

# Finding and Funding Effective Nonprofit Organizations

An Overview for Donors



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# Finding and Funding Effective Nonprofit Organizations: An Overview for Donors

## Introduction

“To give away money is an easy matter, and in any man’s power. But to decide to whom to give it, and how [much] and when, and for what purpose and how, is neither in every man’s power—nor an easy matter. Hence it is that such excellence is rare, praiseworthy and noble.”

Aristotle

Over 2,000 years ago, Aristotle already had an answer for people who ask today: “How hard can it be to give away money?” It is indeed quite easy to just give money away; but as many philanthropists have experienced, giving money away in a thoughtful and effective manner can be quite challenging. In particular, finding and funding effective nonprofit organizations is no easy matter.

Out of 1.6 million nonprofit organizations in the U.S., there are over one million to which donors can contribute tax-deductible donations.<sup>1</sup> That number is growing every day. In the midst of this rapid expansion of the nonprofit sector, there have been periodic high-profile scandals and reports of financial mismanagement of nonprofit organizations and philanthropic institutions. At the same time, societal needs continue to increase while government and other resources to address those needs have decreased.

All of these external factors have resulted in greater scrutiny of nonprofit organizations and an increased emphasis on nonprofit and philanthropic effectiveness. In this environment, many individual donors are asking “How can I be sure I’m giving to an effective organization?” And “How can I be a more effective philanthropist?”

The purpose of this overview is to assist donors with the process of identifying and funding effective nonprofit organizations. In order to be successful, it is helpful to answer the following questions:

1. **How do I want to be engaged in my philanthropy?**
2. **What kinds of organizations do I want to find and fund?**
3. **What is “nonprofit effectiveness”?**
4. **How do I find an effective nonprofit organization?**
5. **How do I conduct due diligence on a nonprofit organization?**
6. **How can I effectively fund an effective nonprofit?**

The rest of this article discusses of each of these questions, including proposed strategies to help you find and fund effective nonprofit organizations.

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<sup>1</sup> Blackwood, Amy S., Katie I. Roeger, and Sarah L. Pettijohn, *The Nonprofit Sector in Brief: Public Charities, Giving, and Volunteering*, 2012, Urban Institute, 2012: 2.

## 1. How do I want to be engaged in my philanthropy?

“Mapping out your philanthropic path—working out what social change you want to achieve and how you want to go about achieving it—is something you need to do before you can choose your grantees...”

Laura Arrillaga-Andreessen  
*Giving 2.0: Transform Your Giving and Our World*

In order to be effective in your philanthropy, it is important to first answer the basic questions driving your philanthropic decisions, including why, when, where, and what do you want to give. Goldman Sachs Philanthropy Fund’s publication, “Getting Started with Your Philanthropy,” may prove a useful resource as it discusses each of these questions in greater detail and helps you identify the areas about which you are passionate.

As you answer these questions, you should also carefully consider how you are interested in and willing to be engaged in addressing particular issues through your philanthropy. Some donors are more interested in funding a tool as opposed to an issue area. For example, some donors might want to increase the use of impact investments in philanthropy, and be fairly agnostic as to the issue areas in which those investments are made. Regardless of the tool or issue area, some important categories of questions you should ask yourself include:

- **Geographic reach:** Do you want to make an impact on a local, regional, national, or global basis?
- **System intervention:** Do you want to meet direct needs, build the capacity of organizations to help meet those needs, support advocacy efforts to address the needs, influence policy to change the systems that are creating the needs, or build the field overall across all these areas?
- **Level of involvement:** Do you want to just write checks, or write checks and give some time, or write checks and give time and invest your talent and networks?
- **Length of engagement:** Over what timeframe are you interested in and able to fund an issue and/or organization(s)? One year, three years, five years, or a lifetime?

- **Risk tolerance:** Are you comfortable seeding start-up organizations with little proven track record or supporting new projects that push the boundaries of common practice? Or are you more comfortable supporting the existing interventions of more established organizations?
- **Measurability of results:** Do you prefer to fund activities that are more easily quantified and measured or are you comfortable with more ambiguity in philanthropic outcomes?

The answers to these questions will help determine which fields you might want to focus on, what types of nonprofit organizations you should look to fund, and how you can be most effective in providing that funding. In addition, you should consider the advice from philanthropy experts Silk and Lintott who suggest that, “While some donors find it rewarding to give smaller amounts of money to a variety of causes, most experienced philanthropists find that focusing on a few areas, or just one, is the most effective.”<sup>2</sup>

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<sup>2</sup> Silk, Roger D. and James W. Lintott. *Managing Foundations and Charitable Trusts: Essential Knowledge, Tools, and Techniques for Donors and Advisors*. Hoboken: John Wiley & Sons, Inc. 2011. p. 74.

## 2. What kinds of organizations do I want to find and fund?

“Tying your philanthropy into the areas or causes that you find energizing will produce fulfilling philanthropy and help more nonprofits in the long-term.”

“Getting Started with Your Philanthropy”  
Goldman Sachs Philanthropy Fund

As you consider which organization(s) among the one million grant-seeking nonprofit organizations in the U.S. and numerous non-governmental organizations (NGOs) located around the globe you want to fund, you should first ask yourself: “What is the problem I want to solve through my philanthropy?” Nonprofit organizations address a plethora of issue areas, including the categories<sup>3</sup> in the table at right, which are by no means exhaustive.

For every possible issue area, there are multiple strategies to address the problem, and many nonprofit organizations that are implementing their own approaches and solutions. For example, within the field of “Education” you could choose to fund nonprofits working on:

- Different educational components (e.g., developing curriculum, training teachers, developing leadership, improving physical plant, providing scholarships);
- Specific types of schools (e.g., public, private, parochial, charter, vocational, home schooling);
- Public policy aspects of education (e.g., increasing funding for education in low-income areas, advocating for private management of school systems);
- Various targeted interventions (e.g., early childhood education, after-school programs, magnet schools);
- Certain age groups (e.g., preschool, elementary, middle school, high school, college, post-graduate)

There is an endless menu of options and possible interventions in the nonprofit sector. It can be overwhelming for even the most focused and well-intentioned philanthropist to know how best to proceed. Finding and funding effective organizations must begin

with achieving clarity on the problem(s) you want to solve, how you want to be engaged in your philanthropy, and your desired philanthropic impact.

### Nonprofit Fields of Interest

Animal-Related
Arts, Culture, and Humanities
Civil Rights, Social Action, Advocacy
Community Improvement, Capacity Building
Crime, Legal Related
Diseases, Disorders, Medical Disciplines
Education
Employment, Job-Related
Environmental Quality, Protection, and Beautification
Food, Agriculture, and Nutrition
Health
Housing, Shelter
Human Services-Multipurpose and Other
International, Foreign Affairs, and National Security
Medical Research
Mental Health, Crisis Intervention
Philanthropy, Voluntarism, and Grantmaking Foundations
Public Safety
Public, Society Benefit-Multipurpose and Other
Recreation, Sports, Leisure, Athletics
Religion Related, Spiritual Development
Science and Technology Research Institutes, Services
Social Science Research Institutes, Services
Youth Development

<sup>3</sup> Categories drawn from Urban Institute, National Center for Charitable Statistics. “Number of Public Charities in the United States, 2010.” [Online] Available <http://nccsdataweb.urban.org/PubApps/profileDrillDown.php?state=US&rpt=PC>.

### 3. What is “nonprofit effectiveness”?

“Nonprofit effectiveness – just like any organizational effectiveness – is about how well an organization achieves its goals. But in a world of limited information, limited resources, and stakeholders’ competing goals, *assessing* nonprofit effectiveness can be tricky.”

Katherina M. Rosqueta, Founding Executive Director  
Center for High Impact Philanthropy

There is no single, consistent definition for nonprofit effectiveness. Unfortunately, in the absence of a standard definition, donors often rely on a poor measure of nonprofit effectiveness: the spend ratio of a nonprofit organization.

Donors sometimes mistakenly equate a nonprofit’s effectiveness with a low percentage of each grant going towards administrative or overhead for an organization. Several well-known nonprofit rating organizations have historically used overhead ratios as a measure of nonprofit effectiveness, and thankfully this practice is falling out of favor. Bob Ottenhoff, past president of GuideStar, a nonprofit organization that gathers and disseminates information about every IRS-registered nonprofit organization, compares the use of overhead ratios as a proxy for nonprofit excellence to “asking which airlines spend the least on maintenance to decide where to invest.”<sup>4</sup>

In fact, in June 2013, the CEOs of the three leading sources of information about charities (BBB Wise Giving Alliance, GuideStar, and Charity Navigator) issued a joint letter to the donors of America entitled “The OVERHEAD Myth.” In this letter they state: “The percent of charity expenses that go to administrative and fundraising costs—commonly referred to as ‘overhead’—is a poor measure of a charity’s performance. We ask you to pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results.”<sup>5</sup> Strong organizations need strong infrastructures and nonprofit organizations need to invest significant resources to ensure they have the capacity to deliver on their missions.

The following perspectives offer some helpful ways to think about nonprofit and philanthropic effectiveness:

- Katherina M. Rosqueta, Founding Executive Director of the Center for High Impact Philanthropy offers this definition: “Nonprofit effectiveness refers to how well an organization is positioned to achieve its social impact goals. To assess a nonprofit’s current effectiveness (vs. a donor’s effectiveness) requires looking at multiple factors, including: organizational strength, available resources, and programmatic choices. For donors the question isn’t only, ‘Is this an effective nonprofit?’, but ‘Are there ways I can improve this nonprofit’s effectiveness?’”
- Grantmakers for Effective Organizations, a community of grantmakers working to describes grantmaking practices that improve grantee performance, define an effective nonprofit as an organization that is “able to fulfill its mission measurably through a blend of sound management, strong governance, and a persistent rededication to assessing and achieving results.”<sup>6</sup>
- Melissa Berman, President and CEO of Rockefeller Philanthropy Advisors, defines nonprofit effectiveness as “the ability of a nonprofit to articulate the challenge it is trying to meet, to articulate the method by which it is trying to meet that challenge, and the ability to assess and report clearly on how it’s making progress.”
- Christine W. Letts, Rita E. Hauser Senior Lecturer in the Practice of Philanthropy and Nonprofit Leadership at the Kennedy School of Government at Harvard University states that “Effectiveness can be a matter of fit between the interests of the donor and the nonprofit. Perhaps a nonprofit is not particularly effective yet (due to start up, problems with scale, policy, etc.). That doesn’t mean that it is not worth funding, if its mission falls in line with a particular interest of the donor.”<sup>7</sup>

These varied perspectives on what defines nonprofit and philanthropic effectiveness point to the challenges donors face in looking for an effective nonprofit. The remaining sections of this overview provide recommendations and resources on how to find and fund effective organizations.

<sup>4</sup> Ottenhoff, Bob. Forwarded email communication to Melinda T. Tuan. April 11, 2016.

<sup>5</sup> [http://overheadmyth.com/wp-content/uploads/2013/06/GS\\_OverheadMyth\\_Ltr\\_ONLINE.pdf](http://overheadmyth.com/wp-content/uploads/2013/06/GS_OverheadMyth_Ltr_ONLINE.pdf)

<sup>6</sup> Bartzcak, Lori. *A Funder’s Guide to Organizational Assessment: Tools, Processes, and Their Use in Building Capacity*. Saint Paul: Fieldstone Alliance Publishing Center. 2005.

<sup>7</sup> Letts, Christine W. Email communication to Melinda T. Tuan. July 9, 2013.



#### 4. How do I find an effective nonprofit organization?

“Nonprofits, like for-profit businesses, vary in purpose, structure, capacity, approach, target market, and age. These differences are important factors to consider when assessing the overall health and effectiveness of an individual nonprofit organization.”<sup>8</sup>

Marcia Festen and Marianna Philbin  
*How Effective Nonprofits Work: A Guide for Donors, Board Members, and Foundation Officers*

Assuming you have achieved clarity on what you want to achieve through your grantmaking, the next challenge is to find out which organizations are best equipped to help you meet your philanthropic goals.

Several experts suggest starting with an analysis of fiscally responsible organizations. Financial information on nonprofit organizations is readily accessible through [www.guidestar.org](http://www.guidestar.org). “GuideStar is the closest you get to a central address that has all the basics,” says Fay Twersky, Director of the Effective Philanthropy Group at the William and Flora Hewlett Foundation. However, she adds, “the basics aren’t going to tell you much about the true quality of the organization or the outcomes it achieves.” For example, GuideStar does not currently include any information about the social outcomes of the organization’s programs. This is also true of “charity watchdog” organizations such as Charity Navigator and BBB Wise Giving Alliance. None of the leading sources of information about charities is currently able to provide substantive guidance or ratings in the form of social performance measurements.

A few organizations are attempting to assemble social impact and effectiveness information on nonprofit organizations. The Center for High Impact Philanthropy provides information on actionable and evidence-based solutions in a wide range of areas such as decreasing hunger and childhood obesity, eradicating malaria, improving education, and providing disaster relief. GiveWell conducts in-depth research to determine how much good a given program accomplishes in terms of lives saved, lives improved, etc., per dollar spent and publishes the full details of their analyses to help donors decide where to give. GreatNonprofits is the leading provider of Zagat- or TripAdvisor-like first-person reviews and ratings of thousands of nonprofit

organizations throughout the U.S. While each of these examples is advancing the data available on effective nonprofit solutions, each of these resources is limited – there is no single place to access information about the universe of nonprofit organizations and their relative effectiveness.

Given the large number of public charities seeking funds from donors to further their particular missions, it can be extremely challenging for any one donor to conduct the due diligence necessary to determine which nonprofit organizations are most effective or deserving of support. In the absence of a comprehensive source of social impact information or “stock market equivalent” for nonprofit organizations, there are some efficient ways to identify effective nonprofits. These approaches include leveraging others’ due diligence, partnering with an existing foundation, joining a giving circle, or working with a philanthropic advisor. The following section describes each of these methods for finding effective nonprofit organizations.

##### *Leverage Others’ Due Diligence*

One approach to finding the most effective nonprofit organizations in a particular issue area is to leverage the due diligence of other organizations or intermediaries in the nonprofit sector. These intermediaries often have the resources and expertise to efficiently and effectively assess the performance of nonprofit organizations. By using existing due diligence rather than conducting duplicative assessments, you can reduce transaction costs for the nonprofit organization and achieve efficiencies in your own efforts.

“Venture philanthropy” funds are often very transparent in describing their criteria for selecting organizations to fund and typically provide a list of the organizations they support. These funds, sometimes referred to as “high engagement funders” or “venture funds,” typically follow a comprehensive due diligence process and often seek co-investors. Several venture funds focus on organizations with the greatest potential for impact in a particular field (e.g., employment-focused social enterprise, youth development, or improving K-12 public education), attempting to create a “best of industry” list.

<sup>8</sup> Festen, Marcia and Marianna Philbin. *How Effective Nonprofits Work: A Guide for Donors, Board Members, and Foundation Officers*. Washington: New Ventures in Philanthropy/Forum of Regional Associations of Grantmakers. 2002.

### *Partner With an Existing Foundation*

Another approach to finding effective nonprofit organizations is to follow in others' footsteps and provide funding through an existing foundation. This method ensures that nonprofit professionals will direct your contributions to where they are most needed in a particular community or field. There are over 650 community foundations across the country that are equipped to play this role for interested donors and a few private foundations that are exploring this practice as well.

### *Join a Giving Circle*

A giving circle is a group of individuals who pool their dollars and decide together where to give the money. These giving decisions may also include other resources such as their time and talent. In the process, members of the giving circles learn about their community or field of interest and the practice of philanthropy. The most recent study of giving circles entitled "More Giving Together" reports there are more than 400 giving circles in the U.S. focusing on a myriad of issues and methods of giving.<sup>9</sup> One of the best known and largest networks of giving circles is Social Venture Partners (SVP), with affiliates in over 40 cities across the globe from Boston to Bangalore. The Partners who comprise each SVP invest money, time and skills in nonprofits that share their immediate community and represent a way for you to get involved in finding and funding effective nonprofits in your home city as well as meet other like-minded individuals.

### *Work With a Philanthropic Advisor*

More and more individuals of wealth are realizing they can benefit from and actually need professional assistance with their philanthropy. The dearth of comprehensive information about nonprofit organizations and the challenges inherent in measuring social impact in the nonprofit sector can present immense roadblocks for even the most engaged philanthropist. Similar to how individuals rely on the expertise of lawyers and financial planners to manage their estates, you may find it useful to engage a philanthropic advisor to help you manage your philanthropy.

In addition to leveraging these various sources of due diligence, you may desire or need to conduct your own independent research to identify effective nonprofits. The following section discusses how you might go about conducting your own due diligence.

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<sup>9</sup> Bearman, Jessica E. "More Giving Together: The Growth and Impact of Giving Circles and Shared Giving." Forum of Regional Associations of Grantmakers. [Online] Available <https://www.givingforum.org/resources/more-giving-together-growth-and-impact-giving-circles-and-shared-giving>. March, 2007.

## 5. How do I conduct due diligence on a nonprofit organization?

“What is the best way to research a nonprofit organization you’re considering funding? The answer to that question depends on a number of factors, including how much you already know about the organization, the size of your grant, and its importance to the nonprofit, among other things. You will want to balance the extent of your effort with respect for the busy leaders of these organizations.”

Susan Wolf Dittkoff  
“Nonprofit Due Diligence Guide”

If the information you seek on a nonprofit is not publicly available, you may elect to conduct your own due diligence. If you go down this route, make certain you are not creating unnecessary burden on the nonprofits in the process of doing your own due diligence. For donors embarking on the process alone, the following framework<sup>10</sup> may be helpful:

### 1) Assess Organization Effectiveness

- Strength of strategy
  - Is the organization clear about and committed to its mission?
  - Does the organization have a strong strategic plan that is achievable in an appropriate timeframe?
  - Does the organization have a strong results orientation?
  - What indicators does it use to measure progress toward its goals?
- Strength of leadership
  - Is the organization committed to strategic decision-making?
  - Does the organization have an effective executive director?
  - Does the organization have a strong management team?
  - Does the organization have a strong and engaged board of directors?

- Capacity of organization to execute strategy
  - Is there sufficient organizational infrastructure to support the strategy?
  - Are there sufficient numbers and quality of staff to support the strategy?
- Financial sustainability of organization
  - What is the organization’s current financial situation?
  - How much financial foresight does the organization have?
  - How robust is the organization’s fund development?

### 2) Assess Program Effectiveness

[www.bridgespan.org](http://www.bridgespan.org)

- Importance of program in achieving and advancing the organization’s mission
  - What was the organization’s motivation in starting the program?
  - How critical is the program to achieving the organization’s strategic plan and mission?
- Strength of program operations and leadership
  - What is the program manager’s experience?
  - How well are the program operations structured?
- Financial sustainability of program
  - Is the program well-funded and does it at least cover its costs?
  - Does the program contribute to or detract from the overall financial health of the organization?

### 3) Assess Social Impact

- Organization and program serving recognized need
  - Does the organization serve a recognized need?
  - Is the organization alone in meeting this need or are there other organizations also serving this need?
- Organization and program delivering excellent results (quality, quantity)
  - What indicators of social impact does the organization track (qualitative and/or quantitative)?
  - How is the organization performing on those indicators in comparison to its own baseline?
  - How does the organization assess its own effectiveness?
  - What do the beneficiaries of the organization’s services think of the organization?
  - What do employees, volunteers, donors, the media, and other organizations think of the organization?
  - How do the organization’s results compare to other organizations meeting similar needs?

<sup>10</sup> Categories and questions drawn from the “REDF Due Diligence Matchmaker” tool developed by REDF, a nonprofit venture fund. 2007.

- Organization and program potential for impact
  - Are the organization's and programs' long-term goals significant and achievable?
  - Is the organization engaged in and successful at field building?

This type of comprehensive framework for conducting due diligence should not be applied to all potential recipients of your funding. If you do elect to conduct your own due diligence, the amount of information and time requested of an organization should be commensurate with the size of your intended gift. Kathleen Enright, President & CEO of Grantmakers for Effective Organizations recommends that “very small grants can and should be made after doing only basic due diligence. However if a grant maker is considering a multiyear, several hundred thousand dollar investment, it is worth both your time and the potential grantee's to go deeper.”<sup>11</sup>

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<sup>11</sup> Enright, Kathleen. “Nonprofit Due Diligence Done Well.” *GiveSmartBlog*. Give Smart. 10 July 2012. Web. 15 June 2013. [www.bridgespan.org](http://www.bridgespan.org). <http://bit.ly/23M1loz>.

## 6. How can I effectively fund an effective nonprofit?

“Even though donating money to nonprofits is one means of achieving [the goal of changing the world], it’s often just a starting point. It’s not the endgame.”

Leslie Crutchfield, John Kania, Mark Kramer  
*Do More Than Give*

Once you have identified an effective nonprofit grant recipient, your work has just begun. How you choose to fund an organization can contribute to or actually detract from the effectiveness of the nonprofit.

Effective philanthropy requires thoughtful reflection and planning across three major components of giving: Strategy (why you give), Tools (what you give), and Process (how you give). Taken together, these three components should complement and reinforce each other instead of working cross purposes. In addition, your giving strategies, tools, and processes should be implemented in the context of the needs of the nonprofit sector and the individual organizations being funded.

The following is a summary of some best practices advocated by experienced grantmakers.

### *Implement Effective Giving Strategies*

- **Look at the big picture and be willing to take risks.** Often philanthropy addresses only the symptoms of social problems. Individual donors in particular can play a unique role in funding experimental approaches, advocacy, and research of root causes of key social problems.
- **Be clear and focused and consistent over time.** You should communicate clearly about your strategy and goals: your target issues, scope of work, timeframe, and expected results; and maintain an ongoing commitment to your philanthropic strategy over time.
- **Align policies and operations with the strategy and goals.** Once your philanthropic goals have been established, ensure the tools and processes you use in your giving support those goals. For example, if you have the goal of helping low-income children achieve their educational and career goals, you should align your policies and operations to include giving long-term grants, building ongoing relationships with the individual children, and providing the children with access to your networks for possible mentors, scholarships, internships and eventually jobs.

- **Collaborate with other funders.** Nonprofits can benefit from funder collaboration, especially when it results in consistent reporting requirements and lower transaction costs. Through collaborations, you can benefit by learning from peers, avoiding recreating the wheel, and leveraging other funders’ infrastructure.
- **Provide long-term grants.** Most of the issues philanthropy seeks to address cannot be solved in the short-term yet many traditional foundations only provide one-to-three year grants. Individual donors can decide at the outset to be committed for longer periods of time. By giving grants of five to ten years and longer you can reduce the transaction costs for both yourself and your grantee and match a long-term revenue source for long-term work.
- **Provide bigger grants.** Bigger grants can often have a bigger impact and be more focused. Making bigger grants also necessarily limits the number of organizations you can fund, which can help focus your giving strategy and help you gain expertise in certain issue areas. Similar to longer-term grants, larger grants also reduce the transaction costs for nonprofits and allow them to spend less of their time fundraising and more time on the mission-related work.
- **Provide general operating support.** In order to be effective, nonprofits need strong infrastructure, including competitive salaries, benefits, and professional development for staff; high functioning boards of directors; adequate facilities; and planning, fundraising, financial management, and evaluation systems. Many institutional funders (unfortunately) only like to fund programs and not “overhead”, yet funds for infrastructure are essential to strengthen the base from which effective programs can operate. You can have the confidence that funds are being well-spent by building positive relationships with the organization(s) over the long-term.
- **Use program-related investments and mission-related investments (PRIs and MRIs) to achieve philanthropic goals.** There are a growing number of donors who are interested in going beyond grants in order to achieve greater philanthropic impact. These donors are using their philanthropic capital, including the endowments of their foundations and their grantmaking budgets, to provide capital to nonprofits (e.g. lines of credit, recoverable grants, loans) and for-profits for social good. The philosophy guiding these social investments is the desire to use more of your financial assets to further your social mission.

### *Use Effective Giving Tools*

- **Give Grants.** Grants are the primary tool most people think of in philanthropy, as they represent dollars for a nonprofit to use in accomplishing its mission. However, there are many different types of grants, and grant dollars can be deployed in many different forms. The following are just a few examples of some effective forms of grants you should consider making:
  - Large, long-term, unrestricted grants (the gold standard for nonprofits)
  - General operating support grants: essential for building strong infrastructure and strong programs
  - Capacity-building grants: Targeted grants for specific activities to improve the effectiveness of the nonprofit's board, fundraising, leadership, planning, financial management, or evaluation systems
  - Program grants plus costs for overhead associated with the project, including proportional administrative and fundraising costs
- **Utilize Talent.** You should assess how your own talents and abilities might benefit a funded nonprofit.
- **Access Networks.** Donors typically have vast networks of people and resources that can and should be accessed to assist a nonprofit in meeting its mission. Fundraising from other high net worth individuals and foundations, identifying board members, engaging pro bono professional advisors, and recruiting for key staff positions, are just a few examples of how you can effectively activate your networks to benefit a nonprofit organization.

### *Practice Effective Giving Processes*

- **Minimize transaction costs.** Nonprofits spend a lot of time applying for and reporting on funding from multiple donors that could instead be spent delivering the products and services to accomplish the organization's mission. Streamlining application and reporting requirements, using a common application and reporting system with other funders, and shortening grantmaking decision timeframes are a few ways you can help minimize transaction costs for nonprofit organizations.
- **Calibrate expectations.** Donors often expect more from nonprofits in terms of results, reports, and relationship than are warranted given the size of the grants given. A donor giving a \$15,000 grant should not reasonably expect the level of results, reports, and relationship that a donor giving a \$250,000 grant might receive from a funded nonprofit

organization. Be sure your expectations for measurement of impact and reporting are reasonable and do not create an unnecessary burden on the nonprofit.

- **Maximize the quality of the relationship.** The importance of communicating clearly, consistently and in a timely manner; being sensitive to cultural differences and seeking out feedback from grantees cannot be understated. Building a strong relationship between yourself and the nonprofit can help further the mission and effectiveness of both parties, whereas a poor relationship can sometimes be detrimental to even the most effective nonprofit organization.

In summary, you have an opportunity to be thoughtful in the strategies you employ in your giving and should carefully consider the spectrum of tools and processes you have at your disposal.

## Conclusion

“We believe that you can achieve significantly greater results with the money and time you give away—if you put your mind where your heart inclines you, if you confront the right questions, and if you are willing to try.”

Thomas Tierney, Joel Fleishman  
*Give Smart*

Many donors who want to invest in effective nonprofit organizations and practice effective philanthropy are finding that giving away money and achieving lasting social change is much harder than they thought it would be. Finding and funding effective nonprofits requires donors to thoughtfully align their desires for philanthropic impact, leverage others' expertise in identifying nonprofits, and employ the right combination of giving strategies, tools and processes in order to maximize the impact nonprofits can have in achieving their mission. As an individual donor, you have a significant opportunity to make a greater and deeper impact on addressing the pressing social issues of our world by making the effort to invest in the most effective nonprofits and practicing effective philanthropy.

This publication has been designed to help you contemplate how to find and fund effective nonprofit organizations. A list of recommended resources for each of the six questions is included at the end of this publication to help you explore each of these issues more deeply. For more information on this topic or additional assistance with philanthropic topics, contact your Goldman Sachs Private Wealth Advisor.

## Recommended Resources

### 1. How do I want to be engaged in my philanthropy?

- Silk, Roger D. and James W. Lintott. "Chapter 7: Effective Foundations: The Business of Philanthropy." *Managing Foundations and Charitable Trusts: Essential Knowledge, Tools, and Techniques for Donors and Advisors*. Hoboken: John Wiley & Sons, Inc. 2011.
- Tierney, Thomas J., and Joel L. Fleishman. *Give Smart: Philanthropy That Gets Results*. New York: Public Affairs, 2011. <http://www.bridgespan.org/Philanthropy-Advice/Getting-Started.aspx>
- Tuan Melinda. "Getting Started With Your Philanthropy: An Overview for Donors." *Goldman Sachs Philanthropy Fund*.

### 2. What kinds of organizations do I want to find and fund?

- Arrillaga-Andreessen, Laura. *Giving 2.0: Transform Your Giving and Our World*. San Francisco, CA: Jossey-Bass, 2012.
- The Bridgespan Group. "Clarifying Your Aspirations." [www.bridgespan.org](http://www.bridgespan.org). <http://bit.ly/1p59udu>.
- The Bridgespan Group. "Finding Your Philanthropy Compass." [www.bridgespan.org](http://www.bridgespan.org). <http://bit.ly/2666qjb>.
- Ditkoff, Susan Wolf and Susan J. Colby. "Galvanizing Philanthropy." *Harvard Business Review*. November, 2009. <http://hbr.org/2009/11/galvanizing-philanthropy>
- Rockefeller Philanthropy Advisors. "Finding Your Focus in Philanthropy: What Challenges Do You Want to Tackle, and What Do You Want to Achieve?" <http://roadmap.rockpa.org/finding-your-focus-in-philanthropy>.

### 3. What is "nonprofit effectiveness"?

- Gregory, Ann Goggins and Don Howard. "The Nonprofit Starvation Cycle." *Stanford Social Innovation Review*. Fall 2009. [http://www.ssireview.org/articles/entry/the\\_nonprofit\\_starvation\\_cycle](http://www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle).
- Collins, Jim. *Good to Great and the Social Sectors: Why Business Thinking is Not the Answer. A Monograph to Accompany Good to Great*. Jim Collins. 2005.

### 4. How do I find an effective nonprofit organization?

#### *Financial Information*

- **BBB Wise Giving Alliance** – [www.give.org](http://www.give.org) – Provides guidance to donors to assist them in making informed giving decisions by publishing: results of rigorous trustworthiness evaluations of soliciting charitable organizations in relation to wholistic standards; the #wisegivingwed blog; the BBB Wise Giving Alliance Building Trust Video Series; various "tips" and media advisories; and three times a year, the Better Business Bureau Wise Giving Guide. The Alliance offers to accredited charities the option to license the BBB Charity Seal for use on their solicitations, websites and other publications to promote their trustworthiness and accountability to the public.
- **Charity Navigator** – [www.charitynavigator.org](http://www.charitynavigator.org) – Using a team of professional analysts, examines tens of thousands of nonprofit financial documents to evaluate the financial health, accountability and transparency to develop an unbiased, objective, numbers-based rating system to assess over 8,000 charities. The free website is easily navigable by charity name, location or type of activity and offers complementary tools and features to help donors make informed choices about where their contributions will be used most effectively.
- **GuideStar** – [www.guidestar.org](http://www.guidestar.org) – The leading source of information on US nonprofits provides a searchable database of the IRS Forms 990 of more than 1.8 million IRS-recognized nonprofit organizations. GuideStar has 1.5 billion pieces of data. Currently, the bulk of that data is financial but GuideStar is making a major push to also gather multi-dimensional programmatic data. GuideStar has more than 120,000 organizations who have supplemented the 990 information on their GuideStar Nonprofit Profiles.



*Social Impact Information*

- **The Center for High Impact Philanthropy** – [www.impact.upenn.edu](http://www.impact.upenn.edu) – The Center for High Impact Philanthropy is the global authority on practicing high impact philanthropy and analyzing opportunities for social impact. Based at the University of Pennsylvania's School of Social Policy & Practice, its multi-disciplinary team provides public information, education, and advisory services to funders around the world seeking greater social impact.
- **GiveWell** – [www.givewell.org](http://www.givewell.org) – A nonprofit dedicated to finding outstanding giving opportunities and publishing the full details of their analysis to help donors decide where to give. Unlike charity evaluators that focus solely on financials, assessing administrative or fundraising costs, GiveWell conducts in-depth research aiming to determine how much good a given program accomplishes (in terms of lives saved, lives improved, etc.) per dollar spent.

*Beneficiary/Stakeholder Assessments*

- **GreatNonprofits** – [www.greatnonprofits.org](http://www.greatnonprofits.org) – A nonprofit organization that is the leading provider of reviews and ratings of nonprofit organizations throughout the U.S. These reviews and ratings represent stories submitted by people – clients, donors, volunteers and others who have experienced the impacts of a nonprofit's work up close. Users can rate more than 1.4 million nonprofits directly on their website or via syndication on partner sites including JustGive, GuideStar, Charity Navigator, and GlobalGiving.
- **Philanthropedia** – [www.myphilanthropedia.org](http://www.myphilanthropedia.org) – A division of GuideStar that systematically surveys sector experts such as foundation professionals, researchers, and nonprofit senior staff for their recommendations of high performing organizations in their particular cause area.

*Leverage Others' Due Diligence/Partner with an Existing Foundation*

- **Council on Foundations Community Foundations Locator** – Allows you to locate a community foundation by region (Midwest, Northeast, South, West) or zip code. <http://www.cof.org/community-foundation-locator>.
- **Edna McConnell Clark Foundation** – [www.emcf.org](http://www.emcf.org) – A private foundation which seeks to transform the life trajectories of vulnerable and economically disadvantaged youth. The foundation makes large, long-term investments, frequently partnering with other funders, in nonprofits with a potential for growth and compelling evidence that they can help more young people become successful, productive adults.
- **New Profit Inc.** – [www.newprofit.com](http://www.newprofit.com) – A nonprofit venture philanthropy fund that aims to break down the barriers that stand between people and opportunity in America. By supporting a path-breaking portfolio of organizations in its Innovation Fund and building networks of change agents in its uniquely collaborative, multi-faceted Focus Funds, New Profit is transforming the systems we use to educate our children, propel people towards social and financial stability, and create healthy communities.
- **New Schools Venture Fund** – [www.newschools.org](http://www.newschools.org) – A nonprofit venture philanthropy firm committed to transforming public education through powerful ideas and passionate entrepreneurs so that all children – especially those in underserved communities – have the opportunity to succeed.
- **REDF** – [www.redf.org](http://www.redf.org) – REDF, the Roberts Enterprise Development Fund, is a San Francisco-based venture philanthropy organization that invests exclusively in the growth and effectiveness of social enterprises. These mission-driven businesses are dedicated to helping people who otherwise would be shut out of the workforce to get jobs, keep jobs, and build a better life.
- **Robin Hood Foundation** – [www.robinhood.org](http://www.robinhood.org) – A nonprofit organization that finds, funds and partners with programs that have proven they are an effective remedy to poverty and are a consistent force for good in the lives of New Yorkers in need. The Robin Hood Foundation employs a rigorous system of metrics and third-party evaluation to ensure grantee accountability and provides significant management assistance to make them more effective, enabling them to assist even more people.
- **Venture Philanthropy Partners (VPP)** – [www.venturephilanthropypartners.org](http://www.venturephilanthropypartners.org) – A philanthropic investment organization that helps great leaders build strong, high-performing nonprofit institutions. It concentrates

money, expertise, and personal contacts to improve the lives and boost the opportunities of children and youth of low-income families in the National Capital Region.

#### *Giving Circles*

- Arrillaga-Andreessen, Laura. "Giving 2.0: Getting Together to Give." *Stanford Social Innovation Review*. Winter 2012. [http://www.ssireview.org/articles/entry/giving\\_2.0\\_getting\\_together\\_to\\_give](http://www.ssireview.org/articles/entry/giving_2.0_getting_together_to_give)
- **Giving Circles Network** – [www.givingcircles.org](http://www.givingcircles.org) – A nonprofit organization that seeks to enable giving-minded individuals and emerging circles to self-create and find the means to enhance their organization, connect with and communicate with other like-minded individuals and circles, analyze charitable needs and issues, identify giving objectives and potential charities, leverage existing and find new resources, engage in wise giving, enhance the impact of their giving, thereby ultimately making their charitable contributions more meaningful.
- **Giving Circles Fund** – [www.givingcirclesfund.org](http://www.givingcirclesfund.org) – Uses the power of collective action to create lasting change. The organization was founded on the premise that anyone can become a generous, committed and strategic giver. Recognizing that affordability, knowledge and impact are a barrier to entry for many people who want to give back, GCF developed an innovative online platform that has helped emerging philanthropists grant hundreds of thousands of dollars to deserving nonprofits across the country.
- **Social Venture Partners** – [www.socialventurepartners.org](http://www.socialventurepartners.org) – A network of over 40 Social Venture Partner (SVP) organizations based in cities across the globe. Each SVP is a philanthropic community of individual donors who together practice a model of giving that parallels venture capital practices, combining grant making, volunteerism, nonprofit capacity building, and philanthropic education.

#### *Philanthropic Advisors*

- **Arabella Advisors** – [www.arabellaadvisors.com](http://www.arabellaadvisors.com) – Arabella helps foundations, families, investors, and corporate clients achieve greater good with their resources. Arabella offers a comprehensive suite of philanthropy services including: planning and strategy development, outsourced foundation management and philanthropy support, family engagement, and support for impact investing. Arabella also offers platforms to support and host donor collaboration, new initiatives, and policy advocacy.
- **The Bridgespan Group** – [www.bridgespan.org](http://www.bridgespan.org) – A nonprofit advisor and resource for mission-driven organizations and philanthropists. Bridgespan works with individuals, families and foundations as they align their values and beliefs to their giving. Bridgespan generally engages with individuals and families as they are about to embark on or revise a significant philanthropic investment.
- **Rockefeller Philanthropy Advisors (RPA)** – [www.rockpa.org](http://www.rockpa.org) – A nonprofit organization that helps donors create thoughtful and effective philanthropy throughout the world, RPA currently serves more than 150 donors in facilitating over \$200 million in annual gifts and grants to more than two dozen countries. RPA provides research and strategic planning, develops philanthropy programs, provides complete grantmaking management services, serves as a fiscal sponsor for philanthropic initiatives, and communicates widely about philanthropy.
- **Sterling Foundation Management** – [www.sterlingfoundations.com](http://www.sterlingfoundations.com) – A for-profit company that works with individuals and families to help them define, focus and maximize the impact of their philanthropy by offering thought leadership, sophisticated consulting and foundation management expertise.

#### 5. How do I conduct due diligence on a nonprofit organization?

- Arrillaga-Andreessen, Laura. "Nonprofit Assessment Note." <http://giving2.com/learning-notes>.
- The Bridgespan Group. Videos, articles and "how to" guides to help you research promising nonprofits. [www.bridgespan.org](http://www.bridgespan.org). <http://bit.ly/1qMFVin>.
- The Bridgespan Group. "Nonprofit Due Diligence Guide." [www.bridgespan.org](http://www.bridgespan.org). <http://bit.ly/1r0n4AL>.
- The Bridgespan Group. "How to Research a Nonprofit's Organization and Operations." [www.bridgespan.org](http://www.bridgespan.org). <http://bit.ly/1Yyviuh>.

- Enright, Kathleen. "Nonprofit Due Diligence Done Well." *GiveSmartBlog*. Give Smart. 10 July 2012. Web. 15 June 2013. [www.bridgespan.org](http://www.bridgespan.org). <http://bit.ly/23M1loz>.
- Rockefeller Philanthropy Advisors. "Investing in Leadership: Five Questions to Ask Any Organization Before You Give." <http://roadmap.rockpa.org/investing-in-leadership>.

#### 6. How can I effectively fund an effective nonprofit?

- Brest, Paul and Hal Harvey. *Money Well Spent: A Strategic Plan for Smart Philanthropy*. New York: Bloomberg Press, 2008.
- Crutchfield, Leslie R., John V. Kania, and Mark R. Kramer. *Do More than Give: The Six Practices of Donors Who Change the World*. San Francisco: Jossey-Bass, 2011.
- The Center for Effective Philanthropy. *More than Money: Making a Difference with Assistance Beyond the Grant*. The Center for Effective Philanthropy, 2008. <http://research.effectivephilanthropy.org/more-than-money>.
- The Center for Effective Philanthropy. *Working Well with Grantees: A Guide for Foundation Program Staff*. The Center for Effective Philanthropy. 2013. <http://www.effectivephilanthropy.org/wp-content/uploads/2014/01/TheGuide.pdf>.

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