesn’t mean you can’t invest in organizational capacity building using other support mechanisms you already have available.

**ACTION STEP**

Take 15 minutes to catalog the types of grantee capacity-building investments you have made as a funder. Identify an investment approach you haven’t yet tried that you think might benefit one or more of your grantees and implement it.
Some foundations make specialized investments, like capital grants, grants with matching requirements, endowment investments in social enterprises, and fellowships, which can become growth tools for strengthening key organizational components, like financial health and leadership development.

Some foundations offer workshops, primers, and intensives to grow nonprofit capacity-building knowledge, sometimes in partnership with capacity-building providers. Topics range from the elementals of board governance, fundraising, leadership, and advocacy to more targeted subjects, like how to strengthen organizational operating reserves, work with consultants and coaches, and improve individual donor fundraising.

Sometimes foundation staff lend their individual capacity-building expertise outside of work, volunteering time or serving on nonprofit boards.

Some foundation staff provide capacity-building technical assistance as part of their work, meeting with grantees to share advice and help them solve capacity-building challenges they face.

Foundations can convene or host retreats that yield capacity-building benefits by the very act of connecting grantees to each other.

Examples From Funders:

When the Greater New Orleans Foundation initiated its capacity-building approach, “We decided to address some core needs with what we call our 101 Series,” says Joann Ricci. The foundation created workshops to strengthen the basic skills that everyone working in a nonprofit should have on topics such as advocacy, governance, fundraising, evaluation, and financial management. Simultaneously, Ricci started what the foundation called “drop-in Friday coaching,” where grantee executive directors could come in for free coaching sessions the first Friday of every month. “I’m an accredited coach,” says Ricci. “I had been coaching nonprofit and foundation leaders as part of my consulting practice and my foundation practice for a long time.” When she announced the opportunity, the response was tremendous. “Within 24 hours, I was booked solid for six months.” While these coaching sessions are no longer offered, they helped Ricci set the foundation’s capacity-building approach on the right track. “It was such a great way to listen and learn more about the needs,” says Ricci, “and build relationships with grantees, something that nonprofits also appreciate.” Participating nonprofits also benefitted from access to sound advice from someone with real capacity-building expertise.

Here are some more examples:

- The Meyer Foundation offers three-day leadership intensives for executive directors that are specifically geared toward executive directors who’ve been in their jobs for more than two years and less than five years. “We’ve seen that as a danger period for nonprofit leaders,” says Rick Moyers, vice president of programs and communications. LEARN MORE

- “We do a lot of matching and challenge grants with our operating support,” says Robin Platts at the Dresher Foundation. LEARN MORE

- What residents of the shelter really needed were basic hygiene products, so we ended up providing that directly,” shared youth leaders from the Gaines Jones Education Foundation’s junior board. LEARN MORE

Bottom line: For all that foundations do, funders can ask, “What’s the capacity-building angle?”
DISCUSSION QUESTIONS:

Discussion questions appear at the end of each section of this guide. Reflect on them independently and then use them to have conversations with other staff at your foundation or within your peer networks.

● Does your foundation give dedicated capacity-building grants? Embed capacity building across grantmaking? Or both?

● What led to your foundation’s approach? Is that approach formalized or informal?

● Do you consider general operating funding a form of capacity-building support for grantees? Is there consensus across your foundation?

● How does your foundation use consultants or technical assistance providers to support grantee capacity building?

● How can you find out if peer learning would be useful to your grantees, versus them just being willing to participate because you ask them to?

● What other investments do you and your foundation colleagues consider to be supportive of grantee capacity building?

● For nonprofit practitioners: What types of foundation investments have been most helpful in supporting your capacity growth? How might you communicate that to other funders?
Lenses to Focus and Inform Grantmaking

Funders and nonprofits shared a number of different lenses through which they can look to bring greater focus to capacity-building investments. Some lenses will help you zoom out from what’s happening with particular grantees. Others will help you zoom in on specific internal issues or dynamics that can make the difference between success and failure for grants.

Some of these lenses overlap, and none are meant to be applied independently of others. However, each gives perspective that can inform your grantmaking — of nonprofit capacity building and beyond.

**THIS SECTION COVERS:**
- Relationships with grantees
- Understanding grantee capacity-building readiness and willingness to undertake it
- How context impacts capacity-building implementation
- What institutional culture change is needed to make capacity building successful
- Being clear on capacity-building roles and goals
- If control issues are undermining capacity-building success

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**RELATIONSHIP LENS**

The way in which funders engage and build relationships with grantees matters deeply. Indeed, nearly every story of successful capacity building we heard highlighted the importance of funders and grantees being connected in open and honest two-way dialogue. We were told repeatedly that how funders approach grantee relationships can either build the trust needed to authentically interchange with grantees about their capacity strengths and challenges — or not. From nonprofits we heard, “Relationships are best built when grantees feel empowered to drive a conversation” and “when the funder doesn’t react with stress or angst if grantees share a challenge or shortcoming.”
Given that funder-grantee relationships are, at their core, constructed around the premise of money, which funders have and grantees want, it can be tricky to break into trusted conversation territory. From both funders and nonprofits we heard, “Relationship building takes time,” especially time when funding isn’t always the underlying subject of conversation.

“You can’t do anything without trust. When you focus your strategy on the capacity of individuals, you have to make sure that they have an impact on their organizations before they leave for other jobs (because of their increased capacity!).”

— Survey respondent

However your foundation does it, “Trust needs to be built so you can ask grantees capacity-building questions without them wondering or worrying what your intentions are,” says one funder. “Not only might nonprofits feel uncomfortable divulging capacity issues, but so many nonprofits are acculturated to ask for project — not capacity-building — support because that is more the norm. Discussing capacity meaningfully requires a different kind of conversation than most grantees are used to having with foundations.

Ways Funders Are Approaching Relationships With Intentionality

The following represent some ways funders are purposefully thinking about relationships with grantees.

● How listening and providing resources to nonprofits even before giving grants has helped the Greater New Orleans Foundation lay the groundwork for more trusting relationships with grantees. LEARN MORE

● How the Global Fund For Community Foundations’ application process functions as a critical first relationship-building step with nonprofits. LEARN MORE

● How the Clark Foundation tries to incorporate capacity-building discussions into each interaction with its grantees, with which the foundation has long-term relationships. LEARN MORE

READY AND WILLING LENS

There are lots of reasons — good and bad — why a grantee might not want to engage in capacity building. Sometimes it’s about timing: the executive director doesn’t have sufficient board or staff support for the capacity-building effort, or the organization is too busy focused on other things, like a major program initiative or a capital campaign. Sometimes the executive director doesn’t see or understand the capacity-building issues. While an organization may need some encouragement to undertake capacity building, especially on trickier issues like governance, ensuring actual buy-in from the organization is key. As one funder said, “Bottom line: If they don’t buy in, they will prioritize other things and the capacity building will not work.”

Nonprofits agree that it’s hard to make capacity building successful when a funder is the driving force. We heard, “When a funder dominates or drives, leadership will often acquiesce rather than debate issues to try to bring consensus or find a compromise. Then, staff is left to carry out a project that does not have the support it needs across organizational leadership or from the community.”

Understanding readiness means also being aware of the current organizational state of a grantee, so that the capacity building can be tailored to this grantee’s internal circumstances. This means having a sense of: Where is this grantee on the spectrum of emerging to mature? What does its leadership structure and staffing look like? How is it doing with finances and on other indicators of organizational health? Is the organization ready and willing or just the funder’s primary contact person? What’s key is approaching this inquiry so that grantees understand it’s about setting up their capacity-building effort for success. As one funder said, “Meeting organizations where they are will dictate what makes capacity building successful, and that’s sometimes more difficult than the actual capacity-building work itself.”

Ways Funders Are Making Sure Grantees are Ready and Willing

The following represent some ways funders are purposefully incorporating a ready and willing lens into their capacity-building work.
How having grantees initiate and drive capacity-building funding helps the David and Lucile Packard Foundation ascertain grantee readiness and willingness. LEARN MORE

How J.P. Morgan Private Bank, Private Foundation Services, on behalf of its clients, works back and forth with grantees to identify readiness and willingness for capacity building: sometimes pushing a little, but always trusting grantees to know their organizations best. LEARN MORE

CONTEXT LENS

Funders know that capacity building isn’t one-size-fits-all. But funders and grantees both shared stories of foundations that bring in approaches with little to no regard for contextual circumstances facing nonprofits in a specific community. As one nonprofit put it, “Some funders think that just because a strategy worked in one country, state, etc., it will work everywhere. They don’t account for how each municipality has a personality with multiple cultures. Implementing exactly as it has always or elsewhere been done can set nonprofits up for failure.”

Understanding contextual circumstances — environmental and organizational — is key to setting objectives and managing expectations. They may impact different types of nonprofits in different stages of development in a variety of ways that are important to consider. To illustrate:

- A larger, more established nonprofit may have significant staff capacity and external credibility to execute programs. However, it may find changing its strategic direction difficult because internal bureaucracy inhibits nimbleness. Or stakeholders outside the organization may have strong, long-established views about what it should be doing that makes it hard to shift course.

- A small grassroots nonprofit may have more flexibility to change direction, but limited capacity to execute desired capacity-building strategies. If its track record and reputation are relatively unknown, it may have difficulty securing capacity-building support.

- A re-granting nonprofit may have significant capacity to fund other nonprofits but find its capacity intertwined with that of the funder for which it serves as a grantmaking intermediary.

All of these context-related circumstances greatly influence the approaches a funder should take when determining capacity-building needs.

Some funders have developed assessment tools that help them collect data on the organizational context in which capacity building might occur. But understanding context inside and outside of organizations requires analysis beyond what any single due diligence tool can uncover. The circumstances of internal politics, leadership, governance, and financial health of organizations aren’t static. Nor is the socio-cultural and political environment and the vibrancy of the fields in which grantees work. As one funder shared, “Grantmakers have to differentiate the kind of support based on the possibilities context allows.”

Ways Funders Are Factoring In and Addressing Contextual Factors

The following represent some ways funders are purposefully thinking about grantees’ contexts.

- A U.S.-based nonprofit may appear to adhere to generally accepted U.S. financial management practices better than an international nonprofit, but actually be significantly weaker financially than the non-U.S.-based nonprofit.

"Is the organization ready for this type of support? Is this something they really want vs. something a funder is imposing? These are must-answer questions.”

— Anonymous funder

ACTION STEP

Spend 30 minutes reviewing your application processes for capacity-building grants and consider: Do they set the stage for authentic relationship building with grantees? Circulate some suggestions internally for what you might change if your answer is “no” or you are unsure.
“The problem is that providing capacity-building support seems to require both a lot of time and expertise. You have to know the local structures and be well connected on the ground in the different countries in order to effectively advise on capacity building.”

— Survey respondent

- How the Sigrid Rausing Trust strengthens its understanding of contextual factors facing grantees by working with sub-grantors in regions and combining that with in-house program staff research. LEARN MORE

- How the J.W. McConnell Family Foundation designed the Social Innovation Fund as a systematic response to a contextual pattern facing young organizations. LEARN MORE

CULTURE CHANGE LENS

In addition to having an awareness of internal and external grantee circumstances, understanding the role institutional culture plays can support the success of capacity-building investments. By institutional culture we mean those organizational ways of thinking or acting that become generally accepted norms and can support or get in the way of change. For example, is the grantee quick or slow to change overall? What’s the culture of decision making on the spectrum of quick and hasty to slow and deliberate? Is it inclusive or top-down? Institutional culture is also an expression of organizational values. Does the grantee seek out and reward innovation? Operate as a learning organization in action? And so on.

If you’re working with a new grantee, or you don’t know the answers to these questions, think about ways to weave these lines of inquiry into your interactions, such as site visits or through meetings where you get the opportunity to interact with others beyond the executive director. Even in instances when capacity building seems straightforward — like website development or social media — culture change factors in. As one funder said, “Website capacity cannot be built without organizations changing the way they view and utilize that technology.”

Some funders also reminded us that foundations have to think about their own institutional cultural orientation to capacity building in order to successfully support their grantees. For example, when funders design initiatives, there’s usually an end in sight. Capacity building has an organizational culture change component that isn’t bound by time. Thinking about how your foundation’s own institutional culture supports or might get in the way of capacity building can be an important starting point.

Ways Funders Are Supporting Grantees to Undergo Culture Change

- How the nonprofit organization Conectas learned from its funders the essential components of culture change. LEARN MORE

- How the Gender, Sexuality and Reproductive Justice Unit at the Ford Foundation is helping organizations change their culture of practice around communications to strengthen their capacity to bring about change in laws and policies, as well as social attitudes and norms. LEARN MORE

DEFINING ROLES AND GOALS LENS

More than anything, it’s important to dedicate time with grantees to discuss roles and goals. Funders agreed that foundations have a role to play in working with grantees on goals setting, especially when the capacity to be built is at a field or issue level. As one funder put it, “It is not possible for program officers to sit inside their foundation dreaming up solutions to really big, complex problems on their own. It’s not only that we’re not smart enough, but there’s something about the co-creation process, co-examining the problems and dreaming together about approaches, that makes you actually come up with higher-quality solutions. And by the way, you’ve built the

ACTION STEP

Brainstorm two or three ideas for how you might interact with capacity-building grantees that isn’t specifically about funding. Try to put one in action with grantees in the next six months.
ownership required for actual implementation.” This teamwork approach, while overall agreed upon, certainly has varying degrees of who takes the lead, and how.

While the overriding point of view expressed from both funders and nonprofits is to let grantees set goals and focus, there are times when grantees appreciate funders being more directive in capacity-building goal setting. As one nonprofit leader shared, “Funders will cherry pick from proposals. It’s frustrating, but they can end up being right more often than not. Funders have helped us to become more cohesive and collaborative within our own organization about what questions we’re asking and what our strategy is. They have helped us grow immeasurably in communications and how we share information. It can be invaluable for them to say ‘we need you to do better.’” Of course many nonprofits share the counterbalancing perspective: “Our funder really was terrific. There wasn’t a long negotiation. They were hands off about how we used the funds.”

Foundations can hold grantees accountable through their reporting and assessment processes, but “accountability is often not a two-way street,” said many nonprofit staff. Grantees have expectations, even wish lists, of the role funders will play. We heard, “It would be helpful to have a better mutual understanding about how long it takes to implement the specific capacity-building changes being funded. In some situations, like changing communications culture, it can take longer than a one-year grant. If funders are pushing for change it would also be helpful to know their commitment to seeing the change through, maybe by providing more than one cycle of funding.” Of course funders cannot necessarily know their answer to these questions in advance, nor do they want to feel like ensuring sustainability of what they fund is their responsibility. But funders might consider how they can help grantees understand what other roles, beyond grantmaking, they can commit to, whether it be to serve as a sounding board, a connector to other resources and training, and so on. That way grantees feel less like, “You brought me to the dance and now you’re going to leave me,” as one nonprofit leader put it, and more like they have the support they need to make their capacity-building endeavors successful.

“The question of ownership and leadership dogs philanthropy all the time because we want to control everything. We don’t like to take risks. So we’re slow to authentically give up control to other people. And then we’re impatient. We have to be patient and respectful. That’s the trust part of it. And to me, that’s probably the hardest part.”

— David Bley, Bill & Melinda Gates Foundation

Ways Funders Are Working With Grantees on Roles and Goals

● How the Oak Foundation has an internal team approach that works with grantees to clarify roles and goals for capacity building.

LEARN MORE ➤

● How the California Endowment’s strategic approach has evolved, which has changed the way it approaches goal setting on capacity building with grantees.

LEARN MORE ➤

● How the Stewart W. and Willma C. Hoyt Foundation funds mini-assessments that help the foundation and grantees home in on roles and goals.

LEARN MORE ➤

ACTION STEP

Use the GrantCraft Roles@Work tool to jump-start a conversation among foundation colleagues about how you weigh different roles in grantee capacity building.

CONTROL LENS

The issue of control clearly relates to power (see longer discussion beginning on page 27) and is important to honestly reflect on.

What control issues do I have that relate to this particular grant? Am I concerned the capacity building will fail if I’m not heavy-handed? Is this because I think the organization doesn’t know how to do capacity building, or that it won’t approach it seriously or the way I would approach it?

Control issues often appear when consultants get involved. On one hand, grantmakers genuinely want to help grantees manage successful
relationships with their nonprofit capacity builders. “It’s generally not the case that grantees have as much experience working with consultants as we have,” said one grantmaker. “Grantees don’t always know what to request and what to expect of nonprofit capacity builders. And they may not feel confident in setting the parameters of the relationship with the provider.” But we heard from nonprofits that how foundations answer questions like: “Who picks the consultant? Who negotiates the parameters of how the consultant will work? Who does the consultant report to?” can fundamentally change our relationships with grantees. In the words of one nonprofit leader, “The ideal scenario is when the funder allows the nonprofit to choose the consultant but is willing to make referrals to one or more people that they think are really good and is clear that the group won’t be penalized for going with someone else.” Since we know that sometimes success or failure can have less to do with how “good” a consultant is and be more about the compatibility among the personalities involved, it’s often better to let grantees decide who they do or don’t want to work with.

**Bottom line:** Sometimes grantees need or want more direct guidance and involvement from funders. And sometimes funders are too controlling. Learn to distinguish between the two and to exercise the right amount of engagement that supports, but doesn’t compromise, the relationship.

**Ways Funders Are Trying to Make Sure Control Issues Don’t Get in the Way**

- How the **West Coast Community Foundation** ceded control and switched gears from training youth to helping them build their longer-term capacity to pay for their own youth-driven projects. **LEARN MORE**

- How the **Meyer Foundation** makes sure grantees and the consultants they work with understand who’s in control of key decisions related to its Management Assistance Program grants. **LEARN MORE**

**DISCUSSION QUESTIONS:**

Reflect on your individual responses to the following questions. Then consider what changes, if anything, when you replace “I” with “my foundation.”

- Do I lay the groundwork to candidly and frankly engage with grantees?
- How do I know if grantees are willing and able to focus on the grant scope we are negotiating?
- Do I understand how context might impact implementation of grants that I make?
- Am I clear on what institutional culture change needs to happen to make my grant-making investments successful?
- Are we (grantee and I) clear on our roles and the goals of grant-funded endeavors?
- Are control issues between grantees and me getting in the way of the success of the grants I make?
- Am I better at looking through some of these lenses than others? Why is that?

**For nonprofit practitioners:** which lenses would you have funders prioritize in their thinking? How has funder attention to the lenses described helped you? Or where has lack of attention to these lenses limited the success of your foundation-funded efforts? How can you help funders to look through these lenses?

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**ACTION STEP**

Consider incorporating contextual questions into your proposal and reporting process to keep a pulse on your grantmaking portfolio landscape.

- How Sexual Health and Rights Project staff at the **Open Society Foundations** reacted when sex worker groups on the ground turned Open Society’s strategy upside down, deciding that they didn’t want the capacity building that Open Society had suggested. **LEARN MORE**

- How the **Meyer Foundation** makes sure grantees and the consultants they work with understand who’s in control of key decisions related to its Management Assistance Program grants. **LEARN MORE**
When You’re a Lone Voice for Capacity Building in Your Foundation — Ways to Broaden Your Base of Internal Support

Most of the grantmakers we interviewed believe in capacity building as an important strategy. Yet we know there are many reasons other funders hesitate to engage in capacity-building funding.

If you’re among those who recognize the value but feel unsure how to build the needed constituency to support broader-scale implementation at your foundation, consider the following steps suggested by interviewees.

1. Engage grantees. Some foundations shaped their capacity-building strategies with input from grantees via surveys and interviews. The Greater New Orleans Foundation also put together a design team, a cross-disciplinary group of grantees that has met regularly, providing “real live” feedback as the foundation formulated its approach. Listening to what grantees need, asking questions, reading between the lines, engaging them in the design, and then finding ways to continue to seek their input before, during, and after funding builds the trust needed to position a foundation’s efforts for success.

2. Take the plunge. Capacity building can feel murkier for foundations because the work seems less directly tied to missions. Like so much of what foundations fund — whether it be health, education, youth development, social justice, or other issues — funders will never be able to assign complete definition, parameters, and formulae to capacity building. Don’t wait for the “Eureka!” moment. Getting started takes capacity building out of the theoretical realm so you have applied experience to reflect on as “proof of concept.”

3. Start with a small experiment with demonstrable outcomes. If this is a first endeavor, cultivate a small project that has the possibility to demonstrate outcomes that show value and builds confidence in your foundation’s ability to make capacity-building investments. If your foundation has undertaken some grantee capacity building before and had a bad experience, figure out how to learn from it. Reflect on that to design the new approach in a way you think will be more constructive. Don’t start with something expensive or complicated if you have to convince board or staff members of the value. Start with something that you can make tangible.

4. Document the process. At the grant’s completion, ask not just what it accomplished in terms of organizational, programmatic, or field capacity, but how it changed your foundation’s relationship with grantees. Consider the surprises and unintended consequences, where maybe one result was not achieved, but something else unexpected but positive happened.
Knowing Your Own Capacity

Sometimes foundations jump into grantee capacity-building without taking stock of their own internal capacity to undertake this work. Whether you are already making capacity-building investments or you are just getting started, periodically assessing your foundation’s own capacity to invest in grantee capacity building can help fortify your overall approach.

This section shares important questions that can help you consider your foundation’s capacity for supporting capacity building. It aggregates advice from interviewers designed to help you consider where your foundation is well positioned to build grantee capacity, and where its limited capacity might get in the way of what you’re trying to accomplish. Reflecting personally as well as foundation-wide is key, since individual funders can’t always control what happens organizationally.

Instituting this type of reflective practice does not mean that funders should wait to invest in grantee capacity building until they “know all the answers” or have it all figured out. In fact, thinking one can know all the answers “brings the potential for more harm than good,” said several interviewees. More than one person reminded us, “Foundation staff, even those that have come from the nonprofit sector, don’t walk in grantees’ shoes.”

Beware of the temptation to standardize capacity-building practice too much. Think more about how as a funder you can become a more effective analyst. Being equipped to understand the unique variables each capacity-building grant brings — different contexts, organizational circumstances, leadership enthusiasm (or not), and so on — makes you more capable of balancing foundation and grantee
interests. This means having a good handle on your own personal capacity, and being able to communicate that, internally and externally, which can make for more respectful interactions and partnerships with grantees.

**THIS SECTION COVERS:**

- What is your foundation’s HISTORY of grantee capacity building?
- How can your foundation hone its capacity-building PURPOSE?
- Who are the dominant VOICES (champions and nonbelievers)?
- How can your foundation build its KNOWLEDGE on capacity building?
- How should your foundation take ACTION in setting parameters on its engagement?

Remember when undertaking these reflections there is no right answer. When we tested these questions with an Open Society Foundations focus group, staff shared a range of different, yet all valid, responses. Rather than try to come up with a single response, embrace the variety. Then, pace yourself and find ways to strengthen your capacity for supporting capacity building over time.

**WHAT IS YOUR FOUNDATION’S HISTORY OF GRANTEE CAPACITY BUILDING?**

Even if you think the answer is “none,” don’t skip this reflection. Some foundations have capacity-building grantmaking explicitly in process, but many invest in it for years without actively naming it. “If you look back at our grant history, before we ever established a formal management assistance program 20 years ago, we were making grants to organizations to support organizational planning, fundraising, sometimes financial management,” says Rick Moyers, vice president of programs and communications at the Meyer Foundation. “Capacity building doesn't usually just spring from nowhere.”

Look back and take stock of ways your foundation has supported capacity building — through grantmaking and otherwise. Has it been explicitly discussed and funded? Are there ways you have addressed it more implicitly, as an aspect of your foundation’s grantmaking? Do you as a professional bring experience with capacity building that can impact the future direction of your foundation’s grantee capacity-building efforts? Consider your responses to questions like these to get a sense of what capacity building has historically meant for your foundation and its staff.

You might also consider the extent to which your grantees think of you as a capacity-building funder. Do they know capacity-building support opportunities exist? Is your foundation communicating clearly its interests in capacity-building support? As one nonprofit put it, “Funders can state on their website an interest in building capacity. But it often takes a lot of digging into the funder’s giving history to discover they actually awarded a capacity grant.”

**HOW CAN YOUR FOUNDATION SHARPEN ITS CAPACITY-BUILDING PURPOSE?**

Interviewees suggested that it can be useful to periodically come back to the question of “why capacity building?” at your foundation and compare that to how capacity building is manifesting with grantees. Purpose can get lost if you don't intentionally look at how it's being approached through the investments your foundation makes. We heard, “Do this, but don't get hung up on this exercise.”

The overarching purpose for grantee capacity building tends to focus in one of two ways.

- Often, organizational effectiveness is the intended result. In these instances, capacity building can focus on a single nonprofit, or it can support a cohort as a way of keeping a bigger group of nonprofits strong and healthy. For example, funders making these grants might support a single nonprofit’s

**ACTION STEP**

Search the history of all your grants that have included keywords that you think relate to capacity building (e.g., capacity building, organizational development, financial management, fundraising, communications, etc.). Consider what trends this uncovers.
strategic planning process or bring in a consultant to work with a cohort of grantees on organizational strategic planning. Often funders focus these grant outcomes on the action of capacity building, which results in something designed to increase organizational effectiveness, such as a strategic plan.

- In other instances, grantee capacity building is viewed much more as a strategy for strengthening the effectiveness of fields, movements, or systems. While it may build individual organizational capacities, funders with this view often seek progress on a particular social issue. For example, they might fund strategic planning; however, they would likely engage nonprofits they view as critical in issue areas, such as advancing reproductive justice or eradicating poverty.

While not every foundation, and even grantmaking portfolio within a foundation, needs to approach capacity building the same way, think about the process by which your foundation can develop a greater internal understanding of purpose so that the overall impact of this type of investment can be better understood and strategically applied in service to mission.

WHO ARE THE DOMINANT VOICES (CHAMPIONS AND NONBELIEVERS)?

This may be a tougher topic to discuss openly, but certainly one raised consistently. No doubt, the question of “who” dominates on the subject of capacity building has a big impact on a foundation’s capacity to undertake it.

At some foundations, we heard, “Staff are the primary drivers and the struggle is to have boards embrace the value of capacity-building investments.” At other foundations, “CEOs largely set the capacity-building agenda.” In some instances, the drivers may be the strength of the voices or passive resistance among those who are, in essence, against capacity building and think of it as a waste of time. As one interviewee put it, “Some grantmaking staff are mostly interested in organizations delivering on the objectives of their issue-based grantmaking strategies.” In other instances, grantmaking staff or board members may feel it’s not worth it to try to push their foundation to take on capacity building. They may feel their foundation has always done grantmaking a particular way and voicing an opinion that would call for change would be a waste of energy.

Think about who is driving the work at your foundation and how that impacts your foundation’s approach to grantee capacity building. Also consider what voices are lasting versus temporary, and how different voices can be heard and then reconciled to make grantee capacity building more productive.

HOW CAN YOUR FOUNDATION BUILD ITS KNOWLEDGE ON CAPACITY BUILDING?

At most foundations, the levels of capacity-building skills and experience vary significantly because, as a number of funders put it, “Most foundations hire grantmaking staff more for their issue-based rather than their organizational development expertise.” And for foundations with few or no staff, the capacity is as good as those few people.

To build internal knowledge, some foundations are hiring organizational development experts who provide a variety of capacity-building supports, from assisting program officers in proposal review and site visits to directly coaching grantees. However, having in-house expertise is more the exception than the rule.

Some foundations have efforts underway to enhance grantmaking staff knowledge about how to approach certain capacity-building situations. For example, the Oak Foundation developed a due diligence tool on governance.

ACTION STEP

Initiate an internal staff brownbag lunch series to reflect on the topics and questions outlined in this section about your foundation’s capacity for capacity building.

― Joann Ricci, Greater New Orleans Foundation
in response to concerns raised by program officers. “Everyone was talking about how the boards in Eastern Europe and Latin America and particular countries function differently,” says Adriana Craciun, senior advisor on capacity building and organizational development at the foundation. “And everyone had different expectations of what it means for nonprofits to have good governance and effective boards. While we continue to take into account the legislation in countries that impacts governance and the circumstances of the grantee and the country in which they operate, we decided to develop a common understanding of what good governance looks like. A consultant was brought in and a process was created for convening program officers across Oak’s different offices to share their concerns and pose questions like, ‘What are you asking your grantees about governance, and what documents are you looking at?’ This has helped program officers feel more confident when they make board-related capacity-building recommendations.”

Some foundations have the capacity to implement these kinds of formal knowledge development opportunities. Others don’t. There are ways to build knowledge less formally. Consider how to create spaces for informal discussions on topics like how traditional leadership models are changing, or how social finance could benefit nonprofits. Encourage staff individually to build their capacity-building knowledge. Bring staff together to share case studies where they can discuss different capacity-building scenarios and why some were more successful than others. Ask foundation infrastructure groups, like national and regional associations, affinity groups, or philanthropy support organizations to host funder dialogue on capacity-building topics. Attend a conference. Overall, consider what additional learning opportunities you could pursue to strengthen your staff members’ abilities to execute capacity building, including what might be opt-in versus a more required element of staff training.

We share a cautionary note. “Remember that good practice, such as in financial management and governance, isn’t always black and white,” said one interviewee. For example, a grassroots or emerging organization may not yet have what a foundation considers a “real” board, and in some countries, what is considered good governance or financial management practice seems sub-par to standards a foundation may want to set across its grantmaking portfolio. Nonprofits may be in legal compliance with regulatory practice, but a foundation may want to set a higher bar. Think about how to encourage foundation-wide dialogue that addresses these kinds of differences in consistent ways.

**HOW SHOULD YOUR FOUNDATION TAKE ACTION IN SETTING PARAMETERS ON ITS ENGAGEMENT?**

Even when grantees recognize their own capacity building as important, it’s not the reason they exist. More pressing and operational concerns can pull focus from capacity building in nonprofits large and small. That means funders supporting capacity building must often play roles beyond grantmaker to help grantees juggle multiple responsibilities and organizational priorities alongside capacity building. Consider what roles you can realistically play, and that are appropriate to play, given limitations on your time. Then make sure you’re clear what roles you can commit to with grantees. For example, are you able to be, and should you be, a coach? A broker? An analyst?

Some foundations have explicit limitations on grant terms, such as annual grants or required “rests” before grantees can re-apply. Others have staff and boards with more or less tolerance for the time it takes to see results. Since capacity building often requires a longer-term financial investment to show impact, here’s

**ACTION STEP**

Discover your personal strategy through GrantCraft’s resources on **funder approach**.

**ACTION STEP**

Identify one capacity-building topic (e.g., governance) around which you think your foundation could develop a broader common understanding. Recommend a process to engage staff and/or your board on that topic.
another important consideration: What is your response when grantees come back for more? For example, if your foundation funds grantee strategic planning or organizational assessment activities, how will you manage the inevitable requests to implement certain organizational development needs that your foundation helped grantees uncover? If new capacity-building issues surface, will you fund them or help grantees connect to other funders who may be interested in building those particular capacities?

One point stressed by grantees: “If you do have strict limits on what and how long you can fund, how do you make sure grantees know about them?” For example, are there points in your interaction and communications, such as in the grant letter, as part of reporting documents, or during site visits, where you can discuss and document these limits? Grantee shared how they appreciate this clarity from funders, because one of their primary concerns about capacity building is how to sustain capacity built.

**DISCUSSION QUESTIONS:**

- What type(s) of capacity building has your foundation already engaged in?
- Why does or why might your foundation support capacity building? Does its current practice reflect what it wants to accomplish?
- Who is driving the capacity-building agenda internally within your foundation? What voices are the loudest?
- If you were to leave tomorrow, would your foundation’s capacity for capacity building suddenly be lost? If so, what can you do to embed that knowledge or ethos?
- How can you build staff and board knowledge on capacity building at your foundation? What type of capacity-building expertise do you have that can be tapped internally?
- How can staff at your foundation manage the extra time and deeper focus capacity building can take, given available resources? What can (and should) you do, and what are the limitations?
- For nonprofit practitioners: where are capacities strongest among the funders you work with on capacity building? The least strong? What suggestions would you have for how funders can strengthen their capacity for supporting grantee capacity building?

**ACTION STEP**

Take a colleague with a different opinion on capacity building out to lunch. Broach the topic and see where you might find common ground.

**ACTION STEP**

Create a Q&A that gets distributed to all capacity-building grantees, clarifying your foundation’s position on topics, such as whether your foundation has grant term restrictions, required “rests” before re-application, or required assessments. Embed this Q&A into communication and interaction with grantees (e.g., award letters, reporting requirements, site visits, etc.).
Deserts and Dilettantes — How to Engage the Right Capacity Builders Within Marketplace Extremes

Capacity builders provide invaluable support to foundations and nonprofits all over the world. While there are many providers doing good work with foundations and nonprofits, as the TCC Group identifies in *Building the Capacity of Capacity Builders*, quality and quantity problems within the capacity-builder marketplace also exist.

If you're like those interviewed for this guide and believe, whenever possible, it's better to hire local consultants to support capacity-building work, you've likely experienced the extremes of local nonprofit consulting marketplaces. Some regions and countries are nonprofit capacity-building consultant “deserts,” places with few who possess the skills and experience to work on capacity-building in general, much less within certain fields, or with groups that require a particular language or cultural proficiency. Then other markets are flooded with consulting “dilettantes,” those professionals who advise nonprofits on capacity-building and organizational development but have no firsthand background or experience from an on-the-ground perspective. As one funder bluntly said, “There are too many consultants who have run a nonprofit for two years, who then make exaggerated claims about what they did, and then, all of a sudden, they're a management consultant.”

Because these extremes exist, it can be hard to distinguish the high-quality capacity builders from the rest. For those who have experienced difficulties navigating local capacity-building marketplaces, here's some advice from grantmaker colleagues on how to engage the right capacity builders.

**QUESTIONS TO EXPLORE (OR USE TO SHAPE A REQUEST FOR PROPOSAL)**

**Before you engage any capacity builders, consider:**

1. Overall, what are you trying to accomplish as a result of engagement with a capacity builder?
2. What expectations do you have for what will happen (e.g., in terms of activities, deliverables, outcomes)?
3. What type of expertise do you think is needed (e.g., more a generalist organizational development expert or a capacity builder with deep experience in one area)?
4. What's the marketplace of capacity builders available in the region in which you're seeking support and how do they match up with the scope of work you're seeking?
5. Should the grantee (or grantees) be part of setting this scope and vetting who gets hired?

**Once you're considering potential capacity builders, ask each being considered:**

6. What is your overall background and experience working on nonprofit capacity-building?
7. How well do you know the local context and issues facing this group of nonprofits? For example, whom have you worked with on capacity-building issues and on what kinds of capacity-building projects?

“While outside consultants can bring expertise that doesn’t exist locally, too often they end up doing more harm than good. And, these outside consultants aren’t cheap. Parachuting in talent can get awfully expensive.”

— Anonymous funder

continued on following page
8. What scope of work do you recommend for this project?

9. What do you think are reasonable expectations for what capacity can be built given this scope?

10. How would you define the roles — of the grantee(s), the funder, the capacity builder — and boundaries between your work?

**Once you’ve selected a capacity-building partner, determine:**

11. How will we work together — funder, capacity builder, grantee(s) — to execute the planned scope?

12. What are the best ways to ensure open communications while respecting boundaries in roles?

13. Who gets to decide what gets shared and with whom?

14. How and with whom will success be assessed and communicated?

15. How might you incentivize this capacity builder to participate in professional development and learning opportunities that build the local “bench strength” of capacity builders?

Seeking answers to these questions can help you better match individual capacity builders with specific assignments. You might also consider ways to “build the bench strength” of capacity builders, as some funders are doing.

**WAYS FUNDERS ARE BUILDING CAPACITY-BUILDER BENCH STRENGTH**

Associations like the National Network of Consultants to Grantmakers (NNCG) vet consultants and offer learning opportunities to strengthen the practice of their member consultants. Individual foundations are also taking steps to improve the quality and effectiveness of consulting provided to grantees.

- How the Greater New Orleans Foundation has created educational opportunities for local consultants to improve their capacity-building consulting craft. [LEARN MORE](#)
- How the J.W. McConnell Family Foundation has set up a network of consultants that are about collectively improving practice. [LEARN MORE](#)

“There are scores of generic capacity-building providers out there who may be very, very smart in technical assistance services, but if they’re matched with the wrong kinds of groups, they have no credibility and no ability to understand the particular challenges those groups face.”

— Anonymous funder
Acknowledging Power Dynamics

Power dynamics exist in every funder-grantee relationship. But when we spoke with funders and nonprofits about capacity building, we spent a lot of time on the subject of power.

We asked, what, if anything, makes power dynamics manifest differently when funders engage with grantees in support of their capacity building? Funders and nonprofits noted some unique factors that can affect power dynamics in capacity-building situations, including:

- Fundamentally, capacity building requires people to grapple with change. Even when people are excited about it, change comes with unknowns that can create anxiety or feelings of uncertainty.

- Capacity building can take funders and nonprofits outside of their area of expertise. That can be a recipe for people behaving defensively or overcompensating for their lack of knowledge and experience.

- Capacity building is not the core work of nonprofits. Even when grantees are pushing for it, addressing capacity issues can pull time, energy, and focus from what is more directly mission-related work.

- Funders and grantees are more used to issue-based program relationships. When they work together on capacity building, the roles, expectations, and the boundaries — real and perceived — of their relationships often change. For example, when asking questions more focused on organizational health, funders may wonder how much information to ask for, and grantees may not know how much to share.

- When a funder and a grantee start talking about the direction of an organization or field or movement, they may have different ideas about how to approach that direction.

Who’s driving that conversation and action fundamentally triggers power dynamics. Learning how to hold a point of view while listening to learn from grantees is key.

THIS SECTION COVERS:

- What to RECOGNIZE about power
- What to DO so that power doesn’t get in the way
- What to BEWARE of that may exacerbate power imbalances

ACTION STEP

Initiate a dialogue inside your foundation comparing the capacity building you fund and the capacity building grantees ask for, or might ask for if they could. Are they aligned or different? What are the implications if they are different?
Funders and grantees shared the following advice and stories on how foundations can better acknowledge and address issues of power as they arise.

RECOGNIZE...

Foundation staff always embody “funder” to grantees. Foundation staff can have deep and long-lasting relationships with grantees. But no matter what, as long as you work for a foundation, grantees will see you as a funder, and that view factors into the power dynamic of your relationships with them. As one foundation staff person said, “Remembering what we fundamentally embody to grantees can sometimes be hard for those of us that come to foundations from careers as activists or former nonprofit experts. We know about the power dynamics we experienced with funders when we were in the field. We want to do better. Maybe we believe that we can be the exception — that nothing will change in our relationships with our colleagues in the field. But it does. Thinking it won’t can be a huge blind spot that affects power dynamics with grantees, especially when we start talking with grantees about building capacity.”

Funders and grantees may want different things, and that can make communication difficult. It’s not surprising that the survey for this guide, which foundation and nonprofit leaders both responded to, found differences between the type of capacity building that funders are most likely to support and the top needs nonprofit leaders observe in their organizations. Funders and grantees don’t always see eye to eye on nonprofit capacity-building needs. Sometimes grantees may be too close to their own issues to see all of the larger structural needs of their field. That’s where funders can provide critically important perspective and advice. But sometimes, grantees are afraid to share. Nonprofits contributing to this guide described their capacity-building paradox: they don’t want to appear desperate or institutionally defective, yet at the same time, they fear that if they appear too strong, they won’t get the capacity-building support they really need. And then some grantees, especially when approaching newer funders, become eager to please and spend more time saying what they think the funder wants to hear than describing what is really happening within their institutions.

Success in grantee capacity building requires funders and grantees to communicate their interests and needs well. Funders must have good listening and analytical skills so that they can be responsive to what is really happening with grantees, and frame questions in ways that promote comfort and candor.

How you’re using your different forms of power. Grantmakers have what some might call “hard” power: they can say yes or no, and they can decide whether a grantee gets funded. They also have other powers that can be leveraged to support strong, productive grantee relationships. For example, grantmakers with track records and relationships from years of working in field areas like human rights or education, and those with backgrounds in organizational development, have “expert” power. Foundations have powers as institutions to convene and connect stakeholders, and take stands on issues as long as they stay within the regulatory requirements that govern them. Consider which forms you and your foundation recognize and use well and ways you could do so more effectively. Also think about how those powers may be perceived by grantees. Are they helpful or intimidating? Useful or complicating?

Grantees may perceive that capacity building will homogenize, Americanize, or NGO-ize them. When funders bring up issues of capacity-building with grantees, intent may not always be clear. For example, if a funder approaches a grantee about a capacity-building concern, such as how the organization will address a leadership transition when an executive director or board chair has been in place for decades, it is likely for a good reason. It could be a way of wanting to ensure the foundation’s long-term support for the institution won’t be for naught. But sometimes raising issues or

ACTION STEP

Create two paragraph-length stories that include your top three lessons learned on power in capacity-building grants. Include one example where you think you navigated the power dynamic well and one example where it went awry, and share internally (or, publicly through GrantCraft).
As one funder said, “There’s just a whole nest of issues embedded in us coming in and telling nonprofits, especially those that are grassroots and founded by and for marginalized communities, how they ought to be running their organization. I find those circumstances particularly dangerous around the power dynamic.”

In other instances, a grantmaker may be pushing for organizational standards, such as around financial management or board practice. Foundations can say the bar must be raised, and maybe they’re right. But they have to be aware of how people in different communities and countries perceive their efforts, and how this can impact the funder-grantee relationship, especially if the foundation is setting a different bar from the regulatory standard or generally accepted culture of nonprofit practice in a particular country or region. According to one funder from outside the U.S., “When a new capacity-building program is offered, the first thing everybody says is ‘It’s American,’ and then half walk out.” Others raise the concern that grantees feel uncomfortable with the professionalization of social movements. We heard, “Can building organizational capacity threaten the innovation and creativity needed to change society?” Consider ways to talk about these issues openly in your foundation and with some degree of external transparency so that grantee relationships don’t suffer.

**DO…**

**Take an “opt-in” approach.** Capacity building works best in partnership. Funders bring money and perspective to the table, but we heard, overwhelmingly, it’s best not to tell grantees “you must do capacity building.” Make it their choice but provide input into their decision-making process. Help them see how you and others may view their capacity-building issues so they can make informed decisions about whether or not to tackle them. For example, for a grantee that currently has no strategic plan and limited capacity to evidence programmatic impact, one funder suggested, “Talk with them about how not being able to share a sense of their strategic direction or demonstrate outcomes may affect them long-term.” Help grantees in situations like this to consider, how can your organization know and show you’re making a difference if it can’t set goals and then assess for impact? Then while grantees shouldn’t feel pressured to do things just to please donors, help them understand how not paying attention to planning and assessment can limit their ability to get funding. In today’s philanthropic sector donors, especially institutional ones, often require strategic plans and some ability to demonstrate impact.

Once a grantee has decided to undertake capacity building, consider ways to ensure they play a leading role in determining what the capacity building will look like. Funders encouraged this approach even in situations where a foundation is offering capacity-building workshops, trainings, or peer learning opportunities. Bottom line: “Let them help design what the capacity building will be so they own it,” says Liz Sak, executive director of the Cricket Island Foundation. “That goes a long way toward reducing the power dynamic. If they feel like they really have a say and they do really have a say, that feels very powerful.”

**“I think the biggest fear nonprofits have when engaging in funder-driven ‘capacity building’ is that it’s irrelevant to what their organizations really want and need. Many nonprofits accept it mainly because it comes with money attached.”**

— Survey respondent

**ACTION STEP**

Survey grantees anonymously about their experiences with how power manifests at your foundation. Use the advice provided in this section to craft the questions. Leave an open-ended space for grantees to tell a story of a specific capacity-building experience. Ask them for specific advice on what could be done differently. Discuss the results internally.
Bring in other stakeholders to help balance power. Foundations hire capacity-building consultants for their expertise, but also to serve as “neutral” voices who can create safe spaces. Grantees can sometimes feel more comfortable sharing openly with consultants than with funders because, as one funder put it, “Consultants are more like therapists and we’re more like mothers, and, face it, we don’t feel free to say some things to our mothers.” Foundations with in-house organizational development staff sometimes bring these “expert” voices into negotiations with grantees on capacity-building-related funding. Some foundations, such as the Open Society Foundations, are also experimenting with connecting their administrative staff, like financial managers, with grantees to help them with skill building. For foundations that may not be able to involve a third party, consider if a board member or even another staff member can play a role.

Define clearly who will be part of the capacity-building conversation and who will have access to information about the grantee's capacity. When funders talk with grantees about capacity building, they often cover sensitive topics, such as governance and financial practice, which grantees don’t necessarily want others to know about. When assessments, proposals, and reports get produced, who sees them inside your foundation and beyond can become a big grantee concern, too.

That doesn’t mean it’s necessarily bad to have people beyond program officers sharing knowledge about grantee capacity building. Many foundations take a team-based approach and sharing capacity-building information can help that team make better decisions to support their grantees. However, interviewees advised being up front with grantees about whom they’d like to join in the capacity-building conversation, why those stakeholders should be engaged, and the extent of the distribution network for anything written up. For example, a nonprofit executive director has the right to know the answer to the question, “If I have a conversation with my program officer and share details about challenges I have experienced with my board chair, will that information be passed along to the foundation president?”

Grantees should also know how information might get shared with others outside the foundation. One foundation has gone so far as to clarify intellectual property issues of this content when produced by consultants. “We came up with a policy statement that we adopted. It protects us, it protects the nonprofit, and it makes it very clear that while we receive a copy, it’s the assessed organization’s intellectual property.”

While some foundations request the products consultants produce, others say, “We don’t require that what consultants deliver to grantees be shared with us.” Drawing the lines of who’s engaged in the capacity-building dialogue and who gets to see what is important. Without them, the boundaries of access and influence can become blurred. As another interviewee noted, “Sometimes consultants try to talk with me and I have to push them away and say, ‘I’m not the client. You shouldn’t be telling me these things.’” Without clarity of boundaries, grantmakers can be unprepared to react in these types of situations that inevitably come up.

**BEWARE...**

**Cosmetic versus real change.** Funders and nonprofit leaders alike shared how power dynamics can result in “nonprofits pursuing capacity building that they think funders want versus what the nonprofits actually need.” This disconnect can exist for a number of reasons. For example, sometimes grantees will do what foundations ask because they don’t feel they can push back with complete honesty and transparency. Or the grantee is just trying to please the funder. Sometimes grantmakers don’t really understand what capacity building is needed, or they are struggling with the line between encouraging organizations to strengthen their capacity and infringing on the rights of nonprofits to set their own course. For example: as a funder you feel the grantee needs to develop a strategic plan. You fund the grantee to create one, but based on the product, you’re not
sure they were invested in the process. When funders and grantees wade into these murky capacity-building power dynamics, it makes it hard to know if change, other than something cosmetic, will occur.

On the other hand, we also heard, “Sometimes the cosmetic change is or becomes real.” Take the same strategic planning example. A grantee may produce something that seems to be lacking vision and good strategic thinking, and then the funder finds out the process provoked internal thinking that really focuses the organization’s team on a common agenda.

Bottom line: The best way to try to get to real versus cosmetic change is by building trust with grantees. That means listening to grantee wants and needs, considering how and when to communicate any of your own wants and needs, and then showing grantees that you understand capacity-building decisions ultimately rest in their hands.

The casual remark. Sometimes even the most casual comment by a funder can be misinterpreted or taken out of context or acted on in a way that you would not have envisioned. Said one grantmaker, “I remember going on a site visit early on as a funder and I was talking to the grantee about strategic planning. I don't remember my exact words, but I said something that implied I thought the organization’s mission could be more focused on the community it serves. One week later I got a phone call that the organization had changed its mission. I'm not saying the organization didn't need to change it. I just think it should have changed it on the basis of something other than my off-handed comment on a site visit.”

Expert syndrome. As one interviewee said, while it’s okay to use your “expert” power, here’s some harmful subtext grantmakers can broadcast: “I am the expert and I will tell you this is how it works because I have a more global view as a grantmaker and you are just one grantee and you don’t have the big picture.” While there are times when grantmakers bring valuable expertise, whether it’s because they work with multiple organizations in issue areas or because they come to foundations with significant field-based expertise, consider when and how to most constructively assert that expertise in a way that’s useful to grantees.

**ACTION STEP**

Find ways to build power role-plays into new foundation staff orientations and all foundation staff retreats.

**DISCUSSION QUESTIONS:**

- What challenging power dynamics have you experienced with grantees when undertaking capacity building? How did you contribute to that dynamic? What did you learn or do you now do differently?
- What boundaries do you set around who is part of capacity-building conversations with grantees? Around who gets access to information collected about their capacity, including products from grants, like organizational assessments?
- Where on the “opt in” spectrum do you think you and your foundation fall? Do you always let grantees decide whether they want to undertake capacity building? Never? Or something in between?
- Can you think of a time when you made a casual remark to a grantee where the grantee acted on what you said?
- When, if ever, do you use “hard power” (i.e., decided yes or no) in your grantmaking? If you do, in which situations?
- Have you experienced grantees that fear your foundation is being too intrusive or controlling? Is trying to homogenize, Americanize, or NGO-ize them? What have you heard specifically?
- When have you tried to be an expert at something that perhaps you might not be?
- For nonprofit practitioners: what capacity-building power dynamics have you experienced with funders? Which have been most problematic? Any that a funder has navigated well?
When You Have to Stop and Address Grantee Capacity

For the most part, funders agreed that grantees need to drive capacity building. We heard, “If a grantee doesn't want it, don't force them to undertake it.”

But what about if you have a long-time grantee that's a critical player in a field you're trying to make change in, and you feel you cannot justify renewal funding without the organization addressing a capacity issue. For example, what if its governance or financial management practices are questionable, bordering on illegal? Or what if you fund an organization to conduct a self-assessment and it uses that to show “we're fine — we don't need help,” but you know there are very serious issues that must be addressed? What do you do if you can't renew without the organization's addressing issues of capacity?

1. Consider the alternatives. If you're struggling to justify the grant, you might step back and think about what happens if you make different choices. For example, what happens if you walk away? What do you expect to happen to the organization? What do other funders of the organization think, and what impact might your decision have on the organization's future viability? What does that mean for the field or movement this organization is part of? For your relationship with that grantee? For that grantee's relationship with other funders? While we also heard, “In certain circumstances, when there's a serious capacity-building issue, continuing to give money can perpetuate a grantee's belief that there's not really a problem,” make sure you've thought through the consequences of continuing or stopping funding. Of course if the grantee is breaking the law, the decision is clearer; however, these situations are usually less black and white.

2. Be specific and ask questions that help the organization come up with an answer that serves its mission and goals. Think about what specifically stands in the way of your ability to fund the organization and stay focused on that. Then start a conversation with the organizational leadership about that issue from a mission and goals perspective.

ROLE-PLAY SCENARIO: A grantee that you've funded several times approaches you for a grant to develop a five-year fundraising plan. Through the most recent due diligence process, you discover that the daughter of the board chair is a regularly and significantly paid fundraising consultant for this organization. You also find out that this information has never been properly reported in the organization's IRS Form 990 and that the organization's board doesn't have an adequate conflict of interest policy in place.

How would you start the conversation with the organization's leadership, making sure the executive director understands the seriousness of the issues at hand? What questions would you ask the grantee? How do you strike the right tone of being tough — because they risk losing their tax-exempt status if they don't fix this — while helping them build long-term capacity so these kinds of activities don't get repeated? Some talking points to consider for addressing the longer-term issues:

- Does your board understand the potential consequences to your organization if this doesn't get addressed?
- How can I support you as you engage your board on this issue?
- What approach might help build your capacity on fundraising and financial management, so that as you grow your organization, your financial practices can effectively support that growth?

3. Make a judgment call. It's not an accident that this section follows the power dynamics section. Not all grantmaking is smart to engage in, but if you have analyzed the possibilities through different lenses, factoring in your foundation's capacities and your own sensibilities, you're fairly well positioned to make the call. At the end of the day, grantmakers can say “yes” or “no” to funding. You do have that power, and also, that responsibility.
Assessing Impact: The Holy Grail

Even grantmakers with deep experience funding capacity building sigh when asked, “How do you know capacity building makes a difference?” Some say it’s harder than evaluating the impact of other types of foundation investments because it doesn't fall into a more traditional, issue-focused funding bucket. Others argue, “Impact assessment of foundation investments is hard, period.”

Whatever your opinion, know you’re not alone in thinking assessment of capacity-building impact is difficult. Not one person we spoke with claimed, “I've completely figured it out.” In fact, we heard, “It's the Holy Grail” from more than one funder.

Funders agree that being able to assess the value and impact of capacity building can help foundations and nonprofits focus future capacity building more wisely. The more foundations can demonstrate the difference their capacity-building funding makes, the more they can encourage greater investment within their own foundations and across the field. So what stands in the way of funders assessing grantee capacity building?

While articles exist on what good assessment methods looks like, more guidance from a process perspective might help. Consider the following advice from funder and nonprofit colleagues about what steps to take at different points in capacity-building grantmaking. Note that these steps help funders leverage in-house assessment capabilities, such as existing due diligence processes and communications practices. Outside evaluators can also be incredibly useful; however, this advice acknowledges the pragmatic reality that, more often than not, funders don’t bring them in.

BEFORE MAKING CAPACITY-BUILDING GRANTS
Define your capacity-building theory of change. Being able to identify the primary

THIS SECTION COVERS ASSESSMENT PRACTICES TO UNDERTAKE:

- Before making capacity-building grants
- Throughout your interaction with grantees
- When reporting out on grantee capacity building
“Assessment is the million-dollar question. There are so many factors that impact the success of any capacity-building project, from who implements the project, to the funding landscape, to who’s on the board, if organizational transitions are underway, etc. We can say that we contribute to success, but it’s hard to attribute success to our funding. Organizational or programmatic growth is impacted by so many more factors than a single capacity-building grant.”

— Anonymous funder

purpose of your capacity building and then translating that into a theory of change is key to assessment.

Most foundations lean in one of two directions: one where organizational effectiveness is the overarching aim, and the other that focuses on the end result of increased field, systems, or movement capacity.

Think about which direction the capacity-building efforts you want to assess lean. For example:

- If your foundation is aiming to eradicate homelessness, is building capacity — of nonprofits and beyond — a means to that end or the desired end itself?
- Or does your foundation view its work as driving change through the agency of others, primarily nonprofits, and consider boosting organizational and nonprofit sector-wide capacity the desired end?
- Or maybe within your foundation you have different theories depending on the different types of capacity that need to be built, from compliance-type capacities, like legal and financial regulatory requirements, to overall organizational development capacities, such as strategic planning and organizational assessment.

It’s optimal to first develop your capacity-building theory of change and then design different investment approaches that support it, such as for individual grants, capacity-building workshops, or peer learning networks. Starting with theory of change just makes evaluation that much easier. If you've already got capacity-building approaches in place, make sure you take time out to map these approaches to your theory of change before you embark on assessment. This will help you determine the appropriate evaluation frame and assessment methods to employ, which ensures your foundation’s resources are spent wisely. As one interviewee put it, “I think that assessment on the organizational level is important for a funder that's looking to improve the individual organization, but less valuable for funders who are looking at moving a field.” Don't waste time and money by skipping this important step.

Manage your foundation expectations — don’t expect grantees to demonstrate meta-impact for micro-investments. It’s great to have that overarching capacity-building theory of change so you can make sure you’re testing it. But we heard more than once, “Grantmakers need to be realistic about what their capacity-building money can do.” We also heard frustration about how funders sometimes expect grantees to demonstrate outcomes beyond what is realistic based on the scope, type, and funding level of individual grants. Grantmakers may want every investment to connect back to their theory of change, but, as one funder said, “that should be on the funder, not the grantee, to figure out.” That doesn’t mean funders can’t expect big things to happen. Sometimes small grants do yield big outcomes. We know important changes can result even with smaller capacity-building investments. Support grantees in setting reasonable goals and outcomes given the capacity to be built, and given what your foundation will support. For example, if you give a $25,000 one-year grant to fund a consultant that will work with a nonprofit association on a communications plan, recognize the process and potential time involved. It may take a year just to find the right consultant to get started, much less finish a plan. Making sure both you and the grantee are clear on the steps and have
outlined a realistic timeline for this capacity-building endeavor will help you set better grant goals and outcomes and determine a clearer evaluation approach.

**Consider the benefits and risks of using grant application and reporting processes to assess grantee capacity-building investments.** When we asked funders, “How do you assess what difference you’ve made on capacity building?” the most common answer was, “Through our grant application and reporting processes.”

It makes a lot of sense for foundations to ask due diligence questions or gather data before giving grants so that they can benchmark the level of capacity grantees have before they receive capacity-building funding. It’s also understandable that funders want grantees to explain in grant reports how their operational and programmatic capacity has evolved as a result of their grants. There are benefits to leveraging existing processes in this way, including that it can yield stories of impact, and help uncover grantee challenges that could be addressed more systematically as a cohort.

There are also risks to this approach, including burdening grantees with a lot of unnecessary paperwork, and pulling grantee time to answer questions or provide data that a funder doesn’t have the capacity to act on anyway.

For foundations multi-purposing application and reporting processes to assess grantee capacity building, answering the following questions internally may help you do so in the most constructive way:

- What’s the right balance of data that our foundation will use to assess capacity built versus paperwork we will never read? What data do we really need?
- Is our approach consistent with how we believe in engaging grantees on capacity building?
- How do we make sure we’re funding those most in need of our capacity-building support and not just those that can jump through our application hoops and write good reports?
- How do we get the information we need in a way that sends the right message to grantees and doesn’t unduly tax grantee capacity at the very moment we are trying to strengthen it?

**THROUGHOUT YOUR INTERACTION WITH GRANTEES**

Engage your grantees in the evaluation design and implementation. Many grantees feel cautious or hesitant when working with foundations on capacity building, which can color the funder-grantee interaction, especially when it comes to assessment.

One way foundations are addressing this is by engaging grantees more in the design and then implementation of capacity-building evaluation strategies. Melinda Fine, vice president at NEO Philanthropy, explained how its Four Freedoms Fund has quantitative metrics that were developed by the cohort of grantees it engaged on immigrant’s rights: “It’s been a very participatory and iterative process with the grantees to identify what we’re looking for in terms of organizational growth,” says Fine. “The metrics are transparent and the data is shared among members of a cohort so the groups are able to gauge their organizational progress relative to their peers. Making assessment a grantee-owned endeavor helps ensure that grantees themselves are learning about the change that is or is not happening from capacity-building support. This evaluation and learning then becomes part of the capacity building itself, rather than an onerous mandate forced upon them.”

Get creative and make choices based on what you and your grantees have capacity to evaluate. Whether you’re a one-person shop or a large foundation with staff all over the world, you may have grand designs on a meta-analysis of your capacity-building investments. You care about capacity building and want to demonstrate its value in a way that encourages greater foundation investment. But, at the end of the day, you probably have limited bandwidth and money to execute something too elaborate. Same with your grantees. That means you

**ACTION STEP**

Read Drowning in Paperwork, Distracted from Purpose, a report from the Grant Managers Network collaborative initiative Project Streamline. Suggest changes to your grantee capacity-building application and reporting processes based on the tips the report and this guide provide.
probably need to get creative and make choices about where to focus your grantee capacity-building assessment efforts.

Ways Some Funders Are Getting Creative With Assessment:

- **Check in on how well execution matches the planned implementation, and why difference occurred.** “We have organizations set clear goals, milestones and also create a capacity-building plan. We then measure based on how well the organization reaches those goals and how well they can execute on the plan. We look at how their assessment scores change over time.” — Anonymous funder from survey

- **Support grantee creation of an outcomes matrix and dashboard for internal use and external transparency.** Doug Bauer, executive director, explains how, over time, the Clark Foundation supported the development of assessment tools for an advocacy organization. LEARN MORE

- **Combine multiple methods when an outside evaluator is unaffordable.** “We’re looking at all of our trend data, and then doing some focus groups and one-on-one interviews,” says Joann Ricci, vice president of organizational effectiveness at the Greater New Orleans Foundation. LEARN MORE

- **Convene the capacity-building providers you have worked with and synthesize and aggregate their experiences and reflections.** “We’re doing this to construct a broader picture that’s across a network rather than one that just reflects what’s happening with individual organizations,” says Melinda Fine, vice president at NEO Philanthropy. LEARN MORE

- **Quantify capacity-building grants through an algorithm that examines grant objectives, results, and lessons learned.** “We’re also conducting a long-term impact interview process with a sample of about 20% of our Organizational Effectiveness grants one or two years after they close,” says Kathy Reich, director of organizational effectiveness grantmaking at the David and Lucile Packard Foundation. LEARN MORE

- **Use the balance sheet as an indicator.** “Capacity often equals money for nonprofits. Luckily there’s a financial statement that tells us what money/cash they have,” says Rick Moyers, vice president of programs and communications at the Meyer Foundation. LEARN MORE

**WHEN REPORTING OUT ON GRANTEE CAPACITY BUILDING**

Get better at telling grantee capacity-building stories. Storytelling is a powerful tool for assessing and publicly showing the value of capacity-building investments. Multiple funders shared, “We could do better at turning existing data — quantitative and qualitative — on capacity-building efforts into comprehensive stories that demonstrate why capacity building is an important investment for grantmakers to make.” As Albert Ruesga, president and CEO of the Greater New Orleans Foundation, put it, “We have folders full of stories like, ‘because of your board development workshop, and because I had a trustee attend this workshop, we are now reviewing board roles.’ Whatever it might be, the stories are legion.”

Foundations often have stories that just need to be better mined. Says Kathy Reich, “We have a grantee that received several million dollars in support from our population and reproductive health program. We’ve given it about $150,000 in Organizational Effectiveness program support over the years. But at a meeting of population funders in India, the CEO of this organization stood up and said that the money she received from Packard was more valuable to her than all of the programmatic grants, because it really enabled her to transform her organization.” Alone, this isn’t sufficient to say “this was a good investment,” but it is a part of a capacity-building grant’s story.

Indeed, storytelling is how qualitative data — everything from off-hand comments made in meetings to formal investigative
reporting — can be leveraged to show impact in an accessible, conversational form. It benefits the field because peers hear how capacity building has made a difference with your grantees, as well as where you may have experienced challenges. It can also become a way for grantees to reflect on their own capacity-building experiences through a method of assessment that may feel less imposed and intimidating than some other methods.

Communicate assessment findings to grantees and beyond. Foundation evaluation processes have a reputation for being conducted behind closed doors. When foundations make their grantee capacity-building results transparent, they inform practice and show impact. Sharing also helps grantees trust that the data is intended to support their learning and advancement.

Thinking about how you'll engage grantees throughout the assessment process, from the design to what happens with the findings once written, is an important first step. Because capacity building is about improving grantee effectiveness, it's important to clarify how you intend to use what you find from the assessment. What do you and the grantee expect to do with that information? How can you use it to inform foundation and grantee practice? How can you strengthen the possibilities for funder and grantee learning, especially from something that didn't work, so that neither the foundation nor grantee staff feel defensive?

Once you've figured out how to share capacity-building evaluation findings with grantees, you might also consider ways to coordinate with grantees and communicate findings publicly so that others can learn from your experiences.

Consult the literature on evaluating nonprofit capacity building. While interviews, focus groups, and funder-grantee survey responses served as primary sources for this guide, we also consulted existing capacity-building literature. Philanthropy's infrastructure organizations, like Grantmakers for Effective Organizations, Alliance for Nonprofit Management, TCC Group, Association of Charitable Foundations, and others, have long histories of compiling data, telling stories, and offering advice to funders about how to do capacity building more effectively. This includes producing articles and reports that offer advice, lessons learned, case studies, and methodological frameworks for approaching capacity-building evaluation. Interviewees pointed to several that they have found particularly useful, which we included in our IssueLab special collection. Read more on page 4 and browse the collection at fundingcapacity.issuelab.org.

DISCUSSION QUESTIONS:

- What is your foundation's capacity-building theory of change? Is it different for different grantmaking portfolios? For different foundation staff?
- What's one creative way you could assess grantee capacity building better?
- Is your application and reporting process your primary capacity-building assessment instrument? Is it striking the right balance of providing information that you use versus not being too burdensome on grantees?
- What are the ways you could engage grantees more in capacity-building assessment, from design to reporting out results? How could you make capacity-building assessment more of a learning experience for grantees?
- Can you think of one or two stories that inspire you to invest in capacity building? What is it about them that tells you your foundation made a difference?
- For nonprofit practitioners: What’s your capacity-building theory of change? What approach to capacity-building assessment do you think would yield the most useful information to your organization?

Some funders now ask grantees for their perceptions of the capacity-building supports their foundations provide. These foundations then publish this “customer satisfaction” data without attribution on their websites. For more information on how foundations are increasing transparency around their assessment activities, read this Oak Foundation case study.
These composite case studies are meant to provide an opportunity for readers to synthesize and reflect on topics discussed throughout this guide. We present two here: one to reflect on a decision made by a fellow grantmaker and another in which you decide the outcome.

Consider your own reactions, but also speak with others and see what you learn from those conversations. There’s no one way to approach the scenarios presented, so it can be useful to see what you might discover by hearing from different perspectives.

Add your thoughts in response to the discussion questions on our website.

SCENARIO 1: ANALYZE WHAT A FUNDER DID

The grantee's ask and funder's decision: A start-up nonprofit promoting economic justice for women and girls in Cambodia approached the XYZ Foundation with a $25,000 proposal to support the creation of a three-year strategic plan. The head of the women and girls portfolio at XYZ met with the nonprofit’s staff (at the encouragement of one of XYZ's board members) and decided to recommend the full $25,000 requested with two stipulations: 1) that the nonprofit hire a consultant of its own choosing, that the XYZ Foundation staff approves, to support its strategic planning process; and 2) that the two nonprofit leaders participate in the XYZ Foundation’s women and girls portfolio peer learning network.

Background on the nonprofit: The start-up nonprofit was founded a year and a half ago by two millennial women, one born and raised in Cambodia who just recently completed an MBA and the other a Cambodian American with four years nonprofit experience at a well-established women’s leadership organization in the U.S. The nonprofit has run an in-country program for the last year and a half and become known for its small business development program supporting entrepreneurship among young women in Cambodia. The organization’s current operating budget is about $80,000, funded by multi-year grants from USAID and several grants from internationally focused foundations (two foundations out of the U.S., one widely known private foundation and the other a small family foundation). This nonprofit’s board of directors includes five nonprofit leaders: three executive directors of U.S.-focused nonprofits serving Asian Americans and two NGO executive directors in Cambodia. These five bring a range of content expertise in community and economic development.

Background on the foundation’s capacity-building approach: The XYZ Foundation is an internationally focused private foundation that gives about $10 million in grants each year across three issue areas (women and girls, environment, and health) in the Global South. Its six program officers have given ad hoc capacity-building support to grantees, as requested by applicants, but staff are now trying to determine a more strategic organizational development approach across all of XYZ's grantmaking.
The XYZ Foundation usually gives capacity-building support to longstanding institutions that have already received program grants, but this request came in through one of XYZ's board members, who is a high school friend of one of the nonprofit's board members.

Discuss:

1. How might looking at this grant through different lenses help strengthen its impact? For example: Has the relationship groundwork been laid to candidly and frankly discuss capacity building with this grantee? What control issues might exist between grantmaker and grantee that could get in the way of the success of this capacity-building grant?

2. What kind of assessment is realistic and appropriate for this grant? What do you think a grantmaker in this situation and this grantee have the capacity to measure?

3. Overall, what's your sense of whether this request was right to fund? What are the variables that you think could most impact the success or failure of this grant? What advice would you give a colleague if he/she approached you with this scenario?

SCENARIO 2: YOUR TURN — WHAT WOULD YOU DO?

The ask: The executive director of a nonprofit that you have funded for several grantmaking cycles approaches you for $100,000 to hire a consultant to support its executive director transition.

Background on the nonprofit: This grantee is a U.S.-based national nonprofit support organization with offices in New York City, Los Angeles, Chicago, and Washington, DC. The organization, founded in 1987, has a $5 million operating budget and about 20 staff. While most funding comes from grants, about a third of its revenue is from its nonprofit consulting practice focused on strategic planning and board development. The executive director has run the organization for more than 10 years. Rumor has it he plans to retire in the next couple of years. Your grant support to this nonprofit has always been program based, but this time the executive director has come to you with this capacity-building request. The ED isn't exactly forthcoming about the timing of the transition. You also know the organization is going through a number of executive and board changes — a new COO and new board chair — while also having just completed a strategic planning process. You've seen the new strategic plan, and it appears almost identical to the last five-year plan. The consultant the executive director wants to hire works for the firm that conducted the strategic plan for his organization.

Discuss:

1. What experience do you bring with capacity building that can inform your decision-making process for this request? What capacity for capacity building exists within your foundation that you can draw on to help you?

2. How might issues of power be at play in this capacity-building grant? What could be done to address those? What power do you have in this situation to ensure that the grant produces real, not cosmetic, change?

3. Bottom line — would you fund this request? If so, as requested or how? With any conditions or no?
GRANTEE CAPACITY BUILDING — STAY CONNECTED

We covered a lot of terrain in this guide and in our related online-only content so that we could make it accessible to the broadest range of funders and nonprofits possible. We recognize that organizations have different bandwidths and interests in capacity building. Some staff have years of experience with capacity-building funding and others are just getting started. We hope funders and nonprofits alike feel some aspect of the advice, stories, discussion questions, and action steps helps your foundation improve its capacity-building practice.

As with all GrantCraft resources, this guide is intended to connect funders that care about improving their grantmaking practice. We invite you to share your own experiences and tools. If something here inspires a reaction or new idea, let us know. We look forward to hearing from you!

RECAP OF WHAT THIS GUIDE COVERS:

- Types of foundation-funded capacity-building investments
- Lenses to help focus grantee capacity building
- Your foundation’s capacity for capacity-building grantmaking
- Negotiating power dynamics
- Approaches to assessment
- Cross-cutting focus on building healthy funder-grantee relationships
CREDITS

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Doug Bauer
David Bley
John Cawley
Adriana Craciun
Masa Djordjevic
Beth Fernandez
Melinda Fine
Anne Gathumbi
Gregory Hall
Margaret Hempel
Jenny Hodgson
Jonathan Horowitz
Pi’ikea Miller
Maria Mottola

Rick Moyers
Lucia Nader
Robin Platts
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