About Open Road Alliance

Open Road Alliance is a private philanthropic initiative that provides grant capital to cover the need for contingency funding that non-profits frequently encounter. We make discrete, one-time charitable and recoverable investments across all sectors and geographies because projects everywhere are vulnerable to disruption created by external circumstances.

In addition to its portfolio of investments, Open Road conducts advocacy and research to promote practices that address risk mitigation and contingency funding. We believe that in order to get the greatest social impact out of philanthropic dollars, Grantees and Funders need to have open conversations about risks involved in each project. When these conversations don’t happen, risks turn into roadblocks and impact is in jeopardy.

To learn more about Open Road Alliance, please visit: www.openroadalliance.org
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Executive Summary

In 2015, Open Road Alliance conducted a 400-respondent survey designed to look at the frequency of need for contingency funding as reported by Funders and Grantees. The survey was designed to explore the following questions about risk and contingency funding:

- **Frequency:** How often do projects need contingency funding?
- **Donor Response:** How often are projects granted additional contingency funds?
- **Capacity:** What policies and procedures are in place to deal with contingencies?
- **Consequences:** What are the consequences of unfunded requests for the project and for the Funder-Grantee relationship?

The survey data lead to five key findings:

1. Disruptions requiring additional funds (i.e., contingency funds) are common and expected. Both Grantees and Funders report that about 1 in 5 projects require contingency funding to bring projects in on time and with full impact.

2. It is not a common practice for Funders or Grantees to address these risks before they happen.

3. When contingency funds are needed, most Funders do have the operational and financial capacity to respond. When asked, the majority of Funders do approve additional requests.

4. Grantees are hesitant to communicate with Funders about potential obstacles.

5. Funders’ and Grantees’ perceptions regarding the effects of their actions on each other are often misaligned. Specifically:
   - Grantees believe that asking for additional funds negatively affects the likelihood of being awarded future grants, while the vast majority of Funders claim such requests have no effect on future decision-making.

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1. A random sample of 200 funders and 200 non-profits were surveyed for this study.
2. Grantees are exclusively categorized as tax-exempt, charitable organizations with valid 501(c)(3) status. Survey respondents included non-profits (a.k.a. Grantees) operating both domestically and internationally. Funders include private, corporate, and family foundations but do not include operating foundations.
• Funders incorrectly believe that if they deny a request for contingency funds, Grantees will find an alternate source of funds.

• Grantees report that when requests for contingency funds are denied, projects are much more likely to be delayed and somewhat more likely to be reduced in scope than Funders believe; Grantees report 16% of such projects are terminated, while Funders estimate 10%.

• Funders believe that Grantees are more comfortable talking about these issues with them than Grantees report.

The survey data offer a baseline for the necessity of contingency funding in the philanthropic sector. However, the majority of Funders and Grantees lack the basic structures, systems, and policies to address risk and contingencies, which in turn leads to a breakdown in communication between Funders and Grantees.

The lack of established risk policies and protocols presents a conundrum for Grantees who have no way of knowing if a particular Funder has the structural capacity, let alone the willingness, to provide contingency funding if approached. This opaque landscape incentivizes Grantees to be less transparent with Funders for fear that the mere act of asking could negatively affect the award of future grants. Despite Funders’ clear assertion that few such ramifications exist, the lack of communication from request for proposal (RFP) through execution makes risk, failure, problems, challenges, disruptions, and contingency needs taboo subjects. When it comes to risk, most Funders don’t ask and most Grantees don’t tell.

In order to put risk on the agenda in a way that will increase the number of projects that are delivered on time with full impact, Funders and Grantees must make some changes. This survey suggests a few simple and straightforward practices that could reduce the uncertainty and increase communication:

• **Ask and Tell:** Every funder should inquire, in detail, during the RFP process about what could go wrong that might require additional resources. Every non-profit should analyze project risks and highlight those that might require additional resources.

• **Budget:** Every donor with financial capacity for contingency funding should create a specific budget allocation accordingly. Likewise, non-profits should create specific budget allocations, cash reserves, or other funds accordingly.

• **Plan:** In addition to budgeting for contingencies, every funder should write a corresponding policy including criteria and internal protocols to guide foundation staff. Non-profits should also establish clear policies and protocols to aid communication with donors when contingency funds are needed.

• **Communicate:** Non-profits should communicate with their funders early, often, and in full.

Billions of dollars are at stake when risk goes unaddressed, but incalculable returns on impact are the true opportunity cost of poor risk management and mitigation practices. Open Road Alliance believes that in order to get the greatest social impact out of philanthropic dollars, Funders and Grantees must have open conversations about the risks involved in each project. When these conversations don’t happen, risks turn into roadblocks and impact is in jeopardy.
Introduction

In 2012, an international non-profit that specializes in community-based infrastructure projects undertook the construction of a 60 km road with full funding in place. After 40 out of 60 km had been built, a hundred-year, out-of-season flood washed out a partially completed portion of the road and damaged the heavy equipment on site.3

The world is unpredictable. No amount of planning can prevent unscripted events from causing disruption. In the non-profit sector, organizations are often working with vulnerable populations in the poorest locations of the world, where unpredictability is a constant. Non-profit leaders and donors all have stories about a project that was disrupted for the most minor reason, such as firewood that was not cut correctly for the experimental cook stove, or for a more serious event, such as civil unrest. Either way, when the unexpected occurs, additional resources (i.e., contingency funding) are often necessary to correct or manage the situation.

Foundations and other donors have developed protocols that inform why and how they invest in non-profit projects. However, as they attempt to manage grants and ensure responsible spending, many donors have created processes that are unwieldy, onerous, and restrictive. These practices leave Funders unprepared to help Grantees that need additional resources mid-grant, thus stranding projects and jeopardizing outcomes. Meanwhile, it is not uncommon for non-profits to under budget and overpromise or fail to communicate transparently with donors when problems arise. The negative effect of these combined practices on non-profit capacity and sustainability is well documented.4

At this time, Open Road Alliance has a portfolio of over 60 grants to 47 different non-profit organizations that have come to us requesting additional financial resources to address unexpected roadblocks. All of our projects were fully funded prior to the disruptive event, but they could not secure additional capital from their original Funder. While our portfolio reinforced our initial impression that a lack of contingency funding is common, we could not find any data in the existing literature to support what we were seeing. Therefore, we decided to gather more systematic data about how the philanthropic sector prepares for and manages risk.


4. See www.overheadmyth.com; SSIR. The Non-Profit Starvation Cycle. Fall 2009. Available at: http://ssir.org/articles/entry/the_non-profit_starvation_cycle/
Survey Methodology

In 2015, Open Road Alliance conducted a 400-respondent survey designed to look at the frequency of need for contingency funding as reported by Funders and Grantees. This survey also compared Funder and Grantee perceptions of preparedness to adequately address these needs.

The interview-based, 30-question survey included a random sample of 200 non-profits and 200 Funders. All interview subjects held executive or key administrative-level positions as decision-makers within the grant process. Interviews were conducted via phone by Boston Research Technologies, which also developed the research questionnaire and processed the data. All answers were self-reported.

### Profile of Funder Respondents

<table>
<thead>
<tr>
<th>Years in operation</th>
<th>Average: 41</th>
<th>Median: 35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual grantmaking budget</td>
<td>Average: $4.4 million</td>
<td>Median: $1.0 million</td>
</tr>
<tr>
<td>Average size of grant</td>
<td>$107,000; median: $10,000</td>
<td></td>
</tr>
<tr>
<td>Number of grants awarded in 2014</td>
<td>Average: 154</td>
<td>Median: 35</td>
</tr>
<tr>
<td>Number of full-time employees</td>
<td>Average: 11</td>
<td>Median: 4</td>
</tr>
</tbody>
</table>

### Profile of Non-Profit (Grantee) Respondents

<table>
<thead>
<tr>
<th>Years in operation</th>
<th>Average: 36</th>
<th>Median: 25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal year operating budget</td>
<td>Average: $5.1 million</td>
<td>Median: $11 million</td>
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<tr>
<td>Employees</td>
<td>average: 23 FT; median: 6 FT</td>
<td></td>
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<tr>
<td>Fiscal year 2014</td>
<td>52% surplus</td>
<td></td>
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<tr>
<td>20% surplus</td>
<td></td>
<td></td>
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<tr>
<td>28% breakeven</td>
<td></td>
<td></td>
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<tr>
<td>Available general operating support</td>
<td>Average: 6 months</td>
<td></td>
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<tr>
<td>11% less than 1 month</td>
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</tbody>
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5. Grantees are exclusively categorized as tax-exempt, charitable organizations with valid 501(c)(3) status. Survey respondents included non-profits (a.k.a. Grantees) operating both domestically and internationally.

6. Funder survey included 29 questions. Grantee survey included 32 questions. Each group answered questions tailored for its role as Funder or Grantee.
The survey was designed to explore the following questions about risk and contingency funding:

- **Frequency:** How often do projects need contingency funding?
- **Donor Response:** How often are projects granted additional contingency funds?
- **Capacity:** What policies and procedures are in place to deal with contingencies?
- **Consequences:** What are the consequences of unfunded requests for the project and for the Funder-Grantee relationship?

Contingency funding was defined in the survey as “requests for additional funding during the lifetime of the grant related to unforeseen disruptive events.” The requests in question were specified to relate to “specific projects for which money had already been granted.” Lastly, in this survey, “disruptive event” did not include “catastrophic natural disasters such as the earthquakes in Nepal and Haiti in which there are requests for funding for disaster relief.”
Key Findings

The survey data lead to five key findings:

1. Disruptions requiring additional funds (i.e., contingency funds) are common and expected. Both Grantees and Funders report that about 1 in 5 projects require contingency funding to bring projects in on time and with full impact.

2. It is not a common practice for Funders or Grantees to address these risks before they happen.

3. When contingency funds are needed, most Funders do have the operational and financial capacity to respond. When asked, the majority of Funders do approve additional requests.

4. Grantees are hesitant to communicate with Funders about potential obstacles.

5. Funders and Grantees are often misaligned in their perceptions of the effect of their actions on the other. Specifically:
   - Grantees believe that asking for additional funds negatively affects the likelihood of being awarded future grants, while the vast majority of Funders claim such requests have no effect on future decision-making.
   - Funders incorrectly believe that if they deny a request for contingency funds, Grantees will find an alternate source of funds.
   - Grantees report that when requests for contingency funds are denied, projects are much more likely to be delayed and somewhat more likely to be reduced in scope than Funders believe; Grantees report 16% of such projects are terminated, while Funders estimate 10%.
   - Funders believe that Grantees are more comfortable talking about these issues with them than Grantees report.

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7. The survey screened for Funders with and without specific grant cycles. Results found that this variable does not significantly affect Funder responses.
Detailed Findings

**Frequency:** Contingency Funding — Does it happen and how often?

Funders and Grantees agree that disruptions happen and that the need for contingency funds is a fairly predictable reality. However, it is not a common practice for Funders or Grantees to address these risks before they happen.

When asked how many times a Grantee had approached them in the past 12 months asking for contingency funds, 22% of Funders reported that they had been approached one or more times. Meanwhile, 16% of Grantees reported that at least one of their projects required contingency funds in the past 12 months.

In 2015, a non-profit health clinic seeking government accreditation in a South American country was told after the fact that government regulations had changed, and they would be required to purchase and install a $25,000 industrial generator within 90 days in order to retain the necessary accreditation.

When asked to predict the next 12 months, 24% of Funders said it is likely that at least one of their Grantee projects will need contingency funding, while 22% of Grantees stated the same. Although these numbers are self-reported, the relative consistency between Funders and Grantees offers a strong estimate that 1 in 5 projects will require contingency funding during the course of the grant. This number presents Grantees and Funders with a useful benchmark for setting expectations and managing risk. The results are encouraging because while 20% is significant, it is a manageable ratio that offers great promise for developing best practices to mitigate risks and prepare for contingency funding.

However, current sector preparedness for dealing with project emergencies is minimal. When respondents were asked about the RFP process, 76% of Funders said they don’t ask applicants to assess, either in written or verbal form, what circumstances could lead to a need for additional funding. Grantees reported an even higher percentage of RFPs (87%) that don’t ask about what could go wrong and what it might take to fix the situation. On the Grantee side, only 23% of non-profits surveyed reported having a formal risk management policy.

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8. To view the full annotated surveys with responses, please visit www.openroadalliance.org
10. An additional 31% of Grantees reported having an “informal” risk management policy, while 46% reported having no such policy at all (question 20; NGO survey).
Response and Capacity: How often are projects granted additional contingency funds? What policies and procedures are in place to respond to contingencies?

In 2014, an NGO receiving pre-approved, multi-tranche funding from a CSR department at a major corporation was suddenly cut off mid-tranche when the corporation enacted an abrupt freeze on new expenses throughout their procurement department, where the CSR team was housed. Since the account freeze was unrelated to the NGO’s performance or activities, the NGO approached the corporation to request an alternate or deferred means of payment. As the CSR department had no policies or protocols in place to deal with contingencies, they were forced to deny the request.\(^{11}\)

When contingency funds are needed, most Funders do have the operational and financial capacity to respond and — when asked — most Funders reported that they do approve additional requests.\(^{12}\)

In the survey, 22% of Funders reported being asked for contingency funds in the last 12 months; of those Funders 60% approved at least one request (see figure below). This correlates with non-profits who reported that 58% of requests for contingency funds are approved.

In terms of capacity, 63% of Funders said they have the financial capacity to make grants outside of their grant cycles. When asked about staff capacity, 63% of Funders also reported having a staff member or committee specifically responsible for managing off-cycle grants requests.

Despite acknowledging capacity, Funders have not implemented clear policies and procedures to govern granting money for contingencies. Only 17% have a specific allocation for contingencies in their annual budget, and only 35% have a specific policy to govern managing off-cycle requests.

\(^{11}\) Open Road Alliance Portfolio. Spark MicroGrants case study. 2014.
\(^{12}\) While it was beyond the scope of this survey to explore why Funders deny or approve a given request, we did inquire as to their capacity to respond in order to examine the role of internal capacity as a contributing factor to this topic.
This lack of clarity around Funder policies and procedures may contribute to Grantees’ varying perceptions of what their Funders are able and willing to do. Only half of the Grantees surveyed had ever approached their Funders to ask for additional funds. Of those requests, 58% were approved and 42% were denied.\(^\text{13}\)

When asked what percentage of Funders are sympathetic to the possibility of contingency funding, Grantees had no clear consensus, as illustrated in the graph below (Figure A).

While Grantees differ in their expectations of Funders, they, too, lack critical policies and procedures to identify, mitigate, and communicate about risk. 22% of Grantees don’t have a policy or procedure to communicate with Funders when they need contingency funds, 46% of Grantees don’t have any risk management policy at all, and only 23% have a formal risk policy in writing.

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\(^{13}\) Grantee responses were consistent with Funders who reported that in the past 12 months, 60% of Funders, \textit{when asked}, approved at least one request for contingency funds. (Questions 9 and 14B; Funder survey).
Consequences: What are the consequences of unfunded requests on the project and for the Funder-Grantee relationship?

In 2013, an NGO that was building an intensive online training platform for the U.S. Department of State (DOS) with funding provided by a private foundation was asked to significantly expand its scope. Although additional funds to cover the difference in cost were committed from DOS, it was subsequently determined that these funds would not be available due to obscure laws concerning donated materials, leaving the NGO with $47,000 of net unpaid expenses. After the private foundation declined to cover unmet amount, the NGO addressed the shortfall by taking on significant commercial debt. As a result, all revenue from other program activities and contracts were being used to backfill losses, effectively stunting the organization’s growth.

Dealing with unpredictable situations may be a given in the work of non-profits, but when those situations threaten the effectiveness and success of the project, those disruptions become problems for both the Grantee and the Funder. However, in the survey we found that Funder perceptions and Grantee realities on the consequences of denied requests were generally misaligned.

The most prominent misalignment was around sources of funding to address contingencies (see Figure B). Funders incorrectly believe that the majority of Grantees can find an alternate source of philanthropic funding when they deny off-cycle requests. In reality, most Grantees cover costs from operating or unrestricted funds, which are often scarce and allocated to overhead costs. As illustrated in the case study above, this practice can significantly hamper organizational capacity, growth, and impact.

Nonetheless, there is good news when it comes to non-profit resilience. With or without additional funds, most projects that need contingency funds will be completed, although scopes may be reduced or timelines extended (see Figure C). Grantees reported that only 16% of projects that are denied an initial request for contingency funds are fully terminated. While this may sound like a reasonable attrition rate, it remains a poor investment proposition for the original Funders of those terminated projects that effectively receive zero return on investment (ROI) on their philanthropic investment.

In terms of the Funder-Grantee relationship, there seems to be a profound disjoint between the Funders’ statements and the Grantees’ real fear that asking Funders for contingency funds will result in negative consequences. 47% of Grantees believe that asking for additional funds affects the likelihood of being awarded future grants. In contrast, 90% of Funders claim such requests have no effect on...
In 2013, an NGO received a $5 million grant from a private foundation to support expansion of activities. The NGO experienced some management challenges at the local level and needed to bring in higher-level talent to effectively implement the $5 million project. The grant did not provide funds for a high-level program manager, and the original funder was unwilling to revisit the approved budget ceiling. Open Road Alliance provided $100,000 to replace leadership at the local staff level. Open Road happened to know the other funding party and asked the NGO if they could discuss the project. With evident panic, the NGO asked Open Road to keep the details of their staffing challenge confidential.15

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their own future decision-making. While this contrast suggests that Grantees are overly nervous about approaching Funders, the sense of fear among Grantees is real, as is noted in qualitative research done by Open Road in 2014. In this example, a focus group of 20 non-profit participants cited “fear of negative judgment by the donor and consequent possible loss of future funding” as a primary reason for not communicating challenges with Funders. As one non-profit leader put it, “I don’t want to go to a donor in desperation.”

Furthermore, a recent survey by the Duke University Center for Strategic Philanthropy and Civil Society clearly shows that grant performance, especially “loss,” strongly influences future donor behavior and decision-making. Within our survey, only 8% of Funders admitted they would be influenced by a request for contingency funding, but 74% of those stated that the influence would be a negative one (see Figure D). This is an area that could benefit from more research.

In another survey question, the bias of positive self-impression is evident. When asked if their Grantees feel comfortable asking them for additional funding, 77% of Funders reported that their Grantees would

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17. Ibid.

be comfortable. However, when asked about the sector at large, only 57% of Funders believed that Grantees feel comfortable asking other Funders for additional funding. Here, Funder answers reflect the more common assumption that presenting additional requests will be unsuccessful and quite possibly harmful.

Whether or not they view themselves more favorably than their peers, all Funders believed that Grantees were more comfortable talking about these issues with them than Grantees reported being. Only 60% of Grantees reported feeling comfortable discussing possible contingencies during the application process; this percentage dropped to 52% feeling comfortable with such discussions after the award was made.

This drop in Grantee comfort is somewhat puzzling, since 8% of Grantees who are willing to risk the relationship and talk about what could go wrong during the proposal process find it becomes more risky to talk about potential problems once the funding is secure. It is possible that once Grantees have signed an agreement with a Funder, they feel bound by the parameters of the grant and are thus unwilling to try to change an agreement, even if results are in jeopardy. This contrasts with the more ideal situation in which having signed an agreement, Grantees acquire increased trust and confidence in their partners.

Figure D: If a request affects future award, is that effect:
Conclusion and Recommendations

The survey results demonstrate that project disruptions do occur and contingency funding is needed in approximately 1 out of 5 projects. In addition to setting a baseline for the necessity for contingency funding, the results of this survey offer both good news and bad news about the state of risk in philanthropy.

The good news is that — when asked — donors are providing contingency funding to Grantees (58–60%). The bad news is that the majority of Funders and non-profits lack the basic structures, systems, and policies to address risk, which in turn leads to a breakdown in communication between Funders and Grantees.

The survey data also suggest that the lack of established risk policies and protocols presents a conundrum for Grantees who have no way of knowing whether a particular Funder has the structural capacity, let alone the willingness, to provide contingency funding if approached. This opaque landscape incentivizes Grantees to be less transparent with Funders for fear that the mere act of asking could negatively affect the award of future grants. Despite Funders’ clear assertions that few such ramifications exist, the lack of communication from RFP through execution makes risk, failure, problems, challenges, disruptions, and contingency needs all taboo subjects that remain unspoken and thus unaddressed. When it comes to risk, most Funders don’t ask and most Grantees don’t tell.

In order to put risk on the agenda in a way that will increase the number of projects that are delivered on time with full impact, Funders and Grantees must make some changes. Fortunately, the survey suggests a few simple and straightforward practices that could reduce the uncertainty and increase communication.

For Funders

- **Ask:** Every Funder should inquire, in detail, during the RFP process about what could go wrong that might require additional resources.
- **Budget:** A 1-in-5 frequency rate implies that 20% of every Funder’s grantmaking portfolio is at risk. To mitigate this risk, every Funder with financial capacity for contingency funding should create a specific budget allocation accordingly.
- **Policy:** In addition to budgeting for contingencies, every Funder with staff capacity to provide contingency funding should write a corresponding policy, including criteria and internal protocols, to guide foundation staff. Even those without financial or staff capacity would benefit from a written policy statement that clarifies why they are unable or unwilling to provide contingency funds. Either way, written documentation and budget allocations provide a clear path to both Grantees and internal staff, removing a key layer of uncertainty and miscommunication.
For Non-Profits

- **Budget:** Non-profits share the risk of and the responsibility for project disruptions. When 1 in 5 projects are at risk, all non-profits should create specific budget allocations, cash reserves, or other funds accordingly.

- **Policy:** Non-profits should establish clear policies and protocols to aid communication with Funders when contingency funds are needed.

- **Communicate:** Non-profits should communicate with their Funders early, often, and in full. When Funders are asked to help and are willing to do so, it is the responsibility of Grantees to communicate after the grant is made.

Open Road Alliance believes that in order to get the greatest social impact out of philanthropic dollars, Funders and Grantees must have open conversations about the risks involved in each project. When these conversations don’t happen, risks turn into roadblocks and impact is in jeopardy.

We believe these simple structural changes can have critical implications for the efficacy of grantmaking, yielding more transparent partnerships and therefore greater impact.

Future Research

This survey represents a first step in gathering systematic data about how the philanthropic sector prepares for and manages risk. While the survey methodology was intentionally designed to offer broad and statistically significant results, future studies may focus on a segment of respondents and/or cross-variable analyses to detect any distinctions among sectors, organization size, and other factors. Continued case studies and qualitative analyses are important for understanding why donors and non-profits make certain decisions and where disconnects may persist. Open Road is committed to following this line of inquiry, and we look forward to exploring this topic over time.