



# Core grants: the long and winding road to transformative funding

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## 1. INTRODUCTION

There is a paradox with core grants. Many donors testify to the greater effectiveness of such funding (i.e. highly flexible grants to be used as the recipient decides). But this rhetoric is not matched with the marked shift in practice across the sector that such appreciation would suggest.

In fact, this is not a new debate. Core grants have been around for at least 50 years. There has been a growing literature highlighting its advantages over much of that time. Individual donors have diverted more of their funding towards this modality.

But this is not reflected across the sector and overall percentages of funding used for core grants has increased only slightly in recent years. Some donors have even moved away from core grants to more tightly defined funding.

This paper explores what is meant by core funding, how they are used and what are their potential advantages. It then goes on to examine their potential disadvantages, which goes some way to explaining the lack of wider adoption. It then describes and analyses practices in core funding: selection and proposal development, the thorny issue of measuring their impact and lessons learned in how to apply them. Finally, it looks at the issue from the recipient perspective - how to extract the most benefit from this most sought-after of funding types.

The conclusion is clear: core grants – if properly employed – can be transformative. They can enable both donors and recipients to achieve their objectives more effectively. But this requires courage to take risks, accept reduced control, take a broader view of measuring impact and being honest about (and mitigating) the potential downsides.

### Box 1: About this paper

This paper is a product of research on core grants commissioned by the [Laudes Foundation](#). This is a topic that has been rising up the agenda, as Laudes Foundation has increasingly been using this funding mechanism. Laudes Foundation wished to learn lessons from the provision of core grants in the wider sector – to complement reflections on its own experiences.

The research involved a literature review (see **Annex A**) and interviews with donors, recipients and observers of the sector, as well as the author's own experiences with core grants, both as a practitioner and a consultant. A list of abbreviations used can be found in **Annex B**.

## 2. DEFINITIONS AND OBJECTIVES

### 2.1 Definitions and types of grants

The terminology around this question can be confusing due to the array of terms used by different actors, sometimes with the same words given different meanings. This paper is framed in terms of ‘core grants’, but other donors refer to general operating support, framework agreements, strategic investments, investment funds and central support.

But essentially we discussing donor grants with a high degree of flexibility, which can be used to cover organisational development work and the administrative running costs of the organisation, as well as programmatic work.

Core grants are often discussed in comparison to project funding, which tends to be the traditional starting point for many donors. A simple framework is as follows:

*Table 1 – Definitions of different forms of grant*

<b>1. Project Grants</b>	To cover a clearly defined set of activities and outcomes with a linked budget.
<b>2. Organisational Development (OD) Grants</b>	To develop agreed aspects of a grantee’s own development (e.g. strengthening leadership or financial management systems).
<b>3. General Operating Support (unrestricted funding)</b>	To be used flexibly as determined by the grantee according to its mission <sup>1</sup> .

Both ‘OD Grants’ and ‘General Operating Support’ are forms of ‘Core Grants’ according to this framework.

In practice, there are often variations and combinations of the above. For example, some donors give Programme Grants, which include a number of projects within an overall framework. Sometimes donors will combine Project Grants with Organisational Development Grants – to strengthen the organisation as well as support its external work. Or they may provide General Operating Support, but also add Organisational Development Grants if they feel that a particular aspect needs strengthening (e.g. monitoring and evaluation). Confusingly, any of these combinations may be called ‘Programme Grants’.

Another variation is the degree of restriction that applies in practice with respect to ‘General Operating Support’. Some may be literally unrestricted – the grantee can use the funds however it deems fit to achieve its mission. Others (more usually called Framework Agreements or Strategic Grants) will be governed by a Theory of Change, Logframe and/or an agreed Results Framework. There is freedom to make choices within this, but the key parameters will have been determined in advance (e.g. that work must contribute to disaster risk reduction).

<sup>1</sup> General operating support will also be in line with the donor’s own mission. However, there is considerable variation in how sharply defined such donor missions are, with some being quite broad (e.g. a bilateral supporting any work that leads towards the Sustainable Development Goals) to more specific (e.g. a foundation with a specific conservation focus).

It is also possible to make further sub-categories. For example, within General Operating Support, at the far end of the spectrum are endowments, whereby a donor pays into a fund for the grantee that is invested and yields an annual income (typically 3-4% of the endowment) to cover core costs. This 'pay forever' option represents the ultimate mark of trust in a grantee and is quite uncommon. Such endowments might be in the form of money, or else a donor might help purchase an office building. This reduces the rent they must pay and sometimes includes additional space that can be rented out to provide an income. Open Society, for example, has provided for some of its 'spun-off' partner organisations and this has been common within the Red Cross/Red Crescent and YMCA/YWCA movements.

### *Core costs*

Central to the question of definition is the issue of core costs. The Red Cross defines these as 'costs required to establish and maintain the minimum structure of an organisation and fulfil its statutory requirements' (IFRC, 2011). They are sometimes called 'overheads' or 'indirect costs' and include salaries, rent, utilities, transport, audits and so on. Project Grants usually (but not invariably) include an allowable percentage for such costs over and above the agreed direct projects costs – typically ranging from 6-15%. However, it is frequently the case that actual overhead costs are significantly higher than this. In 2016 the Ford Foundation doubled its overhead rate to 20%, 'to encourage more honest dialogue about the actual operating costs of non-profit organisations' (Eckhardt-Queenan et al, 2016). Part of the rationale for moving to Core Operating Support is a recognition that core costs for project funding are often far greater than donors usually allow.

### *Progression in granting*

While different donors have developed in different ways, there is often a progression from more specific project funding to exploring other options. In other words, core grants have developed in recognition of the drawbacks of Project Grants. As the Ford Foundation put it, 'we had to shed the magical thinking that important change can happen quickly – advanced by relatively small, short terms grants' (Pennington, 2012).

## 2.2 Objectives of core grants

There are a wide range of objectives of Core Grants mentioned by different donors, but the most frequently cited are:

- (i) **To 'keep the lights on'.** Sometimes organisations struggle to continue in view of the above-mentioned issues around core costs. Or, they may be able to survive, but have to devote most of their energy just to keeping themselves going. A core grant can relieve these pressures and enable them to use their efforts more productively. From the secure platform a core grant provides, they are then able to achieve their missions more effectively.
- (ii) **To allow grantees to define how best to achieve their missions.** This recognises that Project Grants can be too prescriptive (through donor application guidelines etc.) and too rigid. According to this view, better long-term results can be achieved if grantees (within broad parameters) can make the key decisions themselves, and adapt in the light of changing circumstances.
- (iii) **To support a strong, independent civil society that contributes to democracy, human rights and pro-poor development.** This acknowledges that the best impact can be achieved not just by supporting project activities, but also requires strong organisations

to implement them. This is often linked to the issue of sustainability – what happens after the donor funding ceases.

- (iv) **To help organisations make a step change.** This is a more specific usage of core grants depending on an organisation’s particular stage of development. At the right moment, a core grant can help an organisation get ‘to the next level’, perhaps in terms of innovation, scaling up or developing the necessary systems to manage its growth.
- (v) **To change the nature of the donor-grantee relationship.** The stability and commitment provided by a long-term core grant underlines trust and can transform the nature of the interaction between both parties.

## 3. CORE GRANTS IN PRACTICE

### 3.1 Donors and grantees

There are three broad categories of donors who provide core grants:

- (i) **Government donors** such as the UK’s Foreign, Commonwealth and Development Office (FCDO, formerly DFID) or the Dutch Ministry of Foreign Affairs (MFA). These are usually for civil society organisations (CSOs) working on development, humanitarian and human rights work. Some of these donors have provided such grants for more than 50 years (albeit with some changes). The money comes from taxation, so reporting, while immediately to government departments (e.g. Danida), is ultimately to politicians – Ministers and Parliamentary Committees, with the public at large also having a stake.
- (ii) **Trusts and foundations** such as the Laudes Foundation or the Ford Foundation. These support a range of actors, including CSOs, but are more likely to include support also for other actors, such as private sector companies and social enterprises. The resources for trusts and foundations usually come from the private sector. Foundations have their own governance arrangements, often including members of the family, as well as other appointees.
- (iii) **Fundraising bodies from the public** such as the People’s Postcode Lottery (PPL) or Comic Relief. These will usually support CSOs both domestically and internationally. Their income comes from public fundraising events (e.g. telethons) or lotteries, involving the mass media. This means that the ‘cause’ is promoted with and reported back to the public.<sup>2</sup>

The nature of these different funders (and the origins of their income) shapes the ways in which they are able to operate – particularly in terms of accountability and attitudes to risk.

### 3.2 Core grants in practice

There are a range of types of core grant, with varying degrees of restriction. Their characteristics include the following:

**Duration:** Core grants range from 1-5 years in their timeframes. Some donors state they would prefer multi-year arrangements, but are constrained by their financial systems, which dictate that expenditure is counted for the whole period at the point of signing. One donor has

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<sup>2</sup> It is interesting to note that while INGOs always appreciate core grants for themselves, it is much rarer for them to grant them onwards to their own partners in the Global South. While there are more flexible arrangements in evidence, generally these are within a project or programme framework.

reported changing its financial system to registering expenditure for each year of the grant to circumvent this problem. Some donors feel that their own income base only allows one-year grants in terms of risk management. For those giving multi-year grants, 3 years is the most common duration.

**Size:** This research has identified core grants ranging from €5,000 to €100 million. The most common amount for foundations lies between €50-500,000 per year. Only the biggest donors (e.g. bilateral donors funding their major INGOs and the very largest global foundations) go much beyond this. Donors giving very small grants tend to be quite small themselves, as the transaction cost of managing a large number of small grants is comparatively high.

**Resource allocation:** Some guarantee the full amount at the outset and this seems the most common arrangement. Others guarantee a minimum amount (e.g. 50%) and the remainder is allocated based on performance. With Swedish International Development Cooperation (SIDA), if performance issues are identified, then grantees are given a year to resolve them. Some donors commit to multi-year funding in principle, but only confirm it annually when their own available resources are clear.

**Co-financing:** Some donors require co-financing from other sources (from 10-66%). These other sources, in some instances, need to include fundraising from the public, rather than solely other institutional donors. The rationale for this is to reduce dependency and promote the longer-term sustainability on the part of grantees. Where this stipulation does apply, the most common range is 20-50% income required from other sources.

### 3.3 Trends with core grants

Core grants have existed for more than 50 years. For example, the UK Government's Block Grant Scheme implemented through the Overseas Development Administration (as it then was), started in the 1960s. They have expanded, contracted and adapted since that time. In recent years, while individual donors plot their own paths, core grants have developed somewhat differently according to the type of donor.

#### *Governmental Donors*

Governments have been amongst the longest users of core grants, particularly to their largest, most trusted INGOs. One reason was simply transactional: for their CSO funding schemes, if the largest INGOs submit multiple project applications, then it is hard to manage. So the bigger organisations were given flexible funds, while smaller ones had to compete against each other for project grants from an overall fund. In due course, some organisations complained that this was unfair and such schemes sometimes expanded to include other organisations (the next largest) to address this and/or used umbrella bodies to reach smaller organisations. There were also efforts to diversify the pool by supporting more niche organisations (e.g. focussing explicitly on clean water or disability) to fill perceived gaps in their overall portfolio. They also opened up to new entrants such as academic institutions and the private sector.

In recent years, the Netherlands and the United Kingdom have moved away from core grants to individual CSOs. Instead, they encourage consortia to form around specific themes, such as amplifying the voice of youth or addressing HIV and AIDS. The funds themselves have sometimes become more sharply defined in nature, such as the Dutch Government's 'Dialogue and Dissent' line to support advocacy work (Coventry, 2017).

There has been greater emphasis on the part of governmental donors to minimise their own risk while requiring more accountability from grantees. This follows some well-publicised scandals about the misuse of funds and revelations about wastage and high levels of staff remuneration.

Donors have increasingly required Theories of Change (ToCs) with linked results frameworks. The Irish Government, in moving from the Multi Annual Programme Scheme (MAPS) to Programme Grants, now requires more specific results frameworks, and have been less willing to support overall organisational strategies in an open-ended way. They tend to want reports more at the outcome level, while recognising that aggregating data is complex.

### *Trusts and Foundations*

Conversely, a number of trusts and foundations are moving more towards using core grants (or at least considering them), although it is hard to generalise across the board.

Oak Foundation has shifted from 22% core grants in 2013, to 36% core grants in 2019. The Packard Foundation has similarly increased to 30-40% core grants, while the David and Elaine Potter Foundation has moved further increasing from 40% to 70% core grants in 2019. With the Ford Foundation, previously 95% of grants were project support, but it is now dedicating nearly half of its grantmaking to larger, flexible, longer-term grants through its BUILD initiative (Cheney, 2019). Of the donors interviewed for this paper, all were intending to maintain or increase their level of core funding.

But apart from these individual examples, the wider picture is more mixed. Overall, 20-25% of all foundations' giving was in the form of core grants in 2018 according to the Centre for Effective Philanthropy (Synergos, 2018). This is in line with other estimates, which show small increases over the past decade (an additional 5% of funding for core grants), but without fundamental shifts across the whole donor sector (TCC Group, undated, Woodwell, 2007).

It is noticeable that, when giving to large organisations (with budgets of several hundred million dollars working in multiple sectors and countries), donors tend to prefer project funding. For example, one donor interviewed funds the World Wide Fund for Nature (WWF), but feels a core grant would be lost amidst WWF's total budget, and it is more interested to support its climate change (rather than its wildlife) work.

While there are definite indications of movement towards more core grants, progress has not been uniformly substantial. There has been a great deal of rhetoric and much written about why core grants are more effective (e.g. Cairns, B, Mills, C and Ridley, S, 2013). But many funders and boards nevertheless remain cautious about allocating more resources to core grants, due to the loss of control and the difficulty of measuring and attributing impact. At the higher level, boards and senior management can be concerned about legacy - being able to identify what they have funded and attribute impact to their own support. At lower levels, programme staff can be worried about accountability - being able to monitor how funds have been used and whether outputs have been achieved. Another possible reason for limited progress towards core grants is that some foundations have defined what they want to achieve more sharply and seek to achieve this through more directive funding. A key difference with government donors is that trusts and foundations do not face the same political pressures to show results in a transparent manner. Their resources largely come from businesses and wealthy individuals/families (rather than the taxpayer) and upwards accountability flows to boards, who have more latitude in terms of the risk and demonstrable



results they are prepared to accept. Trusts and foundations generally do not have to deal with the same level of media scrutiny as government funds and hence can afford to be less transparent. The question then is how those boards (and senior management) of trusts and foundations are willing to use their greater freedom to manoeuvre.

### *Fundraising Bodies from the Public*

These have some characteristics of both trusts/foundations and trusts/foundations. They are independent bodies, so can make their own decisions (within regulatory frameworks). But as their income derives from public donations (or participation in lotteries), there is some level of public interest and scrutiny about how their funds are utilised. However, they do not necessarily have to satisfy the same level of bureaucratic overview, feeding into political decision making that affects government funds. People's Postcode Lottery is an example where unrestricted funding over a long-term basis has formed the core of their funding relationships. Comic Relief is another, which emphasises organisations that can demonstrate their readiness to undertake 'step changes' in terms of programmatic and organisational shifts (Sluijs-Doyle, J and Middleton-Lee, S, 2012).

#### **Box 2 – Trust Based Philanthropy**

A concept gaining increasing traction in trusts and foundations is that of 'trust-based philanthropy'. The Oak Foundation definition of this is 'the idea that philanthropy will be more successful, rewarding and effective if we approach our grantee and staff relationships from a lens of trust, equity, humility and transparency' (Oak Foundation, undated).

Ways to do this, Oak Foundation suggests, include providing multi-year, highly flexible unrestricted funding, simplifying and streamlining processes, soliciting and acting on feedback, being transparent and responsive and offering support 'beyond the check'.

In the same vein, the report, Funding from a Place of Trust (Synergos, 2020) sees general operating support (core grants) as a form of 'trust capital' between donors and grantees. A trust-based relationship, it argues, yields both tangible changes (e.g. strengthened staff capacity, improved financial management) and intangible shifts (e.g. from uncertainty to confidence, from a deficit to a growth mindset, from a power differential to a more equal partnership).

## 4. ADVANTAGES OF CORE GRANTS

This section covers the advantages of core grants, culled from the range of documents and interviews mentioned in the annexes. This can be seen as an extension and elaboration of the objectives mentioned earlier. Not all these advantages apply in every context. As such, they can be seen as *potential* advantages.

Table 2 – Advantages of Core Grants

Advantage	Comment
<b>1. Provides stability:</b> reduces the risks and uncertainties facing organisations by guaranteeing their core costs can be covered.	This particularly applies to small, emerging organisations. Vulnerability often comes from cash flow problems, which core grants can ameliorate. Many charities would trade restricted funding for a smaller amount of unrestricted funding (Wallace & Saxton, 2018).
<b>2. Enables longer term planning:</b> linked to the above, if an organisation is more stable, it can reflect, vision and strategise.	Multi-year core grants provide a solid platform from which to develop ambitious and achievable plans, while being less vulnerable to fluctuating donor priorities.
<b>3. Innovation:</b> enables grantees to take risks and try new ideas without having to guarantee specific results.	Can stimulate investment in new areas, researching and developing new solutions, which can then be scaled up.
<b>4. Flexibility:</b> resources allocation can be adjusted in real time.	This particularly applies in rapidly changing circumstances such as advocacy work in an evolving political environment.
<b>5. Support the hard to reach:</b> can fund work where donor interest is currently lacking.	One organisation mentioned setting up a new programme in Central African Republic, which otherwise would have been difficult.
<b>6. Cost effective:</b> this is sometimes mentioned by donors in reducing the time needed to follow up on multiple, detailed projects.	Potentially management time can be freed up by having one large grant. This can be reallocated to different ways of engaging.
<b>7. Supports organisational development:</b> goes beyond project funding and helps strengthen the organisation itself, including systems.	This is very frequently mentioned about grantees as something they most want, but often do not get from project grants (Keystone Performance Surveys, 2011).

<p><b>8. Leverage:</b> core grants can be used to obtain the support of other donors.</p>	<p>The potential benefits are: 1) in terms of the seal of approval a core grant implies; 2) the ability to invest in fundraising capacity; and 3) the ability to cross subsidise the core costs that project grants will not cover.</p>
<p><b>9. Enables organisations to make step changes:</b> core grants can facilitate a comprehensive paradigm shift.</p>	<p>One grantee mentioned a transformation to a much stronger learning focus, which would have been hard to achieve otherwise.</p>
<p><b>10. Changes the nature of the donor-grantee relationship:</b> it can reduce power imbalances and create a more equal relationship, focused on a broader range of issues.</p>	<p>If the focus is less on project management, then communication can improve, with open conversations and mutual consulting. But this depends on the donor capacity to engage.</p>
<p><b>11. Reduces administrative burdens:</b> core grants tend to require less detailed compliance documentation than projects.</p>	<p>This of course depends on the particular donor, but there is a clear advantage to reducing the burdensome detail required in project reports, that often 'no one reads anyway'.</p>
<p><b>12. Gives emotional as well as practical support:</b> the endorsement conferred by core grants can raise organisational morale.</p>	<p>This is particularly important for recently established organisations, where a core grant instils confidence that they are on the right track and are recognised.</p>
<p><b>13. Encourages collaboration between grantees:</b> competition can create suspicion and distance.</p>	<p>The security provided by core grants feel freer to share with each other openly. With DFID's PPAs, the 'learning partnerships' were rated as one of the best aspects (ICAI, 2013).</p>

There are two distinct philosophies to core grants: the first seeks a step change to an organisation at a particular stage of its development and is time bound; the second provides open-ended support without an end point, if strategies align and grantees continue to be effective. This is explored more in Section 8. From the grantee perspective, the value of unrestricted as compared to restricted (project) funding can be considerable. According to research carried out by nfp Synergy with 300 respondents (Wallace and Saxton, 2018), if given a choice, many grantees would ‘trade down’ restricted grants to smaller amounts of unrestricted funding – from £1 million to £460,000 on average. The smaller the charity (on average), the more this holds true. The following shows how this can work.

### Box 3 - War Child UK (WCUK)

This London-based charity has seen considerable income growth in recent years, which it links to the arrival of core grants at key moments in its development.

Its argument is that if it receives a £50,000 restricted grant, this will go straight to project work on the ground in Year 1, and then be finished. But if it is a core grant, it will be divided according to WCUK’s unrestricted allocation model, with a percentage for project work, but also percentages for investment in unrestricted fundraising, restricted fundraising, advocacy and HQ support. Over three years, these investments will result in an additional £200,000 for project work. This extra income is not all from the original donor, but without the original donor, it would not have happened. Therefore, it would ‘trade down’ a restricted project grant to 80% of its value if it was unrestricted and lasting for one year, and to 25% of its value if it was unrestricted and for three years’ duration. Of course, this depends on a market where other funds are available that were not being previously exploited and this will not apply in every case. But the experience of making this work shows the remarkable added effects core grants can have in the right circumstances.

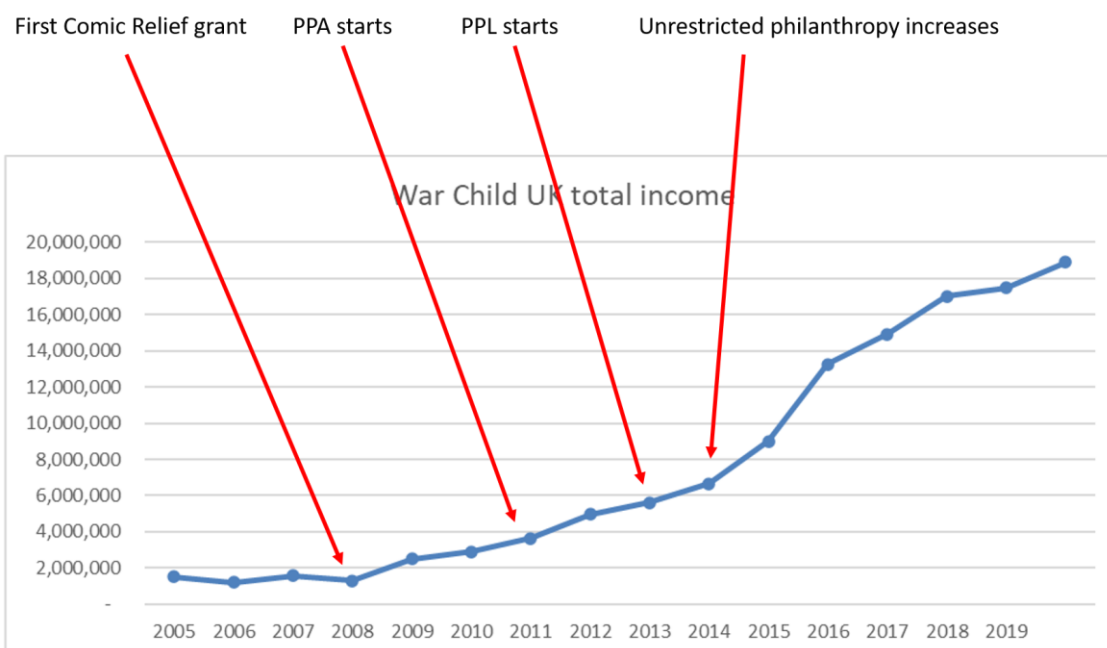


Figure 2 War Child UK income

## 5. DISADVANTAGES OF CORE GRANTS

Core grants are not always seen as entirely beneficial. Comprehending the down side is important for understanding why they are not more frequently adopted. The main potential disadvantages from the literature and interviews are shown below.

*Table 3 – Disadvantages of Core Grants*

<p><b>1. Difficulty of measurement and attribution:</b> without the specific outcomes of a project, it is harder to assess and attribute impact in a precise, aggregated and robust way.</p>	<p>This is the most commonly cited disadvantage, and a reason why more donors have not adopted core grants. Discussed more below.</p>
<p><b>2. Loss of control:</b> donors may feel that in passing the initiative to the grantee, they are losing their own influence.</p>	<p>From the donor perspective, it is no longer able to agree the precise terms of the grant and influence what happens.</p>
<p><b>3. Mission creep:</b> linked to the loss of control, the grantee may then go in unforeseen directions outside the donor's own priorities.</p>	<p>One example given was how grantees supported to do advocacy felt that, to be legitimate, they needed to provide practical health and material support in response to COVID-19.</p>
<p><b>4. Larger risk:</b> without the control of an agreed workplan and budget, there is a greater chance that funds might be 'misused'.</p>	<p>From the donor perspective, it can be seen that there is less guarantee that appropriate activities are undertaken and results achieved.</p>
<p><b>5. Too much spent on the internal organisation:</b> without the discipline of agreed programme work and clear budgets, then 'necessary systems development' can be overemphasised at expense of impact.</p>	<p>One example was an international meeting of grantee administrative staff from different continents to learn about the organisational filing system, funded by a core grant.</p>
<p><b>6. Creates complacency:</b> grantees might become over-secure and lack drive and innovation.</p>	<p>This particularly applies over a long period of time, when the organisation becomes too 'comfortable' and use the core grant primarily to maintain themselves. One grantee reflected how country programmes disregarded the need to develop clear proposals and reporting due to too much flexible income.</p>
<p><b>7. Dependency:</b> the grantees might come to rely too much on the donor. It can disincentivise the need to generate income from other sources.</p>	<p>This is a particular concern if the donor is the sole or main source of financial support.</p>
<p><b>8. Creates conflict:</b> if a grantee is not mature and working coherently, then flexible funding can lead to divisions.</p>	<p>Different interest groups compete for the resources, resulting in internal conflict unless it is properly managed.</p>

Not all of these apply in every instance. However, there is concrete evidence that all of them apply in at least some circumstances. They are mostly disadvantages from the perspective of donors. By and large, grantees are very happy with the idea of core grants – they are seen as the most desirable form of income (although more critical internal observers recognise that they are not always used optimally).

One donor response is to determine how these potential disadvantages can be eliminated or at least mitigated. But for some of them at least, it may be more a question of donors accepting that to achieve better longer-term results (as proponents of core grants would claim), they need to give up their need to be in control – embracing the additional risk that this might entail.

## 6. SELECTION AND PROPOSAL DEVELOPMENT

Some donors make open calls, while others approach organisations they know by invitation. There is a fundamental difference here between government donors on the one hand and trusts and foundations on the other. Government donors tend to have an obligation to demonstrate open and transparent processes, so that they cannot be accused of bias. One benefit of this (it is argued) is that this leads to a more diverse portfolio. Trusts and foundations, with their different lines of accountability are not under the same constraints, and core grants tend to be more ‘by invitation’.

Some donor staff describe the process of working towards a core grant in terms of building a relationship between people. In other words, after the initial meeting, there are progressively more intensive arrangements and due diligence leading up to a core grant, which is compared to a marriage. Such a pathway provides more equality and flexibility in the relationship as trust is built.

Core grants are usually one part of a suite of donor interventions. A decision-making tree can help choose between these. Some of the decisions are straight yes/no questions, such as whether there is the strategic fit between the donor and the grantee or adequate systems are in place. Others are more judgements on the suitability of the grantee. Some key points from the literature and interviews are summarised in **box 4** below.

Proposals vary with some wanting clear intervention logic and results frameworks (this applies increasingly to government donors), while others prefer to leave it more open. In the latter category, some argue that requiring too much specificity from a grantee undermines the rationale and benefits of a core grant.

A number of donors simply take the grantee’s strategy, since they are funding the whole organisation. Essentially the question is: what are you trying to achieve in the short and long term?

The Ford Foundation want to see some examples of activities that *may* happen – but grantees are not held to this. Another view which synthesises the two approaches sees core grants as being restricted, but against a plan which is continuously flexible. PPL asks for grantees to indicate how they will use their core grants out of their full range of work, but are open to those plans being changed.

For budgets, they comprise just one line – the total amount requested for the purest forms of core grants. With more detail than this, they become more qualified forms of funding.

#### Box 4 - What to Look for in Assessing Organisations for Core Grants

- **Clarity about mission.** However, according to one source, 'Too often, grantmakers choose a grantee based on the objectives and aims of the activities carried out (i.e. alignment of mission with little regard to the approach adopted' (TCC Group, undated). In other words, the suitability of the approach is as important as the mission.
- **Motivation of grantee.** With the greater degree of trust implied by a core grant, it is essential that the leadership and wider organisation are seen as fully committed to its mission. This is one of the hardest things to assess and measure – it is more of a feeling.
- **How core funding will address key gaps (or facilitate new opportunities) for the organisation.** This particularly applies to donors who want to see grantees progress on a journey towards greater effectiveness. This is linked to:
- **Timing – the organisation is ready to go up a gear.** This means identifying the 'right' level of maturity. Some work more with established, trusted agencies. Others prefer those that have just emerged from the early stage with a real sense of purpose and ambition, but need investment in their organisational strategy to go up a gear.
- **Strong leadership.** This is probably the most emphasised element that comes up in the interviews and literature. Sometimes, the focus is on a particular individual – the CEO, who has a clear vision which they need broad support to achieve. But others emphasize the need to understand the whole organisation – the Board and the SMT, but also not just to focus on the top and engage with other staff too.

## 7. HOW TO MEASURE THE IMPACT OF CORE GRANTS

This is a fundamental and key question with no simple solutions. Indeed, as mentioned earlier, the difficulty of doing this is a reason why core grants have not increased, even while many accept (in principle) that they are a better way to proceed than more tightly defined project grants.

### *Articulating the objectives*

As with any M&E system, being clear on the objectives for why the impact of core grants need to be assessed is essential. Typically, **accountability** and **learning/improvement** are the top priorities, but the balance between them varies. For government donors, there is usually pressure to demonstrate results due to the nature of the funding. For other donors such as trusts and foundations, there is often more of a choice. There may also be other objectives for M&E, such as clarifying expectations, building buy-in, helping determine resource allocation and generating information for marketing (Simister, 2019). An important consideration here is that perspectives are likely to differ for different stakeholders in the process: donors may well see things differently to grantees. Within donors, programme staff might have different priorities to trustees. But all these viewpoints need to be accommodated within the resulting system.

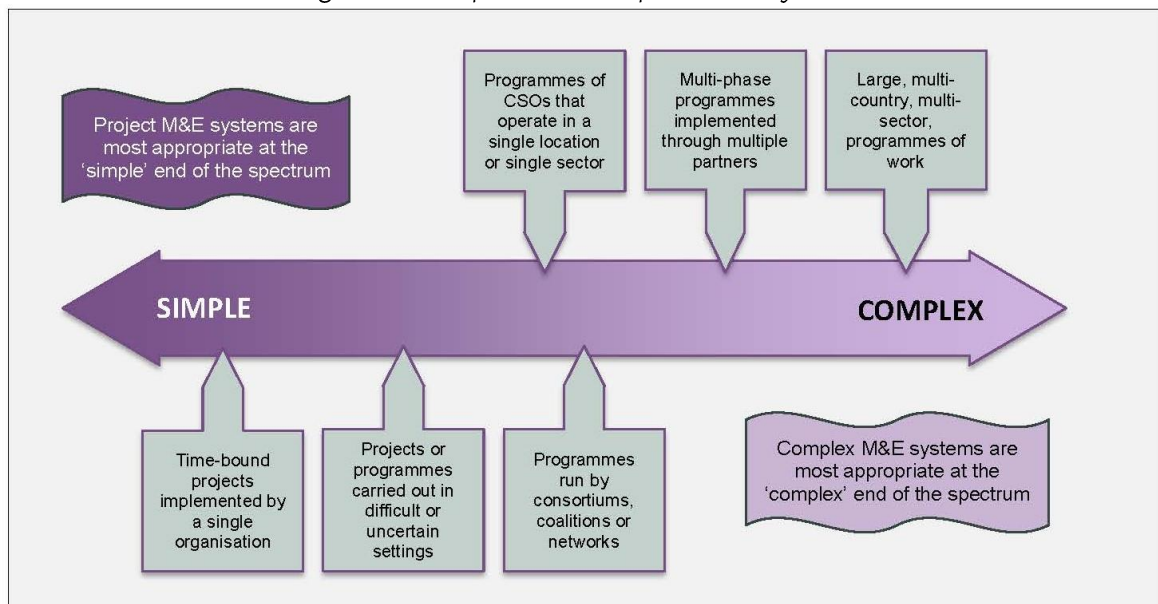
## Challenges

While M&E is never simple (particularly in relation to ultimate social impact), the complexity is increased when considering core grants. The main challenges raised in interviews and the literature are that:

- Many organisations have **multiple goals**, which may be hard to articulate and sometimes do not easily fit together.
- While some interventions are relatively straightforward (e.g. digging a well), other **interventions such as the impact of advocacy, convening work or systems change** are much harder to capture. This applies to assessing a single project, but is magnified when ...
- Organisations are working in multiple geographical areas, on multiple sectors with a range of interventions. **Aggregating and summarising impact** in such circumstances is extremely hard to do in a meaningful way, backed up by robust evidence.
- Interventions carried out by the organisation (and within the organisation such as OD), are likely to have different **timeframes** from each other, making overall assessment harder. Furthermore, some interventions such as long-term advocacy campaigns or investment in fundraising may only yield substantial benefits after the funding period.
- Core funds usually complement other sources of income (which may well be more targeted), so **attribution** is hard. It is more a question of the **contribution** to the *whole organisation* and what extra it was able to achieve due to the core funds.
- Even if the work of an entire organisation can be measured, **it is almost impossible to establish a reasonable counterfactual** what would have happened if the core grant had not been given.

Under these circumstances, core grants require more complex M&E systems (according to Simister, 2019):

Figure 1 – Simple and Complex M&E Systems



## Government donors

Some government donors have been addressing this by progressively requiring more specific results frameworks linked to the intervention logic. As part of this some push further, and need baseline data and standardised (often quantifiable) indicators against which to measure progress. For example, in response to such pressure, one INGO responded by developing 'core indicators', such as household food diversity.



This moves core grants further towards programme grants. It enables questions from further up the accountability chain to be answered with concrete, often quantifiable, data. From this, 'value for money' calculations (an increasing priority at a time of stretched government finances) can be made by comparing such results in relation to the funds invested. But there are also a number of criticisms to such approaches. Reporting against such results frameworks across multiple, varied contexts is fraught with problems. Logframes work well for individual projects with clearly defined outputs and relatively predictable results, but less well beyond this.

DFID outsourced the M&E work for its core grants (PPAs), leading to a detailed, prescriptive approach, with guidelines for grantees of more than 100 pages. The Independent Commission on Aid Impact (ICAI) in the UK felt that the PPA mechanism became overly complex and poorly adapted to the nature of PPAs: 'excessive control and monitoring impede innovation' (ICAI, 2013). It also found that the drive for increased accountability worked to the detriment of collaboration.

In other words, the planning and M&E system for core grants can undermine their potential advantages if pushed too far. Where there is competition for resources, quantifiable results frameworks incentivise exaggeration at the expense of learning and improvement.

### *Trusts and foundations*

Trusts and foundations have a greater freedom with respect to their M&E systems and respond in a variety of ways. TCC sets out a comprehensive framework for assessing core grants as follows:

*Table 4 – A Framework for Assessing Core Grants*

<b>1. Grantee programme effectiveness</b>	<ul style="list-style-type: none"> <li>• Increased programme quality</li> <li>• Launch of new or innovative programmes</li> <li>• Expanded number of programmes</li> <li>• Expanded number of people served</li> </ul>
<b>2. Grantee organisational development</b>	<ul style="list-style-type: none"> <li>• Improvement in overall capacity</li> <li>• Leadership and staffing ability</li> <li>• Improved strategic alliances &amp; partnerships</li> <li>• Financial stability</li> <li>• Adaptability</li> </ul>
<b>3. Funder mission achievement</b>	<ul style="list-style-type: none"> <li>• Improved effectiveness ratings by grantees</li> <li>• Improved relations and trust with grantees</li> <li>• Portfolio effectiveness</li> </ul>
<b>4. System strengthening</b>	<ul style="list-style-type: none"> <li>• Strengthened networks and cohesion</li> <li>• Holes filled and organisations aligned</li> </ul>

[Adapted from TCC Group, undated]

This framework encapsulates the approach of most donors in some respects. For example, the Shell Foundation uses programme, partnership and portfolio. For reporting, the onus is more on grantees for 1 and 2, while the donor will play more of a role for 3 and 4 although with input from grantees. Some donors will put more emphasis on 2 than 1, arguing that what is important is what the grantee is within the landscape, rather than a narrow measurement of what it achieves.

But this framework still leaves open the question of *how* to develop and measure indicators, particularly at the programme effectiveness level. This again will depend on the nature of the work. For the Shell Foundation, there are some clear-cut metrics due the nature of its working area, such as revenue, cash flow, profitability, jobs created and sustainable livelihoods.

The Ford Foundation, focused more on advocacy, does not require a lot of detailed information (descriptions of activities, numbers of outputs etc.), but wants more analysis of what has changed on the ground, how the grantee sees the future and its own evolving role. It asks for evidence of contribution, rather than precise attribution. As one informant put it, 'If people are interested in attribution, there is no point going to core grants'. Another observer noted that the desire to quantify is usually linked to a greater focus on accountability. According to another source, a power imbalance leads to a 'dance of deceit' with the grantee pretending to meet all the donor's requirements and the donor pretending to believe them (Tuan, 2004).

Simpler, non-outcome-based reporting can shift the balance of power and transform the nature of the donor-grantee relationship. More trust, one respondent argued leads to more honesty: only after working with grantees for years was this built up to the point where they felt able to share their mistakes, which provides a much stronger basis for learning.

As Carol Chandler of Northern Rock Foundation puts it, 'The obsession with counting and numbers and not trusting the organisation to be able to deliver is based on a lack of trust and need for control on the part of funders. I can understand this concern where there is public accountability, but for most of us foundations, we don't actually need that level of accountability' (Cairns, B et al, 2013).

An alternative approach is simply to pose a number of open-ended questions such as:

- How do you see the context changing?
- How are you using the money?
- Did you consider other things?
- How do you take decisions?
- How do you learn?
- How do you adapt?

What matters more is that the organisation is already thinking about these questions, rather than trying to pin down what exactly it has achieved.

Some foundations are seeking to ease the burden on grantees by discussing joint reports. Many emphasise that many times reports go unread and/or unused, which causes frustration all round.

Sometimes, donors use dashboards to summarise information for ease of use by others further up the chain of accountability. A 'rubrics' approach provides a qualitative way of assessing the progress of an organisation rather than relying on Key Performance Indicators (KPIs). However, this also has challenges given the multiplicity of organisations, their different stages of development and the pressure always to show progress.

## 8. HOW TO APPLY CORE GRANTS

This section summarises some of the experiences and practices around core grants from the interviews and literature.

### *When to apply core grants – two different philosophies*

For some donors, a core grant supports a trusted long-term partner and seems more appropriate than a series of parallel project grants. While there are usually agreed timeframes for each round of funding (typically 3-5 years), they do not necessarily end at all. For example, government donors like Irish Aid or Danida, have provided core grant support to their largest INGOs for decades. Since these INGOs are seen by their respective Ministries of Foreign Affairs as important actors in communicating the continued value of aid to the public, it seems unlikely that this will change soon. For People's Postcode Lottery (PPL), once an organisation is selected, it remains unless strategies no longer align or there are major problems. If there are repeated rounds of funding, it is much less disruptive if new grants can be confirmed before the previous one comes to an end. Gaps can be very destabilising, particularly for small organisations.

Other donors see core grants as being time-limited interventions to enable organisations to get to the next stage (e.g. Comic Relief). Where core grants are intended to bring about a step change at a specific stage of organisational development, once that is achieved, it is time to move on. Larger, better established organisations will be jettisoned. Part of the motivation for this is using funds to provide rocket fuel to an organisation to enable it to reach a higher level of orbit, as well as the desire not to create 'dependency' on a single donor. One donor maintains a 10-year limit to core funding for an individual grantee.

There were certainly instances cited in the interviews where grantees take the regular infusion of flexible funds for granted, and it leads to stagnation rather than dynamic programming.

But where core grants are used productively, the question arises: *why they should be stopped at all?* To determine this, it is necessary to be able to assess on a regular basis which of the above scenarios applies: continued lively development or complacent torpidity.

There is no simple test that can definitively answer this question. One respondent said 'you feel it within 15 minutes of entering the office' – have coffee and sit down with the receptionist or driver. It has been described as an art rather than a science. But evidence to seek can include: motivated staff at all levels, acknowledged leadership in the field, evidence of innovation, adaptation and continued improvements in the quality and scope of work. Conversely, signs of deterioration might be: a lack of a clear direction, staff demoralisation, a reluctance to deal with 'dead wood', increased internal conflict and programme interventions being repeated automatically year after year without reflection.

### *Responsible Exit*

What seems essential from the literature and interviews is that grantees receive a clear indication (and warning) of when core granting will come to an end. In some instances, such as when DFID's PPAs came to an end, it meant the end of the road for some organisation. This cannot always be avoided, but at least there is the maximum chance for grantees to prepare for life after a core grant.

### ***Interaction with grantees***

Some donors reflect that core grants might look less intensive, but to do it properly does not free up space, but changes the nature of interaction. To support effectively you need, 'a deeper understanding of the inner working of an NGO' according to one informant. This means going beyond just meeting the Director, to having a range of interactions with staff at different levels and also grantee board members.

Some donors go on grantees' boards. This is a contentious area, seen differently by different actors (government donors would see it as a conflict of interest, foundations rooted in the private sector see it as more normal). What was emphasised in some of the interviews was that if a donor staff member goes on a grantee's board, they should no longer be representing the donor, but working solely for the best interests of that organisation when they wear that hat.

There are specific skill sets that make donor programme officers suitable for the role of liaising with core grantees. One study found that only 28% of programme officers had received training in how to select suitable organisations for core grants (Buteau et al, 2020).

It is about supporting, but not micro-managing. Programme officers who have been used to overseeing project grants with an emphasis on compliance may need to 'unlearn' certain practices. One informant said that 'poachers turned gamekeepers' can be suitable – in other words, people who have previously worked for organisation liked the grantees and can appreciate their challenges. But it was also mentioned that donor staff can on occasion become too close to grantees and lose their objectivity and ability to address more difficult issues, so there is a balance to be struck here.

### ***Capacity development***

A key feature of core grants is that they allow for organisational development support, even if they are not linked to specific project work. This is highly prized by grantees (Keystone, 2011). Some capacity development may occur through the donor staff interactions as described above – even if it is more through discussion than formal events like trainings. But for specific skills, the general tendency by donors seems to be to use peer grantees or external consultants rather than in-house staff.

### ***Involvement of donor boards:***

It is common donor boards (or their delegated investment committees) will approve individual grants. The extent to which they are more directly involved with the potential grantee will vary considerably, however. Sometimes it is more a case of approving based on a presentation by donor staff; in other instances, a board member must have personally visited and carried out their own assessment before approval.

Particularly if they are from a different background (e.g. are more business oriented), then it is important to provide them with the necessary support and keep them in touch with the programmes. One donor arranges for each member to visit at least once a year.

### ***Facilitating grantee relationships***

One of the most useful roles that donors can play is to help grantees to talk and collaborate with each other. An informant spoke of highly productive problem and solution discussions between its grantees. PPL has an annual dinner of CEOs on a 'Chatham House Rules' basis, which has led to some interesting outcomes and collaboration.

But if this is forced and not based on a genuine desire, the extent and impact of collaboration is likely to be limited and cease once the funding is turned off.

Another appreciated role is helping to open doors for grantees (e.g. with government or other donors) (Keystone, 2011).

## 9. EXTRACTING THE MOST BENEFIT FROM CORE GRANTS

The discussion so far has been from the perspective of the donor: whether and how they should employ core grants. Much of this (e.g. the advantages and disadvantages) apply to the grantee also.

But, once a core grant has been obtained, the question arises as to how a recipient should use to extract the maximum benefit.

The starting point should be recognising that core funding is a relatively rare and highly valued commodity: the 'Holy Grail' of funding as one interviewee put it. Therefore, it is important not to waste it. The following emerged from the literature and interviews on this:

- **Define clear organisational priorities** over the lifetime of the core grant. In particular, consider how the organisation can move up the next level and what can be done that would not otherwise be possible. This might include redefining strategies, taking a new approach, funding higher risk innovative work, upgrading internal systems, investing in further grant acquisition or staff development. A core grant can unleash internal conflict as each department fights for a slice of the pie. While soliciting ideas from across the organisation, there then needs to be clear decision making and communication.
- **Consider an unrestricted allocation model**, with set percentages for project work, but also for investment in fundraising, advocacy, systems development and administrative costs. This avoids a core grant being used mainly to plug financial gaps, which leaves the organisation no better off at the end than at the start. Both donors and grantees cited instances where core grants have been frittered away keeping things going, mindlessly repeating the same work and failing to address internal mediocrity, resulting in stagnation.
- **Determine how to leverage a core grant for strengthened future income.** If it is for limited duration and there is no improve income generating capacity, then the recipient's longer term financial base will remain unchanged. A core grant can help unlock other restricted and unrestricted grants by investment in the necessary organisational capacities.
- **Be realistic on sequencing of activities.** It is common for plans to be over-ambitious, failing to take account that the organisation's normal work needs to proceed and events can get in the way of plans. It is usually not possible to address every need simultaneously, so consider those which are most necessary to address first.
- **Be adaptive.** The flexibility of core grants is one of their key attributes, so it makes sense to be ready to take account of changing circumstances to make revisions after due consideration. If grants are sufficiently long, then not allocating all the money at the start, but putting some aside to be decided upon later on could be prudent.

- **Be proactive in building a different type of relationship with the donor.** The relationship issues have been discussed earlier from the donor perspective, but it is a two-way street. The grantee can take the initiative in building a different sort of relationship based on joint problem-solving, lesson learning and making mutually beneficial linkages. A grantee can also help overcome internal donor doubts about whether core grants are appropriate, by communicating the transformational effect they can have.
- **Be creative with M&E.** There will likely be certain requirements laid out by the donor. As discussed earlier, rigidly defined countable indicators are usually less appropriate. But the grantee can find creative ways to illustrate the difference the funding has made, even if the outcomes are not always provable. This needs to go beyond internal changes to showing how those changes laid the base for external outcomes. Doing so helps make the case for further core funding – for the grantee and more broadly in the sector.
- **Plan for the end of the core grant.** A core grant can bolster an organisation, but can equally be disruptive when it ends. Planning for the day after, can mitigate the negative consequences. In particular, if there has been investment in other income generating capacity, then this can soften the blow.

## 10. CONCLUSION

This research has shown that core grants are an increasingly important way of working for many donors – particularly trusts and foundations. Those donors interviewed all indicated that they would continue with and in many instances scale up their core support.

Under the right circumstances, they can undoubtedly yield greater benefits in terms of results. Many grantees testify as to the transformative effect they can have, which would not otherwise have been possible. At the same time, the greater trust implied by conferring a core grant can significantly improve relationships between donors and grantees.

This is not to deny that challenges exist. A major source of resistance is the tendency of donors to impose their own vision. As one respondent put it, the traditional model places more emphasis on the funder's wishes. Also there is a significant challenge with respect to monitoring and evaluation, which has led to some of the institutional donors moving away from core funding. However, where trusts and foundations have an advantage over government donors is in terms of their lines of accountability. They can explore creative ways of assessing impact, with a greater emphasis on learning and assessing dynamic change, rather than seeking quantifiable metrics.

But as one respondent from a foundation concluded, the case for core grants is strong: 'If a donor is set up to make real change, this is the way to do it. You are going to get higher impact'.

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## ANNEX B: ABBREVIATIONS USED

CSO	Civil Society Organisation
CEO	Chief Executive Officer
DFID	Department for International Development (UK Government)
GEO	Grantmakers for Effective Organisations
ICAI	Independent Commission for Aid Impact (UK Govt. body)
IFRC	International Federation of the Red Cross & Red Crescent Societies
INGO	International Non-Governmental Organisation
MAPS	Multi Annual Programme Scheme (former Irish Govt. scheme)
M&E	Monitoring and Evaluation
MFA	Ministry of Foreign Affairs
NORAD	Norwegian Agency for Development Cooperation
PPA	Partnership Programme Agreement (former DFID scheme)
SIDA	Swedish International Development Cooperation
SMT	Senior Management Team
ToC	Theory of Change
OD	Organisational Development
PPL	People's Postcode Lottery
WCUK	War Child UK
WWF	World Wide Fund for Nature
YMCA/YWCA	Young Men's (Women's) Christian Association