Softening the painful path to goodbye

Andrea Johnson For grantmakers and grantseekers alike, developing an exit strategy before funding begins might seem totally counterintuitive. Everyone knows the problems funders and civil society organizations seek to resolve are highly complex and deep-rooted. Short-term vision cannot work under these circumstances, so long-term commitment seems to be required. But everyone also knows that most funders are unlikely to go on funding a particular organization, country or programme area for ever. So how can long-term needs be reconciled with the inevitable exit?

Guest editors for the *Alliance* feature 'The vexed question of exit'

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Regardless of the long-term nature of problems, funders can and do exit, on a number of levels. Exits can be dramatic, wholesale withdrawals of a funder from a country, eg Ford's recent exit from the Philippines, or a retreat from a grantmaking area, such as Carnegie's shift, several years ago, away from broad support for women's health and development, and other activities in Africa. Or, most commonly, when funders cease to support individual organizations.

Exit reasons also vary. In the foundation community, declining assets – eg due to the recent stock market slide – can trigger grant programme and portfolio restructuring. Changes in the thinking or composition of foundation leadership (founding donors, boards or presidents) can also affect a foundation's direction. Even a change in programme officer can effect changes in strategy and subsequently in the organizations that receive support. Exits can also be necessary to keep a strategy fresh and flexible. Foundation resources tend not to expand quickly so once a strategy is in place, funds often go to the same set of grantees over and over, which closes off opportunities for newer organizations to receive funding and can create as much bad will as ceasing support to long-term grantees.

Foundations are generally too small to cause much of a ripple when they exit a country – behemoths like Ford and Gates aside – but they can cause disruptions when they leave a field, especially when they cease support for specific organizations or are a significant funder in the field or of the organizations concerned. I will draw on my experiences as a US foundation grantmaker to discuss issues related to these two last varieties of exit, focusing on three particular issues: why paying attention to exit matters; the connection between exits and sustainability; and how my foundation, Carnegie, is incorporating exit strategies into its current work with African universities.

Why the reluctance to consider exits?

If exits are inevitable and most problem-solving requires long-term commitment, how can these two seemingly mutually exclusive notions be reconciled? Ironically, it's often the long-term nature of problems that makes it so difficult to focus on exit strategies. For foundations, the hard reality of limited financial resources in the face of tremendous demand can sometimes be softened by the hope that time and some targeted strategic interventions will do the trick. For grantees, having some basic financial needs met gives them space to focus on achieving their mission, understandably their highest priority. High-intensity fundraising, much less working to create a long-term enabling environment for the non-profit sector, diminishes in importance. So neither party thinks about a time-limited scenario, which might explain why no one seems prepared when a funder announces their exit from a country, field or organization.

A realistic time frame

In many respects, foundations and grantees do themselves a disservice by not considering an exit strategy up front. I would argue that foundations should include a realistic time frame in their grantmaking strategies, before more than exploratory grants are made. The time frame, along with an estimate of the size of the investment and an analysis of promising entry points into the problem to be addressed, would guide the goals, types of grants made and organizations supported. A minimum time frame for a strategy would give applicant organizations an idea of how long they might expect to receive support, subject to performance reviews. It would also allow for hard thinking about what can reasonably be achieved. For instance, a five-year initiative might be able to effect policy change but would be unlikely to change ingrained practices or institutionalize supportive organizational infrastructure. Likewise, a strategy calling for the creation of new organizations would need a longer time frame than one that could be implemented by existing organizations.

A foundation's history can help determine what constitutes a realistic time frame. For example, Africa programming at Carnegie, especially in the last 50 years, has tended to shift rather dramatically with presidential transitions. Threads of education, human development and knowledge production can be traced fairly consistently from 1926, when grantmaking in Africa began, but how those themes have been interpreted at any given time has depended primarily upon leadership decisions. The last three presidents who completed their terms served an average of 14 years. Given this history, I estimate that any strategy proposed at the beginning of a presidential term should be able to achieve its goals within that time frame. Following this logic, strategies begun later in a presidential term should have shorter estimated time frames. Otherwise, we run the risk of having to cut funding programmes short and leave goals unfulfilled, leading to frustration on all sides of the grantmaking equation. Other foundations would have different patterns of programme duration – eg the average tenure of programme officers with the authority to set programme directions or the average length of founder or board initiatives, when they have the authority.

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This might sound painfully mechanistic, but taking such a relatively simple measure would add some transparency to what often seems a murky decision-making process. Of course, unforeseen circumstances always add uncertainty to any strategy, but this makes it all the more important to provide clarity where possible. Time frames can be lengthened with minimal disruption. Problems arise when funding programmes end abruptly – especially if a time frame was not clearly defined in the first place.

Sustaining the momentum beyond funding

Recognizing the inevitability of exits and the long-term nature of the problems being addressed gives greater importance to ensuring the sustainability of initiatives. Individual projects may well have a definite end point – eg the construction of a building – but many funders see themselves as supporting long-term development and social change. Leaving aside the question of what limited resources realistically can accomplish, most funders have in the back of their minds the idea of catalysing a process that will build and ripple through society, ultimately creating the desired change. Experiences with demonstration projects and advocacy campaigns show how hard this ripple effect is to achieve.

If change can result from effective action sustained over a sufficient (but largely unpredictable) period of time, then the problem for funders and grantees becomes clear: the duration of a single funding programme is unlikely to coincide with the time needed to generate sustainable change. So, the question becomes how to ensure that work that will lead to the desired change can persist beyond the funding programme.

How can funding be replaced?

This is where things get complicated. In contexts where civil society is not strongly institutionalized and where organizations receive significant funding from relatively few, often foreign sources, the departure of even one funder can adversely affect their viability and thus the continuation of their work. Obviously, the larger the funder, the more important it is that they exit responsibly, but even small funders supporting small community-based groups can face this dilemma.

Where, exactly, will replacement funds come from is the big question. Where personal income is low and laws do not favour individual or corporate giving, local sources for service or advocacy organizations will be scarce. In the African context, local philanthropic giving certainly takes place but is often tied to religious institutions, extended family or local communities – unlikely prospects for secular national or regional NGOs. Government funding is possible, but can come with strings attached and is most likely for uncontroversial service organizations. Local businesses might be persuaded to contribute, but the tax climate, size of the business sector, pre-existing social benefit taxes and predisposition to charitable giving will affect the level of funds one can expect from them.

The role of civil society infrastructure

Ultimately, countries will need some kind of supportive infrastructure for civil society – organizations that exist solely to serve the non-profit sector. These can advocate for changes to non-profit laws and tax codes to encourage private donations; educate the public and businesses about the importance of using private funds to support the public good; police their country's non-profit sector, developing codes of ethics and responsible practice, and holding non-profits accountable to them; and provide capacity-building services at cost, helping non-profits strengthen their boards, build effective management and fundraising capacity, adopt sound accounting practices, and utilize available technologies to maximum advantage. All these build the sector's credibility and improve organizations' ability to mobilize and use funds effectively.

This infrastructure exists to varying degrees in wealthier countries. Carnegie, through its programme to strengthen US democracy, has provided support for such organizations. In poorer countries, though, the choice is often between giving resources to organizations that are directly tackling problems or to infrastructure that could support those organizations in the long term. Most funders simply do not have the resources or the mandate to do both. If infrastructure still needs philanthropic support in a country as wealthy as the US, the prospects for sustaining it in a poorer country are dim.

Under these conditions, then, we're back to the need to develop exit strategies early in a funder's engagement with a country/sector/organization. Even if the funder can't help build the necessary infrastructure to support the non-profit sector (although, arguably, larger funders might consider this and some are doing so), they can at least negotiate terms of separation and work with grantees to find ways to ensure that their valuable work can continue.

A common approach to exit

Sustainability became a critical issue for me when we at Carnegie Corporation changed our Africa grantmaking themes in the late 1990s. The exit approach we used then seems to be a common one among foundations. Essentially, we informed grantees as soon as we knew a change in focus was likely and gave tie-off grants, generally of three years' duration, to most to give them time to wind down funded programmes or seek other sources of support. We have not gone back to the grantees to find out how successful this particular strategy was, but it did not satisfy me.

In large part, my dissatisfaction stems from knowledge of the limited support available to most African organizations. There was not much we could do about that since neither our mandate nor our resources could cover the creation of an enabling environment conducive to civil society development. But I began to wonder if we had done all we could to help our grantees tap into the financial resources that were available. We had combined general and project support for many of our women's health and development grantees, which we could argue helped to strengthen organizational capacity more generally. What we hadn't done, though, was focus specifically on fundraising or resource mobilization more generally.

One foundation's changing approach

We are trying to remedy this in our current strategy, which aims to strengthen a small number of African universities, including enhancing opportunities for women in these institutions. Strategically, we opted to limit the number of countries and universities, so we could take advantage of national policy openings should they occur and concentrate a critical mass of resources in each institution.

We have placed a ten-year time limit on our relationship with each partner university, covering a year of planning and the potential for three three-year grants. One criterion for evaluating proposals submitted by the universities is the quality of sustainability plans. Renewal of grants depends on achievement of objectives that the universities set out in their proposals, as well as a general sense of satisfaction on both sides with the quality of the partnership. Knowing the time frame, the universities can decide how to divide the funds among shorter and longer-term projects.

Finally, our strategy includes technical assistance for the universities, focusing on capacity-building for fundraising, research administration and financial management. These areas were seen by both Carnegie and the universities as essential for their future survival, albeit not necessarily the top priority for institutions that have seen their budgets for basic operations decline for most of the last 20 plus years. A limited number of additional projects at the country or regional level may be added to strengthen promising higher education policy initiatives that could improve the environment for universities. Some of these take place under the umbrella of the Partnership for Higher Education in Africa, an initiative of four US foundations.[1]

It is far too soon to judge how successful this strategy, which combines an exit plan with targeted capacity-building, will be. We are painfully aware of the many factors impinging on the viability of African universities that are completely outside our control and very often outside the control of our partner universities as well. However, we are confident that our support can have a catalytic effect within the universities, leading to sustainable institutional change.

1 The foundations are Carnegie Corporation, Ford Foundation, MacArthur Foundation, and Rockefeller Foundation. See www.foundation-partnership.org