

## Discretionary Grants - Guidance and Guidelines<sup>1</sup>

### What is discretionary grantmaking?

There are multiple definitions for discretionary grantmaking<sup>2</sup>. The Council on Foundations, for example, defines discretionary grants as funds distributed at the decision of one or more foundation board members, typically without prior approval by the full board of directors. The governing board can also delegate discretionary authority to staff to, for example, respond to emergencies in a community. The National Center for Family Philanthropy<sup>3</sup> defines discretionary grants, more simply, as those made at the discretion of individual trustees or other authorized individuals, without the standard approval process and/or review by the full board.

Further, according to a survey of Foundation Source's clients from 2018, about 60 percent reported discretionary grantmaking<sup>4</sup>. Family foundations are the most likely to employ discretionary grantmaking.

### What are the benefits to discretionary grantmaking?

Discretionary grantmaking:

- Engages geographically dispersed family members and trustees with the foundation, the foundation's mission, and their own community -- thus expanding the foundation's geographic reach, community, and understanding and leading to potential partnerships and community building
- Provides the opportunity to test grantmaking in new interest areas, new opportunities, innovation, seed funding, and higher risk grants
- Acts as rapid response or emergency funding as urgent issues arise
- Helps ease tension and competition among board members and trustees by providing the opportunity for everyone to choose funding area/s that are most meaningful to them individually and in a way they may not have explored otherwise. This can also help preserve collective decision making by providing an escape mechanism for dissent
- Fosters enthusiasm, commitment and engagement with the foundation
- Helps train new foundation board or staff members on the foundation's mission, values, practices, goals, and processes
- Can encourage longer-term engagement as giving these discretionary dollars can help make trustees and board members feel like their unpaid work is more worth their while

<sup>1</sup> This guide was developed by the Sillerman Center for the Advancement of Philanthropy. Please contact Sheryl Seller ([sseller@brandeis.edu](mailto:sseller@brandeis.edu)) with questions around use of this guide.

<sup>2</sup> Lee Draper, "[Using Discretion](#)," *Draper Group* (2004).

<sup>3</sup> In "[Policy Central: Grantmaking and Strategy](#)," The National Center for Family Philanthropy states that Council of Michigan Foundations defines discretionary grantmaking as "grants distributed at the discretion of authorized individuals, usually board members or senior staff, who are given the opportunity to direct a small portion of funds from the foundation to a charity or profit organization of their choice."

<sup>4</sup> "[Discretionary Grantmaking: The Pros and Cons](#)," *Foundation Source* (2018).

## What are some concerns around discretionary grantmaking?

### Discretionary grantmaking:

- May put trustees and family members at odds with one another and be used to avoid collective actions, decision making, and consensus building
- May dilute the foundation's mission/overall impact if there is too much freedom in how discretionary dollars are allocated
- May lead to uncertainty as the dollar amount may fluctuate based on how the market performs any given year, the number of board members or trustees at a given time, or the number of engaged family members.
- May deter personal giving
- May take resources away from current grantees, mission, and focus
- May confuse and alarm the public and nonprofits if discretionary grants do not align with mission and general scope of foundation's work
- May diminish impact due to a lack of accountability
- May lead to self-dealing<sup>5</sup>

## Recommendations and best practices for discretionary grantmaking

1. Develop a short guidance/policy on why the foundation makes discretionary grants, the yearly percentage or dollar amount pulled, anything prohibited, and information on the grant approval process
2. Grants should be consistent with the foundation's mission -- or if the mission is too narrow, then at minimum aligned with the foundation's values/goals. Discretionary grantees may not fit into the determined grant categories as neatly, but that is ok.
3. If the foundation is concerned that discretionary grantmaking will reduce motivation for family members to make individual donations from their own money then the foundation can institute a 'Matching Gift' policy -- meaning dollars will only be allocated if the trustee/family member also gives equal funding, out of their own money, to the organization of choice
4. Perhaps give new board members and/or trustees a time limit for discretionary grants (i.e. they can only make these discretionary grants for 3 years as a learning experience). However, this may look different for the younger family members who are doing this as a learning/family building experience

### *At minimum, a policy on discretionary grantmaking should specify:*

- How much money individuals may designate annually (either a dollar figure or a percentage of the total grantmaking budget)
- Who is eligible for the program (options include the family board members, non-family board members, board chair only, executive director, staff, children of board members, etc.)

<sup>5</sup> Foundation Source defines "self dealing" as "any transaction between a private foundation and a "disqualified person" (foundation insider), except for a few narrow exceptions." For more information on self dealing, see "[Self-Dealing Rules & Penalties](#)," *Foundation Source*.

- Types of organizations that are eligible and whether the grant must fit the foundation’s mission and/or guidelines
- Any requirements of the individual designating the grant, e.g. submitting a written proposal
- Requirements of the grantee, including submission of a 501(c)3 determination letter and whether a final report is required
- Grant approval process, e.g. the executive director reviews the grant for compliance with policy and the full board approves retroactively at their next board meeting.

#### Sample policies and forms

- NCFP collected sample policies in 2018: <https://www.ncfp.org/wp-content/uploads/2018/09/Discretionary-Grants-Policies-GEO-and-NCFP-2018-policy-central-grantmaking-and-strategy.pdf>
- NCFP outlines policies on grantmaking and strategy. One section speaks to discretionary grantmaking. This section offers samples for policy language, grant request forms and as acknowledgement forms. Examples from Council of Michigan Foundations are useful: <https://www.ncfp.org/knowledge/policy-central-grantmaking-and-strategy/>

#### *Sources:*

“[Discretionary Grantmaking: The Pros and Cons.](#)” *Foundation Source* (2018).

Draper, Lee. “[Using Discretion.](#)” *Draper Group* (2004).<sup>6</sup>

“[Policy Central: Grantmaking and Strategy.](#)” *National Center for Family Philanthropy.*

Price, Susan Crites. “[Discretionary Grants: Engaging Family... or Pandora’s Box?](#)” *National Center for Family Philanthropy* (2011).



<sup>6</sup> This article is from 2004, but it provides a sort of landscape review of discretionary grantmaking across foundations of all types. At the time of the article, it appears that discretionary grantmaking as a practice was on the rise.