

THE BASICS OF THE GRANTMAKING PROCESS AND DUE DILIGENCE

Updated as of February 2023

This information is provided by Ask CMF, a technical assistance service of the Council of Michigan Foundations, for educational purposes only and does not constitute legal advice.

Grantmakers regularly reach out to CMF to learn more about grantmaking and due diligence. For small-staffed or volunteer-based grantmaking teams, these requests are particularly driven by limitations of time, capacity and resources to better inform the due diligence process. As the philanthropic field has continued to transform, foundations around the country are also increasingly engaging in conversation on how to reduce barriers to support, including reimagining grant applications and evaluation requirements. CMF’s commitment to centering equity includes amplifying philanthropic practices that embrace a trust-based approach. Simplifying and streamlining the grantmaking process is one way of leaning into an equity-centered partnership with nonprofits.

This resource is intended to fill a gap in available source material to provide a useful overview for grantmakers of all sizes and types. It outlines the general steps of the grantmaking process while highlighting areas where due diligence components can be incorporated.

Key Sections

Due Diligence.....	2
Creating or Revisiting the Grantmaking Process.....	2
Setting Expectations of the Applicant.....	2
Creating the Application	3
The Application Process – Timelines, Materials, and Submission	4
Application Timelines	4
One-Step or Two-Step Application Process Methods	4
Application Materials	4
Application Submission Process	5
Making Grant Decisions – Rubric and Internal Process	5
The Internal Decision-Making Process	5
Using a Rubric	6

Successful vs. Unsuccessful Grant Applications7
Reporting and Evaluation7

Due Diligence

According to the Merriam-Webster dictionary, “due diligence” may be defined as “research and analysis of a company or organization done in preparation for a business transaction...” Within the context of grantmaking, due diligence most commonly refers to research conducted by grantmakers in regard to potential grantees.

At the most basic level, due diligence involves identifying the types of information that will answer the question, “Is this a qualified and capable organization with the capacity to carry out this project?” Depending on each grantmaker or grantmaking program, the specific steps and requirements to sufficiently answer this question may vary, but the same core concepts remain true throughout the grantmaking process.

The goals of the grantmaking program should be evident in the types of questions asked on the application, the scoring system used by decision-makers reading completed applications and the questions and/or evaluation components required during the reporting stage of successful grants. Due diligence efforts should be a vital part of this structure, as all information gathered throughout the process should inform the grantmaker’s understanding of the potential grantee’s ability to successfully carry out the work outlined in their application.

Creating or Revisiting the Grantmaking Process

Whether an organization is creating new grantmaking procedures or introducing due diligence to an existing process, it is important to remember that due diligence is an integral part of the entire grantmaking process. Ideally, due diligence measures should be embedded within each key step, rather than being implemented exclusively during the application phase or emphasized only as part of internal discussion.

The steps of the process should be documented, including notes on any variations in the process between grant programs, focus areas or funding levels. This resource does not have to be long or elaborate but rather should be easily understood by personnel involved in the process.

Setting Expectations of the Applicant

It is equally important to create a structure for clearly communicating the grant program to potential applicants. Some grantmakers generate an RFP (Request for Proposals), whereas others provide an overview of the grant application process on their website. Regardless of format, applicants should gain

a clear understanding of the grantmaker's expectations of the grant program, including relevant deadlines, forms, focus areas, funding limitations and submission procedures.

The grantmaker should create a system that ensures applicants supply all necessary information to fulfill the grantmaker's needs to carry out its due diligence process. This can take the form of a structured application or a list of key elements for a free-form narrative. In many cases, the applicant will take on the burden of assisting the grantmaker with the due diligence process specifically by providing all requested documentation. While the grantmaker should ensure they request a reasonable amount of information and the process is not too burdensome for applicants, the grant applicants themselves should also be capable and willing to provide the documents that are requested.

Creating the Application

Ideally, the application should be created in conjunction with the grant program's overall strategy and process components.

The application form will capture basic information about the organization and program being supported. Some grantmakers also like to ask essential information related to the grant program itself, such as funding amount, focus area (or specific grant program being applied for), the grant timeframe and/or region being served. These types of elements allow staff to conduct a preliminary review of applications to ensure they meet basic criteria, i.e., being located inside the grantmaker's service area.

A grant narrative (or narrative sections of an application form) requests longer-form answers, which may need to be within a specific length (i.e., word count). Question types may vary if the grant program is designed for general operating support or a specific project within the organization. Generally, an organizational overview is required to capture information on mission, purpose and basic programs. Project-specific grant applications will require a description of the project, including any partners, personnel qualifications, progress and relevant concept information. The goals and outcomes of the grant are also a common application element and are oftentimes connected to a means of measuring or evaluating the success of the grant program. Additional elements might include the population being served and the program's geographic reach or its affiliations.

A project timeline and budget are frequent elements of a completed application, particularly for project-oriented grants. These may be incorporated into the application form or serve as stand-alone attachments. Some funders provide applicants with a list of expenses that will not be covered within a specific grant program. For example, some grantmakers will not fund special events or sponsorships, while others restrict the percentage of the program that can be covered with the grant. The budget and timeline documents are particularly useful indicators. The budget and timeline should align with the applicant's staffing and capacity as described in the grant materials.

THE APPLICATION PROCESS – TIMELINES, MATERIALS, AND SUBMISSION

Application Timelines

The grantmaking process and all deadlines should be right-sized to the organization and personnel managing the process. Main deadlines should coincide with timeframes that are reasonable and achievable for staff and volunteers. Some organizations choose quarterly or annual deadlines in order to make grant cycles consistent and predictable. In other cases, deadlines are determined based on the availability of certain information (i.e., 990 data or audited financials), while others are based on the timing of funding needs, such as a scholarship program for graduating high school seniors.

In choosing a timeframe for the grant application process, consider that applicants require sufficient time to review the grant requirements and submit materials between the grant announcement date and the application deadline(s). Likewise, those reviewing the grants should have sufficient time to read, review and evaluate the materials while keeping to established due diligence steps.

One-Step or Two-Step Application Process Methods

Grantmakers may choose to develop a one-step or two-step application process. Both methods include gathering necessary information for due diligence.

In a one-step process, the grantmaker requests all application materials from applicants as a single submission, as one packet of information. While some groups may have rolling deadlines, the applicant's materials are typically reviewed by the grantmaker at a single point in the process. Depending on the grantmaker, some follow-up steps may occur, such as a meeting or site visit.

In contrast, a two-step application process has several deadlines. Most commonly, the grantmaker will require applicants to first submit an initial application or LOI (letter of inquiry/interest). If the initial application is approved, the applicant is then invited to submit a full application or additional materials by a second deadline. This approach allows the grantmaking team to focus their energy on applicants who meet preliminary criteria and fit within pre-established grantmaking focus areas (geographic, topical, funding amounts, etc.).

Application Materials

Depending on the intent of the grantmaking program type and field of focus, the exact set of application materials can vary widely.

In order to conduct proper due diligence, grantmakers should be able to verify the applicant's charitable status. This information is most frequently collected via the applicant's IRS letter of determination.

Applicants may also be requested to supply such documentation as:

- Mission
- Organization history
- Key/Relevant programs
- Leadership and staff bios/resumes
- List of board members
- List of project partners
- Financial status / Audited financials
- Form 990
- Marketing materials
- Related publications
- Project proposal
- Project timeline
- Project budget

Some application processes also require that initial evaluation requirements are met. This may involve the applicant providing an overview of evaluation methodologies, goals and expected outcomes that fit with the grantmaker’s expectations or program requirements.

Many grantmakers restrict their grant programs to 501(c)(3) organizations with a 509(a)(1) or (a)(2) designation. For those grantmakers that provide funding to organizations with other U.S. or international designations, additional procedural requirements may need to be met to make grants. Please contact CMF for additional resources related to your specific grantmaking program needs.

Application Submission Process

Depending on the size and complexity of the grantmaker, application submission processes may vary. Historically, grantmakers received reams of paperwork from applicants. However, many applications are now submitted through email, online portals and other electronic systems. Even without an overly complex application system, grantmakers can use technology to streamline the submission process and gather applicant information for later review. By using systems that ensure consistent submissions between applicants, grantmakers can more easily confirm that required information is submitted and ensure that due diligence processes can be carried out for all eligible applicants.

MAKING GRANT DECISIONS – RUBRIC AND INTERNAL PROCESS

The Internal Decision-Making Process

At the most basic level, the grantmaking process involves making decisions about where grant funds will be spent. However, there may be more or fewer steps in the process depending on the capacity, goals and infrastructure of the grantmaking organization.

Once completed applications arrive, typically a staff member or volunteer will gather the completed materials and conduct a first read-through of the applications. While this may not constitute a formal step of the process, this person does a great service to the rest of the review panel. Inevitably some applications may be considered “incomplete” as they do not provide sufficient information required for due diligence purposes. (Each grantmaker can determine for itself what constitutes an incomplete application.) Additionally, this person can organize the application materials prior to the formal review

process, whether by creating a cover sheet for each application or a sorted list of all applications being reviewed, and by ensuring all application materials are in order.

Before the review panel actually begins reading any applications, there should first be a clear process to follow and stated expectations. Some grantmakers choose to use a rubric or other scoring system that all reviewers use as the standard for all grants.

Using a Rubric

A rubric is a document (oftentimes formatted as a table) that outlines the general categories being evaluated in a grant. This worksheet allows the review committee to grade the grant applications using the same set of expectations across an entire grant program or category of applications. Additionally, it provides a consistent framework for all reviewers to participate in the process, oftentimes with a numeric score given to each section and/or the application as a whole.

Rubrics serve as a useful tool to ensure that the grant program's due diligence goals are met, even during the decision-making stage of the process. Reviewers read through the application material and any additional information that may be gathered, and then use the rubric as a tool to score the application based on criteria that fits with the grant's potential effectiveness to achieve the grantmaking program's aims. The same set of goals and expectations established for due diligence at the beginning of the process make a reappearance during this stage and follow through the final evaluation of the fully-completed grant.

CMF members looking to develop or update their rubric or other grantmaking materials can access the CMF Sample Documents Hub, available at www.michiganfoundations.org/sampledocs.

The review panel should also know how and when they are meeting to make the final grant decisions and the level of discussion or presentation that will be expected. Likewise, the review panel should have an understanding of how final grant decisions will be made, such as through the use of a scoring system, majority vote, etc.

In developing the internal process for making grant decisions, it is important to consider whether there are any "exceptional" grants that do not need to follow the established process. These situations may include board/staff-designated grants or those based on extraordinary circumstances (natural or man-made disasters, organizational need, etc.). These situations should have pre-established qualifications to be applicable, oftentimes as a result of minimum levels of legal or due diligence criteria (such as belonging to certain categories of organizations, geographic focus, etc.). These grants may also have limitations based on size and scope, depending on the grantmaker.

Successful vs. Unsuccessful Grant Applications

The difference between successful and unsuccessful grant applications varies by grantmaker. Some grant programs set a minimum score for successful grants, while other have an established number of dollars for a grantmaking initiative and cut off funding when those dollars are gone. Regardless of the system used to determine the successful grants, it is important to remember that the grantmaking process and due diligence continues even beyond this stage.

Once grant decisions are made, the grantmaker should follow up with both successful and unsuccessful applicants. Unsuccessful applicants should be informed of their status in a timely manner and should be given at least some sense of why the application was not successful (funding limitations, outside grant parameters, competitive grant pool, etc.). Successful applicants should be informed of the next steps in activating their grant, such as acknowledging the grantmaker's support, tracking the use of grant dollars and evaluating their grant-funded program.

For the internal grantmaking team, the determination of successful and unsuccessful grant applications provides a prime opportunity to evaluate certain components of the grantmaking process. They should consider how effectively due diligence needs were met and whether the requirements helped to better recruit a pool of successful applicants. The team should also consider what information would be helpful in making better decisions that meet with their goals and evaluate whether any requested information had little bearing on the overall decision of the review panel. This type of internal review will help to ensure that the due diligence and grantmaking process is right-sized to the needs and capacity of the organization and its personnel.

Reporting and Evaluation

The grantmaking process continues until the final reporting and evaluation steps take place after the grants are completed. By the end of the grant, the grantmaker should sufficiently be able to answer the ultimate due diligence question: "Was this a qualified and capable organization with the capacity to carry out this project/grant?" The final reporting and evaluation should ideally reinforce the grantmaker's decision to fund the organization and/or project.

Best practice calls for a strong focus on the reporting and evaluation step, as it is used to determine the overall success of each grant and the grantmaking program as a whole. The evaluation methods and reporting tools are intended to help illustrate the grant's impact on a specific population or area and should be designed to provide this information in an easily-read format. Ideally, the grantmaker should then be able to use this reporting structure to further inform its current grantmaking process and future grant decisions. The team should further consider how easily this reporting can be integrated in communications with donors and the community at large as part of highlighting the impact made by grants the organization has awarded. It is additionally important to consider the potential burden of evaluation and reporting requirements on the grantee.

In order to achieve its funding goals, the reporting structures should reinforce the same ideas established at the beginning of the grantmaking process and carried throughout the development and evaluation of grant applications. The final grant reports should then show evidence that the concept first outlined in the application were carried out by the grant recipient and reinforce that the grantmaker's due diligence process resulted in a good match between its funding of grants and the goals that it sought to achieve.

RECOMMENDED RESOURCES

Bridgespan Group. "How to Research a Nonprofit – Light-Touch Approach.

<https://www.bridgespan.org/insights/library/philanthropy/nonprofit-due-diligence-donor-decision-tool/how-to-research-a-nonprofit%E2%80%94light-touch-approach>.

La Piana Consulting and Grantmakers for Effective Organizations. "Due Diligence Done Well: A Guide for Grantmakers." <https://www.geofunders.org/resources/714>.

Project Streamline. "Due Diligence." Guide to Streamlining Series.

<https://www.peakgrantmaking.org/wp-content/uploads/2014/07/Due-Diligence.pdf>.

Teitel, Martin. *"Thank You for Submitting Your Proposal": A Foundation Director Reveals What Happens Next*. Medfield, MA: Emerson and Church Publishers, 2010.

ABOUT ASK CMF

This document was authored by Brittany Kienker, Ph.D., Knowledge Insights Expert in Residence for the Council of Michigan Foundations (CMF). CMF members can find answers to their most pressing questions through CMF's Knowledge Insights division, including Ask CMF, the Knowledge Center and the Sample Documents Hub. Ask CMF is a free service to CMF members, available through the "Ask CMF" link on the CMF homepage or by visiting www.michiganfoundations.org/practice/ask-cmf.

Legal Disclaimer:

The content of this communication is being provided for educational purposes only. This information should not be taken as legal or tax advice. The laws applicable to tax-exempt organizations are complex and change frequently, and further analysis may be necessary. Please consult your professional advisors.