



Chapter 5

Deciding How to Fund Your Project

This chapter lists the types of support organizations can ask for from funders and the various ways in which funders can respond. In grant seeking, there is a big difference between submitting a proposal for a project or idea your organization has initiated, and responding to a proposal that a funder has requested. These two types of grant seeking require different strategies, timelines, and types of information.

Grants are one way to make your organization's ideas come to life. Most funders want to make sure that they are not the only means of support for an idea or project. They want to see broad-based support for your organization's concept, and a healthy, diverse revenue stream. The more diversified and healthier your organizational funding strategy, the more appealing your organization will be to funders. Here are some ways to think about funding your organization's idea.

Your organization could generate earned income, by charging for a product or service such as tuition, fees, concert tickets, conference registration, a book or how-to video, adventure travel to habitat you preserved, contracted transportation with the state for your clients with disabilities—the possibilities are endless. Your organization could also attract contributed income, by asking individuals, organizations, or businesses to make a charitable gift.

As you will learn in Chapter 12 on budgets, funders want to see your organization maximize all its options, viewing grants as one piece of a larger funding pie. A grant might be the right solution for one idea—or a specific component of an idea—while earned or **contributed income** might be more suitable for others.

Types of Grants to Ask For

Grants can support many aspects of your organization or project. You will need to choose the appropriate type of funds for the items in your budget that are appropriate for grant funding. The following list shows common categories of funding awards.

- ◆ **Emergency grants** are for unusual situations such as response to a catastrophe like COVID-19 or a natural disaster.
- ◆ **Start-up** or **seed money** is funding that helps launch a new initiative or new organization. This is usually based on a relationship with a funder or as a spin-off from an existing project or organization.
- ◆ **Challenge** or **matching grants** indicate money that is provided by a funder as an incentive for others to contribute. *Challenge* usually implies that the grant-seeking organization must meet a specified goal before the grant money is awarded, while *matching* usually means the grant will match other contributions dollar for dollar up to a particular amount.
- ◆ **Capital contributions** provide funding to help secure land, build, or remodel facilities, or acquire equipment.
- ◆ **Capacity-building** or **technical assistance grants** invest in an organization's ability to function more effectively, scale up, or become more self-sustaining. These grants often pay for strategic planning, leadership development or training, fundraising training, or development of an **earned income** stream. Sometimes capacity-building grants pay for new staff or new systems, such as a donor database.
- ◆ **Endowment** refers to money that grant seekers put into restricted, conservative investments so that the interest earned can pay for program or operating expenses.
- ◆ **Fellowships, scholarships, and internships** are given to organizations or institutions who offer them to students.
- ◆ **Impact investing** may take the form of debt, equity, guarantees, program-related investments, or mission-related investments blended with grants in a sequence with the aim to launch innovation.
- ◆ **Loan guarantees** allow grant makers to use their good reputations to help organizations secure a loan. The grant maker must record a **loan guarantee** as if the money were actually granted.
- ◆ **Multiyear funds** give your project a chance to get a strong start. You will have more time for doing your project and have to fund-raise less.

- ◆ **Operating grants** or **general purpose funds** will financially support the costs of doing business, such as rent, salaries, and other basic needs, with no expectation that the money will be used for a specific activity.
- ◆ **Pilot** or **demonstration grants** provide support to help show the effectiveness of a model or approach that could later be replicated by the grantee or others using funds from elsewhere.
- ◆ **Project** or **program grants** fund the costs of a particular activity. If the activity is a fairly limited initiative, it is usually called a project. A program encompasses multiple projects.
- ◆ **Program related investments** are very low interest loans from funders for program-specific purposes, such as economic development, low income housing, or minority enterprise encouragement.

Most funding sources give only a few of these types of awards. Check foundation guidelines and funders' websites to determine what type of funding is possible.

Types of Agreements Funders Can Offer

There are three ways funders can respond to organizations' requests for funding: contracts, grants, and **sponsored projects**, or **externally funded project**. The terms *contract* and *grant* are often used interchangeably, but legally they are two completely different methods for awarding funds. Funders determine which type of award will be made. However, grant seekers should know the characteristics of each type of award and the type most likely to be selected.

A **contract** is generally awarded for a project solicited through an **RFP (request for proposal)**. In this case, the funder has already identified the need and the expected outcomes for a project, selected an acceptable cost range, and estimated the time required to complete the project. The object of an RFP is for funders to find eligible organizations and choose the best possible one to carry out the project. The choice is based on factors such as previous experience, location, staff qualifications, and cost. In some cases, foundation funders can also offer fiscal sponsorships, Memorandums of Understanding, matching grant and pledge agreements, and connections with the donors in their donor advised funds. Relationships are the key to this level of cooperation. How do you open these doors?

Cities and states will often award contracts to nonprofits to meet particular needs in their community, such as counseling mental health patients, retraining people coming out of incarceration, or managing waste recycling. Thus, community needs are met without the city or state having to create and maintain a government department or agency.

Funders who award contracts also expect to exert fairly strict management control over the contract and may require frequent reports to or visits by the funder's contracting officer. This amount of control is one of the distinguishing characteristics of a contract. The types of contracts commonly used are fixed price, straight cost reimbursement, cost plus fixed fee, and shared cost. The type of contract is dictated by the funder. (See the Glossary for definitions of each type.)

Unlike a contract, a grant is typically awarded for a project that is initiated by an organization, which may not have all of the details of the project determined. Grants are frequently awarded for research or experimental projects or for general support of organizations. They typically permit more latitude in shifting funds among budget categories, more flexibility in the timetable, and more freedom around procedures. They may have fixed price, straight cost reimbursement, cost plus fixed fee and shared cost arrangements as well.

A sponsored project is a specific activity or program that is financed by funds that come from a source outside an organization. The term externally funded is also used to describe this type of project.

When and How to Respond to an RFP

All proposals fall into one of two categories: unsolicited or solicited. **Unsolicited proposals** are initiated by the grant seeker, who submits a proposal after seeing information about the funder and the funder's giving program and determining there's a possible fit. Unsolicited proposals are part of a competitive process that is open to any organization that fits the funder's guidelines. **Solicited proposals** are initiated by the funder, who contacts preselected organizations and invites them to submit a proposal for a specific kind of project or constituency that the funder has already identified as a giving program priority. Whether solicited or unsolicited, whether the project addresses a need identified by the grant seeker or the grant maker, a proposal responds to an opportunity announced by the funder in an RFP.

Government agencies and some private foundations use RFPs to announce opportunities for grants or contracts. RFPs are usually issued by funders who have a particular outcome they wish to achieve and hope to discover which organization is most qualified and has the best ideas to carry out the desired goals. This competitive process gives funders more control over the types of projects they fund, rather than reacting to whatever comes in. Funders use RFPs to publicize their highest priorities with precision. Most funders also believe the RFP process may lead to more successful outcomes as RFPs require organizations to do more rigorous planning before submitting a proposal. Finally, some funders feel that using RFPs decreases the possibility of charges of unfair competition from organizations that are not selected for funding.

While there is no uniform format for an RFP, most contain the following information:

- ◆ the purpose of the request and the desired outcomes
- ◆ the total amount of money to be awarded by the funder, sometimes including the maximum amount that would be awarded to any single organization
- ◆ instructions for how and when the organization should respond
- ◆ instructions for how the organization should demonstrate capability
- ◆ technical details on the content of the program, including expected tasks and products, usually called the scope of work
- ◆ an explanation of legal issues or other requirements, such as compliance with guidelines about accessibility for people with disabilities, fair hiring practices, or accreditation
- ◆ instructions for preparing a budget, which may require budget information to be reformatted to fit the funder's categories in order for the funder to be able to make a uniform comparison across all proposals
- ◆ a list of required forms and compliance statements to be submitted along with the proposal

When deciding whether to respond to an RFP, you must determine whether the topic is one your organization wants to participate in and whether it is capable of being competitive. In making this evaluation, it is helpful to consider the following criteria described in Exhibit 5.1.

Exhibit 5.1 Checklist for Preparing to Compete for a RFP

- ☐ Is the RFP relevant to your organization's mission?
- ☐ Is your organization eligible to respond to the RFP?
- ☐ Is the RFP compatible with your organization's interests?
- ☐ Is the project in the RFP feasible?
- ☐ Is flexibility available to your organization in responding to the RFP?
- ☐ Is there flexibility available in managing the project?
- ☐ Is your organization capable of implementing the RFP?
- ☐ Can your organization be a competitive applicant?
- ☐ Does your organization have the needed resources?
- ☐ Is there a favorable political environment around the RFP?
- ☐ Does another organization already have the inside track?

Relevance

Before responding, determine whether the RFP is relevant to your organization's mission, that there is good timing with organizational resources, and thematic alignment with what they want and what you can deliver. Look for a clear fit instead of a shirt that is two sizes too small. A funder will think about why you showed up in that shirt instead of paying attention to what you are saying.

Your organization should focus on projects that are relevant to the organization's current interests that logically steer toward stated goals. This is why the strategic plan is often a required document in the applicant package. RFPs often require much more detail about proposed implementation plans and budgets than do other types of proposals. The work of development, writing, approvals and submission is particularly time-consuming. Such proposals are also frequently more expensive for an organization to prepare.

A rural hospital may apply for a capital purchase of equipment, say, an MRI machine, but apply for a capacity-building purchase of a phone system that will increase the numbers of calls staff can process and decrease call wait times for patients.

For example, funding sources issuing RFPs often invite organizations to attend a technical conference (sometimes called a bidders' conference) where funders give more information on the proposed program and provide an opportunity for organizations to ask detailed questions. It is essential to attend bidders' conferences to learn the subtle details of the RFP that may not be published, to meet the program officers who can answer your questions, and to see, literally, your competition. However, organizations have to bear the costs of attending these meetings. Even if there are online meetings,

this is still staff time which costs money. Use the Question and Answer period to email and get information for yourself and about competitors. Some government agencies that issue RFPs now offer online tutorials, which are much less expensive. Generally, it is not worth the cost in time and resources to respond to an RFP unless it matches your organization's top priorities.

Eligibility

Most funders include *explicit* eligibility requirements in their RFPs, which specify the types of organizations that may submit a proposal. For example, an RFP may be limited to local government agencies or to nonprofit organizations that have 501(c)(3) status from the Internal Revenue Service (IRS). Often, there are hints about *implicit* eligibility requirements in RFPs, such as a statement that organizations have specific kinds of prior experience or be able to conduct a project within a particular geographic area. Organizations that cannot meet either the explicit or implicit eligibility criteria will not be considered.

Feasibility

Another way to determine if your organization should respond to an RFP is to evaluate whether the proposed project is feasible for your organization to accomplish. Sometimes, RFPs are issued for projects that are very difficult for any organization to implement successfully. Think about the number and scope of products or activities expected from the project; the amount of available time and funds your organization can provide; the availability of the necessary technology or knowledge within your organization; the political environment in which the project must be implemented (funding sources sometimes overlook the influence of an unfavorable political climate or local opposition to a proposed project); the degree to which cooperation or participation by other organizations or individuals will be required; the extent to which your organization already has those collaborations in place; the decision-making process for the RFP and whether it appears to favor certain organizations over others; and the kinds and amount of monitoring, reporting, and evaluation data that must be provided by the funded organization.

Timeline feasibility is another consideration. Is there enough time to apply? Can you deliver the project in the time that the funder wants to see results—and for the dollar amount offered? Can you start as quickly as the funder wants? Maybe they want to start in three months, though it will

While grant seekers are often eager to ask for support for general operating expenses, there are few private funders who fund those types of requests. Historically, funders have wanted to fund specific items that would allow them to see whether their support had made a difference such as a capital expenditure or a project with a beginning and end—and they have expected organizations to raise their operating money from charitable contributions or earned income. However, ongoing conversations between funders and seasoned grant seekers have resulted in more foundations funding operating costs.

take that long to hire the staff and the real start-up time is more like nine months. Will the funder negotiate a later start time?

Resource feasibility can also relate to: “Do you have board approved cash reserves, a line of credit, or a way to secure finance with the help of a major donor in the case of a cost reimbursement or cost share situation?” Resources include staff, facilities, networks, languages, transportation, legal or other professional representation, and so forth. Most proposals require a cash match. Where will this cash come from?

How much reserve cash is enough? Funders look at your financial statements to determine the health of your organization.

General guidelines for how a funder reads your financial statements

Number of Months of Reserve Cash														
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Caution			Room for Improvement			Good			Excellent			Too Much Cash. Not Delivering on Their Mission		

In addition, double check the proposed funding plan for the RFP to make sure that it also is feasible. Determine if the funder is offering enough funds to cover the entire cost of the project or if some parts of the RFP need to be subsidized by your organization. Consider how the funder handles indirect/overhead expenses. Will they not cover any? Is there a cap for indirect/overhead expenses or cost share? Or a gap between what is required and desired? How will you cover the gap? If the RFP as originally written is not feasible, your organization should determine if the funding source is willing to entertain suggested modifications that will increase the project’s chances of success. If a project described in an RFP seems like

something your organization can successfully carry out, it is worth applying for. If not, it is a better use of your organization's time and funding strategy to find other funding opportunities.

Flexibility

Before responding to any RFP, first determine how flexible the RFP and project are. Flexibility can take two forms—the first is the flexibility available to your organization in its response to the RFP. For example, an RFP is flexible if alternative methodology or approaches can be suggested for completing the work or if your organization has a better idea for how to achieve the desired outcomes. This type of flexibility helps you determine whether your organization's interest and capability matches the funding opportunity.

The second type is the flexibility your organization will have in managing the project. Realistically, it is impossible to anticipate every event or factor that will influence a project. Funders should be aware of this by specifying, in the RFP or at the technical conference, a process that can be used to negotiate needed changes once the project is underway.

Budgetary flexibility in the form of cash reserves and donors who are willing to back portions of a proposal is perhaps the most critical form of maneuverability for unrestricted aspects of a budget. What this means in a strategy sense is that there are restrictions tied to many, if not most, of your funding sources. The more cash, or flexible funds (unrestricted), you have to plug together the inflexible parts of the budget, the more cash flow you will have. If your funding portfolio has too many inflexible restrictions that don't match up, and there isn't enough cash to make it all flow, then you will have to consider where to put your fundraising resources.

If not, you should carefully consider the consequences should your proposal get funded, and make sure your organization is experienced in planning and managing that particular type of project.

Capability

Also, before responding to an RFP, your organization must determine if it has all the kinds of resources (including personnel) that will be needed to implement the project, or can get them in time to meet the project's deadlines. Your organization should decide if it has the institutional

infrastructure in place to make timely decisions. Most RFPs call for much tighter implementation deadlines, policies, and much more detailed performance requirements than do other types of proposals. If your organization isn't ready to make the necessary program and resource decisions, you might want to delay responding to RFPs until your organization is fully capable.

Competitiveness

The evaluation criteria included in an RFP are indicators of how competitive the RFP process will be. These criteria usually indicate the extent to which factors, such as previous experience, available support services, staff qualifications, and proposal content will be weighted in selecting organizations for an award. In particular, your organization must determine whether it has the resources (e.g., time, money) to apply.

Another issue to consider is whether your organization has the resources required by the RFP. Some organizations have various resources or services that they can provide for the project without charge, while others must consider all externally funded projects to be essentially self-supporting. Some organizations have unionized staff, which affects their per-person costs for such projects. Other organizations are located in areas where salaries are higher than elsewhere in the country. Still other organizations will find that their distance from the funder will result in much higher transportation costs than closer organizations would incur. Cost is often a major criterion when a funder evaluates competing responses to an RFP. All applicants need to carefully think through the costs before committing to a project.

Your organization needs to determine which other organizations will be competing for the award and survey the broader political environment. Map out your chances with a SWOT (strengths, weaknesses, opportunities, and threats) analysis to understand the pros and cons of going forward. Politics often influence the RFP selection processes. Strong competitors can usually be identified by participating in the RFP's technical (bidders) conference. Only the most serious applicants tend to participate in such meetings. You should also identify any individuals whose endorsements would be particularly useful in responding to the RFP, such as key elected officials, the heads of organizations that need to cooperate to make the project successful, or community leaders who are very familiar with key decision-makers of the organization issuing the RFP. Local organizations may tell you if they have been approached by other bidders and share

information about their proposals. Try to determine, by speaking directly with one of the funder's program officers, if the RFP was developed in response to criticism from a particular source or in response to legislative action sponsored by a particular group. Then examine the kinds of relationships your organization has with these influential groups or people, and determine if they will support your organization, and if so, if your organization can work with them.

One final point to keep in mind is whether another organization might already have the inside track for a particular RFP. In theory, if a government source intends to give a grant or contract to an already selected recipient, it is supposed to declare the project a **sole-source offering**. For various reasons, this often doesn't happen. Identifying RFPs that are already "locked up" is sometimes difficult, even for organizations that have a good information pipeline. However, experienced proposal writers and experienced organizations claim the content of the RFP itself may give the necessary clues. You can look for: evaluation criteria that can be met by only a few organizations, a very detailed scope-of-work statement that indicates the project has been tailored to the plans of a specific organization, or the level of detail on projects already underway or that have already been completed by another organization.

Ken's Take

Grant seekers need to look at the type of funding they are looking for and how that matches or fails to match the type of funding that a funder provides. For instance, if an organization is simply raising money for its annual budget, there are certain foundations that may be interested in that while others will not. Likewise, if an organization is looking for a grant for equipment, capital, or another type of one-time expense, there are other more appropriate sources for that.

This breakdown leads to another step, having the organization look strategically at its operating budget. For example, by looking ahead, an organization may see certain items that may be "grantable," such as a communications program redesign, small equipment, and so forth. These items may now be paid out of operating cash. If you can write a grant for such items, it allows you to preserve your cash for those expenses, such as salaries, that can be more difficult to fund with grants.

Summary

Before you begin to look for funders who can back your proposed idea, make sure you understand what types of awards are available and which kinds are most suitable for your particular idea. Clarify whether you're submitting a proposal because you're initiating the approach or because you're responding to an RFP announced by the funder.

Key Terms

capacity, capital contribution, challenge grant or matching grant, contributed income, contract, earned income, endowment, fellowship, grant, loan guarantee, operating grant or general purpose grant, pilot grant or demonstration grant, program-related investments, project grant or program grant, request for proposal (RFP), seed money or start-up money, sole-source offering, solicited proposal, sponsored project or externally funded project, unsolicited proposal