

# The Balancing Act



## *I. The Role of a Community Foundation as a Grantmaker*



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MOTT FOUNDATION

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## Close to home ... close to the heart

Over the years, we have come to embrace a simple, but inherently human, concept of the charitable impulse: Philanthropy begins on Main Street. In other words, we believe that people support causes close to home and often close to the heart.

Through our grantmaking in our hometown, our state, our nation and in selected parts of the world, we've come to view community foundations as powerful — and empowering — vehicles to nurture individual giving and to foster community.

We have witnessed repeatedly the flexibility and creativity of community foundations and community-based philanthropy not only to channel financial resources to local charities, but also to establish partnerships, foster collaborations, nurture vitality and build endowment — all to benefit communities for the long-term.

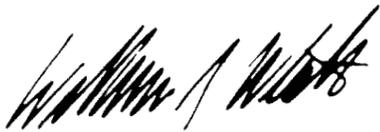
During the past 30 years, we have provided more than \$122 million in grant support to the community foundation movement around the globe. But our support has gone beyond grants. We also have underwritten the cost of technical assistance given by recognized experts to individual community foundations, as well as their networks and infrastructure organizations.

Our most recent technical assistance efforts have been largely undertaken by Dorothy “Dottie” Reynolds, whom we came to know and admire when she served as the CEO of the Community Foundation of Greater Flint (CFGF) from 1990 through 1997. Her energy, enthusiasm and knowledge were constantly on display in our hometown and played a big part in the growth of CFGF.

Since leaving that post, she has served as a consultant to our community foundation grantees. In this role, Dottie, who also worked for many years for the Columbus (Ohio) Foundation, has provided advice and assistance to community foundations and support organizations in a number of countries throughout Africa, Asia, Europe and North America.

Her expertise is in such demand that we decided we wanted to share her insights more broadly through a series of three monographs that explore the various roles a community foundation can play, including as a grantmaker, a vehicle for local philanthropy and a community leader.

We hope you find this series helpful and we welcome your comments.



William S. White  
President

# Preface



Simply put, a community foundation has three functions. It is a grantmaker. It is a vehicle for the philanthropy of individuals, corporations and organizations that have concern for a specific geographic area. It provides leadership in the community it serves as an effective, independent arena for addressing difficult issues and/or advocating for needed programs, services or policies.

Throughout most of the nearly 100-year history of the movement, community foundations have built endowments and used income from these funds to make grants to address changing community needs and opportunities. Building endowments is a slow process, and, although it still remains central to the development of most community foundations, more attention has been paid in recent years to raising funds for immediate use.

But, that gets us ahead of our story ... so let's begin with a short and simple summary of what is a long and fairly complicated narrative.

In the U.S., the history of the community foundation movement can be divided into three periods: 1) the era of the "dead donor," in which program officers recommended grants from unrestricted funds left to the foundations through estate plans (1914 until the late 1980s); 2) the era of the "living donor," in which donor-advised funds (funds that allow donors to recommend grants) dominated the field (late 1980s until the mid-2000s); and 3) the current era of "community foundation leadership," in which program officers, donors, foundation executives and their boards are forging solutions to community problems and developing strategies to take advantage of community opportunities.

The evolution of the movement outside the U.S dates to the late 1980s, and has followed a zigzag path. Many of these foundations started by playing a leadership role. Most have relied on re-granting funds secured from organized philanthropies external to their home locales. Endowment building has been spotty. Creating local donor bases has depended far more on combining the gifts of many individuals/families/groups, rather than relying on major gifts from the relatively affluent.

Nevertheless, this balancing act of being a grantmaker, a vehicle for local philanthropy and a leadership force within the community is widespread, no matter where the community foundation is located.

Over the past decade, I have had the rare privilege of working with community foundations in a number of settings, both in the U.S. and internationally. In the course of this work, I have found far more similarities than differences in the ways they operate, and I welcome this opportunity to tell the story of this balancing act through personal observations and case illustrations.

I should add that the opinions and observations presented in this monograph are mine alone, and may not reflect the views of the monograph publisher, the C.S. Mott Foundation.

**Dorothy Reynolds**

# The Role of a Grantmaker



Giving away money sounds like a lot of fun, particularly when it is someone else's money. This opportunity to provide financial resources to support local projects is one of the things that prospective board members find most appealing about community foundations.

The truth, however, is that grantmaking can be difficult. This is especially true in a community setting in which those making the tough decisions personally know the applicants. This is the main reason that the balance required for thoughtful, effective grantmaking is so hard to achieve and maintain.

Unlike most private foundations, where board or staff members can take a plane home or hang up a telephone after a meeting or conversation during which grants are awarded or denied, those associated with community foundations must live with their decisions every day.

Of course, this can be a great “feel-good” experience when encountering those associated with organizations that have received grants. But there is too little recognition of the fact that, if grantmaking is to be strategic, many applications – including some that are worthwhile – must be denied, therefore disappointing many people. And it's no fun to be in the grocery store checkout line and meet an agency director whose grant has been denied, or to attend a party and listen to complaints from a board member of an unsuccessful applicant organization.

Nevertheless, making hard choices to achieve effective grants is as much a part of good stewardship as prudent investment policies.

Let's face it: Almost everyone at a community foundation would rather make grants than raise funds. Asset development can be unappealing and difficult, if not pure torture. Who would not rather present a check than ask for one?

However, good grantmaking makes raising money much, much easier. A community foundation that can demonstrate its ability to award grants that make a real difference won't have a difficult time convincing potential donors that it is worthy of their trust and generosity.

Being an effective grantmaker requires thorough knowledge of the community the foundation serves – including needs as well as opportunities. A board that reflects the composition of its community is an important ingredient in good grantmaking, as is building a staff that is sensitive to community needs.

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## Start-up community foundations

In start-up community foundations, it is not at all uncommon for decisions to be based on criteria no more sophisticated than simply dividing the amount of money available by the number of requests received. In the short term, everyone is somewhat happy.

It can be argued that this approach is defensible as a way of establishing the reputation of the foundation. While this “sprinkling” of resources does not have much benefit or reflect much intentionality, it may not bother the staff and board of emerging community foundations.

However, as foundations grow and mature, most come to grips with the importance of assessing community needs and opportunities, deciding what niche they can best fill, and establishing priorities for their grantmaking.

## Grantmaker Associations

Grantmaker associations, such as the Community Foundation Network (CFN) in the United Kingdom or the Border Philanthropy Partnership in the U.S. and Mexico, can be enormously helpful to emerging community foundations. They have the capacity both to share their experiences and to provide arenas in which the experiences of other, more fully developed community foundations can be shared. They often can access grantmaking resources that might not otherwise be available.

For example, the Council of Michigan Foundations (CMF) secured and administered a multimillion-dollar challenge grant program to build the capacity of Michigan community foundations through the development of grantmaking endowments that were advised by youth.

CFN, an effective advocate in the United Kingdom, has obtained grantmaking funds from the government. And grantmaker associations in the state of Indiana and the nations of Poland and Russia have played similar roles.

These organizations have been critical to the development of the community foundation movement worldwide, and have enabled community foundations to develop more quickly and become more focused in their grantmaking sooner than they would have on their own.

### Involving young people

A worldwide movement is developing that may help ensure the future of effective grantmaking — involvement of young people as decisionmakers and, in some cases, fundraisers. The Youth in Philanthropy movement in the U.S. and the YouthBank programs that are emerging in Northern Ireland, Russia and Bosnia give rise to the hope that future generations will be sophisticated and effective grantmakers.

The Mozaik Community Foundation in Sarajevo, Bosnia, has teamed with the Community Foundation for Northern Ireland (CFNI) to scale up development of YouthBanks in that country. Mozaik has secured local support from five municipal governments for the local YouthBanks, and more than 50 young people are being trained as grantmakers. Prior to this project, CFNI worked with the Community Foundation Tuzla (also in Bosnia) to establish a successful YouthBank in that city.

Not only are young people becoming involved in philanthropy, but also they are far ahead of most of their elders in terms of their global interests. Exchanges between YouthBank in Russia and Northern Ireland have taken place, as have exchanges between the Youth Advisory Committee in Berks County, Pennsylvania, and Togliatti, Russia.

This is but the beginning of the international movement of youth in philanthropy and bodes well for its future.



## Age and location make big difference

Over the past century, community foundation development has been uneven, both in size and the kinds of assets held.

Older foundations – virtually all located in the U.S. – possess significant discretionary funds. Newer U.S. community foundations, particularly those that benefited from the economic surge of the 1990s or were established then, are predominantly comprised of donor-advised funds, which permit the donor or designated adviser to recommend grants to eligible recipients.

This is in sharp contrast with most other countries. With the exception of Canada (where they began soon after 1914), the community foundation was a little known vehicle for philanthropy internationally until the late 1980s.

Most community foundations outside the U.S. are not in communities where there has been much opportunity for residents to amass wealth. However, many have been successful in raising funds for discretionary grantmaking from government sources or from re-granting monies provided by corporations or private foundations.

That said, funding for grantmaking that comes from sources other than the local community is not entirely without its drawbacks.

One pitfall is the degree to which acceptance of the money results in the community foundation abandoning its grantmaking priorities. Often it can mean that the community foundations must dance to the tune of the donor, whether a private foundation or a unit of government. The observation that “he who has the gold makes the rules” can, indeed, come to pass.

Because grantmaking often is more appealing than raising money, community foundations may become distracted from fundraising. If they fail to raise local money, they can be at the mercy of the continuing generosity of government, private foundations or corporations. Ultimately, they may never secure funding that is truly discretionary and that will permit them to become self-sustaining.

Part of the reason for the uneven pace of U.S. community foundation development is the basic nature of the country, with a population drawn from many different cultures and traditions. Community foundations expansion has been somewhat erratic, depending on the region and the availability of philanthropic resources.

By contrast, most community foundation development outside the U.S. has been quite intentional. The movement has spread because private foundations or other organizations have been interested in supporting grantmaking vehicles that will sustain the nonprofit sector over time, which many believe to be essential to democracy.

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## Community foundation as grantmaker

Regardless of location, community foundations exhibit a broad range of grantmaking interests. Arts and culture, community development, education, environment, health services, and human services are all quite common. However, variations do exist.

### *Social justice*

The international movement displays a more intense focus on community development and social justice than is typical of U.S. foundations.

In recent years, social justice has emerged in U.S. foundations as a separate area of grantmaking interest. However, it should be noted that social justice concepts often are found in more traditional grantmaking approaches.

For example, in 2007, the San Francisco Foundation made 119 grants, totaling \$1.5 million, augmented by an additional \$93,000 from donor-advised funds, for the purpose of inspiring civic action and democratic participation.

In 2002, the Boston Foundation created the Civic Engagement Initiative, a nonpartisan effort to increase voter participation in Boston and Chelsea. This initiative has funded more than a dozen community-based organizations to increase voter registration and turnout to address issues such as affordable housing, quality public education, job creation and city services.

### **Working for peace**

Internationally, the Community Foundation for Northern Ireland (CFNI) has played an important role in the aftermath of the “Troubles,” and has been widely recognized for its activity in social justice.

One example is its funding of re-integration and peace-building projects developed by groups of politically motivated ex-prisoners from both Republican and Loyalist backgrounds. CFNI’s credibility enabled it to bring together representatives from both groups to discuss a wide range of issues, including how to engage in conflict transformation.

CFNI currently serves as secretariat for Foundations for Peace, a group of activist international foundations located in conflicted communities. As part of its peacemaking agenda, CFNI has provided seed money to Justice for the Forgotten, a group of victims and survivors of two bomb attacks in Northern Ireland. The grant was used to lobby for recognition of their needs and demands for information and support.

Other social justice grantmaking by CFNI includes work with youth and proactive support for development of work opportunities in communities that have been excluded or alienated through the impact of conflict or the result of discrimination.

### *Poverty alleviation*

A common theme heard in international circles is that the community foundation offers a means for reducing poverty. While this is a noble and worthwhile goal, it also should be recognized as a challenging one.



A community foundation may support programs that improve the quality of life or help individuals become more self-sufficient, healthier or better educated. And community foundations also can make a difference when they or their grantees leverage other resources, help establish new revenue streams or influence government policy.

But it should be noted that extravagant claims about community foundations and the degree to which they can alleviate poverty can be misleading.

#### *Education*

In the U.S., providing college scholarships has become a major interest for many community foundations, especially as the cost of higher education has soared and government support has diminished.

But in some countries where the state pays for higher education, using grantmaking funds for scholarships is less common.

#### *Arts and culture*

Critics of U.S. community foundations are quick to point out that a good deal of grants supports elite organizations (such as symphony orchestras, art museums, ballet troupes and the like). This attention to the arts is further exaggerated by the significant level of donor-advised funds designated for this purpose.

In reality, U.S. arts and cultural organizations depend largely on support from the private sector, a condition unknown in many parts of the world where arts and culture receive high levels of governmental support.

#### *General purpose grants*

While community foundations characterize themselves as a means to sustain the health of the nonprofit sector, few actually award grants for operating purposes and/or make grants year after year to support an organization's basic operations.

The common wisdom is that philanthropic dollars are scarce and should be used as venture capital in a community, rather than for ongoing support. I have made this argument myself and believe it to be true, at least to a certain extent.

On the other hand, I know the philanthropic sector has done a good deal of mischief over the years by supporting small, single-issue organizations that cannot find sponsors for the long haul. Sometimes this may appear to be an easier way of dealing with that issue than by insisting that the mainstream nonprofit community accommodate widely diverse causes and populations. This latter approach may seem too heavy-handed to some, but it is something to think about.

Emerging community foundations across the globe often fret about their meager resources and long for the day when they can make grants that really make a difference. What is really important is for the community foundation to look at itself realistically and determine what niche, at its current level of development, it can fill in improving the lives of the people in the area it serves.

Making a difference is, however, a matter for interpretation.

Whether the foundation provides funding for streetlights or statues, or refurbishes a community center, its role is important because the decision to undertake the project came from the community; in many cases, so did the money. There is almost nothing as empowering.

## Some obstacles

Community foundations do not operate in vacuums and can be affected by legal constraints and local conventions.

For example, in some countries, such as Mexico, the laws governing registration for nonprofits are so stringent that many community foundations find themselves with few eligible grantees. So they tend to operate projects themselves.

In the U.S., many community foundations are so concerned about federal restrictions against lobbying and political activity that they forego anything that even faintly resembles advocacy.

The degree to which a grant application can fall outside acceptable norms for the community can be another obstacle. Each community foundation needs to weigh the implications of individual grant decisions as they relate to community norms.

Because community foundations depend on financial support from their local communities, they tend to be no more progressive or conservative than the people and areas they serve.

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## Summing it up

In my experience, community foundations across the globe do not differ substantially in their goal to improve the lives of the people in their communities. Some of the techniques are different, to be sure, but the hoped-for results are very much the same.

This flexible tool – the community foundation – is proving worthwhile no matter where it is employed.

A community foundation grant can provide an imprimatur for a project, ensuring additional support. Thus, the role the foundation plays as a vehicle for local philanthropy is a critical empowerment tool for the entire community.

Furthermore, the foundation's board and staff should not be deterred by a lack of money. Rather than lament about its modest resources and forego an examination of a legitimate proposal, the foundation needs to decide what niche it can fill in helping the program be successful.



The community foundation's main virtue as a grantmaker may be the process, not the product. Ordinary people, using resources generated by other ordinary people, make decisions about the uses to which those resources are put.

People on the ground are able to shape that ground a bit.

In a world of bureaucracies, rules and regulations, this is comforting and affords people a modest sense of control over their lives. What more can one ask?

Limited copies of this monograph (and the others in the series) are available through the Charles Stewart Mott Foundation's Web site ([Mott.org](http://Mott.org)). Each monograph also can be downloaded from the Web site.



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